

# SEMIANNUAL REPORT TO THE CONGRESS

*October 1, 2002 to March 31, 2003*



Smithsonian Institution  
Office of the Inspector General

The cover photograph features an image from the construction of the National Museum of the American Indian on the Mall.



# 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 information reportable for the period October 1, 2002, to March 31, 2003.

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 Smithsonian programs and operations would be impossible.

Thomas D. Blair  
Inspector General

April 30, 2003



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## Inspector General's Message to the Congress

The Smithsonian Institution, which was created 157 years ago, has been one of the leading institutions in the nation dedicated to increasing and diffusing cultural, historic, and scientific knowledge and information. The many ways it does so include the use of public exhibits, research, educational programs, books, and recordings. Most Americans are aware of the museums on the National Mall in Washington, D.C. Few, however, are aware of the vast array of activities behind the scene and beyond the Mall.

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.

We have identified the top five management challenges and opportunities for the Smithsonian:

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

The Smithsonian is the national leader in selected areas of the arts, sciences, and history. In order to maintain this leadership role, the strategic planning framework that has been initiated will have to be integrated into fund-raising, budgetary, planning, and other proc-

processes. Success in meeting the management challenges is dependent in a significant way upon the successful implementation of an enterprise resource planning system.

The Congress created Offices of Inspector General to improve management and to prevent fraud, waste, and abuse in federal departments and agencies. We therefore conduct audits and other reviews, and make recommendations to improve operations and assist management in achieving its goals and objectives.

## Improved Physical Infrastructure

The most visible components of the Smithsonian are its 16 museums and galleries and the National Zoological Park. But, its entire operations include more than 400 buildings, which house 143.5 million artifacts and scientific specimens, as well as exhibit, research, and outreach operations.

During the last three decades of the 20<sup>th</sup> Century, the Smithsonian expanded its facilities and operations. During that same period, congressional appropriators and others called upon the Smithsonian to place more emphasis on maintaining its collections and physical facilities. The Secretary has taken on the infrastructure challenge and has set a long-term plan to repair, restore, and maintain the Smithsonian's physical facilities and update its exhibits. The Secretary estimates that this effort will cost \$2.5 billion.

The Smithsonian currently has four major construction or repair and renovation projects ongoing:

- Construction of the Steven F. Udvar-Hazy Center near Dulles Airport in Virginia,
- Construction of 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 are currently conducting an audit of project management of the National Air and Space Museum Dulles Annex—the Steven F. Udvar-Hazy Center in Chantilly, Virginia. Our purpose in conducting the audit is to determine if the Office of Facilities Engineering and Operations has established systems, policies, procedures, and other controls adequate to mitigate the risk of delays or increased costs. In addition, we are reviewing project management of the Patent Office Building renovation. During the previous reporting period we completed an audit of the management of the National Museum of the American Indian (NMAI) construction project. Overall, we found that project management of the planning, design, and construction of the NMAI mall museum was effective.

## Improved Financial Performance

In order to improve its physical infrastructure, the Smithsonian has determined that it needs not only additional support from the U.S. Congress but also additional funding from donations and revenue producing units. Congressional funding has significantly increased for fiscal year 2003.

The Smithsonian has a long history of audited financial statements with unqualified opinions. Trust statements have been audited for almost 50 years and federal financial statements have been audited about 22 years. Smithsonian financial statement audits are conducted by an independent certified public accounting firm.

## Physical and Information Security

The physical security of visitors and protection of art objects, artifacts, and scientific specimens is crucial to the mission of the Smithsonian. During fiscal year 2002, the Smithsonian museums and the National Zoological Park had about 33 million visitors.

During this period we issued two information system reports regarding security at the National Museum of the American Indian and the Smithsonian Tropical Research Institute. We determined that, in both instances, opportunities exist to strengthen controls and reduce the risks of inadvertent or deliberate unauthorized access to the systems.

## Budget and Performance Integration

The Smithsonian is both publicly endowed and privately supported. For fiscal year 2003, the Smithsonian budget is \$786 million consisting of \$559 million in federal appropriations and an estimated \$227 million in trust funds. Initiatives are underway to improve planning and systems integration.

About two years ago, 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. Two of the recommendations have not been fully implemented.

## 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 in four areas:

- Public impact
- Scientific research
- Management excellence, and
- Financial strength

Clearly, management excellence is crucial achieving the other three goals. 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. Significant efforts are underway to integrate strategic planning into operations.

We believe that all of the reports that we issue which include recommendations on financial management could enhance the Smithsonian's ability to meet its goal regarding management excellence and to develop accurate and meaningful performance measures. Such measures are essential for managing and evaluating the performance of organizations.

