



# Smithsonian Institution

Office of the Inspector General

July 7, 2008

Audit and Review Committee  
Smithsonian Board of Regents  
Washington, D.C. 20560

Re: Review of the Former SBV CEO's Expenses, No. A-08-01b

Dear Members of the Audit and Review Committee:

Attached please find the Independent Accountant's Report on Applying Agreed-Upon Procedures to review the expenses of Smithsonian Business Ventures' former Chief Executive Officer (SBV CEO) for 2006 through 2007.<sup>1</sup>

In this transmittal we offer comments and recommendations based on our oversight of the independent accountant's review. We have previously addressed at great length many of the issues raised by this review<sup>2</sup> and will not repeat the discussions and analyses here. We limit our comments to our conclusions and recommendations.

In summary, we determined that approximately 6 percent of the former CEO's expenses were inadequately supported or unsupported and recommend that the Institution file the necessary tax forms and seek reimbursement from the CEO as appropriate.

Our comments follow the order of the attached report.

## Transaction Testing

The independent accountant reviewed the \$430,300 in transactions<sup>3</sup> identified on the Schedule of Expenditures prepared by the SBV Chief Financial Officer. To help ensure the accuracy and completeness of the Schedule, the independent accountant both traced the reconciliations from the Schedule to the SBV general

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<sup>1</sup> We prepared a separate report on a review of the expenses of the former Secretary of the Smithsonian for 2006 and 2007, number A-08-01a (July 3, 2008). We do not cover the former CEO's compensation in this review.

<sup>2</sup> Letter to the Audit and Review Committee from the Inspector General, July 19, 2007.

<sup>3</sup> This amount comprises all business expenses attributable to the Office of the CEO, such as telephone, messenger, temporary services, legal and accounting fees, as well as the then-CEO's travel, entertainment and other business expenses.

ledger and income statement (which are prepared by SBV), and also tested transactions outside the universe of the Schedule. The independent accountant did not identify any transactions outside the Schedule that should have been included in the Schedule.

### Inadequately Supported, Unsupported, and Unauthorized Expenses

We are applying the same methodology, standards and analyses that we did in our first review, covering the former CEO's 2001 through 2005 expenses. Consistent with that review, we define "inadequately supported" expenses more narrowly, as we explain below.

#### *Inadequately Supported Expenses*

The independent accountant identified \$23,970 of expenditures they reviewed (or 5.6 percent of the total) as *inadequately supported*. This amount does not include those expenditures the independent accountant deemed unauthorized.<sup>4</sup> Applying the same standards and analysis as we did in the first review, we conclude that for our purposes \$16,050 in expenses (or 3.7 percent of the total reviewed), was inadequately supported, because although receipts were not provided, there was evidence of a business purpose for each of the transactions. These transactions include those listed in the first section of Schedule B-1 of the independent accountant's report and those car service transactions that lacked a receipt but did have a business purpose, listed in Schedule B-2, Note A of the independent accountant's report.

- We recommend that the Board of Regents request the Secretary to direct the Institution to treat as taxable income the former SBV CEO's inadequately supported expenses in the amount of \$5,627 for tax year 2005; \$10,131 for tax year 2006; and \$292 for tax year 2007, and file the appropriate tax information forms.

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<sup>4</sup> We took \$1,701 in car service expenditures that the independent accountant had labeled "unauthorized" and recategorized them as "inadequately supported" (\$916.25) or "unsupported" (784.50). Accordingly, our total for "inadequately supported" and "unsupported" expenditures is \$1,701 more than the independent accountant's total for "inadequately supported" amounts.

### *Unsupported Expenses*

Applying the same standards and analysis as we did in the first review, we conclude that \$9,621 of the expenditures reviewed (or 2.2 percent of the total) was *unsupported*, because these transactions either (1) had minimal documentation and no business purpose provided, or (2) had no receipts and no business purpose provided. These transactions include those listed in the last two sections of Schedule B-1 of the independent accountant's report, and those car service transactions that had neither a receipt nor a business purpose, listed in Schedule B-2, Note A of the independent accountant's report.

