

SEMIANNUAL REPORT TO CONGRESS

October 1, 2006 to March 31, 2007

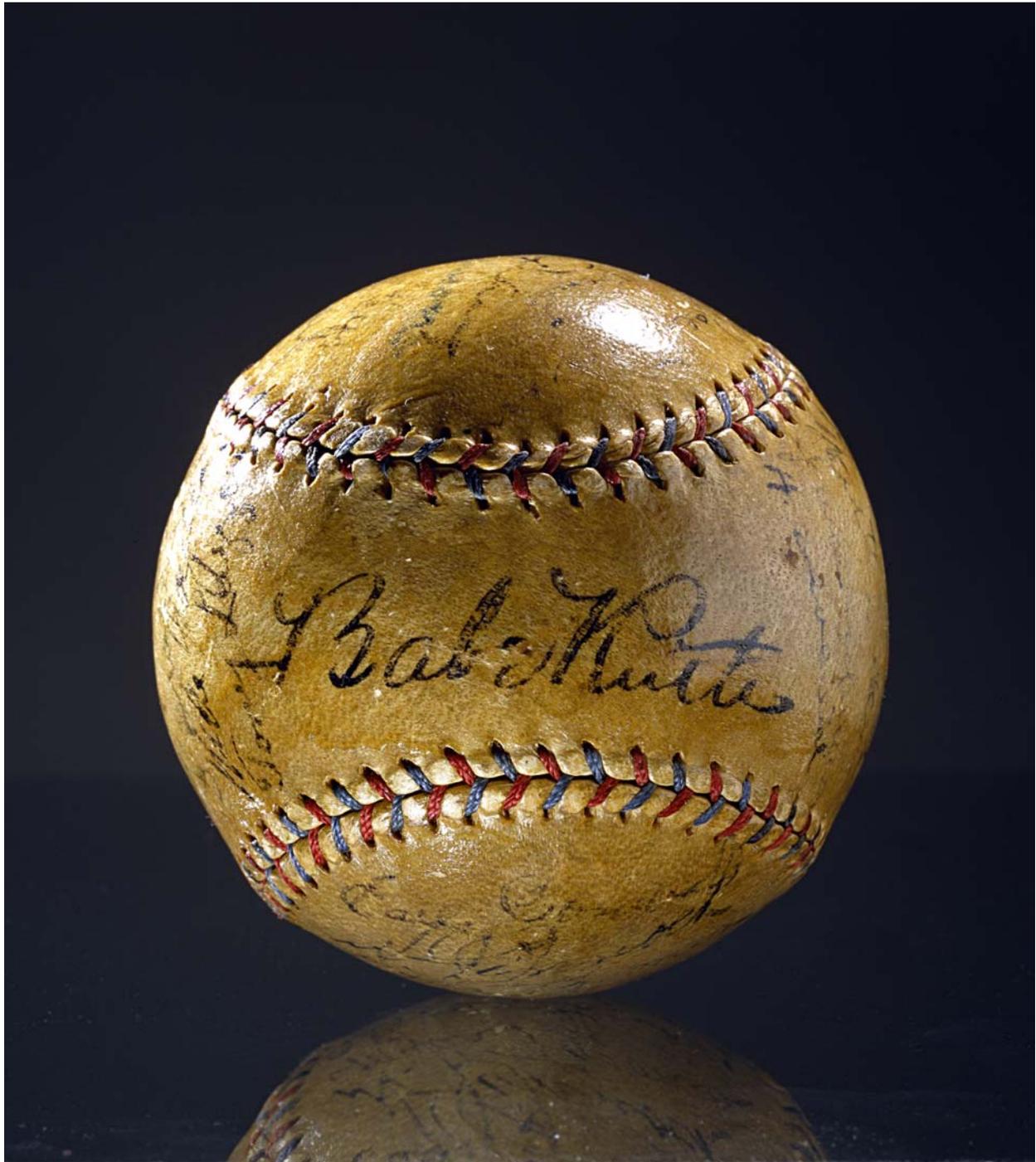


Smithsonian Institution
Office of the Inspector General

The cover depicts a red panda on the new Asia Trail at the Smithsonian's National Zoological Park.