## Implications for the Future

The Smithsonian trust has a time-span that extends into the lifetimes of unborn generations. While some organizations focus on the next few years, because of its mission, the Smithsonian's focus includes not only service to currently existing publics but also must necessarily be forward-looking and serve publics in the indefinite future.



## Audits

Section 4 of the Inspector General 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.

### National Museum of the American Indian Information Systems

At the request of the Director, National Museum of the American Indian, we conducted a comprehensive review of the museum's information security program. We concluded that overall, the museum had controls in place and operating to provide system backup, audit trails, and server password security. However, we determined that the museum's system security configurations and safeguards were inadequate to minimize the risks of inadvertent or deliberate unauthorized system access. Therefore, we made 24 recommendations to the museum's Director and two to the Chief Information Officer to improve systems security and general system controls.

### Smithsonian Tropical Research Institute Information Systems Review

We completed an audit of information system controls at the Smithsonian Tropical Research Institute. Overall, the Institute had system security controls in place relating to system backup. However, opportunities exist to strengthen system security configura-

tions and safeguards and thereby reduce the risk of unauthorized access to system data. We made 11 recommendations to improve information system security and general controls.

Section 5(a)(6) requires a list of all audit reports issued during the reporting period, including subject matter, and dollar amounts of questioned costs, unsupported costs, and funds to be put to better use. Between October 1, 2002, and March 31, 2003, this office issued two internal audit reports and one contract audit report. We had no questioned costs. As to each of the audit reports, the information required by Section 5(a)(6) is listed in Table 1, below.

Table 1: List of Audit Reports Issued

Report Number	Audit Title	Issue Date
Internal Audits:		
A-02-06	National Museum of the American Indian Information Systems	01/17/03
A-03-04	Smithsonian Tropical Research Institute Information Systems Review	03/27/03
Contract Audits		
C-02-05	Pre-award proposal	10/31/02

#### 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 identified no funds to be put to better use or questioned or unsupported costs. However,

Table 2 presents the status of funds to be put to better use from prior semiannual reporting periods.

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	\$1,003,870
B. Which were issued during the reporting period	0	\$ 0
Subtotal (A + B)	3	\$1,003,870
C. For which a management decision was made during the reporting period		
(i) dollar value of recommendations that were agreed to by management	1	\$ 773,762
(ii) dollar value of recommendations that were not agreed to by management*	2	\$ 218,867
Subtotal (i + ii)*	2	\$ 992,629
D. For which no management decision has been made by the end of the reporting period	1	\$ 11,241
For which no management decision was made within six months of issuance	1	\$ 11,241

\*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 9, 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. [Six recommendations]	None
Collections Management at the Anacostia Museum, May 18, 1998	The Director of the Anacostia Museum should ensure that complete accession documentation is maintained in the Registrar's office.	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. [Two recommendations]	None
American Indian Museum Move Project, October 2, 2001	The Director should strengthen the documentation, reporting, and physical security of National Museum of the American Indian art objects and other artifacts being moved from the Bronx, New York, to Suitland, Maryland. [Four recommendations]	None
The Smithsonian Associates Study Tours Reservation Process, June 12, 2002	The Smithsonian Associates' Director should strengthen the reservation system application and general controls. [Five recommendations]	None
Independent Evaluation of the Smithsonian Institution's Information Security Program, July 31, 2002	The Chief Information Officer should increase security funding, develop a training program, comply with standards, measure program effectiveness, and report the results quarterly. [27 recommendations]	None
Project Management of the National Museum of the American Indian Mall Museum, September 30, 2002	The Director of the Office of Facilities Engineering and Operations should ensure that his staff meets regularly with the enterprise resource planning system project team to define requirements and develop useful reports.	None
Development Program, September 30, 2002	The Director should revise Smithsonian Directive 809 to assure that data is accurately entered into the system.	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.

### 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 11, sets forth that information.

Table 4: Summary of Investigations

Investigations	Amount or Number
<b>Caseload</b>	
Cases pending at beginning of reporting period	*39
Cases opened during the reporting period	6
Subtotal	45
Cases closed during the reporting period	15
Cases carried forward	30
<b>Referrals for Prosecution</b>	
Pending at the beginning of the period	3
Referred for prosecution	1
Pending at end of period	2
<b>Successful Prosecutions</b>	
Convictions	1
Fines	\$0
Ordered restitution	\$0
Probation	3½ months
Confinement	
Civil Recoveries	\$0
<b>Administrative Remedies</b>	
Terminations	0
Resignations	1
Reprimands or admonishments	5
Reassignments	0
Demotions	0
Suspensions	10 days
Recovery of funds through investigative action	\$400
<b>Collections property recovered:</b>	
Number of items	0
Value of items	\$0
Monetary loss prevented	\$0

\*This figure has been adjusted for three cases closed during prior periods.

## 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 has 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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