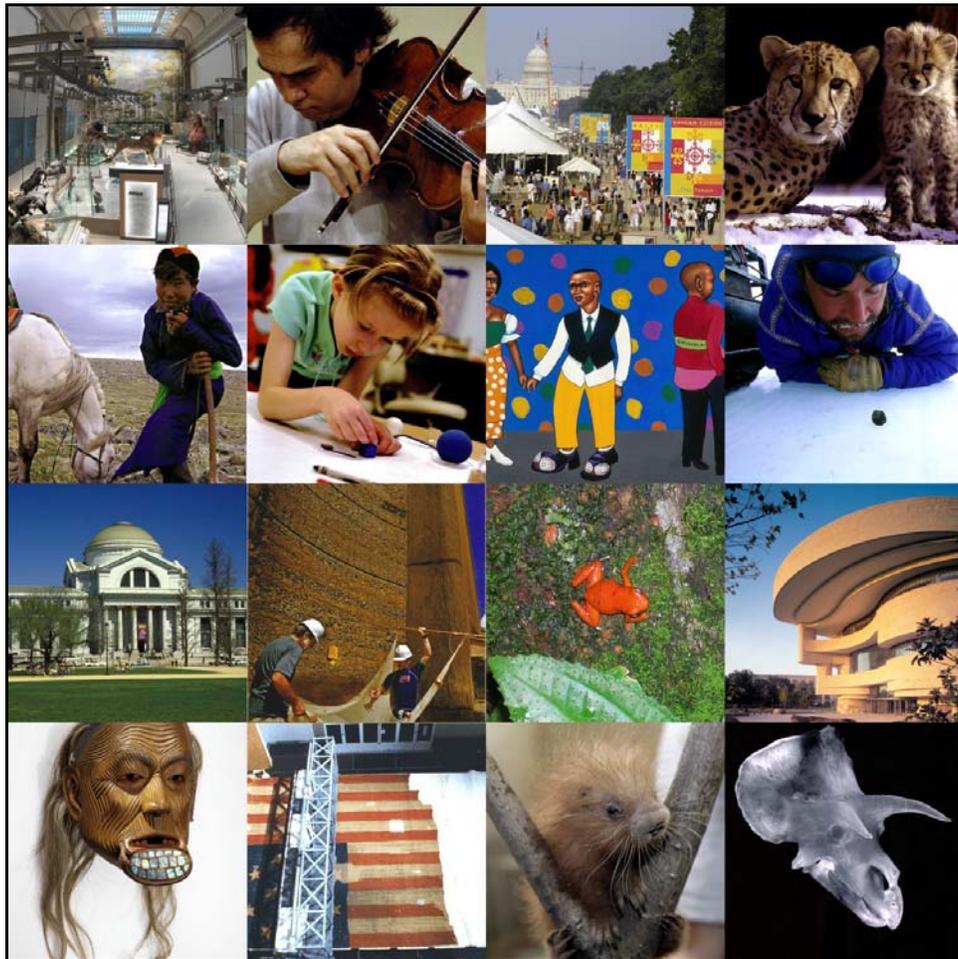


SEMIANNUAL REPORT

TO THE CONGRESS

October 1, 2005 to March 31, 2006



Smithsonian Institution
Office of the Inspector General

The cover is a collage consisting of images related to the Smithsonian Institution and its dedication to the increase and diffusion of knowledge.

Cover photo credits

Top Row, left to right:

African Savannah, Kenneth E. Behring Hall of Mammals, National Museum of Natural History.
In Rehearsal by Ginevra Portlock. This image depicts Max Handel playing the “Herbert Axelrod” viola by Antonio Stradivari.

2004 Smithsonian Folklife Festival by Jeff Tinsley.

Cheetah Mother and Cub by Jessie Cohen, National Zoological Park.

Second Row, left to right:

Tsaatan Reindeer Herder, Northern Mongolia by Basiliki Vicky Karas. This image depicts a Tsaatan boy who served as a guide for Smithsonian staff during fieldwork with the joint Mongolian-Smithsonian Deer Stone Project.

Categorizing Everyday Objects by Clive Grainger. The image depicts a student investigating the properties of matter as an introduction to scientific classification. Classes were videotaped for a television series that was produced by the Science Media Group, part of the Science Education Department at the Smithsonian Astrophysical Observatory in Cambridge, Massachusetts.

Dandies by Moke, 2001, Democratic Republic of the Congo, acrylic on canvas, from the Contemporary African Art Collection, the Jean Pigozzi Collection, Geneva.

Out of This World, by Linda Welzenbach. The image depicts a researcher looking upon a 4.5 billion-year-old meteorite that was collected in Antarctica.

Third Row, left to right:

National Museum of Natural History

Untitled by Marcos A. Guerra. This image depicts Smithsonian Tropical Research Institute staff collecting specimens from the Miraflores Locks at the Panama Canal in August 2005.

Poison Dart Frog, Bocas del Toro, Panama.

National Museum of the American Indian.

Bottom Row, left to right:

Nisga’a Mask, ca 1850, British Columbia, Canada. Photograph by Ernest Amoroso, © National Museum of the American Indian, Smithsonian Institution.

Preservation of the Star Spangled Banner, National Museum of American History.

Baby prehensile-tailed porcupine, born at the National Zoological Park on February 8, 2006.

