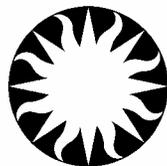


SEMIANNUAL REPORT TO THE CONGRESS

April 1, 2002 to September 30, 2002



Smithsonian Institution
Office of the Inspector General

Cover photo features a portion of the mural on the construction fence surrounding the renovation of the National Portrait Gallery. The mural was painted by Smithsonian staff and is dedicated to the victims and heroes of the terrorist attack on September 11, 2001.
Photograph by William Hoyt.

Preface

The Inspector General Act of 1978, Title 5, United States Code, Appendix 3, requires that I report semiannually through the Secretary to the Congress regarding the activities of this office. This report includes information reportable for the period April 1, 2002, to September 30, 2002.

During this reporting period, the Equal Employment Opportunity Commission's Office of the Inspector General conducted a triennial external quality control review of our audit function. This was the fourth such review since the Secretary established our office on May 3, 1989. The Commission's Inspector General—as did previous peer reviewers—issued an opinion that our system of audit quality control conforms to applicable standards.

We have received, and sincerely appreciate, the complete cooperation of the Smithsonian Institution's management and employees. Without it, and, of course, the full support of the Board of Regents and the Congress, the work of this office as an agent dedicated to strengthening the management and integrity of Smithsonian programs and operations would be impossible.

Thomas D. Blair
Inspector General

October 31, 2002

Inspector General's Message to the Congress

The Smithsonian Institution, which was created 156 years ago, has been one of the leading institutions in the nation dedicated to increasing and diffusing cultural, historic, and scientific knowledge and information. The many ways it does so include the use of public exhibits, research, educational programs, books, and recordings. Most Americans are aware of the museums on the National Mall in Washington, D.C. Few, however, are aware of the vast array of activities behind the scene and beyond the Mall.

During the past year, the Smithsonian has been dealing with declining visitation, declining revenue, especially from donations and revenue producing units, and increasing needs. While adhering to its original mission, the Smithsonian has continually refined its strategic direction and vision, strengthened its staff, and strengthened its infrastructure.

We have identified the top five management challenges and opportunities for the Smithsonian:

1. Improved physical infrastructure
2. Improved financial performance
3. Physical and information security
4. Budget and performance integration
5. Strategic management and human capital

The Smithsonian is the national leader in selected areas of the arts, sciences, and history. In order to maintain this leadership role, the strategic planning framework that has been initiated will have to be integrated into fund-raising, budgetary, planning, and other processes.

The Congress created Offices of Inspector General to improve management and to prevent fraud, waste, and abuse in federal departments and agencies. We therefore conduct audits and other reviews, and make recommendations to improve operations and assist management in achieving its goals and objectives.

Improved Physical Infrastructure

The most visible components of the Smithsonian are its 16 museums and galleries and the National Zoological Park. But, its entire operations include more than 400 buildings, which house more than 142.4 million artifacts and scientific specimens, as well as exhibit, research, and outreach operations.

During the last three decades of the 20th Century, the Smithsonian expanded its facilities and operations. During that same period, congressional appropriators and others called upon the Smithsonian to place more emphasis on maintaining its collections and physical facilities. The Secretary has taken on the infrastructure challenge and has set a long-term plan to repair, restore, and maintain the Smithsonian's physical facilities and update its exhibits. The Secretary estimates that this effort will cost \$2.5 billion.

The Smithsonian currently has four major construction or repair and renovation projects ongoing:

- Construction of the Steven F. Udvar-Hazy Center near Dulles Airport in Virginia;
- Construction of the National Museum of the American Indian on the National Mall,
- Renovation of the Patent Office Building which houses the National Portrait Gallery and the Smithsonian American Art Museum, and
- Renovation of the National Museum of American History.

We completed an audit of project management of the National Museum of the American Indian Mall Museum. We found that the project is well managed and is proceeding consistently with project plans. We are currently conducting an audit of project

sistently with project plans. We are currently conducting an audit of project management of the National Air and Space Museum Dulles Annex—the Steven F. Udvar-Hazy Center in Chantilly, Virginia. Our purpose in conducting the audit is to determine if the Office of Facilities Engineering and Operations has established systems, policies, procedures, and other controls adequate to mitigate the risk of delays or increased costs. In addition, we have initiated a review of project management of the Patent Office Building renovation.

