

**SEMIANNUAL REPORT  
TO THE CONGRESS**



**Smithsonian  
Institution**

**Office of the Inspector General**

**October 1, 2001 to March 31, 2002**



# Preface

The Inspector General Act of 1978, Title 5, United States Code, Appendix 3, requires that I report semiannually through the Secretary to the Congress regarding the activities of this office. This report includes such information reportable under the act for the period October 1, 2001, to March 31, 2002.

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

Thomas D. Blair  
Inspector General

April 30, 2002



## Inspector General's Message to the Congress

Since its founding more than a century and a half ago, the Smithsonian Institution has been one of the most important institutions in the nation dedicated to increasing and diffusing cultural, historic, and scientific knowledge and information. It does so primarily through exhibits, educational programs, publications, and research. When the name Smithsonian Institution is mentioned, almost all Americans immediately recognize it and think of the museums on the National Mall. However, few are aware of the vast array of activities behind the scene and beyond the Mall. For instance, not many are aware that the Smithsonian is engaged education and research in astronomy and astrophysics in Cambridge, Massachusetts; marine biodiversity in Fort Pierce, Florida; global change and ecosystems in Edgewater, Maryland; conservation of biological diversity in Front Royal, Virginia; and archaeology, biology, ecology, and plant physiology in the Republic of Panama. Additionally, the Smithsonian operates the Chandra X-Ray Observatory Center for the National Aeronautics and Space Administration.

In order to be able to weather the storms of the 21<sup>st</sup> century rather than being engulfed by the challenges it faces, the Smithsonian is in the process of redefining its strategic direction and vision, while adhering to its original mission, and strengthening the capabilities of its staff and infrastructure.

An important aspect of the Smithsonian's strategic plan is to achieve management excellence. The Smithsonian is in the process of strengthening its management and modernizing its systems and processes to bring them to a level of quality and sophistication appropriate to a contemporary organization of comparable size and complexity.

We have identified these issues as the top challenges and opportunities for the Smithsonian based on the following criteria: importance to the mission and vision, sensitivity, complexity, amount of funds involved, and need for improvement.

We believe that by addressing these challenges, the Smithsonian can mitigate or eliminate risks; enhance effectiveness; improve operations; decrease vulnerability to fraud, waste, and abuse; and enhance compliance with laws, regulations, and policies.

The top five management challenges and opportunities for the Smithsonian may be stated as follows:

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

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

## Improved Physical Infrastructure

Perhaps the greatest challenge that the Smithsonian faces is the need to repair, restore, and maintain its physical facilities. The most visible Smithsonian components are its 16 museums and galleries and the National Zoological Park, but its entire operations include more than 400 buildings, which houses its 142.4 million artifacts and scientific specimens, and research, and outreach operations. During July 2001, at the behest of the Senate and the House of Representatives' Subcommittees on Interior and Related Agencies, the National Academy of Public Administration published *A Study of the Smithsonian Institu-*

**tion's Repair, Restoration and Alteration of Facilities Program.** The Academy validated the Smithsonian's estimates of repair and renovation backlog and made numerous recommendations to improve the management of facilities and other operations. The Secretary estimates that the Smithsonian needs \$2.5 billion during the next decade to modernize its museums and bring its buildings into a good state of repair.

The Smithsonian currently has four major construction or repair and renovation projects ongoing: Steven F. Udvar-Hazy Center near Dulles Airport in Virginia; the National Museum of the American Indian on the National Mall, renovation of the Patent Office Building which houses the National Portrait Gallery and the Smithsonian American Art Museum, and renovation of the National Museum of American History.

We initiated an audit of project management of the Steven F. Udvar-Hazy Center. This Center is the long-planned extension of the National Air and Space Museum. Our purpose in conducting the audit is to determine if facilities management has put into place systems, policies, procedures, people, and other controls adequate to minimize the risk that the project will not be completed on time and within budget. Furthermore, we will attempt to identify best practices that can be transferred from one project to another. We issued an audit report on the controls over the planned 6-year move of more than 800,000 collection items relating to the indigenous populations of the Americas from the Bronx in New York to Suitland in Maryland. We made recommendations to improve the controls over the collections and enhance security at the Suitland facility.