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Autographed ball, 1926

Signed by Babe Ruth and 26 other Yankees, this ball was a get-well gift for Elliot Spencer, a young neighbor of the Yankees' manager. The Smithsonian Institution received this ball as a gift from the Spencer family.

Message to Congress

On behalf of the Smithsonian Office of the Inspector General (OIG), I am pleased to submit this report summarizing the work of our office for the semiannual period ending March 31, 2007. In it, we highlight our efforts to advance our mission under the Inspector General Act: to improve the economy, efficiency, and effectiveness of Smithsonian Institution programs and operations, and to prevent and detect waste, fraud and abuse.

These six months have been a challenging time for the Smithsonian. In January, we issued a report on former Secretary Lawrence Small's compensation and expenses, in which we noted certain unauthorized expenditures as well as expenses that we believed could be considered lavish or extravagant. Congressional, public, and media reaction to that report, and the subsequent coverage of the details of expenditures and compensation, led the Smithsonian Board of Regents to appoint a permanent, standing Committee on Governance as well as an independent review committee to examine our report and the Regents' response to the report. The then-Secretary resigned in late March.

This has been an exceptionally busy semiannual period for the OIG as well. We issued two other reports, both of them in-depth, comprehensive examinations of the compensation of executives at the Institution and at its retail arm, Smithsonian Business Ventures. At the same time, we worked closely with several congressional oversight committees on executive compensation and expenses issues and prepared for an April hearing before the Senate Rules and Administration Committee. In addition, we provided oversight of the Institution's annual financial statement audit and of an external review of the Institution's information security practices, and issued our oversight reports shortly after the end of this semiannual period. On the investigative side, during this period we received 24 new complaints, opened 5 cases, and closed 16 complaints and 1 case. We completed this work despite two staff vacancies – our current staff numbers 14 – and an office move.

We are pleased to report that the Institution generally accepted our audit findings and recommendations and is instituting or planning appropriate corrective actions to the extent allowed by current resource levels. However, we note that many corrective actions recommended in our three audits from the prior semiannual period, which are critical to security at the Institution, require significant further investments, investments the Institution cannot make without obtaining additional funding or cutting other priority programs.

We continue to be concerned that our office's resources are below the level needed to fulfill our congressional mandate and address the needs of the Smithsonian. During this period our resources have been further strained by our move to Crystal City, Virginia. The additional travel time to conduct field work, meetings, and investigations on the Mall, combined with our relative isolation from core Smithsonian buildings, operations, and most importantly, employees, has cut our productivity. Yet we maintain an audit inventory that covers a number of high-risk and high-impact areas, and we will be called upon by the Regents for further reviews as they strengthen their oversight. We recognize that the entire Institution suffers from a limited budget. But given the size of the Institution's appropriations, the complexity of its operations, the ambitious facilities capital plans underway, and the new focus on governance, we need more resources to begin to accomplish our mission.

We are proud to be part of an Institution dedicated to the increase and diffusion of knowledge. And I am honored the Regents chose me to be Inspector General. As always, we are grateful to Smithsonian management, especially Acting Secretary Samper and Deputy Secretary and Chief Operating Officer Burke, whose efforts contributed to the results we are reporting. We also appreciate the continuing interest of the congressional oversight committees with whom we work. Finally, we thank the Audit and Review Committee and the entire Board of Regents for their commitment and support.



Anne Sprightley Ryan
Inspector General

Profiles

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 collection items, which form the basis of world-renowned research, exhibitions, and public programs in the arts, history, and the sciences.

Federal appropriations provide the core support for the Smithsonian’s 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 fraud, waste, and abuse; to promote economy and efficiency; and to keep the head of the Institution and the Congress fully and currently informed of problems at the Institution. The OIG reports directly to the Smithsonian Board of Regents and to the Congress. As of the end of the reporting period, the OIG had 14 employees.

