

# OFFICE OF THE INSPECTOR GENERAL



Smithsonian Institution Building  
(The Castle)

## **Contract Management: Smithsonian Needs to Enhance Controls for Managing and Monitoring Revenue-Generating Contracts**

OIG-A-20-01

October 22, 2019

# In Brief

## Contract Management: Smithsonian Needs to Enhance Controls for Managing and Monitoring Revenue-Generating Contracts

Report Number *OIG-A-20-01*, October 22, 2019

### What OIG Did

This audit assessed the extent to which the Office of Contracting and Personal Property Management (OCon&PPM) and Smithsonian Enterprises (SE) have effective controls to manage revenue-generating contracts. The Office of the Inspector General (OIG) interviewed staff from OCon&PPM and SE and reviewed documentation to gain an understanding of the processes used to manage and monitor these contracts and to assess how those processes compared to applicable policies and procedures.

### Background

The Smithsonian Institution (Smithsonian) receives funding from a variety of sources. Federal appropriations pay for a substantial portion of the Smithsonian's operations. The Smithsonian also receives private support, government grants, and government contracts, and it earns revenue from investments and its various business activities.

Revenue-generating contracts play an important role for the Smithsonian, providing millions of dollars in unrestricted funds, which have no donor-imposed or legal restrictions on their use.

### What Was Found

OIG found that controls for managing and monitoring revenue-generating contracts need to be enhanced, including the following:

Internal control guidance states that management should periodically reassess policies and procedures for continued relevance and update them as needed. However, OCon&PPM had not updated its revenue-generating contract procedures in 9 years and agreed that they should be changed to reflect that not all revenue-generating contracts need to have a Contracting Officer's Representative (COR) assigned.

OCon&PPM has procedures that include guidelines for awarding and administering revenue-generating contracts, but it has not established any procedures to guide the day-to-day activities of the CORs who manage these contracts. Written procedures can help to establish clear expectations of responsibilities and authorities for CORs and can ensure that CORs know how to perform their daily activities.

Neither OCon&PPM nor SE has training requirements for CORs or provides training to CORs of revenue-generating contracts, even though a 2012 management review recommended such training. In 2013 OCon&PPM coordinated with SE to develop two draft training manuals and conducted a pilot training course for six OCon&PPM employees. Since then, however, no other training has been offered.

OCon&PPM and SE have never conducted compliance reviews of revenue-generating contracts to ensure that effective and consistent control activities are used and that revenues from these contracts are accounted for properly.

### What Was Recommended

OIG made four recommendations to improve controls over revenue-generating contracts. Management concurred with all four recommendations.

For additional information or a copy of the full report, contact OIG at (202) 633-7050 or visit <http://www.si.edu/oig>.



Date: October 22, 2019

To: John Davis, Provost and Undersecretary for Museums, Education and Research  
Mike McCarthy, Acting Chief Operating Officer and Under Secretary for Finance  
and Administration  
Thomas Dempsey, Director, Office of Contracting and Personal Property  
Management (OCon&PPM)  
Carol LeBlanc, President, Smithsonian Enterprises (SE)

From: Cathy L. Helm, Inspector General

A handwritten signature in black ink that reads "Cathy L. Helm".

Subject: Contract Management: Smithsonian Needs to Enhance Controls for Managing and  
Monitoring Revenue-Generating Contracts (OIG-A-20-01)

This memorandum transmits our final audit report on the Smithsonian's controls over revenue-generating contracts. The objective of this audit was to assess the extent to which OCon&PPM and SE have effective controls to manage revenue-generating contracts.

We made four recommendations for Smithsonian management to improve controls over revenue-generating contracts. Management concurred with all four recommendations.

We appreciate the courtesy and cooperation of all Smithsonian management and staff during this audit. If you have any questions, please call me or Joan Mockeridge, Assistant Inspector General for Audits, at (202) 633-7050.