## Improved Financial Performance

In order to improve its physical infrastructure the Smithsonian needs to do two things: 1) obtain the necessary funds and 2) have or develop the financial and management systems, procedures, and metrics necessary to effectively use the funds consistently with its trust responsibilities. The Smithsonian Financial System, implemented in 1996, is the primary financial management tool within the Smithsonian. While this system is a significant im-

provement over previously existing financial tools, it does not provide adequate information for federal reporting or for managers of Smithsonian units to properly conduct their operations. The National Academy of Public Administration confirmed this in its study of the Smithsonian's facilities. They confirmed a critical need to develop and implement a modern financial management system that meets the federal standards for financial reporting requirements and managers' need for useful and reliable information. To address this need, the Smithsonian initiated steps to obtain an enterprise resource planning system.

In order for the Smithsonian to maintain and expand its role as the national leader in cultural heritage and scientific research, a strategic planning framework will have to be implemented and integrated with fund-raising, legislative, budgetary, and planning processes. Furthermore, the Smithsonian will have to develop a system that has the capability to integrate accounting, budgetary, and performance information.

We completed a financial management audit of the Affiliations Program. We made recommendations to improve the ability of program management to manage the program more effectively and achieve its goals and objectives.

We also initiated an audit of the financial management of the development (fund-raising) program. If weaknesses are identified, we will make recommendations to improve the accuracy, timeliness, and usefulness of financial information on fund-raising.

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

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

## Physical and Information Security

Annually, the Smithsonian accommodates more than 42 million visits by people from across the nation and around the world. The recent terrorist incidents highlight the need to improve physical security and readiness for a response to incidents in Smithsonian facilities. In response, the Smithsonian has increased security at all of its facilities.

The Smithsonian has a heterogeneous information technology infrastructure composed of incompatible software and hardware operated by its Office of Information Technology and various units. In order to modernize operations and meet continually growing workload demands, the Chief Technology Officer is moving the Smithsonian toward a more homogeneous standards based information technology architecture.

We contracted with an auditing and consulting firm to conduct an audit of information technology security. We anticipate that if the auditors identify major weaknesses in information technology security, we will make recommendations to strengthen security and plan for recovery from natural or man-made disasters. Furthermore, we anticipate that the report will provide information useful to ensure compliance with the substance of the Government Information Security Reform Act.

## Budget and Performance Integration

The Smithsonian is both publicly endowed and privately supported. For fiscal year 2002, the Smithsonian budget totals \$741 million consisting of \$519 million in federal appropriations and an estimated \$222 million in trust funds. Currently, the Smithsonian's budget, financial, and strategic planning systems are not integrated. Initiatives are underway both in planning and in systems development to improve integration. The Insti-

tution's Chief Technology Officer is leading the effort to implement an enterprise resource planning system within the Smithsonian. The first phase of implementation in the financial management area is scheduled to begin operations on October 1, 2002.

We dedicated audit staff to monitor the implementation of the enterprise resource planning system. During the last semiannual reporting period, we issued an audit report on the trust fund budget process. We recommended measures that the Smithsonian could take to ensure that the trust fund budget is comprehensive and is implemented as approved.

## Strategic Management and Human Capital

The Institution has developed and issued a strategic plan entitled ***Setting Future Directions at the Smithsonian Institution*** covering fiscal years 2003 through 2007. The strategic plan includes goals four areas: public impact, scientific research, management excellence, and financial strength. Significant efforts are underway to integrate strategic planning into operations. Generally, workforce planning within the Smithsonian is essentially in a conceptual stage. Perhaps the most significant workforce activity during the past 2 years has been the selection and hiring of experienced managers for major components of the Smithsonian. Currently, managers cite the misalignment between the skill mix needed for the future and those currently available, and the absence of an appropriate age distribution within certain segments of the Smithsonian, such as research. Both problems are common in federal government departments and agencies.

We believe that all of the reports that we issue which include recommendations on financial management will in some way enhance the Smithsonian's ability to meet its goal regarding management excellence and develop accurate and meaningful performance measures as envisioned in the Government Performance and Results Act. Of course, such measures are absolutely essential for evaluating the performance of organizations.

## Implications for the Future

Success in these endeavors for the Smithsonian has implications for not only the current generation of people but for unborn generations. While some organizations have a management vision that spans the next few years or perhaps the next few decades, because of its mission, the Smithsonian's vision statement includes not only service to currently existing publics but must necessarily be forward-looking and serve publics in the indefinite future.