Audit Division

The Audit Division independently audits the Smithsonian's programs and operations, including financial systems., guided by an annual Audit Plan which identifies high-risk areas for review to provide assurance that the Institution's programs and operations are working efficiently and effectively. The Audit Division also monitors the external audit of the Institution's financial statements and contracts out the annual reviews of the Institution's information security practices. The Audit Division includes the Assistant Inspector General for Audit, three project managers, five auditors (one position remains vacant), and one analyst.

Investigation Division

The Investigation 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 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. It also identifies fraud indicators and recommends measures to management to improve the Institution's ability to protect itself against fraud and other wrongdoing. 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 staff. The Counsel position has been vacant since June, 2006.

Audits and Reviews

Our audits and reviews focus on two of the Institution's four performance goals: ***Enhanced Management Excellence*** and ***Financial Strength***. Specifically, we address the following high-risk areas:

- Modernization of financial management and accounting operations
- Budget performance and integration
- Management of capital assets
- Modernization and security of the IT infrastructure
- Profitability of revenue operations and collection of revenues
- Contract administration
- Security and care of the national collections
- Safety and environmental management
- Human resource management

To this end, during the past semiannual period we completed two audits on executive compensation at the Smithsonian Institution and Smithsonian Business Ventures; worked with management to close 26 recommendations; provided formal oversight of the Institution's annual financial statement audit, the annual information security evaluations, and an agreed-upon-procedures review of the Secretary's compensation, expenses and donations; and completed substantial work on ongoing audits.

Summary of Audit Accomplishments

Executive Compensation at Smithsonian Business Ventures, Phase I (A-06-02)

We initiated this audit to assess how Smithsonian Business Ventures (SBV), the business arm of the Smithsonian, establishes and documents executive compensation; whether payments were in compliance with policies and procedures; and the reliability of the revenues and other data used to calculate compensation.

We found that SBV has a comprehensive compensation process, and executive compensation is within the range of similar non-profit and commercial enterprises. However, SBV does not always follow its policies and procedures. A small percentage of the individuals we sampled received incentive awards despite not meeting performance goals, although the total sums awarded were relatively small. Operational goals were sometimes vague, making measurement of performance difficult. And while SBV management established individual financial goals in a timely manner, they did not always do so with individual operational goals. Many executives in our sample also lacked written performance appraisal summary ratings. In addition, SBV lacked a disciplined process for establishing, approving, and reconciling long-term strategic plans.

A limited review of SBV's accounting system showed that it had some weaknesses, many of which SBV had identified. SBV generally was tracking and accumulating only large out-of-period adjustments for its net gain calculations. Because of the importance of SBV's net gain to the Smithsonian and to the calculation of SBV executive compensation, greater assurance is needed that SBV financial results are accurate.

Finally, we examined SBV's overall financial performance since its inception in 2000. While SBV has contributed significantly to the Smithsonian over the years, its overall inflation-adjusted net gains have declined. The dollar value SBV currently contributes to the Smithsonian is lower, in real dollars, than the amount Smithsonian businesses contributed in 1999, before SBV began. And SBV's long-term strategic plans have been overly optimistic. Nonetheless, total executive

compensation as a percentage of net gain has grown modestly from 8 percent to 11 percent over the period. Finally, SBV's 2006 net gain, as well as its budgeted net gain for FY 2007, fell short of prior projections and expectations.

We made eight recommendations to correct observed weaknesses. To strengthen its compensation process, for example, SBV needs to document justifications for giving incentive payments when incentive goals were not met. Also, SBV's key financial measures should be examined by a third party to ensure reliability. Finally, SBV's market-based compensation model needs reevaluation, in light of SBV's performance. Management generally concurred with our recommendations.

Executive Compensation at the Smithsonian (A-06-06)

After we announced an audit of executive compensation at Smithsonian Business Ventures (Number A-06-02), the then-Chairman of the Senate Finance Committee asked us to expand its scope to include all executives at the Institution.

We found that Smithsonian procedures for establishing and documenting compensation for federal and trust executives, who are on two separate pay scales, are generally adequate, and Institution management follows those procedures. We were able to validate the salaries, cash awards, and retention bonuses paid in 2000 through 2006 to approved policies and official payroll records for the roughly 200 non-SBV senior-level executives. We noted that federal executive pay is more limited at the Smithsonian than at other federal entities; for example, the Smithsonian does not have any Senior Executive Service positions. We also noted that on average (excluding the Secretary's salary), trust executives earn 21 percent more than federal executives, and that trust executives fill most of the Institution's key leadership posts.

