Smithsonian Institution

National Museum of African American History and Culture Building Project

Smithsonian Needs Better Fundraising Reporting to Make Informed Project Management Decisions

Office of the Inspector General
Report Number A-13-02
August 23, 2013

Smithsonian Institution
Office of the Inspector General

In Brief

Smithsonian Needs Better Fundraising Reporting to Make Informed Project Management Decisions
Report Number A-13-02, August 23, 2013

Why We Did This Audit

We have conducted a series of audits of the Smithsonian's management of the National Museum of African American History and Culture (NMAAHC) building project.

Our audit objectives were to determine whether (1) management's funding plans align with the timing of projected expenses, and (2) management has a contingency plan should the Smithsonian not receive expected federal appropriations or private donations.

Background

In 2003, Congress established NMAAHC, dedicated to the collection, preservation, research, and exhibition of African American historical and cultural material. The $500 million funding for this construction project will be split evenly between federal appropriations and private donations. The Smithsonian announced that the museum will open to the public in November 2015.

What We Found

We found that management's funding plans for the NMAAHC building project did not align with the timing of the project's funding requirements. However, due to the difficulty in predicting the timing and amounts of both federal appropriations and private donations, management did not expect available funds to align with funding requirements. Therefore, management has planned to borrow funds to meet these requirements until fundraising for this project is completed. As of June 2013, the Smithsonian has received approximately $113 million in private donations and $191 million in federal appropriations for the building project.

We also found that NMAAHC did not use the Smithsonian's central donor database system for reporting private donations. This resulted in the museum providing Smithsonian management with overstated fundraising amounts that were used to make future funding decisions.

The museum did not use the central system when producing fundraising reports because they found the system to be difficult to use and not robust enough for their needs. Instead, the museum used its own secondary system to manually produce fundraising reports for management. As a result of this process, the Smithsonian was relying on fundraising amounts that were overstated by $922,000 when making management decisions.

What We Recommended

To ensure that the NMAAHC project team has accurate information to manage the project's funding plans and requirements, we made recommendations for NMAAHC management to use fundraising data from the central donor database system when reporting on the status of the NMAAHC building project.

Management concurred with our findings and recommendations and has planned corrective actions to address the recommendations. We will continue to monitor management's progress towards completion of these recommendations.

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

Smithsonian Institution Memo

Office of the Inspector General

Date August 23, 2013

To Albert Horvath, Under Secretary for Finance and Administration/ Chief Financial Officer
Richard Kurin, Under Secretary for History, Art, and Culture
Lonnie Bunch, Director, National Museum of African American History and Culture
Virginia Clark, Director, Office of Advancement

cc Patricia Bartlett, Chief of Staff, Office of the Secretary
Nancy Bechtol, Director, Office of Facilities Engineering and Operations
Zully Dorr, Deputy Director, Office of Advancement
Judith Leonard, General Counsel
Stone Kelly, Program and Budget Analyst, Office of Planning, Management and Budget

From Scott S. Dahl, Inspector General

Subject Audit Report on NMAAHC Building Project-Budget and Funding, A-13-02

Attached please find a copy of our final report titled *Smithsonian Needs Better Fundraising Reporting to Make Informed Project Management Decisions.*

We made two recommendations to ensure that Smithsonian management used the central donor database system to report fundraising amounts to better manage the project's funding plans and requirements. Management concurred with our findings and recommendations and has planned corrective actions to address the recommendations. We will continue to monitor management's progress towards completion of these recommendations.

We appreciate the courtesy and cooperation of all Smithsonian staff during this review.

Please call me or Michael Sinko, Assistant Inspector General for Audits, on 202.633.7050 if you have any questions.

MRC 524
PO Box 37012
Washington DC 20013-0712
202.633.7050 Telephone
202.633-7079 Fax

INTRODUCTION

In 2003, Congress established the National Museum of African American History and Culture (NMAAHC), dedicated to the collection, preservation, research, and exhibition of African American historical and cultural material. The $500 million funding for the NMAAHC building project will be split evenly between federal appropriations and private donations. In 2012, the Smithsonian announced that it will open the museum to the public in November 2015.