## Background

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

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

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

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

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

mental Research Center in Edgewater, Maryland; and the Smithsonian Astrophysical Observatory in Cambridge and Harvard, Massachusetts, Mt. Hopkins at Amado, Arizona, and Mauna Kea at Hilo, Hawaii.

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

The Smithsonian's fiscal year 2002 federal appropriations total \$519 million. The trust fund budget totals \$222 million. As of March 23, 2002, the Smithsonian had 6,335 employees consisting of 4,124 federal and 2,211 trust employees. Additionally, during fiscal year 2001, 5,182 volunteers provided 665,506 hours of service.

Fiscal year 2002 funding for the Office of the Inspector General totaled \$1,800,000, consisting of \$1,431,000 million in federal funds and \$369,000 in trust funds. As of March 31, 2002, the office had 15 employees consisting of 7 auditors, 3 investigators, and 5 administrative and supervisory staff.

## Audits

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

### Internal Controls Over Collections During the National Museum of the American Indian Move

We audited internal controls over the nearly 800,000-object collection at the National Museum of the American Indian. The purpose of our audit was to determine whether museum management had maintained adequate safeguards and accountability during the move of its objects from New York to Maryland. We found that, overall, internal controls were appropriate and were operating in a satisfactory manner. However, we noted several areas where we believed that management did not strike a reasonable balance between accountability for, and access to, collection objects and artifacts. Museum management needed to take action in several areas to include: increasing the separation of duties between those employees who have access to inventory records and those who have access to collection objects, producing and reviewing changes to collection records, developing systems documentation for the inventory system, and correcting weaknesses in physical security. The Directors of the American Indian Museum and the Office of Protection Services agreed with our recommendations and have submitted acceptable implementation plans.

### Financial Management of the Smithsonian Affiliations Program

We audited internal controls over the Smithsonian Affiliations Program to determine if the program is achieving its financial goals and if financial procedures and systems are adequate for managing the program. The Affiliations Program is a major new outreach initiative of the Smithsonian Institution. The purpose of the program is to create long-term collaborative relationships with established and emerging museums and cultural organizations. We found that management had not developed adequate financial procedures and systems. Consequently, they were unable to produce meaningful financial reports. Additionally, the program did not achieve its financial goals during fiscal years 1999 and 2000. Therefore, we made recommendations to improve systems, procedures, and controls. The Director of the program agreed with our recommendations and initiated implementation actions during our audit.

### Audit Reports Issued

Section 5(a)(6) of the act requires a list of all audit reports issued during the reporting period, including the subject matter and dollar amounts of questioned costs, unsupported costs, and funds to be put to better use. Between October 1, 2001, and March 31, 2002, this office issued four internal audit reports. As to each, the information required by section 5(a)(6) of the act is listed in table 1, on page 13.

Table 1: List of Audit Reports Issued

Report Number	Audit Title	Issue Date
Internal Audits:		
A-01-04	Internal Controls Over Collections During the National Museum of the American Indian Move	10/02/01
A-01-09	Controls Over Small Purchases, Office of Physical Plant	11/15/01
A-01-08	Controls Over Small Purchases, National Zoological Park	01/31/02
A-01-05	Financial Management of the Smithsonian Affiliations Program	03/27/02

#### Questioned Costs and Funds to be Put to Better Use

Sections 5(a) (8) and 5(a) (9) of the act require separate statistical tables for recommendations including dollar values of questioned costs, unsupported costs, or funds to be put to better use. Those sections also require a statement of management's response to such recommendations at the end of the reporting period. During this reporting period, we not identified no funds to be put to better use, questioned costs, or unsupported costs. Table 2 sets forth information on funds to be put to better use from prior semiannual reporting periods as of March 31, 2002.

Table 2: Funds to Be Put To Better Use

Reports	Number	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period	3	\$480,169
B. Which were issued during the reporting period	0	\$0
Subtotal (A + B)	3	\$480,169
C. For which a management decision was made during the reporting period		
(i) dollar value of recommendations that were agreed to by management	1	\$187,406
(ii) dollar value of recommendations that were not agreed to by management	1	\$141,923
Subtotal (i + ii)*	1	\$329,329
D. For which no management decision has been made by the end of the reporting period	2	\$150,840
For which no management decision was made within six months of issuance	2	\$150,840

\*The number of reports does not add because management both allowed and disallowed costs for one report.