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## Abbreviations

AICPA	American Institute of Certified Public Accountants
CBSC	Carolina Biological Supply Company
COR	Contracting Officer’s Representative
COSO	Committee of Sponsoring Organizations of the Treadway Commission
KPMG	KPMG LLP
OCon&PPM	Office of Contracting and Personal Property Management
OGC	Office of General Counsel
OIG	Office of the Inspector General
PCPM	Procurement and Contracting Procedures Manual
RA	Restaurant Associates, Inc.
SD	Smithsonian Directive
SE	Smithsonian Enterprises
Smithsonian	Smithsonian Institution
SSEC	Smithsonian Science Education Center
Sodexo	Sodexo Operations, LLC
Zoo	National Zoological Park

## Introduction

Revenue-generating contracts are an important part of the finances of the Smithsonian Institution (Smithsonian) because they provide millions of dollars in unrestricted funds, which have no donor-imposed or legal restrictions on their use. Generally, the Smithsonian has wide discretion in using these unrestricted funds to further its mission of increasing and diffusing knowledge. However, these contracts can pose a fraud risk because the Smithsonian relies on contractors to remit payments in accordance with contract provisions, and some of these contracts involve handling cash.

The majority of the Smithsonian's revenue-generating contracts involve Smithsonian Enterprises (SE) and its various business activities, such as museum restaurants, product development and licensing, educational travel programs, publishing, the Smithsonian Channel, and magazine advertising revenue. In fiscal year 2018, SE's revenue-generating contracts generated \$45.8 million in revenue.

Other Smithsonian units also enter into revenue-generating contracts, with the assistance of the Office of Contracting and Personal Property Management (OCon&PPM). These contracts typically involve small dollar amounts and focus on diffusing knowledge by publishing research and other academic information to further the Smithsonian's mission. However, some generate large dollar amounts, such as the Smithsonian's agreement for food and beverage operations at the National Zoological Park (Zoo).

This audit was conducted to assess the extent to which OCon&PPM and SE have effective controls to manage revenue-generating contracts. The Office of the Inspector General (OIG) interviewed staff from OCon&PPM and SE and reviewed documentation to gain an understanding of the processes used to manage and monitor these contracts and to assess how those processes compared with applicable policies and procedures. For a detailed description of OIG's objective, scope, and methodology, see Appendix I.

OIG conducted this performance audit in Washington, D.C.; Arlington, Virginia; and Herndon, Virginia from October 2017 through October 2019 in accordance with generally accepted government auditing standards. Those standards require that OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objective. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on its audit objective.

## Background

The Smithsonian receives funding from a variety of sources. Federal appropriations pay for a substantial portion of the Smithsonian's operations, as well as the construction, repair, and restoration of its facilities. In addition to federal appropriations, the Smithsonian receives private support, government grants, and government contracts, and it also earns income from investments and its various business activities. Business activities include Smithsonian magazines and other publications; online catalogs; and theaters, shops, and food services.

The Board of Regents has delegated the authority for contracting to the Secretary of the Smithsonian. The Secretary has further delegated contracting authority to individuals who may enter into contracts, including revenue-generating contracts, on behalf of the Smithsonian.

### Contracting Policies and Procedures

Smithsonian Directive 314 *Contracting* (SD 314) and the Procurement and Contracting Procedures Manual (PCPM) establish policies and procedures for contracting that apply to all Smithsonian units. SD 314 sets the general policies for Smithsonian contracting and gives the director of OCon&PPM responsibility for overseeing all Smithsonian contracting activities. The PCPM implements the policy and includes specific procedures for procurement and contracting.

PCPM Part 7 *Revenue-Generating Contracts* (PCPM Part 7) provides the primary guidance for revenue-generating contracts and sets forth the required procedures for entering into and executing these agreements. It applies to all revenue-generating contracts at the Smithsonian and defines revenue-generating contracts as those contractual arrangements, transactions, and agreements in which income is realized, whether of a fixed or variable amount. Examples of these contracts include:

- publishing agreements,
- licensing agreements,
- exhibition loan agreements,
- concession agreements, and
- film agreements.