Improved Financial Performance

In order to improve its physical infrastructure, the Smithsonian has determined that it needs not only additional support from the U.S. Congress but also additional funding from donations and revenue producing units. The trust responsibilities of the Smithsonian necessitate the development of financial and management systems and procedures necessary to effectively use the additional funds acquired. Management believes that PeopleSoft has the capacity to meet the information needs of the managers and provide information needed for financial reporting requirements.

We completed an audit of financial management of the development (fund-raising) program. We identified a need for the Smithsonian to improve the clarity and accuracy of information reported both internally and externally about fund-raising and membership expenses.

The Smithsonian has a long history of audited financial statements with unqualified opinions. Trust statements have been audited for about 48 years and federal financial statements have been audited about 21 years. Smithsonian financial statement audits are conducted by a certified public accounting firm under contract on behalf of the Audit and Review Committee of the Board of Regents. In accordance with provisions of the contract, we have participated in the financial statement audits of the Smithsonian for at least the last decade. Additionally, we monitor the implementation of accounting policies,

procedures, and principles. We also conduct pre-award contract audits and rate reviews for the Contracting Officer. These reviews are used in the contract negotiation process to arrive at best and final offers for contracts and amendments.

Physical and Information Security

Before the tragic events of September 11, 2001, the Smithsonian accommodated about 32 million visitors to its museums and the National Zoological Park annually by people from across the nation and around the world. Although final information is not yet available, we anticipate a significant reduction in visitation for fiscal year 2002. Nevertheless, the physical security of visitors and protection of art objects, artifacts, and scientific specimens is crucial to the mission of the Smithsonian.

The Smithsonian has moved in recent years to a more homogeneous standards-based information technology architecture. Although much remains to be done, the Smithsonian has begun implementing an enterprise resource planning system, centralizing its networks, standardizing software, and moving away from mainframes.

We contracted with an auditing and consulting firm to conduct an audit of information technology security. The firm identified numerous significant weaknesses in information security. The Chief Information Officer generally agreed with the findings and recommendations made. He has provided plans to implement the recommendations. This report provided the basic information needed to respond to the requirements of the Government Information Security Reform Act.

We also completed an audit of The Smithsonian Associates study tours reservation system. We identified actions that management could take to strengthen the study tours reservations process.

Budget and Performance Integration

The Smithsonian is both publicly endowed and privately supported. For fiscal year 2002, the Smithsonian budget was \$741 million consisting of \$519 million in federal appropriations and an estimated \$222 million in trust funds. Initiatives are underway to improve planning and systems development to improve integration.

About one year ago, we issued an audit report on the trust fund budget process. We recommended measures that the Smithsonian could take to ensure that the trust fund budget is comprehensive and is implemented as approved. Two of the recommendations had not been fully implemented as of the end of this reporting period.

Strategic Management and Human Capital

The Institution has developed and issued a strategic plan entitled ***Setting Future Directions at the Smithsonian Institution*** covering fiscal years 2003 through 2007. The strategic plan includes goals in four areas:

- Public impact
- Scientific research
- Management excellence, and
- Financial strength

Clearly, management excellence is crucial to achieving the other three goals. The Smithsonian is in the process of strengthening its management and modernizing its systems and processes to bring them to a level of quality and sophistication appropriate to a contemporary organization of comparable size and complexity. Significant efforts are underway to integrate strategic planning into operations.

We believe that all of the reports that we issue which include recommendations on financial management could enhance the Smithsonian's ability to meet its goal regarding management excellence and to develop accurate and meaningful performance measures. Such measures are essential for managing and evaluating the performance of organizations.

Implications for the Future

The Smithsonian trust has a time-span that extends into the lifetimes of unborn generations. While some organizations focus on the next few years, because of its mission, the Smithsonian's focus includes not only service to currently existing publics but also must necessarily be forward-looking and serve publics in the indefinite future.

Background

The Smithsonian Institution is a trust instrumentality of the United States created by an act of Congress in 1846 to carry out the provisions of the will of James Smithson, an English scientist, who left his entire estate to the United States of America “to found...an establishment for the increase and diffusion of knowledge....”

The Smithsonian is a unique “establishment” that is both publicly supported and privately endowed. The “establishment” consists of the President, the Vice President, the Chief Justice, and heads of executive departments. Responsibility for administering the trust was vested in the Smithsonian Board of Regents. The Board of Regents is composed of the Chief Justice of the United States, the Vice President, three members each from the United States Senate and House of Representatives, and nine private citizens. The Board appoints the Secretary, who is the chief executive officer of the Smithsonian.