The Office of the Inspector General (OIG) has conducted a series of audits of the Smithsonian's management of the NMAAHC building project. Through these audits, our objective has been to determine whether the Smithsonian has adequate processes in place to keep this project on schedule and within budget.

For this audit report, we focused on the project's funding because the construction project delivery method selected necessitates an accelerated funding schedule. In addition, Smithsonian management expressed concerns about the funding schedule during our earlier audit. Without sufficient funds on hand, the Smithsonian would not be able to continue to award construction work, which may potentially delay the project schedule. Our objectives were to determine whether (1) management's funding plans align with the timing of projected expenses, and (2) management has a plan should the Smithsonian not receive expected federal appropriations or private donations.

The Smithsonian's funding plans for the NMAAHC building project consist of annual federal budget requests and private fundraising goals. The projected expenses, also referred to as funding requirements, represent the schedule of when management anticipates needing funds for construction-related expenditures.

Because the NMAAHC project is ongoing, we evaluated management's funding plans and requirements as of February 2013. A detailed description of our objectives, scope, and methodology is included in Appendix A.

RESULTS OF AUDIT

We found that management's funding plans for the NMAAHC building project did not align with the timing of the project's funding requirements. However, due to the difficulty in predicting the timing and amounts of both federal appropriations and private donations, management did not expect available funds to align with funding requirements. Therefore, management has planned to borrow funds to meet these requirements until fundraising for this project is completed. We also found that NMAAHC did not use the Smithsonian's central donor database system for reporting private donations. This resulted in the museum providing Smithsonian management with overstated fundraising amounts that were used to make future funding decisions.

To ensure that the NMAAHC project team has accurate information to manage the project's funding plans and requirements, we made recommendations for NMAAHC management to use fundraising data from the central donor database system when reporting on the status of the NMAAHC building project.

Management concurred with our findings and recommendations and has planned corrective actions to address the recommendations. Please refer to Appendix B for management's complete response.

Smithsonian Plans to Borrow Funds to Keep the NMAAHC Building Project on Schedule

The Federal Acquisition Regulations (FAR), Subpart 32.7, require that funds be available before the government may create an obligation. The Smithsonian has incorporated this practice for both its federal and trust funds into Part 3 of the Procurement and Contracting Procedures Manual in Smithsonian Directive (SD) 314, *Contracting*. Accordingly, the Smithsonian may not obligate funds, and therefore may not award work, until the funds are available.

We found that the Smithsonian's funding plans, as of February 2013, did not align with the timing of the project's funding requirements. However, Smithsonian management explained that due to the difficulty in predicting the timing of federal appropriations and private donations, management did not expect available funds to align with funding requirements. Therefore, to maintain compliance with the FAR and SD 314, Smithsonian management plans to borrow additional funds to continue to award work.

The funding plans for the $500 million project consist of annual federal budget requests and private fundraising goals. Through fiscal year 2013, the Smithsonian has received approximately $191 million through appropriations of the $250 million federal share of the project budget. Since 2008, the Smithsonian has received annual installments of between $2 million and $75 million in federal appropriations.

This incremental federal funding is one of the factors that contributed to the funding plans not aligning with the project's funding requirements. Such incremental funding for a federal building project contrasts with the common practice of the General Services Administration, responsible for most building projects within the federal government, to receive all funds before the project commences. In addition, the recent federal budget environment has resulted in a slower pace of appropriations than the Smithsonian requested. In fiscal years 2012 and 2013, the Smithsonian received approximately $64 million less than the $210 million it requested.

Likewise with the private fundraising portion of the project, the amount of funds raised from private donations has not aligned with the project requirements. NMAAHC management explained that the overall goal of $250 million was apportioned by year, beginning with fiscal year 2006, with higher goals established

for the later years. We note that NMAAHC has made progress towards raising the requisite $250 million, but it has not consistently met its annual fundraising goals. In fact, over the past 7 years (2006-2012), the museum did not meet their annual goal four times. While they exceeded their goals for the other 3 years, it was not enough to fully offset the shortfall. As of June 2013, the Smithsonian has recorded approximately $113 million in private donations for the project. According to NMAAHC management, the museum is on track to meet its fiscal year 2013 goal.