Cost-recovery agreements and contracts that accept only non-monetary or in-kind consideration are also included in the Smithsonian's definition of revenue-generating contracts.

### Roles and Responsibilities for Revenue-Generating Contracts

The director of OCon&PPM is authorized to enter into revenue-generating contracts for the Smithsonian.<sup>1</sup> In fiscal year 2017, OCon&PPM assisted units in awarding almost 600 revenue-

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<sup>1</sup> SD 314 *Contracting* PCPM Part 1 *Introduction and Acquisition Management Oversight* (March 14, 2017).

generating contracts, including approximately 250 for image licensing.<sup>2</sup> The President of SE is also specifically authorized to enter into these revenue-generating contracts for SE. In fiscal year 2017, SE received revenue from about 550 revenue-generating contractors, half of which involved magazine advertisers.

The Office of General Counsel (OGC) provides legal support to OCon&PPM and SE. OGC review is required for revenue-generating contracts in the following situations:

- when a new line of business is involved,
- when determined to be potentially controversial either because of the contract subject matter or any of its terms,
- when significant public interest or visibility is likely to be generated, and
- when an anticipated lifetime value is more than \$5 million.

Both OCon&PPM and SE are required to identify an individual to manage the day-to-day matters for all revenue-generating contracts, such as granting and withholding approvals, overall project management, and general contract coordination.<sup>3</sup> For contracts issued by OCon&PPM, these individuals in various Smithsonian units are referred to as Contracting Officer's Representatives (COR). SE refers to these individuals as Authorized Representatives for Operational Matters. In this report, OIG identifies SE's Authorized Representatives for Operational Matters also as CORs.

## Results of the Audit

### Controls for Managing and Monitoring Revenue-Generating Contracts Need to be Enhanced

OCon&PPM has procedures that include guidelines for awarding and administering revenue-generating contracts, but it has not established any procedures to guide the day-to-day activities of the CORs who manage these contracts. Internal control guidance states that management should periodically reassess and refresh policies and procedures. However, OCon&PPM had not updated its revenue-generating contract procedures in 9 years. Also, OCon&PPM does not assign CORs to manage all revenue-generating contracts as required by its procedure manual. Neither OCon&PPM nor SE has a training program for the CORs of revenue-generating contracts. And OIG also found that OCon&PPM and SE have not conducted compliance reviews of revenue-generating contracts as part of their oversight and monitoring responsibilities.

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<sup>2</sup> Image licenses are agreements for a company to include a specific image in connection with a product. The company agrees to pay the Smithsonian a fee for use of the image.

<sup>3</sup> SD 314 *Contracting PCPM Part 7 Revenue-Generating Contracts* (October 1, 2010).

## Smithsonian Has No Procedures for How CORs Should Manage Revenue-Generating Contracts, and Other Contract Procedures Are Out-of-Date

OIG analysis showed that the Smithsonian's revenue-generating contract procedures (PCPM Part 7) include guidelines for the solicitation, negotiation, award, and administration of revenue-generating contracts. However, there are no procedures for how CORs should manage and monitor these contracts on a day-to-day basis. In addition, PCPM Part 7 had not been updated in 9 years.

Written procedures can help to establish clear expectations of responsibilities and authorities for CORs and can help to ensure that CORs know how to:

- provide technical direction to the contractor,
- ensure that royalty or commission statements adequately support payments,
- reach out to OCon&PPM or OGC for assistance as needed in resolving disputes and other matters, and
- maintain an official documentation file.<sup>4</sup>

Without such procedures, there is a risk that CORs will not effectively and consistently manage revenue-generating contracts to maximize proceeds to the Smithsonian and prevent fraud.

For example, prior management reviews by outside consultants have highlighted problems with revenue-generating contracts and demonstrate why written procedures for managing these contracts are needed.