- We recommend that the Board of Regents request the Secretary to direct the former SBV CEO to reimburse the Institution \$9,621 for his unsupported business expenses.

### *Unauthorized Expenses*

The independent accountant identified \$5,045 in *unauthorized* expenses (or 1.2 percent of the total), divided into eight categories (designated by the letters A through H on Schedule B-2).

We make no recommendation concerning the \$3,116 in documented car service expenses in category A, for the reasons explained in our earlier letter.<sup>5</sup>

With regard to category B, \$796 in unused airfares, and category C, \$192 in unsupported past due charges paid on the former CEO's government credit card, we believe that the former CEO should reimburse those amounts to the Institution. Similarly, he should reimburse the \$18 for in-room movies at a hotel identified as category E, an expenditure not reimbursable under SBV travel policy. However, based on our understanding of the apparent accounting errors that make up the amounts in category F, as well as on discussions with the independent accountant, the total should be offset by the \$(843) credit balance in category F.

- Accordingly, we recommend that the Board of Regents request the Secretary to direct the former SBV CEO to reimburse the Institution \$163 in unauthorized expenses.

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<sup>5</sup> July 19, 2007 letter, p. 14.

With regard to the \$80 identified in category D as unauthorized because it represents the amount by which a hotel charge exceeded the Federal Travel Regulation (FTR) limit of 300 percent on lodging costs, we note that the SBV travel policy had no ceiling on lodging cost reimbursements. As explained in our first review, SBV had explicit authority to establish its own travel policy separate from the Institution's and therefore the FTR's limits did not apply. Thus, while the expenditure may have been excessive, SBV policy at the time allowed it and we therefore have no recommendation on that amount.

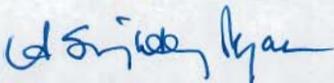
We also make no recommendation regarding the \$(29) in category F, the \$215 in charges identified in category G, and the \$(203) identified in category H because they were coding and other errors and resulted in no personal benefit (or detriment) to the former CEO.

Finally, we note that SBV's travel and expenses policy, implemented during the period of this review, in our opinion addressed many of the concerns we raised in our July 2007 letter and this one. Furthermore, the closer integration of SBV – now Smithsonian Enterprises – with the Smithsonian as a whole should, we believe, result in stronger controls and better oversight.

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We look forward to your responses to our recommendations. Please do not hesitate to contact me at 202.633.7050 or [sprightley@oig.si.edu](mailto:sprightley@oig.si.edu) if you have any questions or would like any further information.

Very truly yours,



A. Sprightley Ryan  
Inspector General

cc G. Wayne Clough, Secretary  
John E. Huerta, General Counsel  
Tom Ott, Acting President, Smithsonian Enterprises  
Greg Bokman, Chief Financial Officer, Smithsonian Enterprises  
Beth Cunigan, Controller, Smithsonian Enterprises



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## **INDEPENDENT ACCOUNTANT’S REPORT ON APPLYING AGREED-UPON PROCEDURES**

May 1, 2008

To the Audit and Review Committee of the Board of Regents:

Cotton & Company LLP has performed the procedures enumerated below, which were agreed to by the Smithsonian Institution Office of the Inspector General (OIG), solely to assist you in determining if travel, office, entertainment and other expenditures incurred by the former Chief Executive Officer (CEO) of Smithsonian Business Ventures (SBV) were reasonable in the context of a business expense related to the SBV mission. The SBV Chief Financial Officer (CFO) was responsible for identifying the transactions included in the Schedule of Expenditures of the Office of the CEO.

We conducted this agreed-upon procedures engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of procedures described below either for the purpose for which this report has been requested or for any other purpose.

### **OBJECTIVES**

1. Review reconciliation of the Schedule of Expenditures for each fiscal year to the year-end general ledger, identifying the accounts included in the Schedule and any adjustments to those accounts.
2. Test 50 transactions from similar accounts not included on the Schedule of Expenditures to determine if those expenditures should have been included on the Schedule.
3. Determine if transactions included on the Schedule of Expenditures were properly accounted for.
4. Determine if transactions included on the Schedule of Expenditures were valid business expenses related to the SBV mission or not incurred in accordance with SBV policies and guidance.