Photograph by Jessie Cohen.

Triceratops horridus ***Prototype Skull*** by Steve Jabo.

Contents

Message from the Inspector General	i
Smithsonian Institution Profile	1
Strategic Direction	2
Office of the Inspector General	3
Profile	3
OIG Management Activities	5
IT Investment Planning and Control	5
Fraud Awareness Program	5
Building Relationships within the Smithsonian	6
Reaching out to the IG Community	7
Partnering Against Theft of National Collections	8
Legislative and Regulatory Review	8
Audits and Reviews	9
FY 2006 Audit Plan	9
Oversight of Financial Statement Auditors	9
Summary of Audit Accomplishments	10
Table 1– List of Issued Audit Reports and Management Advisories	15
Table 2 – Audit Reports with Recommendations that Funds Be Put to Better Use	16
Work in Progress	16
Status of Open Recommendations	18
Table 3 – Audit Recommendation Activity	18
Table 4 – Corrective Actions Not Yet Complete	19
Investigations	23
Table 5 – Summary of Hotline Complaint Activity	25
Table 6 – Summary of Investigative Caseload, Referrals, and Results	26

A Message from the Inspector General

This report summarizes the work completed by the Office of the Inspector General (OIG) for the semiannual period ending March 31, 2006, and discusses our plans for the coming months.



The OIG continues to focus its attention on high-priority issues identified by the Institution and Congress. During this period we issued reports on the Institution's controls over its cash management and banking activities and the Institution's information technology (IT) security practices. These efforts identified internal control weaknesses that could affect the reliability of financial reporting and expose the Institution to fraudulent transactions and overpayments, and highlighted improvements needed in the certification and accreditation of information systems. We also completed fieldwork on audits of security over the national collections and background screening of employees and contractors, which will be reported in our next semiannual.

Our audits and investigations led to over \$107,000 in recoveries and the de-obligation of \$246,056 in funds that could be put to better use. The \$246,056, along with the \$1.2 million claimed in the last semiannual report, were funds identified last reporting period as sitting idle on completed facilities contracts. During this period, we also reviewed 47 new complaints and closed 54 matters. As a result of extensive outreach efforts and fraud prevention briefings this past year, we continued to experience significant increases in contacts to our hotline.

Several major activities will guide the OIG's work in the next reporting period. The Institution is reopening the Patent Office Building and completing construction of the first phase of the Asia Trail at the National Zoo. It will also begin an \$89 million renovation of the National Museum of American History, initiate construction of a \$58 million Asia Trail II at the Zoo, and continue construction of the \$44 million Natural History Ocean Hall and other important revitalization projects. The Institution also plans to relocate its information system network to Herndon, Virginia, and add a new asset management module to its financial system.

To respond to these events, we will audit the Institution's major facilities construction projects and review contract close-outs of the Patent Office Building and Asia Trail I. We also will examine the Institution's recertification and security plans for the relocated IT network as part of our annual information systems security review. Of special note, the OIG will become the Contracting Officer's Technical Representative for the Institution's external financial statement audit—a step we believe is necessary to ensure the audit is monitored by individuals who are organizationally independent from the Institution. We also will perform a quality assurance review of audit documentation and key judgments supporting the auditor's opinion and evaluate how information from the new asset management module is being used to strengthen financial reporting.

Finally, after the semiannual period closed, we announced an audit of the executive compensation and related accounting practices of Smithsonian Business Ventures (SBV)—the division of the Institution that operates its retail and publishing enterprises. This effort, initiated in response to multiple hotline complaints and prior OIG work, will examine how bonus levels of SBV managers are established, whether those payments meet the agreements set by the SBV Board, and the integrity of reported revenue supporting compensation awards.

While I am confident that we have focused on high priority issues, I am obligated to report that OIG resources are woefully inadequate to address the needs of an Institution as large and complex as the Smithsonian. A combination of budget cuts and wage inflation have led to a 29 percent decline in OIG staff since 1995, while over the same period, the Institution's appropriations have increased 80 percent, from \$342.1 million to \$615.2 million. With 19 museums, the National Zoo, 9 research centers, and a 5-year facilities capital plan that exceeds \$700 million, the OIG cannot provide critically needed oversight of all high-risk areas within Smithsonian operations. The decentralized nature of major support activities, where several units manage their own human resources, accounting, contracting, and IT operations, combined with insufficient resources devoted to oversight functions, significantly increase the risk of fraud, waste, and abuse in Smithsonian activities.

We will continue to work with the Secretary and his management team to identify the best ways to direct the OIG's resources to help the Institution achieve its performance objectives. We thank Secretary Small for his commitment to improving the Smithsonian. His efforts, along with those of the Deputy Secretary, the Board of Regents, and managers at all levels of the Institution have contributed greatly to the results we are reporting. We also appreciate the continuing interest and support of the congressional oversight committees with whom we work.


Debra S. Ritt
Inspector General

April 28, 2006

Smithsonian Institution Profile

The Smithsonian Institution is a trust instrumentality of the United States created by Congress in 1846 to carry out the provisions of the will of James Smithson, an English scientist who left his estate to the United States of America to found “an establishment for the increase and diffusion of knowledge...” Although a federal entity, the Smithsonian does not exercise governmental powers or executive authority, such as enforcing the laws of Congress or administering government programs. It functions essentially as a nonprofit institution dedicated to the advancement of learning.