- In 2013, KPMG LLP (KPMG) identified a misinterpretation of contract terms and lack of supporting documents related to sales for the Restaurant Associates, Inc. (RA), contract that provides food and beverage operations at most of the museums on the National Mall. KPMG also reviewed the Sodexo Operations, LLC (Sodexo) contract that provides food and beverage operations at the Zoo and identified an overall lack of a control environment and supporting documentation related to sales.<sup>5</sup>
- Prior to and during a 2015 review by Ernst & Young LLP, the Carolina Biological Supply Company (CBSC) remitted more than \$400,000 in underpaid royalties for science and technology materials that it identified during an internal compliance review.<sup>6</sup> The remittance of these funds indicates weak contract management by the Smithsonian

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<sup>4</sup> Draft *Contracting Official's Representative Training Manual and Desk Reference Revenue-Generating Contracts Smithsonian Institution* and Draft *Contracting Official's Representative Training Manual and Desk Reference Revenue-Generating Contracts Smithsonian Enterprises*.

<sup>5</sup> KPMG LLP, *Report for the Smithsonian Institution Concessions Vendor Contract Compliance Assessment* (December 19, 2013).

<sup>6</sup> Ernst & Young LLP, *Smithsonian Institution Publisher Compliance Analysis Executive Summary* (April 15, 2015).

Science Education Center (SSEC). Following this consultant’s review, SE took over management of the CBSC contract from SSEC.

In the fall of 2018, OIG assessed how the three CORs who were then responsible for these contracts were monitoring them. OIG analysis showed that these CORs managed their contracts using different types of monitoring activities. For example, they reviewed contractor financial reports and verified payments.<sup>7</sup> They also sought advice from OCon&PPM and OGC to resolve contractual issues and met periodically with contractor personnel. For more detail about the monitoring activities that the CORs performed for these contracts, see Table 1.

**Table 1. Examples of Monitoring Activities Used by Contracting Officer’s Representatives (COR) for Three Large Revenue-Generating Contracts**

Type of Monitoring Activities	Carolina Biological Supply Company	Restaurant Associates, Inc.	Sodexo Operations, LLC
Review Contractor Financial Reports and Verify Payment Amounts	<ul style="list-style-type: none"> <li>• COR, with Smithsonian Enterprises (SE) and Smithsonian Science Education Center finance staff assistance, reviews royalties, royalty reports, budget reports, and projections.</li> <li>• SE and Smithsonian Science Education Center finance staff verify the payment amounts.</li> </ul>	<ul style="list-style-type: none"> <li>• COR, with SE finance staff assistance, reviews daily, weekly, monthly, and annual financial reports.</li> <li>• SE accounting staff process the payments.</li> <li>• SE finance staff verify the payment amounts.</li> </ul>	<ul style="list-style-type: none"> <li>• COR, with assistance from the National Zoological Park (Zoo) and Friends of the National Zoo finance staff, reviews weekly and monthly reports.</li> <li>• Zoo finance staff verify payments.</li> </ul>
Obtain Advice from OCon&PPM and OGC, as Necessary	<ul style="list-style-type: none"> <li>• COR works with the Office of Contracting and Personal Property Management (OCon&amp;PPM) and the Office of General Counsel (OGC). The COR worked with all these advisers to resolve a disagreement on royalties.</li> </ul>	<ul style="list-style-type: none"> <li>• COR works with OCon&amp;PPM and OGC. For example, COR worked with all these advisers to resolve the timing of a \$200,000 capital payment.</li> </ul>	<ul style="list-style-type: none"> <li>• COR works with OCon&amp;PPM and OGC as necessary. COR worked with all these advisers to clarify payment responsibilities for maintenance issues.</li> </ul>
Meet Periodically with Contractor	<ul style="list-style-type: none"> <li>• COR holds monthly meetings to discuss contract performance. Sales projections and marketing needs are evaluated.</li> </ul>	<ul style="list-style-type: none"> <li>• COR holds weekly operational meetings. Menu and pricing decisions and capital expenditures, are evaluated and approved when changes are made.</li> </ul>	<ul style="list-style-type: none"> <li>• COR holds or attends weekly, monthly, quarterly, and annual meetings. During the annual meeting, they review menu pricing for the upcoming year.</li> </ul>

Source: OIG analysis of Smithsonian Institution information.