We were able to trace compensation increases to high-level approvals. However, we observed that written performance appraisals often were not fully documented or always forwarded to the

Office of Human Resources for inclusion in personnel files.

We also found that the Institution had weak policies and procedures for granting and recording relocation expenses and relocation bonuses, such that relocation reimbursements, for example, may not always have been treated as taxable income. The Institution has initiated actions to address these problems, and we are currently conducting a separate audit of that area.

In addition, we observed that salaries of trust executives were in line with the recommendations of the Institution's compensation consultants and are generally comparable to those at selected non-profit organizations we reviewed. We also found that trust salaries for administrative executive positions, such as the Chief Financial Officer and the Director of Human Resources, are notably higher than those for similar positions in large federal agencies.

We also noted that having the independent compensation consultants report directly to the Board of Regents' Compensation Committee would strengthen governance of the compensation process. Management generally concurred with our observations, but disagreed that a comparison between federal and trust salaries is appropriate.

Transmittal Letter and Independent Accountant's Report on Applying Agreed-Upon Procedures to a Review of the Secretary's Expenses, Compensation and Donations, 2000-2005 (A-06-04)

At the request of the then-Secretary and the Audit and Review Committee of the Board of Regents, we contracted with an independent accountant to perform an agreed-upon procedures review of the Secretary's expenses, compensation, and donations. For the period covering fiscal years 2000 through 2005, the independent accountant reviewed the Secretary's compensation and his total donations (\$430,000, primarily in securities). The independent accountant also reviewed \$846,300 of his expenses and found that 4 percent had insufficient documentation to prove the expense. They also found a small number of unauthorized travel transactions, and ap-

proximately 200 non-travel transactions that did not conform to Smithsonian policies. We suggested that more than half of those non-travel expenses would have been authorized under subsequent policy changes, as they were for Smithsonian purposes and not for personal benefit.

In our letter transmitting the independent accountant's report to the Audit and Review Committee, we made several observations and recommendations. We saw no evidence of fraud or abuse on the part of the Secretary, but did observe that many transactions were not properly documented or were not in accordance with Smithsonian policies. We noted a number of expenses that could be considered lavish or extravagant, and therefore not in accordance with Internal Revenue Service rules for expenses incurred on behalf of a charitable organization, and asked the Audit and Review Committee to review those expenditures. These expenses included a charter flight by the Secretary; a trip to Cambodia by the Secretary's wife that was not properly authorized; and an improperly documented cash award to an assistant.

We also noted instances where the provisions of Secretary Small's employment agreement needed clarification. For example, the agreement did not appear to authorize certain types of expenditures that the Secretary regularly incurred, such as for premium hotel accommodations and the use of car service while on travel. The Board of Regents, in its representation letter to the Independent Accountant, stated that they believed that the employment agreement did entitle him to such premium travel. We nonetheless concluded and recommended that the Board of Regents amend the Secretary's agreement to specify these benefits of his employment.

Similar confusion attended the interpretation of the Secretary's employment agreement with regard to the housing allowance he received, and once again the Board of Regents clarified their intent in their representation letter to the Independent Accountants. We recommended that the employment agreement be amended to eliminate the requirement that the allowance be tied to certain housing expenses.

In their report on our review, the Audit and Review Committee did vote to amend the Secretary's employment agreement, but otherwise accepted the other expenses we had questioned as legitimate business expenses of the Secretary and therefore did not ask for reimbursement or the treatment of those expenditures as taxable income to the Secretary. The full Board of Regents subsequently adopted the Audit and Review Committee's report.

* * * * *

Table 1 lists the audit reports and management advisory reports issued during the period.