Since its inception in 1846, the Smithsonian has expanded from the lone castle building to an extensive museum and research complex that today includes 19 museums and galleries, the National Zoological Park, and research centers around the nation’s capital, in eight states, and in the Republic of Panama. The Institution is the steward of nearly 137 million objects, which form the basis of world-renowned research, exhibitions, and public programs in the arts, history, and the sciences.

The Smithsonian Institution is further unique in that federal appropriations provide the core support for its science efforts, museum functions and infrastructure; and trust resources, including external grants and private donations, supplement that. This combination of support has allowed the Smithsonian to produce scientific research that is flexible, independent, and capable of exploring potentially high-risk areas of inquiry. Today the Smithsonian is the largest museum and research complex in the world.

Strategic Direction

To support its overall mission to “increase and diffuse knowledge,” the Smithsonian has developed a five-year strategic plan for FY 2004-2008 that encompasses four broad strategic goals for enlarging its role in American society and succeeding as a complex enterprise in the 21st century:

- ***Increased Public Engagement*** - *Enlarge the Smithsonian’s audiences, expand its degree of engagement with the public in Washington and throughout the country, and improve the quality of the Smithsonian impact on its audiences, both through its public programs and science research.*
- ***Strengthened Scientific Research*** - *Pursue scientific advances and discovery by focusing resources in areas in which the Institution has recognized strengths due to staff, research platforms, and collections.*
- ***Enhanced Management Excellence*** - *Modernize Smithsonian management systems by bringing each of them to a level of quality and sophistication appropriate to an organization of the size and complexity of the Institution.*
- ***Greater Financial Strength*** - *Provide the financial support essential to achieving the Institution’s goals.*

Office of the Inspector General

Profile

The Inspector General Act of 1978, as amended, created the OIG as an independent entity within the Institution to detect and prevent waste, fraud, abuse and misconduct; to promote economy and efficiency; and to keep the Secretary and the Congress fully and currently informed of problems at the Institution. The OIG is a unit within the Smithsonian, but it operates independently from all other units and reports only to the Secretary and the Congress.

The OIG currently comprises 16 employees, including auditors, analysts, criminal investigators, legal counsel, and support staff.

Audits Division

The Audits Division independently audits the Smithsonian's programs and operations, including financial systems, to assist management in promoting economy, efficiency, and effectiveness. The work of this division is guided by an annual Audit Plan that is developed from a risk assessment of Smithsonian operations and input from Smithsonian executives. The Audit Plan identifies high-risk areas for review to provide assurance to the Secretary and to the Congress that the Institution's programs and operations are working efficiently and effectively. Beginning in fiscal year (FY) 2006, the Audits Division will also monitor the external audit of the Institution's financial statements and contract out the annual reviews of the Institution's information security practices.

The Audits Division includes the Assistant Inspector General for Audit, two audit managers, four auditors, and two analysts. In addition, we recently filled a third audit manager position to provide quality assurance oversight of the external financial statement auditors and we expect to fill an entry level vacancy within the next three months.

Investigations Division

The Investigations Division investigates allegations of waste, fraud, abuse, gross mismanagement, employee and contractor misconduct, and criminal and civil violations of law that have an impact on the Institution's programs and operations. It maintains liaisons with federal and state prosecutors and refers matters to the U.S. Department of Justice whenever the OIG has reasonable grounds to believe there has been a violation of federal criminal law. The Investigations Division also identifies fraud indicators and recommends measures to management to improve the Institution's ability to protect itself against fraud and other wrongdoing.

The Assistant Inspector General for Investigations, who is also Counsel to the Inspector General, and two Senior Special Agents make up the Investigations Division.

Counsel

The Counsel to the Inspector General provides independent legal advice to the Inspector General and the audit and investigative staffs on legal issues relating to the OIG's review of Smithsonian programs and operations. As Assistant Inspector General for Investigations, the Counsel advises staff on criminal law and procedure, evidence, and constitutional law as they relate to the OIG's investigative program. In addition, the Counsel reviews existing and proposed legislation concerning the Smithsonian, as well as Smithsonian policies and directives, and makes recommendations, as appropriate, concerning their impact on the Institution's operations and fraud prevention.

OIG Management Activities

We continue to pursue several initiatives that will enhance the OIG's contribution to the Smithsonian Institution. These efforts will improve communication and cooperation between Institution components and the OIG, increase the OIG's efficiency, and expand our reach and impact in combating fraud, waste, and abuse.

IT Investment Planning and Control

The diversified functions and workload of the Institution require a significant investment in IT resources. To properly oversee these investments, the Office of the Chief Information Officer has established three investment oversight and planning boards. The OIG will continue to attend the meetings of these boards to determine whether the oversight framework is working as intended and to identify any improvements needed in the planning and management of IT resources.

Fraud Awareness Program

During the semiannual period, we broadened the reach of our fraud awareness program—a cornerstone in our efforts to prevent and detect waste, fraud and abuse at the Smithsonian. We made nine fraud awareness presentations throughout the Institution, reaching more than 500 employees and officials. The presentations were given to units that handle significant financial transactions and cash, such as: the Office of Contracting; the Office of Facilities Engineering and Operations; and Smithsonian Business Ventures (SBV), which manages the Institution's retail operations.