Although these three CORs performed monitoring activities, they were doing so without written procedures that required them to perform these activities. As a result, the Smithsonian is at risk of ineffective and inconsistent management of revenue-generating contracts and may not

<sup>7</sup> The Smithsonian received nearly \$7 million in commissions from the RA contract in fiscal year 2018, and about \$1.4 million in commissions from Sodexo for the 9-month period ending September 30, 2018. The Smithsonian received about \$1 million in royalties from CBSC for the 1-year period from July 1, 2017, to June 30, 2018.

receive all the revenue that it is entitled to in the contract agreements. In fact, another individual has taken over the responsibility as COR for one of these contracts, which emphasizes the importance of written procedures to ensure that contracts are consistently managed.

Internal control guidance states that, policies establish expectations, and relevant procedures specify the actions to be taken.<sup>8</sup> This guidance also emphasizes that policies and procedures should establish accountability for employees' day-to-day activities and be periodically reassessed for continued relevance and updated as needed. In addition to a lack of written procedures for monitoring activities, OIG observed that the written procedures that do exist had not been updated since October 2010, 9 years ago.<sup>9</sup>

### OCon&PPM Does Not Assign CORs to Manage Every Revenue-Generating Contract as Required by Its Procedure Manual

PCPM Part 7 requires all revenue-generating contracts to have a COR to handle operational matters, such as ongoing coordination and approvals. OIG found that SE was in compliance with this policy, but OCon&PPM was not. OCon&PPM officials told OIG that they do not always assign CORs because some contracts, such as image licensing, are short term and straight forward and agreed their procedures should be changed to reflect these circumstances. In fact, when OIG reviewed the files for 10 OCon&PPM revenue-generating contracts, 3—a licensing agreement, a speaker engagement, and a traveling exhibition—did not have an assigned COR. It may be reasonable for these contracts not to have assigned CORs, but PCPM Part 7 does not allow for these exceptions.

### Smithsonian Does Not Train CORs Who Manage Revenue-Generating Contracts

OIG found that neither OCon&PPM nor SE has training requirements for CORs or provides training to CORs of revenue-generating contracts, even though a 2012 management review by Booz Allen Hamilton recommended such training.<sup>10</sup> This consultant conducted this review after contract employees stole approximately \$1.4 million in parking fees. The review found that Smithsonian employees did not have adequate training to monitor revenue-generating contracts. The Smithsonian also lacked consistent cash management procedures and the capability to monitor the cash management process Smithsonian-wide. As a result, contractors improperly charged or provided improper distributions of revenue to the Smithsonian. After this incident, SE took over the parking operations at the National Air and Space Museum, Stephen F. Udvar-Hazy Center, where the theft occurred.

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<sup>8</sup> American Institute of Certified Public Accountants (AICPA), Committee of Sponsoring Organizations of the Treadway Commission's (COSO) *Internal Control – Integrated Framework*, (Durham, N.C.: May 2013).

<sup>9</sup> SD 314 *Contracting PCPM Part 7 Revenue-Generating Contracts* (October 1, 2010).

<sup>10</sup> Booz Allen Hamilton, *Smithsonian Institution: Management Controls Assessment for the Office of the Chief Financial Officer* (November 30, 2012).