Smithsonian management explained that setting fundraising goals is difficult because the Smithsonian cannot accurately predict when, and how much, potential donors may give. In addition, according to Office of Advancement (OA), the museum's annual fundraising goals were set based on what the museum believed it could raise, not the funding needs of the project.

During our review, we determined that the project is expected to have annual deficits starting in the 3rd quarter of fiscal year 2013 through the remaining years of the building project. Deficits occur when funding requirements out-pace available federal and private funds. Therefore, Smithsonian management explained that, following common industry practice, the Smithsonian plans to borrow funds to keep construction on schedule until fundraising for this project is completed. The borrowing of funds will allow the Smithsonian to continue awarding work while remaining in compliance with FAR requirements.

NMAAHC did not use the Smithsonian's Central Fundraising System for Reporting

We examined the data supporting the funding plans to determine whether these plans aligned with funding requirements. We also assessed the accuracy of the financial data in the funding plans for this project, as well as the many reports documenting both funds raised and funding requirements.

During this review, we found that the museum did not use data from the Development and Membership Information System (DMIS), the Smithsonian's central donor database system, to report its fundraising progress for the project. Instead, the museum used its own donor database system, Raiser's Edge, to manually update the monthly Trust Fundraising report. In addition, the museum updated the Trust Fundraising report with only new activity since the last report, rather than with all activity as of the current report date. By updating the report in this manner, the report may not include adjustments the museum made to transactions, nor identify errors, from earlier periods. Producing the Trust Fundraising report from this database source resulted in the Smithsonian relying on overstated fundraising amounts to manage the NMAAHC project.

The museum is required to produce this report and submit it to the Office of the Treasurer for incorporation into the building projects *Sources and Uses* report. The *Sources and Uses* report is then presented at the monthly Project Executive meetings and used to make informed business decisions concerning the NMAAHC building project.

The Smithsonian's *Gift Recording Principles and Standards*, a guide published by OA, states that units may only use data from the central system when reporting fundraising figures. This requirement, however, is not included in the Smithsonian Directive (SD) on fundraising—SD 809, *Philanthropic Financial Support*.

In addition, SD 809 identifies fundraising responsibilities for the museum and the central OA. NMAAHC is responsible for its fundraising programs and efforts, including setting annual goals, identifying and cultivating relationships with potential donors, and soliciting donations. OA is principally responsible for Smithsonian-wide private fundraising policies and efforts. OA enters all gifts into DMIS. Through DMIS, OA tracks each museum's progress towards meeting their annual fundraising goals.

However, the museum did not use DMIS to report on fundraising progress for the NMAAHC project because the museum said it found producing reports from the system difficult. In addition, NMAAHC staff believed that this system was not robust enough to meet their needs and was not user friendly. According to OA, other museums have expressed similar concerns about DMIS.

In response, in early fiscal year 2014, OA plans to implement a new central donor database system, Pan-Institutional Database for Advancement (PANDA). According to OA, PANDA will improve reporting capabilities and include features such as the ability to mark conditional pledges. Once OA implements PANDA, all new data for fiscal year 2014 must be entered into the system. However, according to OA staff, while all financial information will be converted from DMIS immediately, the conversion of non-financial information (including donor prospect data) from the museums' secondary systems may take up to 2 years.

Producing the Trust Fundraising report from the museum's secondary system rather than the central OA system resulted in the Smithsonian relying on $922,000 in cash and pledges it did not have to manage the NMAAHC project. This difference consisted of the following:

- $222,000 that had no supporting documentation and was not in either DMIS or Raiser's Edge. NMAAHC staff were unable to determine whether the $222,000 overstatement was in cash or pledges because this amount was in a summary line item for small gifts.