Inspector General Debra Ritt introduces an OIG Fraud Presentation at the Smithsonian Tropical Research Institute.

We explained our office’s mandate and role; defined fraud and its costs; illustrated how fraud can be perpetrated and what can be done to prevent it; and how to report it to our office. Each presentation also contained tips and other information tailored to the particular audience.

By raising awareness of fraud indicators and potentially fraudulent activity, our fraud awareness program has increased our office’s visibility and profile within the Institution and engaged Smithsonian staff in the OIG mission to combat fraud. These efforts have contributed to the substantial increase in the number of individuals who have brought issues to our attention through the hotline and other means. Over the coming months we will continue making these presentations, expanding our efforts to include museum departments and other areas of the Institution.

Building Relationships within the Smithsonian

OIG staff continued to meet with unit heads to cultivate an understanding of the OIG mission and to enhance its knowledge of Smithsonian activities. We toured the Conservation Research Center in Front Royal, as well as the National Museum of the American Indian, and discussed collections issues with Museum Support Center staff. The Inspector General also met with senior officials at the National Zoo, Smithsonian Institution Archives, National Science Resources Center, Smithsonian Affiliations, Office of Exhibits Central, Freer/Sackler Gallery, and the Smithsonian Center for Materials Research and Education to develop an understanding of their activities and most pressing concerns.

To establish relationships with individuals in some of the Institution’s more remote locations, senior OIG staff visited the Smithsonian Tropical Research Institute (STRI) in Panama. We met with the STRI Chief Financial Officer to explore accounting practices that could affect financial reporting and to discuss issues related to the Institution’s



**Smithsonian Tropical Research Institute,
Bocas del Toro, Panama**

financial statement audit. We learned from STRI Counsel how Panamanian laws could hamper our ability to conduct criminal investigations of STRI employees. Facilities managers we met with explained how they monitor contractor performance and manage capital projects, and we discussed with the Human Resources Director the complexities of following both U.S. and Panamanian employment laws. STRI's Chief Information Officer discussed information systems security issues related to our annual FISMA review, and research staff at various STRI laboratories and nature preserves explained the scope of STRI's research and education programs. Finally, to acquaint STRI personnel with our mission and operations and to increase fraud awareness, we provided a fraud awareness briefing to over 50 STRI employees.

Reaching out to the IG Community

In November, OIG senior staff met with senior members of the Tennessee Valley Authority (TVA) OIG to discuss areas of common interest. On the audit side, we discussed how the TVA OIG provides oversight of the agency's external financial statement audit. On the investigative side, we discussed case management techniques and data mining efforts.



Debra Ritt and the Honorable Richard Moore ,
Tennessee Valley Authority Inspector General

We also learned how TVA OIG investigators and auditors partnered with TVA management to conduct fraud risk assessments. These assessments identified the types of fraud that can occur; likelihood and significance of such frauds; controls in place to prevent fraud; and actions needed to improve fraud prevention controls. Using TVA's approach, the OIG will meet with Smithsonian CFO staff in May 2006 to identify fraud risk areas within the Institution's financial operations and to develop a control framework to address these risks.

Partnering Against Theft of National Collections

During this reporting period, senior OIG staff met with the Inspectors General and staff of the National Archives and Records Administration and the Library of Congress to discuss the safeguarding of national collections and federal holdings. We agreed to partner with these OIGs to sponsor a joint U.S.-Canadian conference for the museum and archives communities to discuss security and accountability issues common to institutions that hold and preserve national collections. We discussed methods for identifying and recovering stolen or lost items, and are working to build a network for sharing information on thefts and recoveries. We will also explore developing a database of missing items, similar to the private Art Loss Register, an international database of lost and stolen art that provides recovery and search services.

Legislative and Regulatory Review

The Inspector General Act mandates that our office monitor and review legislative and regulatory proposals for their impact on the Smithsonian's programs and operations and with an eye toward promoting economy, effectiveness, efficiency, and preventing fraud, waste, abuse and mismanagement.

During this period, we reviewed and commented on draft revisions to three major Smithsonian Directives. Most significantly, we provided comments on the draft revisions to the Directive governing the security operations and policies of the Office of Protection Services. At our suggestion, the Directive was changed to recognize the OIG's criminal investigative authorities and to more clearly define the respective jurisdictions of our offices.

Audits and Reviews

FY 2006 Audit Plan

In September 2005, the OIG issued its FY 2006 Annual Audit Plan, which is available on our website, <http://www.si.edu/oig>. The plan addresses high-interest activities, large dollar outlays, prominent areas of the Institution's strategic plan, performance and accountability challenges, and is based on nine high-risk areas the OIG identified through a risk assessment of Smithsonian operations:

- Modernizing financial management and accounting operations;
- Budget and performance integration;
- Managing real property;
- Modernizing and protecting the IT infrastructure;
- Workforce planning;
- Profitability of revenue operations and revenue collection;
- Contract administration;
- Security and care of the national collections; and
- Safety and environmental management.

Audits planned for the remainder of FY 2006 will address:

- Oversight of capital projects;
- Recordkeeping and preventative care at the National Zoo;
- Information technology security; and
- Accuracy of accounts payable transactions.

Additionally, we initiated an audit of executive compensation and related accounting practices of SBV – the division of the Institution that operates its retail and publishing enterprises.