In 2013, OCon&PPM coordinated with SE to develop two draft training manuals and conducted a pilot training course for six OCon&PPM employees. Since then, however, there has been no other training offered. These manuals describe administrative and management responsibilities for CORs. For example, they include a COR's day-to-day responsibilities to provide technical direction and clarification to the contractor; to monitor contractor performance; to make recommendations to the Contracting Officer; to ensure that the Smithsonian receives what it is entitled to in terms of payment and other consideration; and to maintain a high standard of ethics. In addition, the manuals include the COR monitoring techniques for progress reports and inspection reports. These draft manuals could help management establish and communicate procedures to CORs. However, they have not been finalized or incorporated into the revenue-generating contract procedures PCPM Part 7 or offered as part of a training program. A training program could include written procedures detailing day-to-day responsibilities and training to ensure that CORs understand how to perform their daily activities (e.g., classroom instruction, self-study, or on-the-job training).

According to a Supervisory Attorney in OCon&PPM, the training manuals are still in draft form and were never completed because the employee in charge of the effort left the Smithsonian several years ago, and the responsibility for implementing and overseeing training was not reassigned.

Internal control guidance emphasizes that organizations should train individuals to develop competencies appropriate for their assigned roles and responsibilities and should reinforce standards of conduct.<sup>11</sup> Training should be tailored to employee roles and needs. Without training, employees assigned as CORs may not have sufficient guidance on their authority and responsibilities. Training can help establish clear expectations of responsibilities and help ensure effective and consistent management of revenue-generating contracts. The CORs for RA, Sodexo, and CBSC contracts told OIG that training tailored to Smithsonian operations would be helpful.

### OCon&PPM and SE Have Not Conducted Required Compliance Reviews

Since 2011, Smithsonian policy has required that OCon&PPM and SE conduct reviews every 3 to 5 years to assess compliance with policies and procedures.<sup>12</sup> However, OIG found that OCon&PPM and SE have never conducted compliance reviews of revenue-generating contracts to ensure that effective and consistent control activities are being used and that revenues from these contracts are accounted for properly.

According to OCon&PPM's Associate Director for Policies and Resources, they plan to conduct compliance reviews for revenue-generating contracts in the future. However, there is no timeframe for conducting them and no guidelines for how to conduct such reviews. SE senior management said they were not aware that they were required to conduct compliance reviews.

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<sup>11</sup> AICPA, COSO *Internal Control – Integrated Framework*, (Durham, N.C.: May 2013).

<sup>12</sup> SD 314 *Contracting* PCPM Part 1 Introduction and Acquisition Management Oversight (September 23, 2011).

By not conducting compliance reviews of revenue-generating contracts, OCon&PPM and SE have no information about potential deficiencies in policies and procedures or other internal control issues for their revenue-generating contracts.

## Conclusions

Revenue-generating contracts play an important role in Smithsonian's finances by providing millions of dollars annually in unrestricted funds for Smithsonian operations. However, OCon&PPM has not established detailed written procedures for CORs who manage these contracts to guide their daily operations and oversight activities. OCon&PPM had not updated its revenue-generating contract procedures in 9 years. In addition, OCon&PPM and SE have not established a training program for CORs to help ensure that CORs understand their responsibilities and authorities. Finally, neither OCon&PPM nor SE have conducted the required compliance reviews of revenue-generating contracts to ensure they are effectively and consistently managed. Compliance reviews are important to identify and address potential internal control deficiencies as well as to reassess policy and procedures.

## Recommendations

To improve controls over revenue-generating contracts, OIG recommends that the director of OCon&PPM, in coordination with the president of SE, take the following actions:

1. Align procedures and practices for assigning CORs to revenue-generating contracts.
2. Establish procedures that would guide the CORs' day-to-day responsibilities.
3. Complete and implement a training program for the CORs.
4. Develop and implement procedures to perform compliance reviews of revenue-generating contracts.

## Management Response and OIG Evaluation

OIG provided a draft of this report to Smithsonian management for review and comment. In its written comments, which are reproduced in their entirety in Appendix II, management concurred with all four recommendations and outlined actions planned to address them.

## Appendix I

### Objective, Scope, and Methodology

The objective of this audit was to assess the extent to which the Office of Contracting and Personal Property Management (OCon&PPM) and Smithsonian Enterprises (SE) have effective controls to manage their revenue-generating contracts.