In addition to operations directly administered by the Secretary, the Smithsonian statutorily includes the National Gallery of Art, the Woodrow Wilson International Center for Scholars, and the John F. Kennedy Center for the Performing Arts. However, they are administered under separate boards of trustees.

The Smithsonian operates 16 museums, including 14 located in Washington, D.C., mostly on the National Mall between the U.S. Capitol and the Washington Monument. The Smithsonian collections include more than 142.4 million artifacts, art objects, and scientific specimens.

The Smithsonian has been involved in research and scholarly work since its inception. Research efforts include astronomy, astrophysics, cultural and biological diversity, the global environment, human ecology, and space science. In addition to research performed in museums, staff, fellows, and visiting scholars conduct research at the

Smithsonian Tropical Research Institute in the Republic of Panama; the Smithsonian Environmental Research Center in Edgewater, Maryland; and the Smithsonian Astrophysical Observatory in Cambridge and Harvard, Massachusetts, Mt. Hopkins at Amado, Arizona, and Mauna Kea at Hilo, Hawaii.

Smithsonian Business Ventures include magazines, books, recordings, museum shops, mail order, and concessions. Outreach activities include traveling exhibitions, affiliations, and associates programs.

The Smithsonian's fiscal year 2002 federal appropriations total \$519 million. The trust fund budget totals \$222 million. As of October 5, 2002, the Smithsonian had 6,335 employees consisting of 4,200 federal and 2,135 trust employees. Additionally, during fiscal year 2001, 5,182 volunteers provided 665,506 hours of service.

Fiscal year 2002 funding for the Office of the Inspector General totaled \$1,800,000, consisting of \$1,431,000 million in federal funds and \$369,000 in trust funds. As of September 30, 2002, the office had 17 employees.

Audits

Section 4 of the Inspector General Act charges this office with a statutory duty to audit, and otherwise review, Institution programs and operations to ensure that they are economical, efficient, effective, and free of fraud, waste, and abuse. Pursuant to our strategic and annual plans, we therefore conduct audits of Institution organizations, functions, and activities to assess, among other things, their performance, financial operations, and compliance with applicable laws, regulations, and Institution policies. We also conduct audits to determine the reasonableness of expenditures made under contracts, grants, or other agreements. As required by section 4(b) of the act, we conduct all of our audits in accordance with the ***Government Auditing Standards***, issued by the Comptroller General of the United States. Pursuant to section 5(a)(7) of the act, summaries of five significant audits follow.

Independent Evaluation of the Smithsonian Institution's Information Security Program

We engaged a management consulting firm to evaluate the Smithsonian's existing information security program, policies, and procedures and compare them against industry standards and best practices. The firm assessed the information security program for compliance with applicable federal laws and regulations. The firm also assessed the adequacy of security controls to safeguard, protect, and secure data and prevent or detect unauthorized activities such as external and internal intrusion. Generally, the Smithsonian's information security program was under diverse, duplicative, and decentralized control without a single direction and purpose. Information security functions were performed independently and without consideration of the consequences of actions on other parts of the Smithsonian's security program, network, data, and databases. This state of affairs created multiple opportunities for system failure at many and varied levels. The Smithsonian was at significant risk of loss or destruction of data, embarrassment, and legal responsibility for unauthorized or improper release or disclosure of sensitive information, such as donor information, credit card numbers, personnel data, and

financial information covered by the Privacy Act and consumer protection laws. Tests and analyses disclosed the following deficiencies:

- Inadequate and poorly designed controls to meet known threats.
- Improperly implemented controls to prevent or detect unauthorized activities.
- Ineffective and inefficient controls designed for managing a threat entity-wide.

The report included 67 recommendations to improve the Smithsonian's information security program. The recommendations may be summarized as follows:

- Increase security program funding.
- Develop a security-awareness training program.
- Develop means to ensure compliance with recommended standards.
- Develop procedures and processes to measure security program effectiveness.
- Report program effectiveness quarterly.

Generally, management agreed to take actions to address all recommendations.

Development Program

We audited the Development Program to determine if the results of fund-raising operations are being accurately recorded and reported. In our opinion, the Smithsonian needs to improve the clarity, fairness, and transparency of the financial statement presentation of its fund-raising and membership expenses and the internal management reporting of fund-raising operations. The Chief Financial Officer and the outside independent auditors disagree. They assert that the financial statements are prepared in accordance with generally accepted accounting principles. We are working with management to resolve the issues identified in our audit report.