Oversight of Financial Statement Auditors

Beginning with the FY 2006 audit, the OIG will assume responsibility for the oversight of the annual financial statement audit, which is currently conducted by KPMG under the supervision of the Institution's Comptroller. Because of our organizational independence, OIG oversight of this audit engagement will strengthen assurances that the

external auditor's report and conclusions are reasonable. We will continue to rely on external auditors for the audited financial statements, but will review the audit documentation, evaluate key judgments, and perform supplemental tests to express concurrence with the external auditor's opinion.



Summary of Audit Accomplishments

During the semiannual period, we issued three reports that led to improved cash management practices and oversight of banking activities, stronger information systems security practices, and changes in identification numbers assigned to some employees working at the Smithsonian's Tropical Research Institute.

In November 2005, we worked closely with the Office of the Comptroller and the Department of Treasury's Financial Management Service to ensure the timely transmittal of all required financial reports to the Office of Management and Budget, GAO, and Treasury. These transmittals included the Auditor Closing Package Report, Management Representation Letter, Legal Representation Letter, KPMG's Agreed-Upon-Procedures for Intragovernmental Activity and Balances report, and all appropriate federal financial statement reports from the Government Financial Reporting System. We disclaimed an opinion on the financial statements because we had not performed oversight of the Institution's external auditors, KPMG.

Throughout the semiannual period, we also performed follow-up on selected open recommendations and worked with management to close 24 recommendations. These recommendations included performing timely contract close-outs, strengthening IT security practices, enhancing the process for performing bank reconciliations, improving the administration of contract changes, and separating employee duties in the

cash management area. Management actions to close-out old contracts resulted in the de-obligation of \$246,056 in funds that could be put to better use.

Reports issued during the semiannual period are summarized below.

Internal Controls Over Cash Management and Banking Activities (M-06-01)

Our September 2005 audit of the Institution's bank reconciliation practices and three previous consultant studies raised concerns about the separation of duties in the Comptroller's office, access to financial records, and oversight of banking fees. We examined these issues to determine whether corrective actions had been implemented to strengthen controls over cash management and banking activities. We reviewed duties and access levels for 15 positions in the accounts payable, cash management, and bank reconciliations groups within the Comptroller's office.

We confirmed that control weaknesses existed in all three areas, which could expose the Institution to fraudulent transactions and overpayments and affect the reliability of information in its financial system. Specifically, about 60 percent of the employee positions we reviewed lacked a proper separation of duties. These incompatible duties provided employees the opportunity to misappropriate funds for personal use and to conceal the theft by altering the accounting records. For example, employees could (1) transfer funds out of the Institution and control the related recording of those transactions, (2) modify vendor listings and process payments for vendors, or (3) reconcile and make correcting entries to bank accounts. Also, supervisors did not adequately review outgoing wire transfers, increasing the risk that fraud could occur undetected.

We also found that employees were granted broader access to the automated financial system of the Institution than was necessary to perform their job duties, thereby increasing the risk of theft. This occurred because access levels in the automated financial system are complicated and understood by few, access was granted to employees without evidence of supervisory approval, and managers did not review the appropriateness of employee access levels on a regular basis. Further, the Institution paid approximately \$340,000 in annual bank fees without adequately determining the validity or appropriateness of the charges. Management did not maintain copies of bank agreements or fee schedules and also lacked an internal listing of unit transactions to verify the high volume of miscellaneous service fees charged by its largest banking partners.

We made 13 recommendations designed to ensure the proper separation of duties; strengthen the review, approval, and documentation of financial system access levels; and ensure periodic validation of current bank charges as well as a monthly analysis of bank fees under future banking arrangements. Management's initial implementation plan fully addressed our recommendations regarding financial system access and bank fees. We have been working closely with the Chief Financial Officer and Comptroller to ensure appropriate corrective actions are taken to address the separation of duties issues.

Information Security Practices (M-05-03)

The Federal Information Security Management Act of 2002 (FISMA) directs the Office of the Inspector General to annually evaluate the information security program of the Institution. The Institution voluntarily complies with FISMA requirements because it is consistent with its strategic goals. Our evaluation concluded that the Smithsonian Institution has established a comprehensive framework for ensuring the security of its federal information systems. However, we identified several areas needing attention. For example, the Institution's

inventory of major systems did not identify all mission-critical system interfaces, or links with third parties.

Further, systems were certified without meeting all minimum security controls and were not reaccredited when significant changes occurred in the information-processing environment. Security plans for the 14 major systems had not been updated to reflect the status of compliance with system configuration checklists. Of note, the security plan for the general support system, which is the Institution's primary network, was not updated nor a reaccreditation performed when new controls and services were implemented. In addition, only 49 of the 81 individuals with significant computer security responsibilities received the required specialized security awareness training.

We also identified improvements needed in management reporting practices to better facilitate our annual evaluation of the Institution's information security program. These practices included the tracking of identified deficiencies after remediation as well as the timing of self-assessment reporting. We made nine recommendations to enhance the completeness of the Institution's major systems inventory, strengthen the certification and accreditation process, ensure required information security training is provided, and improve FISMA reporting practices.

Except for deficiencies noted in the certification and accreditation process, management concurred with the report findings and recommendations. However, it agreed that implementing the recommendations should strengthen the Institution's security accreditation process.