To obtain an understanding of the Smithsonian Institution's revenue-generating contracts and the controls for managing them, the Office of the Inspector General (OIG) examined applicable policies, procedures, and management reviews. In addition, OIG interviewed officials from OCon&PPM, SE, the Office of Finance and Accounting, and the Smithsonian Institution Scholarly Press.

OIG interviewed the responsible OCon&PPM and SE staff to understand their policies, procedures, and practices for assigning Contracting Officer's Representatives (COR) to revenue-generating contracts. Because OCon&PPM did not have a list of its revenue-generating contracts identifying the CORs who were assigned to them, OIG selected a nonprobability sample of 10 contract files and reviewed the contracts to determine whether a COR was assigned as required. For SE revenue-generating contracts, OIG reviewed SE's quarterly contract reports for fiscal years 2016 and 2017 to determine whether a COR was assigned to each SE contract.

To gain a more detailed understanding of how CORs manage revenue-generating contracts, OIG selected three large-dollar-value contracts that had been examined in prior management reviews Sodexo Operations, LLC; Carolina Biological Supply Company; and Restaurant Associates, Inc.

OIG interviewed the CORs and other responsible officials assigned to these contracts. OIG also obtained and reviewed the contracts, amendments, and supporting documentation—such as contractor statements, payment information, and meeting minutes.

OIG conducted this performance audit in Washington, D.C.; Arlington, Virginia; and Herndon, Virginia from October 2017 through October 2019 in accordance with generally accepted government auditing standards. Those standards require that OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objective. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on its audit objective.

Management Response



Smithsonian Institution

Office of Contracting and Personal Property Management  
Smithsonian Enterprises

Memo

Date October 10, 2019

To Cathy Helm, Inspector General

Attn: Joan Mockeridge, Assistant Inspector General for Audits  
Rebecca Rider, Auditor

cc Mike McCarthy, Acting Chief Operating Officer/Under Secretary for Finance and Administration  
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Edsel Dequina, Vice President, Operations, Smithsonian Enterprises  
Kitty Whitehead, Director Internal Operations, Smithsonian Enterprises

From Thomas E. Dempsey, Director, Office of Contracting and Personal Property Management (OCon&PPM)  
Carol LeBlanc, President, Smithsonian Enterprises (SE)

Subject Response to the Draft Report, Controls for Managing and Monitoring Revenue-generating Contracts

Thank you for giving OCon&PPM and SE the opportunity to respond to the draft report on the Office of Inspector General (OIG) audit: Contract Management: Controls for Managing and Monitoring Revenue-generating Contracts. Both OCon&PPM and SE have reviewed the audit findings, issues presented, and recommendations for action included in the report. On behalf of the organizations within OCon&PPM and SE, we hereby submit the following comments on the written Results of the Audit and actions already taken or planned to be taken to address each of the recommendations or actions suggested. Thank you for the opportunity to comment prior to issuance of the final report.

**Results of Audit**

Issue 1 **Smithsonian's Revenue-Generating Contract Procedures Do Not Include Guidance for How CORs Are to Manage Revenue-Generating Contracts and Have Not Been Updated**

**Comment:** It is agreed that written procedures to guide COR's in their contract management responsibilities for their respective revenue contracts is desirable. COR's, however, are not necessary on all contracts defined as revenue-generating in PCPM part 7. Contracts that memorialize a single transaction or those of short duration or of small revenue do not, by their very nature, require the same or similar management or oversight as those of a long duration and/or large revenue. PCPM 7 does not reflect this and should be changed to address these circumstances.

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**Issue 2 Smithsonian Does Not Train CORs Who Manage Revenue-Generating Contracts**

**Comment:** As noted in the report, OCon&PPM assists units with individual revenue-generating contracts that typically involve small dollar amounts. SE, as noted in the report, manages contracts that generate significant sums for the institution. Given this distinction, a single training curriculum for CORs managing both SE contracts and those outside of SE would not be useful to one or the other group of CORs. As such, while training for CORs is desirable, COR training should be developed to assist CORs assigned to large and/or complex revenue-generating contracts. In this way, CORs handling the more sensitive and risky contracts would be fully trained while those engaged in a one-time, simple transaction would not be subjected to training unrelated to their individual transaction. As noted in the response to Issue 1, the PCPM shall be edited to reflect this.