### **BACKGROUND AND SCOPE**

The Audit and Review Committee of the Board of Regents requested an independent third-party review of the former SBV CEO’s expenditures. The Smithsonian contracted with Cotton & Company to test the Schedule of Expenditures for Fiscal Years (FY) 2006 and 2007, which details the transactions identified by the CFO of SBV.

The former CEO terminated his employment with SBV on August 1, 2007. The Schedule of Expenditures represents travel, office, entertainment and other expenses charged to the former CEO's accounting unit during FY 2006 and 2007, and identified by the OIG for testing.

To meet the requirements of this agreed-upon procedures engagement, Cotton & Company reviewed schedules prepared by the SBV CFO as well as supporting documentation. In addition, we reviewed policies and procedures, references, handbooks, and memorandums provided by SBV as guidance to assist us in addressing the agreed-upon procedures. A comprehensive list of policies and guidance is provided in Appendix A. We provided periodic status updates to the IG and SBV staff as well as the draft report documenting agreed-upon procedures results.

SBV identified 237 transactions totaling \$430,300 in the Schedule of Expenditures. We requested supporting documentation for these expenditures, as well as a sample of 50 expenditures from similar accounts totaling \$105,055. Documentation provided to support expenditures included Citibank statements, vendor invoices, receipts, journal entries, cash book payments, and expense reports.

#### **AGREED-UPON PROCEDURES AND RESULTS**

**A-1. Trace transactions for each fiscal year from the Schedule of Expenditures to the general ledger. Identify all SBV expense accounts and/or transactions that are not included in the Schedule of Expenditures.**

We obtained SBV's reconciliation of the transactions included in the Schedule of Expenditures to its general ledger and income statement, and traced all amounts to these records. We identified CEO business unit expenses and expenses for other business units that were not included in the Schedule of Expenditures because these were not expenditures made on behalf of or to the former CEO. We used this population to select a sample of 50 additional expenditure transactions for testing as described in A-2.

**A-2. Trace 50 expenditure transactions that were not included in the Schedule of Expenditures, to source documentation and identify any transactions that were made on behalf of, or to the CEO.**

From the universe of excluded CEO business unit expenditures, we tested 50 excluded expenditure transactions totaling \$105,055 to source documents. We did not identify any transactions made on behalf of or to the former CEO.

**A-3. Trace all expenditures reported on the Schedule of Expenditures to source documentation and determine if expenditures were properly accounted for. Document all exceptions.**

The Schedule of Expenditures included \$430,300 of the former CEO expenditures incurred from October 1, 2005, through September 30, 2007. We traced these transactions to source documentation. SBV could not provide sufficient source documentation to support \$23,970 of expenditures as follows:

- Documents provided for \$15,134 included evidence of a business purpose, but did not include receipts. These expenditures are classified as inadequately supported, because receipts were not provided, although a business purpose was provided (see Schedule B-1).
- Documents provided for \$85 included receipts, but did not include evidence of a business purpose. These expenditures are classified as inadequately supported, because a business purpose was not provided, although receipts were provided (see Schedule B-1).

- Documents provided for \$8,751 did not include evidence of a business purpose and did not include receipts. The expenditures are classified as inadequately supported, because business purpose and receipts were not provided (see Schedule B-1).

**A-4. Review supporting documentation for all transactions and identify expenses not fulfilling the Smithsonian mission or not incurred in accordance with Smithsonian policies and guidance provided by Smithsonian staff. Document all exceptions.**

We identified expenditures of \$5,045 that did not appear necessary to fulfill the SBV mission or were not incurred within limits prescribed by SBV policies. We therefore identified these expenditures as unauthorized. SBV policies and guidance provided to us are identified in Appendix A. Detail for these expenditures and the reason why each was identified as unauthorized are provided in Schedule B-2.

**B-1. Obtain a management representation letter from SBV management to confirm to the best of their knowledge that representations were accurate and pertained to the period under review.**

We obtained a management representation letter from current SBV management. We did not obtain management representations from the CEO, because he is no longer employed at SBV.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of opinions on the schedules described in the first paragraph. Accordingly, we do not express such opinions. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. This report is intended solely for the information and use of the Office of the Inspector General, the Smithsonian, and SBV and is not intended to be and should not be used by anyone other than these specified parties.