  According to NMAAHC staff, part of the discrepancy is based on the museum reporting only new activity and thereby excluding any prior adjustments.

- $700,000 that was a conditional pledge where the museum had no supporting documentation that the museum had met the condition. This amount was included in Raiser's Edge and the Trust Fundraising report, but not in DMIS.

  The Smithsonian included the $700,000 conditional pledge as collateral for an internal loan without meeting the requirements of the pledge. If the museum does not meet the donor's requirements, it would not be entitled to the $700,000. Nevertheless, the Smithsonian was confident the conditions would be met, that it agreed to include the pledge dollars as collateral.

The Office of the Treasurer (OT) used information from the Trust Fundraising report to monitor the funds available against funding requirements. OT and the Project Executive, who is responsible for managing the project's budget and schedule, then presented this information at the monthly project meetings.

While the $922,000 discrepancy was small compared to the $250 million that the museum must raise for the project, the Smithsonian could have more significant inaccuracies in the future if it continues to monitor and report on fundraising in this manner. Moreover, funding decisions would not be based on the most reliable financial data.

Recommendations

To ensure that the NMAAHC project team has accurate information to manage the project's funding plans and requirements, we recommend that the:

1. Director of OA: Revise SD 809 to require the use of the central donor database system to report fundraising.

2. Director of OA, in coordination with the Director of the Office of Finance and Accounting, and the Director of NMAAHC: Develop and produce an automated Trust Fundraising report using the central donor database system.

APPENDIX A

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to determine whether (1) management's funding plans align with the timing of projected expenses, and (2) management has a plan should the Smithsonian not receive expected federal appropriations or private donations.

We met with personnel from various Smithsonian units to obtain an understanding of the NMAAHC project. We learned about the Smithsonian's fundraising process from personnel within NMAAHC, OA, OT, and the Office of Facilities Engineering and Operations. Personnel from the Office of Planning, Management and Budget explained the Federal appropriations process for this project. The Under Secretary for History, Art, and Culture, and the Under Secretary for Finance and Administration/Chief Financial Officer updated us on the NMAAHC project's funding and financing plans. Finally, we attended the various project meetings to keep abreast of the project's developments.

We identified criteria by reviewing relevant Smithsonian policies and prior OIG audits of building project management. We also reviewed policies from the higher education sector, to identify best practices in managing funding plans for building projects.

We looked at multiple reports, prepared for the February 6, 2013 Project Executive meeting, to evaluate whether management's funding plans align with the project's funding requirements. For these reports, we verified the accuracy of the funds raised and funding requirements for the construction portion of the project. Specifically, we reconciled the information to source documents, including the two donor database systems, construction cost estimates based on 65 percent design documents, and contract modifications. We also verified that a sample of recorded cash receipts, grants, and pledges agreed to source documents. We discussed discrepancies we identified with relevant staff.

We also reviewed fundraising goals for the museum and compared them against the actual amounts raised each year. We did not review the Smithsonian's entire internal control structure for managing the NMAAHC building project. We limited our review to those internal controls related to the processes for monitoring the project through funding plans and funding requirements.

We conducted this performance audit in Washington, D.C. and Arlington, VA, from October 2012 to April 2013, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX B

MANAGEMENT'S RESPONSE

Smithsonian Institution MEMO

Albert G. Horvath
Under Secretary for Finance and Administration/Chief Financial Officer

Date: August 21, 2013

To: Michael Sinko
Joan Mockeridge

From: Albert Horvath

Re: Response to Audit Report A-13-02 Regarding the National Museum of African American History and Culture Building Project (NMAAHC Project)

On behalf of Lonnie Bunch, Virginia Clark, Richard Kurin and myself, we appreciate the opportunity to respond to the issues raised in Audit Report A-13-02. As you note, the NMAAHC Project is extremely complex, requiring the coordination of many offices and disciplines within the Smithsonian. The time frame for completion of the project is aggressive, and the funding plan (including the $250 million private fundraising goal) is substantial.