Pseudo Social Security Numbers for Foreign Nationals (M-05-04)

The OIG investigative unit received a complaint that employees at the Smithsonian Tropical Research Institute (STRI) were using what appeared to be fraudulent Social Security Numbers (SSN) to open accounts with the Agriculture Federal Credit Union. These SSNs are in the 800 series—a series that has not yet been used by the Social Security Administration. Our review assessed whether employees were using fraudulently obtained SSNs, and examined the construction of STRI employee identification numbers.

SI began using pseudo SSNs over 30 years ago for its Panamanian employees, who were not U.S. citizens or did not have SSNs. Following instructions issued at the time, SI created a pseudo SSN for STRI employees in the 800 series to complete the required nine-digit data fields in the (then) Institution's in-house payroll system. Since that time STRI has switched from an in-house payroll system to the National Finance Center and Tecnasa (a Panamanian company) payroll systems. Currently 39 STRI employees are paid by the National Finance Center, which requires a nine-digit field for pay purposes, and 335 are paid by Tecnasa, which does not.

More than 123 of the foreign national employees employed by STRI today, who are paid through Tecnasa, have accounts with the Agriculture Federal Credit Union that were established with pseudo SSNs. Additionally, eight employees who are paid by the National Finance Center also have pseudo SSNs in the 800 series. An unknown number of retired STRI employees may also have U.S. bank accounts established with pseudo SSNs. We determined that pseudo SSNs used to open accounts with the Agriculture Federal Credit Union were not fraudulently obtained, but were created by SI as a way to process payroll for foreign national employees who did not have nine-digit SSNs.

When the Social Security Administration begins issuing SSNs in the 800 series, problems may arise with issued numbers that match those of STRI employees who have been issued pseudo SSNs. Consequently, the Institution will need to identify a different solution for processing the payroll of its foreign national employees. For example, employees could be required to obtain an Individual Taxpayer Identification Number from the U.S. Internal Revenue Service, data which would satisfy the nine-digit field required by the National Finance Center system. A similar arrangement may be required to accommodate retired STRI employees who were issued pseudo SSNs and have active accounts with the Agriculture Federal Credit Union.

We recommended that STRI cease issuing pseudo SSNs to employees, and that the Institution work with appropriate parties to resolve conflicts that could arise from issuing SSNs that may conflict with those issued by the Social Security Administration. Management agreed with our findings and is working with the appropriate organizations to create an alternate means of constructing employee identification numbers.

Table 1: List of Issued Audit Reports and Management Advisories

Report Number	Title	Date Issued
M-05-03	Management Advisory: Information Security Practices	2/16/2006
M-06-01	Management Advisory: Internal Controls Over Cash Management and Banking Activities	2/14/2006
M-05-04	Management Advisory: Pseudo Social Security Numbers for Foreign Nationals	12/5/2005

Table 2: Audit Reports with Recommendations that Funds Be Put To Better Use

Reports	Number	Funds Put to Better Use
Reports for which no management decision has been made by the commencement of the reporting period	1	\$765,879*
Reports issued during the reporting period	0	\$0
Subtotal	1	\$765,879*
Reports for which a management decision was made during the reporting period		
• Dollar value of recommendations that were agreed to by management	1	\$246,056*
• Dollar value of recommendations that were not agreed to by management	0	\$0
Reports for which no management decision has been made by the end of the reporting period	0	\$519,823
Reports for which no management decision was made within 6 months of issuance	0	\$0

*We identified 66 contracts that had no voucher activity for 18 months in our September 15, 2005 report, *Unliquidated Obligations Associated with Federal Capital Funds*, Number M-05-02. We were not able to quantify the appropriate amount of associated funds that should be de-obligated in our last semi-annual report because Smithsonian managers had not confirmed the status of these funds, except for two contracts that were closed in September 2005. During this semi-annual period management examined these contract files and closed 25 contracts totaling \$246,056. The remaining 39 contracts, with associated funds of \$519,823, either will be closed or actively monitored during the next semi-annual period.

Work in Progress

Screening Measures and Access Controls for Employees and Contractors

As a consequence of our investigative activities, we initiated an audit to determine how effectively the Institution uses information obtained from background checks to evaluate employee and contractor suitability.

The audit assessed whether the Institution employs adequate screening measures for investigating employees and contractors to ensure individuals with unsuitable backgrounds do not pose an undue risk to our national collections, visitors, and the Institution's financial assets. We also evaluated the Institution's process for removing employee and contractor access to non-public areas upon their departure from the Institution. In performing the audit, we obtained a sample of investigative reports with potential suitability issues from the Office of Personnel Management and evaluated how the cases were adjudicated within the Institution. We also examined the Institution's

access control system records, exit clearance procedures, and personnel and unit listings of employees and contractors who terminated their employment with the Institution to determine the effectiveness of the Institution's procedures to promptly remove ID badges and building access cards.

Physical Security and Inventory Control Measures to Safeguard the National Collections



Insect specimen from Entomology Department, National Museum of Natural History

Over the years the Smithsonian's collections have grown to about 137 million museum objects, 164 million archived items, 7 million feet of film, 7 million photographs, and 1.5 million library volumes. The majority of these items are stored in more than 50 geographically dispersed buildings. We evaluated whether physical security is adequate to safeguard the collections,

and if collection inventory controls are effective in ensuring the collections are properly accounted for. The audit focused on the National Museum of Natural History, which houses over 90 percent of the Smithsonian's collections. As part of the audit, we examined whether access controls, such as card-controlled doors and video cameras, were working as well as how keys for collection cabinets were controlled. In addition, we tested the accuracy of inventory records by performing various judgmental and statistical samples of the high-value collection items.