Project Management of the National Museum of the American Indian Mall Museum

We audited the controls over project management of the National Museum of the American Indian. Our purpose was to determine if controls were adequate to ensure that the

project will be completed on time and within budget. Overall, we found that project management of the planning, design, and construction of the American Indian Mall Museum was effective. We also found that financial and management controls were adequate to ensure compliance with contract terms. However, we noted one area in financial management needed improvement: reconciliations of project financial records with central financial records. The Director of the Office of Facilities Engineering and Operations essentially agreed with our recommendations.

The Smithsonian Associates Study Tours Reservation Process

We audited the controls over The Smithsonian Associates study tours reservation process to assess the adequacy of access controls, application program change controls, segregation of duties, and service continuity planning. Although The Smithsonian Associates had some internal controls in place regarding the reservations process, the system safeguards were inadequate and the risk of inappropriate system access and data integrity was high. Management of the program responded promptly to findings identified and recommendations made to strengthen controls. The Director agreed with most of our recommendations and provided acceptable corrective action plans.

Travel Card Program

We audited the Smithsonian's travel card program to determine if employees were paying their travel card obligations timely and were using travel cards for official purposes. We found that employees did not always pay their travel card obligations timely.

Delinquency rates ranged from 8 to 17 percent. In addition, about 3 percent of the charges did not appear to be for official travel. Accordingly, we made recommendations to improve the travel card program in the following areas: training, usage, delinquencies, oversight, and disciplinary action. The Chief Financial Officer agreed with our recommendations and provided acceptable corrective action plans.

Audit Reports Issued

Section 5(a)(6) of the act requires a list of all audit reports issued during the reporting period, including the subject matter and dollar amounts of questioned costs, unsupported costs, and funds to be put to better use. Between April 1, 2002, and September 30, 2002, this office issued five internal audit reports. As to each, the information required by section 5(a)(6) of the act is listed in table 1.

Table 1: List of Audit Reports Issued

Report Number	Audit Title	Issue Date
Internal Audits:		
A-02-03	The Smithsonian Associates Study Tours Reservation Process	06/12/02
A-01-10	Travel Card Program	06/28/02
A-02-02	Independent Evaluation of the Smithsonian Institution's Information Security Program	07/31/02
A-01-11	Development Program	09/30/02
A-02-05	Project Management of the National Museum of the American Indian Mall Museum	09/30/02
Contract Audits		
C-02-02	Pre-award proposal	04/08/02
C-02-04	Pre-award proposal	08/20/02
C-02-07	Pre-award proposal	09/23/02
C-02-06	Pre-award proposal	09/30/02

Questioned Costs and Funds to be Put to Better Use

Sections 5(a)(8) and 5(a)(9) of the act require separate statistical tables for recommendations including dollar values of questioned costs, unsupported costs, or funds to be put to better use. Those sections also require a statement of management's response to such

recommendations at the end of the reporting period. During this reporting period, we identified \$1,016,328 in funds to be put to better use, all related to the review of pre-award contract audits. We identified no questioned or unsupported costs. Table 2 sets forth information on funds to be put to better use from prior semiannual reporting periods as of September 30, 2002.

Table 2: Funds to Be Put To Better Use

Reports	Number	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period	2	\$150,840
B. Which were issued during the reporting period	4	\$1,016,328
Subtotal (A + B)	6	\$1,167,168
C. For which a management decision was made during the reporting period		
(i) dollar value of recommendations that were agreed to by management	1	\$12,458
(ii) dollar value of recommendations that were not agreed to by management*	2	\$150,840
Subtotal (i + ii)	3	\$163,298
D. For which no management decision has been made by the end of the reporting period	3	\$1,003,870
For which no management decision was made within six months of issuance	0	\$0

*These reports were for a contractor whose company is no longer viable. Therefore, the Smithsonian terminated the contracts for default and questions regarding the funds were never resolved.

Corrective Actions Not Yet Complete

Section 5(a)(3) of the act requires an identification of each significant recommendation for corrective action, described in a previous semiannual report, which had not been implemented by the end of the reporting period. Table 3, on page 14, sets forth that information.