Table 1: List of Issued Audit Reports and Management Advisories

Report Number	Title	Date Issued
A-06-04	Transmittal Letter and Independent Accountant's Report on Applying Agreed-Upon Procedures to a Review of the Secretary's Expenses, Compensation, and Donations 2000-2005	1/16/2007
A-06-02	Executive Compensation at Smithsonian Business Ventures, Phase I	1/19/2007
A-06-06	Executive Compensation at the Smithsonian	1/19/2007

Other Audit Activity

Status of Open Recommendations

Smithsonian managers made a significant effort during the last six months to implement many of the recommendations from audit reports issued during prior semiannual reporting periods. As a result, we closed 26 of the 51 recommendations that were open at the beginning of the reporting period. These recommendations included strengthening IT and physical security practices, improving inventory control measures to safeguard the national collections, improving employee and contractor screening measures, developing and implementing policies and procedures to improve oversight of certain accounting entries, and strengthening project management.

Table 2 summarizes audit recommendation activity.

Table 2: Audit Recommendation Activity

Status of Recommendations	Numbers
Open at the beginning of the period	51
Issued during the period	8
Subtotal	59
Closed during the period	26
Open at the end of the period	33

Management actions regarding questioned costs are detailed in Table 3, below.

Table 3: Reports with Questioned Costs

Reports	Number	Questioned	Unsupported
Reports for which no management decision has been made by the commencement of the reporting period	0	\$0	\$0
Reports issued during the reporting period	1	\$43,172.79	\$7,108.89
Subtotal	1	\$43,172.79	\$7,108.89
Reports for which a management decision was made during the reporting period			
• Dollar value of disallowed costs	0	\$0	\$0
• Dollar value of costs not disallowed	1	\$43,172.79	\$7,108.89
Reports for which no management decision has been made by the end of the reporting period	0	\$0	\$0

Management actions regarding funds that could be put to better use are detailed in Table 4, below.

Table 4: 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	0	\$0
Reports issued during the reporting period	0	\$0
Subtotal	0	\$0
Reports for which a management decision was made during the reporting period		
• Dollar value of recommendations that were agreed to by management	0	\$0
• 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	\$0
Reports for which no management decision was made within 6 months of issuance	0	\$0

While management made considerable progress in closing old recommendations, 25 recommendations made in prior semiannual periods remained open at the end of this reporting period. Of those recommendations, one is 4 years old, five are over 2 years old, four are over 1 year old, and the remaining 15 are less than 1 year old. We summarize these open recommendations from prior semiannual periods and their target implementation dates in the following table.

Table 5: Prior Recommendations for which Corrective Actions Are Not Yet Complete

Audit Title and Date	Number of Recs	Summary of Recommendations	Target Date
National Museum of the American Indian Information Systems (January 17, 2003)	1	The Director should replace the Registrar's Office Windows NT network.	9/30/2006
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.	12/31/2007
National Air and Space Museum Mall Simulators (February 25, 2005)	3	The CFO of SBV should develop and implement policies and procedures for contractor selection, and follow up on intra-institutional receivables; 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
Bank Reconciliations (September 28, 2005)	1	The Comptroller, in collaboration with the units, should establish an oversight process for ensuring that revenues are accurately recorded and reviewed.	11/30/2007
Internal Control Weaknesses in Cash Management and Banking Activities	2	The CFO should verify that charges for banking services are valid and reasonable in accordance with the Institution's current agreements with the banks, ensure a provision is incorporated into	11/30/2007