Friends of the National Zoo Revenue Operations

At the request of the National Zoo's Deputy Director, we initiated an audit to assess whether Friends of the National Zoo (FONZ) is managing the National Zoo's revenue operations in the most efficient and profitable manner and charging the zoo reasonable rates for the services it provides. FONZ is a nonprofit organization that supports the National Zoo's operations. FONZ provides the food concessions, runs the retail gift shops, manages the parking facilities, runs membership and volunteer programs, and

performs fundraising for the zoo. We met with external auditors for FONZ to discuss the organization’s prior financial statement audits and internal control issues as well as to review their audit workpapers. We also collected information from other zoos and specialty retail organizations, including SBV, the Institution’s for-profit organization, to benchmark the financial performance of FONZ.

Status of Open Recommendations

Smithsonian managers made a significant effort during the last 6 months to implement many of the recommendations contained in audit reports issued during prior semiannual reporting periods. As a result, we closed 20 of the 47 recommendations that were reported as open at the beginning of the reporting period and 4 recommendations from the current period.

Table 3: Audit Recommendation Activity

Status of Recommendations	Numbers
Open at the beginning of the period	47
Issued during the period	24
Subtotal	71
Closed during the period	24
Open at the end of the period	47

While considerable progress was made in closing old recommendations, 27 that were made in prior semiannual periods remained open at the end of this reporting period. Of the 27 recommendations, 4 are over 2 years old and 3 are over 3 years old. Open recommendations from prior semiannual periods and their target implementation dates are summarized in Table 4.

Table 4: Prior Recommendations for which Corrective Actions Are Not Yet Complete

Audit Title and Date	Number of Recs	Summary of Recommendations	Target Date
American Indian Museum Move Project (October 2, 2001)	1	The Director should strengthen physical security.	5/31/2006
Independent Evaluation of the Smithsonian's Information Security Program (July 31, 2002)	1	The Chief Information Officer should coordinate with units and consolidate network resources where suitable.	None
National Museum of the American Indian Information Systems (January 17, 2003)	1	The Director should replace the Registrar's Office Windows NT network.	5/31/2006
Project Management of the Steven F. Udvar-Hazy Center (July 31, 2003)	1	The Chief Financial Officer (CFO) should complete the process of developing and implementing user requirements to monitor large projects using the enterprise resource planning (ERP) system.	4/28/2006
Information System Controls at the National Air and Space Museum (September 3, 2003)	1	The Director of the National Air and Space Museum should relocate the museum's Internet website.	None
Restricted Gifts (December 18, 2003)	1	The Director of External Affairs should reconcile the Donor Management Information System (DMIS) to the ERP at least quarterly.	6/30/2004
Implementation of the Enterprise Resource Planning System (March 31, 2004)	1	The CFO should establish the ERP financial system implementation as a cost center.	7/30/2004
Steven F. Udvar-Hazy Center Business Activities (August 25, 2004)	1	The CFO for Smithsonian Business Ventures (SBV) should ensure that his staff develops written procedures for monitoring contractor performance.	3/1/2006
Information Systems Controls at the National Museum of Natural History (September 9, 2004)	1	The Director of the National Museum of Natural History should relocate web servers to a secure network location.	3/30/2006
Information Systems Controls at Smithsonian Business Ventures (December 3, 2004)	3	The CFO of SBV should close unnecessary open ports and services, establish a more secure method for file transfers and meeting remote access requirements, and remove unnecessary programs from servers.	6/30/2006

Audit Title and Date	Number of Recs	Summary of Recommendations	Target Date
National Air and Space Museum Mall Simulators (February 25, 2005)	4	The CFO of SBV should develop and implement policies and procedures for contractor selection, follow up on intra-institutional receivables, and the recording and reviewing of accounting entries; and, in coordination with the Director of the Office of Facilities Engineering and Operations (OFEO), refine responsibilities for payment of utilities expenses.	5/1/2005 through 3/1/2006
National Zoological Park Information System Controls (July 27, 2005)	2	The NZP Chief of Information Technology should, with the OCIO, develop a disaster recovery plan; develop a project plan and schedule for the completion of the migration of the Zoo servers to Active Directory; and perform a post-implementation vulnerability assessment on the new operating system to determine whether any security weaknesses exist.	6/30/2006
Management Advisory Review of Unliquidated Obligations (September 15, 2005)	5	<p>The Director of OFEO should expedite review of the remaining contracts with unliquidated obligations; work with the Office of Contracting (OCon) to close those contracts that are completed; and report to OCon, the CFO, and the Office of the Inspector General the associated funds that can be de-obligated and put to better use.</p> <p>The Director of OCon should work with OFEO to remove contracts with zero balances from the financial system and contact units when contractual performance periods are completed to determine whether unliquidated obligations are still needed.</p> <p>The CFO should provide unit heads a listing of no-year contract balances sitting idle for 18 months or longer; direct that unit heads notify the CFO and contracting officers of unneeded obligations; and based on unit responses, certify in annual appropriations requests that obligated amounts are accurate and represent valid liabilities.</p>	10/1/2005 through 6/30/2006