Table 3: Corrective Actions Not Yet Complete

Audit Title and Date	Summary of Recommendations	Savings Estimate
Center for Folklife and Cultural Heritage, June 13, 1997	The Director of the Center for Folklife and Cultural Heritage should develop and use financial management reports that are adequate to manage Folkways and Smithsonian Folkways operations.	None
Accounts Payable System, March 30, 1998	The Comptroller should ensure that the Institution's payments for goods and services are valid, properly supported, and timely. [Six recommendations]	None
Collections Management at the Anacostia Museum, May 18, 1998	The Director of the Anacostia Museum should strengthen controls over accessions, outgoing loans, collection records, and storage facilities. [Two recommendations]	None
Financial Management of Traveling Exhibits, September 26, 2001	The Chief Financial Officer should develop policies and procedures necessary for Smithsonian organizations to accumulate and report costs regularly, consistently, and reliably.	None
Trust Fund Budget, September 28, 2001	The Chief Financial Officer should develop policies and procedures to ensure that a comprehensive budget is prepared, submitted to the Secretary, and implemented as approved. [Two recommendations]	None
American Indian Museum Move Project, October 2, 2001	The Director should strengthen the documentation, reporting, and physical security of National Museum of the American Indian art objects and other artifacts being moved from the Bronx, New York, to Suitland, Maryland. [Four recommendations]	None

Investigations

Pursuant to sections 4 and 6 of the act, this office investigates possible violations of criminal or civil laws, administrative regulations, and policies that relate to the programs and operations of the Institution. When warranted, we refer the results of such investigations to entities with appropriate enforcement jurisdiction. Summaries of two significant investigations concluded during this reporting period are presented below.

Child Pornography

On June 21, 2002, in the United States District Court for the District of Columbia, a former Security Guard at the National Postal Museum was sentenced, pursuant to his plea of guilty to one count of receipt of child pornography (18 U. S. Code § 2252A(a)), to 27 months imprisonment in custody of the Federal Bureau of Prisons and 3 years of supervised release following completion of the term of imprisonment. The former Security Guard was also directed to register as a sex offender. This case was jointly conducted with the Federal Bureau of Investigation.

Misuse of Computers

We conducted an investigation, which disclosed that 12 Smithsonian Institution employees were involved in the receipt and transmission of sexually explicit material in violation of Smithsonian policy. We submitted 12 individual reports to management for consideration of adverse administrative action. During July 2002, all 12 employees were suspended without pay from 1 to 20 days. All signed agreements not to engage in such conduct in the future.

Matters Referred for Prosecution and Results

Section 5(a)(4) of the act requires a statistical summary of investigative matters referred for criminal prosecution and the results of such referrals. Table 4, below, sets forth that information.

Table 4: Summary of Investigations

Investigations	Amount or Number
Caseload	
Cases pending at beginning of reporting period	44
Cases opened during the reporting period	15
Subtotal	59
Cases closed during the reporting period	17
Cases carried forward	42
Referrals for Prosecution	
Pending at the beginning of the period	2
Referred for prosecution	3
Pending at end of period	3
Successful Prosecutions	
Convictions	1
Fines	\$0
Ordered restitution	\$0
Probation	27 mos.
Confinement	36 mos.
Civil Recoveries	\$0
Administrative Remedies	
Terminations	0
Resignations	1
Reprimands or admonishments	0
Reassignments	0
Demotions	0
Suspensions	12
Recovery of funds through investigative action	\$0
Collections property recovered:	
Number of items	2
Value of items	\$2,800
Monetary loss prevented	\$0

Legislative Review

Section 4(a)(2) of the act requires this office to review existing and proposed legislation and regulations and to make recommendations in our semiannual reports regarding their impact on the economy and efficiency of, and the detection and prevention of fraud, waste, and abuse in, Institution programs and operations. During this reporting period, we conducted several such reviews, including some through the participation of the Deputy Inspector General and Counsel to the Inspector General in the Council of Counsels to the Inspectors General, and the Inspector General's service as a member of the Executive Council on Integrity and Efficiency. None of the reviews has yielded a recommendation that is sufficiently important to warrant reporting here.

Glossary

Disallowed cost - A questioned cost that management, in a management decision, has sustained or agreed should not be charged to the Institution.

Final action - The completion of all management actions, which are described in a management decision, with respect to audit findings and recommendations.

Funds to be put to better use - A recommendation that funds could be used more efficiently if management took actions to implement and complete the recommendation.

Questioned costs - A cost which was questioned because of an alleged violation of a provision of a law, regulation, contract, or other agreement or document governing the expenditure of funds; a cost which was not supported by adequate documentation; or an unnecessary or unreasonable expenditure of funds.

Unsupported cost - A cost questioned because the cost was not supported by adequate documentation at the time of the audit.

Office of the Inspector General
Smithsonian Institution
Washington, DC 20560-0905

Telephone number: (202) 275-2244
Hotline telephone number: (202) 275-1671