



Smithsonian Institution

OFFICE OF
THE
INSPECTOR
GENERAL

AUDIT PLAN
FISCAL YEAR 2014

Introduction

This Fiscal Year (FY) 2014 Audit Plan communicates the Office of the Inspector General's audit priorities to the Smithsonian Institution management, the Board of Regents, the Congress, and the public.

Our office seeks to improve the efficiency and effectiveness of Smithsonian operations by providing independent and objective evaluations. In developing this plan, we sought the input from our stakeholders at the Smithsonian and in Congress. We utilized a risk survey to solicit the viewpoints of Smithsonian management and the Audit and Review Committee and we followed with interviews with select members of the Smithsonian leadership team.

The audits for FY 2014 fall into three categories:

- I. Carryover Audits: audits that were initiated during FY 2013 that are in various phases of completion.
- II. Mandatory Audits: (1) the annual audits of the Smithsonian's financial statements, which we oversee; (2) the annual review under the Federal Information Security Management Act, which we also oversee; (3) an annual audit of the travel expenses of members of the Board of Regents, conducted at their request to fulfill a statutory requirement.
- III. Discretionary Audits: audits we selected after considering the key ongoing and emerging risks facing the Smithsonian and after evaluating the suggested topics from senior management, our congressional oversight committees, and the Board of Regents.

In addition, we have initiated a continuous audit program, a method used to perform audit related activities on an ongoing basis, that will supplement our overall audit strategy.

The list of audits on the following pages reflects what we can reasonably accomplish with our current resources. This plan is flexible, and we recognize that issues of more immediate concern may arise to which we will adjust our priorities accordingly. We will also continue to monitor the construction phase of the National Museum of African American History and Culture.

On a separate track, we will be undergoing an external peer review to be conducted by another Office of Inspector General audit organization.

Michael Sinko
Assistant Inspector General for Audits
September 30, 2013

Planned Audit Work for FY 2014

I. Carryover Audits

Audit Title	Audit Phase	Engagement Memorandum Date
• Management of the Smithsonian's Motor Vehicle Fleet Operations	Reporting	March 29, 2013
• Audit of Financial Statement Assurance Letter Process	Field Work	June 5, 2013
• Pan-Institutional Initiatives Addressing Collections Care	Field Work	June 28, 2013
• Management of Leased Office Space	Planning	August 15, 2013
• Security of Transporting High-Value Objects	Temporarily Suspended	January 8, 2013

II. Mandatory Audits

- Oversight of the Financial Statement Audits
- Oversight of the Federal Information Security Management Act Program
- Travel Expenses of the Members of the Board of Regents

III. Discretionary Audits

- 1) Facilities Security and Emergency Preparedness
- 2) Unliquidated Obligations
- 3) Succession Planning for Critical Positions
- 4) Planning for Capital Projects
- 5) Implementation of the Office of Advancement's PANDA System
- 6) Facilities Maintenance Program
- 7) Management of Overtime Pay
- 8) Office of Sponsored Projects Pre-Award Operations

IV. Fiscal Year 2014 Discretionary Audits in Detail

(1) Facilities Security and Emergency Preparedness

Objectives

This audit will assess whether the Smithsonian units have security controls and plans in place to ensure that facilities are safe for property, staff, and the visiting public. In addition, we will evaluate the emergency response testing conducted by the Office of Protection Services (OPS).

Background and Significance

The Smithsonian's disaster preparedness plan, entitled *Disaster Management Program and Business Continuity Master Plan*, addresses three key areas for the Smithsonian as a whole: disaster preparedness, response, and recovery. The Disaster Preparedness Manager, who works in OPS, is in charge of managing disaster preparedness for the Smithsonian and for monitoring disaster preparedness at the units. In addition, each unit has its own disaster management plan.

OPS periodically tests the Smithsonian's emergency response system to train the employees what to do in the case of an emergency. These exercises are significant to help ensure the safety of the work force and collections.

We will review a cross-section of unit disaster management plans and a sample of after action reports for emergency response system tests.

Potential Impact

This audit will seek ways to mitigate the risks to the safety of staff and the visiting public, as well as Smithsonian property by strengthening the Smithsonian's disaster preparedness and emergency response system.

(2) Unliquidated Obligations

Objective

We will assess the Smithsonian's controls over the management of unliquidated obligations to ensure that when obligations no longer represent valid financial liabilities, the funds can be used for other purposes.

Background and Significance

Appropriations law requires that agencies receiving federal funds control the obligations they enter into to ensure that agencies: (1) do not violate the provisions of the Anti-Deficiency Act; (2) provide accurate budgetary and propriety accounting and reporting; (3) use funds properly; and (4) do not misuse funds, either intentionally or unintentionally. An obligation must be liquidated within certain time limits. If not, the unexpended funds must be released for other allowable purposes, or in some cases, returned to the U.S. Treasury. Over the past five years, the Smithsonian has returned \$14.7 million of unliquidated obligations to the U.S. Treasury.

Potential Impact

We will look to identify improvements to fund controls to ensure that obligated funds are properly expended.

(3) Succession Planning for Critical Positions

Objective

We will assess whether the Smithsonian units have necessary succession plans for critical positions to ensure the continuity of business operations.

Background and Significance

The Office of Personnel Management's *Succession Planning Process* guide recognizes that some jobs are too critical to be left vacant or filled by any but the most qualified staff. This guide states that succession planning is critical to mission success and creates an effective process for recognizing, developing, and retaining top leadership talent. Succession planning increases the availability of experienced and capable employees that are prepared to assume critical roles as they become available.