COTTON & COMPANY LLP



Sam Hadley, CPA, CGFM  
Partner

**APPENDIX A**

**REFERENCE MATERIAL AND GUIDANCE PROVIDED BY THE  
SMITHSONIAN INSTITUTION**

**APPENDIX A**  
**REFERENCE MATERIAL AND GUIDANCE PROVIDED BY THE**  
**SMITHSONIAN INSTITUTION**

Smithsonian Directive (SD) 312, Travel, May 23, 2005

Smithsonian Institution Travel Handbook, May 23, 2005

SBV Travel and Expense Reporting Guidelines, Issued June 2006

**APPENDIX B**  
**SCHEDULES OF INADEQUATELY SUPPORTED**  
**AND UNAUTHORIZED TRANSACTIONS**

**SCHEDULE B-1**  
**SCHEDULE OF INADEQUATELY**  
**SUPPORTED TRANSACTIONS**

<b>Fiscal Year</b>	<b>Reference</b>	<b>Vendor</b>	<b>Amount</b>	<b>Status of Support</b>
2006	082206EXPE	2308Gary M. Beer	\$198.00	no receipts
2006	091206EXPE	2308Gary M. Beer	226.60	no receipts
2006	102405EXPE	2378Citibank Govt Card	506.00	no receipts
2006	111405EXPE	2378Citibank Govt Card	688.60	no receipts
2006	121505EXPE	2378Citibank Govt Card	258.00	no receipts
2006	011006EXPE	2378Citibank Govt Card	554.80	no receipts
2006	020806EXPE	2378Citibank Govt Card	315.75	no receipts
2006	030906/BEE	2378Citibank Govt Card	656.00	no receipts
2006	051506/BEE	2378Citibank Govt Card	2,424.57	no receipts
2006	102405EXPE	2378Citibank Govt Card	329.59	no receipts
2006	011006EXPE	2378Citibank Govt Card	366.84	no receipts
2006	020806EXPE	2378Citibank Govt Card	547.44	no receipts
2006	051506/BEE	2378Citibank Govt Card	1,390.50	no receipts
2006	091206EXPE	2308Gary M. Beer	70.80	no receipts
2006	102405EXPE	2378Citibank Govt Card	64.19	no receipts
2006	111405EXPE	2378Citibank Govt Card	132.53	no receipts
2006	121505EXPE	2378Citibank Govt Card	618.55	no receipts
2006	011006EXPE	2378Citibank Govt Card	135.20	no receipts
2006	020806EXPE	2378Citibank Govt Card	235.78	no receipts
2006	040606/BEE	2378Citibank Govt Card	444.84	no receipts
2006	051506/BEE	2378Citibank Govt Card	574.14	no receipts
2006	111405EXPE	2378Citibank Govt Card	2,975.90	no receipts
2006	121505EXPE	2378Citibank Govt Card	53.63	no receipts
2006	011006EXPE	2378Citibank Govt Card	290.87	no receipts
2006	020806EXPE	2378Citibank Govt Card	260.57	no receipts
2006	030906/BEE	2378Citibank Govt Card	41.06	no receipts
2006	040606/BEE	2378Citibank Govt Card	150.00	no receipts
2006	051506/BEE	2378Citibank Govt Card	90.90	no receipts
2007	102006EXPE	2308Gary M. Beer	151.00	no receipts
2007	103006EXPE	2308Gary M. Beer	89.00	no receipts
2007	050707EXPE	2308Gary M. Beer	34.00	no receipts
2007	7/10/07EXP	2308Gary M. Beer	79.40	no receipts
2007	050707EXPE	2308Gary M. Beer	41.25	no receipts
2007	022107EXPE	2308Gary M. Beer	<u>137.50</u>	no receipts
		<b>Subtotal</b>	\$15,133.80	
2006	121505EXPE	2378Citibank Govt Card	\$49.95	no business purpose
2006	051506/BEE	2378Citibank Govt Card	15.00	no business purpose
2007	120706EXPE	2308Gary M. Beer	<u>19.95</u>	no business purpose
		<b>Subtotal</b>	\$84.90	