Audit Title and Date	Number of Recs	Summary of Recommendations	Target Date
(February 14, 2006)		future banking agreements to allow for a monthly analysis of bank fees, and formalize the controls recommended to OC into a written policy to ensure current and future OC employees have appropriate operating guidance and to better document controls over cash management and other financial management activities.	
Review of Smithsonian Institution Information Security Practices (February 16, 2006)	1	The CIO should require that employees who have significant computer responsibilities report their plans for meeting the specialized training requirements at the beginning of the fiscal year, and monitor employee progress during the year to ensure that training is completed.	5/31/2007
Management Advisory Report on Access Controls (July 25, 2006)	3	The Director of OPS should make revisions to the OPS Policy Manual and SI Security Handbook to clarify the processes for removing access and surrendering badges and proximity cards; regularly provide department heads with access system reports to identify individuals who should have their access removed; and, ensure that records for separated employees and contractors are disabled instead of deleted from access control systems and work with OCIO to establish a process for archiving these records consistent with HSPD-12 retention requirements, or 1 year, whichever is longer.	4/30/2007
Employee and Contractor Screening Measures (August 21, 2006)	5	The Deputy Secretary and COO should replace NACIS with a system that will better meet Institution requirements. The Director of OPS should ensure that background investigations are or have been completed for 936 individuals who had no record of an investigation; comply with Smithsonian Directives 212 and 213 by processing NACIs and FFIs when required; work with the Director of OHR to revise SD 212 and 213; and, ensure that Certificates of Investigation are sent to the appropriate officials.	9/1/2006 to TBD
Physical Security and Inventory Control Measures to Safeguard the	7	The Director of OPS should prioritize the repair, replacement, and upgrading of security devices identified in the 2005 Assessment Report; prepare	5/15/2007 to TBD

Audit Title and Date	Number of Recs	Summary of Recommendations	Target Date
National Collections at the National Museum of Natural History (September 29, 2006)		<p>a comprehensive budget and timeframe for correcting the cited weaknesses; and, conduct a security assessment at MSC similar to the 2005 NMNH assessment and develop a plan to correct significant deficiencies. The Director, NMNH should require each department collections manager to implement strict controls over the inventory; establish requirements for closer supervision of non-collections staff and other individuals allowed access to the collections; direct the Department of Mineral Sciences to conduct a complete inventory and develop a follow-up plan to locate all missing objects; direct the Registrar to work with department chairs to develop a list of NMNH's most valuable objects and type specimens, and with the assistance of the Institution's statistician, determine the appropriate percentage or number of those objects to review for each cyclical inventory; and, instruct the Associate Director, Registrar, and Assistant Director for Information Technology to develop and implement a plan to update and convert electronic and paper records so they are consistent in documenting the status of the collections inventory.</p>	

Oversight of Financial Statement Auditors

Beginning with the FY 2006 audit, the OIG has assumed responsibility for the oversight of the annual financial statement audit, which is currently conducted by KPMG. In prior years, KPMG was 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, as needed, to provide reasonable assurance that the auditor's work complied with professional standards.

As part of our oversight, we reported to the Regents' Audit and Review Committee via a letter summarizing our observations on the audit process and suggesting improvements for future audits. That letter was released shortly after the close of this period, and we will report on it in our next Semiannual Report to Congress.

Work In Progress

Friends of the National Zoo Revenue Operations

At the request of the National Zoo's Deputy Director, we are conducting 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. FONZ, a nonprofit organization, 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 FONZ's external auditors to discuss the organization's financial



A Fishing Cat from the National Zoological Park's Asia Trail. Fishing cats are listed as vulnerable on the World Conservation Union's Red List of Threatened Species.

statement audits and related internal control issues as well as to review their workpapers. We visited seven other zoos to obtain insights on what the industry has done to maximize revenues and distributed a survey to other zoos to obtain pertinent financial and visitor data for benchmarking the financial performance of FONZ. We also made several on-site visits to assess their operations first-hand. We will issue our final audit report by early summer.

Audit of Oversight of Contractors at Smithsonian Business Ventures

We have begun the second phase of our audit of executive compensation at Smithsonian Business Ventures (SBV). We are conducting a performance audit of oversight of contractors at SBV. In this phase, our objectives are to assess: (1) whether SBV has adequate procedures for ensuring the accuracy of revenues and expenses reported by contractors; (2) SBV's practices for collecting and recording proceeds from contractors; and (3) whether SBV is adequately overseeing contractors to ensure compliance with key contract terms. The scope includes all significant contracts that directly support SBV's revenue-generating activities from FY 2004 through early 2007.

Agreed-Upon Procedures Review of the Compensation and Expenses of the Chief Executive Officer of Smithsonian Business Ventures

Parallel to our review of the former Secretary's expenses and compensation, we are overseeing an agreed-upon procedures review of the compensation and expenses of the Chief Executive Officer of Smithsonian Business Ventures. We will issue the independent accountant's report, as well as our transmittal letter commenting on the report, before June, 2007.