Audit Title and Date	Number of Recs	Summary of Recommendations	Target Date
Bank Reconciliations (September 28, 2005)	2	<p>The Director of the Office of Human Resources should assume responsibility for preparing input vouchers for CIGNA health benefits activity to provide the proper control over these transactions.</p> <p>The Comptroller should, in collaboration with the units, establish an oversight process for ensuring that revenues are accurately recorded and reviewed.</p>	12/31/2005
Administration of Changes to Major Facilities Design and Construction Contracts (September 29, 2005)	2	<p>The Director of OFEO should ensure that changes are reviewed and approved by OCon in writing after senior management reviews the changes and prior to issuing Notices to Proceed and work with OCon to have a contracting officer detailed to work on-site with COTRs from OFEO for large-scale projects.</p>	9/30/2005 and 2/1/2006

Investigations

During this reporting period, we recovered over \$107,000 for the Institution, received 47 complaints, and closed 54 complaints including 3 cases. We delivered nine fraud presentation briefings to the Office of Contracting, the Office of Facilities Engineering and Operations, and Smithsonian Business Ventures. As a result of these briefings and extensive outreach efforts, we have experienced a significant increase in hotline activity. We also updated and strengthened our case management system to prepare for the first peer review of our investigative program. During this period, OIG special agents received law enforcement authority within Smithsonian grounds, and have been training for full law enforcement authority.

Summary of Investigative Activity

Diversion of Funds

In the most significant matter during this period, an unknown individual filed a false change of address request form with the U.S. Postal Service for one of the museums. This request, which was submitted just prior to a major fundraising effort by the museum, caused the Postal Service to forward incoming mail to a business in Washington, D.C., thus diverting funds intended for the museum. Working with the U.S. Postal Inspection Service, OIG special agents recovered over 2,600 pieces of mail containing donations and membership fees totaling over \$107,000.

Wire Fraud

In the last semiannual period, we reported the conviction of a former employee who pled guilty to wire fraud. Although a sentencing hearing was held in March and the U.S. District Judge took testimony from an OIG agent regarding restitution amounts, the judge delayed the sentencing, which is expected to occur this summer.

Purchase Card Fraud

We received an increasing number of reports of fraudulent use of government travel and government purchase card numbers, in most cases without the card itself. During this period, our agents worked closely with issuing banks to help resolve these matters. In one instance of card theft, our agents helped local law enforcement officers secure evidence against an individual, a known pickpocket, who was arrested for fraudulent use of a Smithsonian government purchase card at two gas stations and a drugstore.

Theft of Checks from Mail

OIG agents assisted U.S. Postal Inspectors and local police in the identification and investigation of a Smithsonian employee who allegedly stole checks from a Smithsonian mailroom. He was caught on videotape at various ATMs depositing the stolen checks. The employee was terminated and criminal charges are pending.

Hotline Complaints

The OIG Hotline provides a prompt, effective, and confidential channel for reporting fraud, waste, abuse, and mismanagement to the OIG. Individuals can call, email, or fax their allegations to the toll-free hotline, or visit our office. OIG agents investigate allegations of suspected criminal activity or civil fraud and conduct preliminary inquiries on non-criminal matters to determine the proper disposition. Where appropriate, referrals are made to the OIG audit staff or to Smithsonian management.

During this period the OIG received 47 complaints ranging from allegations of workers compensation fraud to theft to concerns about the siting of new facilities. After conducting preliminary inquiries, we were able to refer 12 of these complaints to management. These complaints included, among others, allegations of harassment, employee misconduct, purchase card fraud, and poaching on Smithsonian property. We also closed 28 of the complaints we had received during prior periods and 26 that we received during this period. The remaining complaints remain under active inquiry or investigation.

The following table summarizes Hotline activity for this reporting period:

Table 5: Summary of Hotline Complaint Activity

Status	Numbers
Open at the start of the reporting period	40
Received during the reporting period	47
Subtotal	87
Closed during the reporting period	54
Total complaints pending	33

Data Mining

OIG agents continue to refine our data mining tools and techniques and recently expanded our search capabilities in both internal Institution databases and external databases, such as those of Smithsonian banking and credit card partners. On several occasions, our agents have used their data mining tools to assist auditors in analyzing and combining databases for their audit research.

Table 6: Summary of Investigative Caseload, Referrals, and Results

Investigations	Amount or Number
Caseload	
Cases pending at beginning of reporting period	5
Cases opened during the reporting period	0
<i>Subtotal</i>	5
Cases closed during the reporting period	3
Cases carried forward	2
Referrals for Prosecution	
Pending at the beginning of the period	0
Referred for prosecution	0
Pending at the end of the period	0
Successful Prosecutions	
Convictions	0
Fines	0
Probation	0
Confinement	0
Monetary Recoveries and Restitutions	0
Administrative Remedies	
Terminations	0
Resignations	0
Reprimands or admonishments	2
Reassignments	0
Demotions	0
Revocation of privileges	1
Suspensions	0
Monetary loss prevented	\$107,171

Office of the Inspector General
HOTLINE
202-275-1671

or

<http://www.si.edu/oig/form.htm>

or write to

Smithsonian Institution OFFICE OF THE INSPECTOR GENERAL
MRC 905, WASHINGTON, DC 20560-0905

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