**Issue 3 OCon&PPM and SE Have Not Conducted the Required Compliance Reviews**

**Comment:** It is acknowledged that OCon&PPM has not conducted compliance reviews of revenue-generating contracts drafted by its staff. Compliance reviews should be targeted so as not to waste valuable administrative time on an effort unlikely to produce any significant benefit or at least a benefit that might offset the time associated with the reviews. As such, compliance reviews should be coordinated for revenue-generating contracts that exceed a certain value, or that represent a significant risk to the Institution. To include all revenue-contracts regardless of their value, and risk in a compliance review would be counterproductive. The PCPM does not make this distinction when addressing compliance reviews and shall be edited to address this.

**RECOMMENDATIONS**

**A. To improve controls over revenue-generating contracts, OIG recommends that the director of OCon&PPM, in coordination with the president of SE, take the following actions.**

1. Align procedures and practices for assigning CORs to revenue-generating contract.

**Comment:** Concur

**Action Planned:** The PCPM will be revised to address when and on what types of business contracts a COR should be assigned.

**Target Date for Completion:** September 30, 2020

2. Establish procedures that would guide CORs day-to-day responsibilities

**Comment:** Concur

**Action Planned:** As part of the action planned for responsiveness to Recommendation No. 1 above, OCon&PPM and SE shall draft guidance for CORs.

**Target Date for Completion:** September 30, 2020

3. Complete and Implement a training program for the CORs.

**Comment:** Concur.

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**Action Planned:** SE and OCon&PPM shall jointly develop training requirements for CORs in accordance with the revised PCPM.

**Target Date for Completion:** September 30, 2020

4. Develop and implement procedures to perform compliance reviews of revenue generating contracts.

**Comment:** Concur

**Action Planned:** The PCPM shall be amended to identify which types of revenue-contracts require compliance reviews. A compliance review process shall be developed that allows flexibilities for change to meet particular needs of SE and OCon&PPM.

**Target Date for Completion:** September 30, 2020

Please direct any questions you may have regarding the information included herein to [REDACTED], OCon&PPM, for a coordinated response. [REDACTED] may be reached by telephone at [REDACTED] or via email to [REDACTED]@si.edu.

## Appendix III

### Major Contributors to Report

Joseph Benham, Supervisory Auditor  
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# OFFICE OF THE INSPECTOR GENERAL



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## IG's Mission

Our mission is to promote the efficiency, effectiveness, and integrity of the Smithsonian Institution's programs and operations through independent and objective audits and investigations and to keep stakeholders fully and currently informed.

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## Reporting Fraud, Waste, and Abuse to IG Hotline

OIG investigates allegations of waste, fraud, abuse, gross mismanagement, employee and contractor misconduct, and criminal and civil violations of law that have an impact on Smithsonian Institution programs and operations.

If requested, anonymity is assured to the extent permitted by law. Although you may remain anonymous, we encourage you to provide us with your contact information. The ability to gather additional information from you may be the key to effectively pursuing your allegation.

To report fraud and other serious problems, abuses, and deficiencies, you can do one of the following:

Call 202-252-0321.

Send an email to: [oighotline@oig.si.edu](mailto:oighotline@oig.si.edu).

Visit OIG's website: <https://www.si.edu/oig>.

Write to:

Office of the Inspector General

Smithsonian Institution

P.O. Box 37012, MRC 524

Washington, D.C. 20013-7012.

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## Obtaining Copies of Reports

To obtain copies of Smithsonian Institution OIG reports, go to OIG's website: <https://www.si.edu/oig> or the Council of the Inspectors General's website: <https://oversight.gov>.