**SCHEDULE B-1**  
**SCHEDULE OF INADEQUATELY**  
**SUPPORTED TRANSACTIONS**

<b>Fiscal Year</b>	<b>Reference</b>	<b>Vendor</b>	<b>Amount</b>	<b>Status of Support</b>
2006	102405EXPE	2378Citibank Govt Card	479.90	no receipt, no business purpose
2006	111405EXPE	2378Citibank Govt Card	1,587.90	no receipt, no business purpose
2006	121505EXPE	2378Citibank Govt Card	1,029.90	no receipt, no business purpose
2006	030906/BEE	2378Citibank Govt Card	737.81	no receipt, no business purpose
2006	040606/BEE	2378Citibank Govt Card	787.14	no receipt, no business purpose
2006	051506/BEE	2378Citibank Govt Card	839.60	no receipt, no business purpose
2006	121505EXPE	2378Citibank Govt Card	1,524.63	no receipt, no business purpose
2006	040606/BEE	2378Citibank Govt Card	1,106.64	no receipt, no business purpose
2006	111405EXPE	2378Citibank Govt Card	30.00	no receipt, no business purpose
2006	030906/BEE	2378Citibank Govt Card	<u>627.17</u>	no receipt, no business purpose
		<b>Subtotal</b>	\$8,750.69	
		<b>Total</b>	<u>\$23,969.39</u>	

**SCHEDULE B-2**  
**SCHEDULE OF UNAUTHORIZED**  
**TRANSACTIONS**

<b>Fiscal Year</b>	<b>Vendor</b>	<b>Reference</b>	<b>Exception Amount</b>	<b>Notes</b>
2006	2308 Gary M. Beer	091206EXPE	\$517.75	A
2006	2378 Citibank Govt Card	102405EXPE	190.00	A
2006	2378 Citibank Govt Card	011006EXPE	387.00	A
2006	2378 Citibank Govt Card	020806EXPE	118.50	A
2006	2378 Citibank Govt Card	030906/BEE	394.75	A
2006	2378 Citibank Govt Card	051506/BEE	610.50	A
2006	3647 London Town Cars, Inc.	19015	817.00	A
2007	2308 Gary M. Beer	101706EXPE	338.69	A
2007	2308 Gary M. Beer	103006EXPE	527.37	A
2007	2308 Gary M. Beer	030607EXPE	295.31	A
2007	2308 Gary M. Beer	021207EXPE	494.87	A
2007	2308 Gary M. Beer	121207EXPE	125.65	A
2007	2308 Gary M. Beer	121207EXPE	109.00	B
2006	2378 Citibank Govt Card	102405EXPE	687.32	B
2006	2378 Citibank Govt Card	CHECK100-1	168.47	C
2006	2378 Citibank Govt Card	121505EXPE	11.95	C
2006	2378 Citibank Govt Card	CHECK100-1	11.95	C
2007	2308 Gary M. Beer	050707EXPE	80.00	D
2007	2308 Gary M. Beer	103006EXPE	18.29	E
2006	2308 Gary M. Beer	082206EXPE	(842.66)	F
2006	SI Corp/1303/81606	CB10	(29.00)	F
2006	3282 Doggett's Parking		75.00	G
2006	3282 Doggett's Parking		50.00	G
2006	3282 Doggett's Parking		50.00	G
2006	2106 Verizon Wireless		40.30	G
2006	Nextel refund check	CB10	(202.93)	H
<b>Total</b>			<b><u>\$5,045.08</u></b>	