As of the third quarter of FY 2013, 20% of the Smithsonian's 4,031 federal employees are eligible for immediate retirement. However, according to the Office of Human Resources, many units lack unit-based succession plans.

Potential Impact

Broader use of succession plans for critical positions will help the Smithsonian to ensure (1) the continuity of business operations, as well as management stability and (2) the preservation and availability of critical institutional knowledge for the future.

(4) Planning for Capital Projects

Objective

We will assess the policies and procedures for planning capital projects. Specifically, we will review how, and at what point, in the process Smithsonian management evaluates the overall project cost estimates to determine their reasonableness, as well as the feasibility of the Smithsonian to secure funds for the project.

Background and Significance

The Office of Planning and Project Management (OPPM), under the Office of Facilities Engineering and Operations (OFEO), provides the planning and project management for the execution of the Capital Program. This program allows for modern facilities that satisfy public programming needs and facilitates research efforts. Through the program, new facilities are constructed and old ones are repaired or replaced in advance of future deterioration.

OPPM staff monitors, directs, and reports on the scope, budget, and schedule of individual projects and coordinates the efforts of consultants on multiple projects at each facility. OPPM's July 2013 Monthly Project Report contains 17 projects totaling over \$1.4 billion.

Potential Impact

This audit will assist the Smithsonian to ensure that management does not expend considerable resources before knowing whether the project is sustainable.

(5) Implementation of the Office of Advancement's PANDA System

Objectives

We will evaluate the security controls that the Office of Advancement has implemented for the Pan-Institutional Database for Advancement (PANDA) system that will support the Smithsonian's capital campaign. Specifically, we will assess whether the Smithsonian has categorized the system and implemented information technology controls to secure and protect data. Further, since PANDA will operate in a cloud environment, we will determine whether the necessary security standards have been implemented.

Background and Significance

The Smithsonian relies on donor funding for many parts of its operations, including research and exhibits. It is critical to have a system in place that securely records the donors' personal information related to these gifts and pledges. In October 2013, the Smithsonian will implement the new PANDA system for capturing this information.

In accordance with the Smithsonian information technology standards, major systems supporting mission or critical business operations must be properly categorized for security impact levels (low, moderate, high).

The PANDA system has a cloud computing component that should also have controls in place to protect personal information of the donors.

Potential Impact

Our audit will help to ensure that the PANDA system is operating securely to minimize the risk of disclosing sensitive donor information which could cause adverse media attention and negatively impact the Smithsonian's fundraising operations.

(6) Facilities Maintenance Program

Objective

We will evaluate the Office of Facilities Engineering and Operations' (OFEO) management of the Smithsonian facilities maintenance program, including OFEO prioritizing assets needing required maintenance. Specifically, we will assess whether OFEO has fully implemented the workplace management system, as recommended in a prior audit as well as the impact of the system on current operations.

Background and Significance

OFEO maintains and operates a museum complex with a current replacement value of \$6.2 billion (in 2012 dollars). The rate of deferred maintenance throughout the Smithsonian increases by approximately \$152 million per year. In fiscal year 2012, the Smithsonian budgeted approximately \$72 million for facilities, maintenance, and operations.

OFEO manages over 18,000 facility assets (such as buildings, roads, and bridges) or pieces of equipment (including utility systems, computers, and vehicles) using workplace management system known as the FacilityCenter. This system assists OFEO to manage the day-to-day maintenance work and supports reimbursable work such as special events.

Potential Impact

This audit will look to strengthen the Smithsonian's management of its critical physical assets.

(7) Management of Overtime Pay

Objective

This audit will determine whether the Smithsonian is effectively managing staff hours to reduce overtime expenses. We will assess management's programs for monitoring and approving overtime and examine whether overtime pay is properly calculated and for legitimate purposes.

Background and Significance

Many Smithsonian employees are eligible to earn overtime pay. During FY 2012, the Smithsonian paid approximately \$6.9 million in total overtime pay of which about \$6.6 million was paid out of federally appropriated funds.

Potential Impact

This audit will help Smithsonian management improve its monitoring of overtime pay to reduce payroll expenses and potentially release funds for other purposes.

(8) Office of Sponsored Projects Pre-Award Operations

Objectives

The audit will assess the effectiveness of the operational changes made in the Office of Sponsored Projects (OSP) as a result of recommendations from the Sponsored Projects Redesign Team report, dated April 18, 2012. Further, the audit will include a review of the indirect rates charged to grants and contracts. We will also evaluate the impact of reimbursed indirect costs on OSP operations.

Background and Significance

The Secretary has identified growth in grants and contracts as one way to fund his priorities outlined in the Smithsonian's *Strategic Plan, Fiscal Year 2010-2015*.

OSP services Smithsonian units to obtain external funding (grants and contracts) from both government and private sources in support of research, exhibitions, and other mission-related projects. OSP assists units in all phases of the process, including application, budgeting, and compliance with grant and contract terms. OSP is funded through the recovery of indirect rates applied to grants and contracts. Indirect rates cover costs that cannot be allocated to a specific project. According to Smithsonian management, fiscal year 2012 cost recovery efforts were about \$585,000 less than OSP's actual expenses.

In FY 2012, the Smithsonian (excluding the Smithsonian Astrophysical Observatory, which manages its grants and contracts separately) submitted a combined total of 378 grants and contracts proposals seeking \$98 million in funding, and received 328 awards totaling approximately \$65 million.

Potential Impact

We will look for ways to strengthen OSP service to the units.