At present, construction of the building is 19% complete. 60% of the financial resources needed for the project (Federal appropriations and private gift commitments) have been received. In the meantime, the Smithsonian is moving ahead with plans to ensure that financing is available to provide cash to keep the project moving forward as fundraising continues and pledge payments are received.

As the audit report notes, a new online system to support fundraising and gift accounting is currently in development. Work on the Pan-Institutional Database for Advancement (PANDA) began in 2010 to provide the consistent and standardized recordkeeping system of SI fundraising activity. When implemented in November 2013, it will become the official record for all gift activity across the Institution. PANDA will automatically interface with the SI general ledger and will serve as the official ledger for financial activity relating to fundraising.

The report noted that there were two discrepancies in the detailed test work completed that led to the recommendations which are addressed below. An update on each discrepancy follows.

- The Smithsonian included a $700,000 conditional pledge as collateral for an internal loan without meeting the requirements of the pledge.

Smithsonian Institution Building
1000 Jefferson Drive SW
Room 230
Washington DC 20560-0040
202.633-5241 Telephone
202.633-0179 Fax

APPENDIX B

MANAGEMENT'S RESPONSE (Continued)

- The conditional gift was part of a $1.2 million commitment from a corporate donor. The cash portion of $500,000 was received on schedule. $700,000 was a matching gift that required that an equal amount of fundraising would be necessary for this portion to be paid to NMAAHC. While a gift agreement was not obtained for this, a substantiation letter was sent to the corporation in May 2011 documenting the terms of the matching grant. The first payment upon completion of the match was made on schedule on August 7, 2013 in the amount of $350,000. The balance is due in 2014.

- Gifts totaling $222,000 had no supporting documentation and were not found in either DMIS or Raiser's Edge (NMAAHC's detailed donor database).

  - The $222,000 discrepancy stems from errors in recording $379,000 in the Gift Support Fund section of the March 2010 Trust report. Specifically, errors included double entries and failure to adjust a set of figures moved to Council Gift Support Fund that had already been reported in DMIS. The error occurred when reconciling DMIS and ERP small gifts (i.e., gifts of $50,000 and below) with the Council Gift Support Fund and the Gift Support Fund on the March 2010 trust report. This report was generated based upon a one-time request to use a different set of figures, causing confusion and resulting in the $222,000 continuing to be included in the subsequent reports. This has been corrected and Raiser's Edge and DMIS are now in balance. Future reporting on fundraising results, as noted below, will be based upon DMIS as the source (and PANDA when it is implemented later this year).

Our responses to the recommendations made in the report are presented below.

Recommendation 1
Director of OA: Revise SD 809 to require the use of the central donor database system to report fundraising.

Management's Response
We concur with this recommendation. SD 809 will be revised to reflect the PANDA system as the official record for fundraising activity at the Smithsonian and any reports made on gifts received be based upon what is recorded therein. The policy will be updated by November 30, 2013.

Recommendation 2
Director of OA, in coordination with the Director of the Office of Finance and Accounting, and the Director of NMAAHC: Develop and produce an automated Trust fundraising report using the central donor database system.

APPENDIX B

MANAGEMENT'S RESPONSE (Continued)

Management's Response
We concur with this recommendation. A monthly automated report on fundraising results for NMAAHC has been developed and will be produced from DMIS by August 31, 2013 based upon results through July 31, 2013. It will be produced on a monthly basis thereafter within 15 days of each month end.

Please contact us if you have any questions or would like to discuss this response further.

cc: Patricia Bartlett
Nancy Bechtol
Lonnie Bunch
Virginia Clark
Scott Dahl
Zully Dorr
Kinshasha Holman-Conwill
Richard Kurin
John Lapiana
Albert Lee
Evelyn Lieberman
Judith Leonard
Dianne Niedner
Cynthia Zarate

APPENDIX C

MAJOR CONTRIBUTORS TO THIS REPORT

Joan Mockeridge, Supervisory Auditor
Michelle Uejio, Auditor-in-Charge
Brendan Phillips, Auditor