**SCHEDULE B-2**  
**NOTES**

- A. The CEO's expenses included car service during a number of trips. Prior to June 2006, SBV followed the Smithsonian travel policy. The Smithsonian travel policy states that travelers should select "[t]he mode of transportation that is most advantageous to SI when cost and other factors are considered..." and that "[t]ravel by common carrier is presumed to be the most advantageous in most circumstances." The SI travel policy further states that special conveyances such as drivers may be authorized, but SBV provided no documentation authorizing these expenditures. In June 2006, SBV issued its own Travel and Expense Reporting Guidelines. This policy does not address car service costs other than to state that "sedan or limo service may ...be used if the duration of the business trip makes this option less expensive than parking at the airport." We noted that the CEO expended \$4,817 on car service for a total of 29 transports, averaging \$166 per transport. There was no documentation in the file to indicate that the use of car service was less expensive than other travel options. We classified car-service costs of \$4,817 as unauthorized, including \$1,701 for which receipts were not provided and/or the business purpose was not identified (these costs are not included in Schedule B-1).
- B. The CEO's expenses included charges of \$796 for unused airfares, as follows:
- o \$687 paid to Citibank in October 2005 for two airline charges (\$405 on August 12, 2005 and \$282 on August 15, 2005) that were credited on the same statement because the airfares were not used. The expense report used as the basis for the Citibank payment reflects the credit, but it appears that \$687 was manually added back into the total when the expense report was reconciled to Citibank charges, causing an overpayment of \$687.
  - o The CEO was reimbursed \$218 in January 2007 for a roundtrip airfare to New York City (NYC). His expense voucher, however, shows that he took another flight to NYC (which was also reimbursed), and did not use the first leg of the original airfare. A note on the CEO's expense voucher states that he will reimburse SBV for the unused airfare. SBV could provide no evidence, however, that the CEO paid SBV \$109 for the unused airfare.
- C. SBV paid \$180 to Citibank on October 24, 2005. This payment was comprised of \$168 for a past due balance on the account, and a \$12 transaction fee. According to correspondence in SBV's files, the payment was made to avoid suspension of the CEO's Citibank card, and there is no documentation to indicate that a specific charge was identified for this past due amount. Smithsonian travel policy stipulates that employees are responsible for paying their Citibank travel charges, and that these payments must be made timely. In addition, the \$12 transaction fee was also included on the CEO's December 15, 2005 expense report (supporting SBV's December 2005 payment to Citibank), resulting in a duplicate charge. We classified \$192 as unauthorized.
- D. The CEO claimed actual lodging and meal costs for his travel. The SBV Travel and Expense Reporting Guidelines state that employees will be reimbursed for hotel accommodations at actual cost, and do not establish a reimbursement ceiling. *Federal Travel Regulations* (FTR), paragraph §301-11.303, however, establish maximum reimbursement at 300 percent of the per diem rate. The CEO's lodging for one night in High Point, North Carolina (March 2007) was \$350 per night; 300% of the FTR lodging for that locality was \$270. We classified the \$80 difference as unauthorized.
- E. The CEO's expenses included an \$18 reimbursement for television programming on a trip to Budapest in September 2006. The supporting hotel receipt indicates that the charge is for "Pay

TV.” SBV’s Travel and Expense Reporting Guidelines state that employees will not be reimbursed for in-room movies. We classified \$18 as unauthorized.

- F. SBV could not identify the expenses associated with two of the CEO’s reimbursements to SBV totaling \$(872), as follows:
- The amount due on the CEO’s August 22, 2006 expense voucher was reduced by \$843 for “previous credits from last billing cycle”. This was apparently the credit balance brought forward on his Citibank account from the previous month. This credit may, to some extent, be the result of the October 2005 Citibank payments described in Notes B. and C. above, but SBV was unable to provide documentation supporting the source of the \$843 credit balance.
  - The CEO reimbursed SBV \$29 on August 4, 2006 – this reimbursement was credited to SBV’s cellular telephone expense account. SBV could not provide information on the specific charges that the CEO repaid.
- G. SBV erroneously recorded three parking charges totaling \$175 and a \$40 wireless telephone charge to the CEO’s accounting unit in FY 2006. SBV representatives explained that these were account coding errors and there was no personal benefit to the CEO. We classified \$215 as unauthorized.
- H. SBV recorded a credit of \$203 for a February 2006 refund on the CEO’s Blackberry twice on its accounting records – once from a credit memo and again when the refund check was received. We classified \$(203) as unauthorized.