#### Corrective Actions Not Yet Complete

Section 5(a)(3) of the act requires an identification of each significant recommendation for corrective action, described in a previous semiannual report, which had not been implemented by the end of the reporting period. Table 3, on page 15, sets forth that information.

Table 3: Corrective Actions Not Yet Complete

Audit Title and Date	Summary of Recommendations	Savings Estimate
Center for Folklife and Cultural Heritage, June 13, 1997	The Director of the Center for Folklife and Cultural Heritage should develop and use financial management reports that are adequate to manage Folkways and Smithsonian Folkways operations.	None
Accounts Payable System, March 30, 1998	The Comptroller should ensure that the Institution's payments for goods and services are valid, properly supported, and timely. [ten recommendations]	None
Collections Management at the Anacostia Museum, May 18, 1998	The Director of the Anacostia Museum should strengthen controls over accessions, outgoing loans, collection records, and storage facilities. [four recommendations]	None
Smithsonian Financial System, July 13, 1999	The Comptroller should ascertain user requirements for financial management information and, when cost effective, meet those needs. [two recommendations]	None
Smithsonian Magazine and Air&Space Magazine, March 31, 2001	The Publisher should determine whether Institution purchasing policies apply to the magazines and follow whatever policies are deemed to apply.	None
Financial Management of Traveling Exhibits, September 26, 2001	The Chief Financial Officer should develop policies and procedures necessary for Smithsonian organizations to accumulate and report costs regularly, consistently, and reliably.	None
Trust Fund Budget, September 28, 2001	The Chief Financial Officer should develop policies and procedures to ensure that a comprehensive budget is prepared, submitted to the Secretary, and implemented as approved. [three recommendations]	None



## Investigations

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

### Misuse and Theft of Funds

A senior buyer received cash advances from the Smithsonian in order to fund purchases of rocks, minerals, and gems from different vendors. After receiving the cash advances, the buyer, on a number of occasions, transferred a total of more than \$36,000 in Smithsonian funds from a Smithsonian bank account into his personal account. He then used those funds to pay personal expenses such as credit card bills and the cost of jewelry for his wife. In addition, the buyer falsified travel vouchers by failing to report credits earned and the true amounts of sales, which enabled him to steal more than \$18,000 in Smithsonian funds. The buyer resigned. He later pled guilty to violation of 18 U.S.C. 641, conversion and theft of government funds. He was sentenced to 30 days imprisonment in a community confinement facility, followed by 30 days home detention, and 3 years supervised release. Additionally, he was ordered to pay restitution of more than \$18,000 to the Smithsonian Institution.

### Misappropriation of Funds

The National Zoological Park Police identified preliminary evidence that a clerk in their office falsified time and attendance reports. Our investigation confirmed that the clerk added hours to her time and attendance report that she did not work; and thereby re-

ceived Smithsonian funds to which she was not entitled. The clerk resigned from her position with the National Zoological Park. She pled guilty to two misdemeanor counts in violation of 18 U.S.C. 641, conversion of government funds, and was sentenced to 2 years probation and full restitution of more than \$12,000.

#### Matters Referred for Prosecution and Results

Section 5(a)(4) of the act requires a statistical summary of investigative matters referred for criminal prosecution and the results of such referrals. Table 4, on page 19 sets forth that information.

Table 4: Summary of Investigations

Investigations	Amount or Number
<b>Caseload</b>	
Cases pending at beginning of reporting period	29
Cases opened during the reporting period	23
Subtotal	52
Cases closed during the reporting period	8
Cases carried forward	44
<b>Referrals for Prosecution</b>	
Pending at the beginning of the period	8
Referred for prosecution	1
Pending at end of period	2
<b>Successful Prosecutions</b>	
Convictions	5
Fines	\$0
Ordered restitution	\$36,775
Probation	90 mos.
Confinement	2 mos.
Civil Recoveries	\$0
<b>Administrative Remedies</b>	
Terminations	4
Resignations	0
Reprimands or admonishments	0
Reassignments	0
Demotions	0
Suspensions	0
Recovery of funds through investigative action	\$0
<b>Collections property recovered:</b>	
Number of items	0
Value of items	\$0
Monetary loss prevented	\$0



## Legislative Review

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



## Glossary

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

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

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

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

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





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