Relocation Expenses and Reimbursements

During our audit of executive compensation at the Institution (number A-06-06, described earlier), we observed and reported on weak policies and procedures in the Institution's granting and recording of relocation bonuses and relocation expense reimbursements. For example, we found instances where relocation expenses were reimbursed using travel vouchers rather than

through payroll, which made it unlikely that the reimbursements were reported as income as required by Internal Revenue Service rules.

As a result, we initiated an audit of relocation bonuses and relocation expenses reimbursements throughout the Institution, including Smithsonian Business Ventures. Our objectives are to assess whether the Institution has adequate policies and procedures to govern the granting and recording of relocation bonuses and expenses; whether relocation payments were made in accordance with these policies and procedures; and whether all associated tax liabilities were addressed. The scope of our audit is calendar years 2002 through 2006.

Oversight of Information Security Program

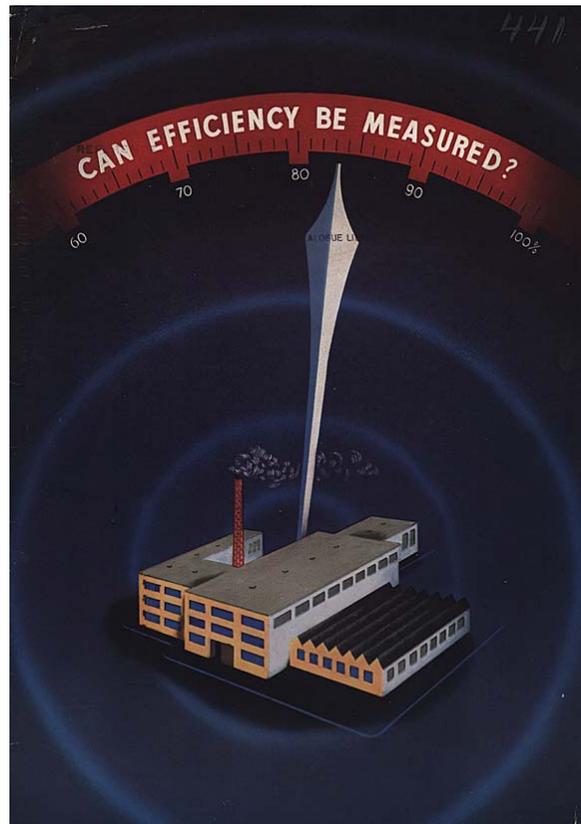
We have engaged an outside consultant to perform an evaluation of the Institution's information security program and compliance with the Federal Information Security Management Act (FISMA) as well as focused assessments of two of the Institution's major IT systems. The FISMA evaluation will address the Institution's information system inventory; certification and accreditation processes; security configuration policies and procedures; plans of action and milestones; computer security incident handling; and computer security awareness training. In accordance with Office of Management and Budget reporting guidelines for FY 2006, we forwarded our completed Inspector General FISMA template to the Secretary for inclusion in the Institution's reporting package due in early October. We issued this report in April, 2007, and will address it in our next Semiannual Report.

The two major information systems we selected for review are the Institution's IT infrastructure, commonly referred to as the general support system, and the Development and Membership Information System (DMIS). DMIS is a pan-Institution service that supports constituency research, prospect management, gift recording, membership, and other related development services. We plan to issue three separate reports detailing the findings and associated recommendations for the FISMA evaluation and the assessments of two major IT systems. We

issued our overall FISMA evaluation report shortly after the close of this period and will address it in our next Semiannual Report.

Peer Review

Our office will be conducting a peer review of the Office of Audit of the Federal Trade Commission's Office of Inspector General in accordance with the guidelines of the President's Council on Integrity and Efficiency/Executive Council on Integrity and Efficiency. The objective of the peer review is to determine whether the office's internal quality control system is adequate to provide reasonable assurance that it meets generally accepted government auditing standards and established policies and procedures. We will complete our review by the end of the next semiannual period.



Ericcson, LM. *Can Efficiency Be Measured?*, Stockholm, Sweden, 1946 from the exhibition *Doodles, Drafts & Designs: Industrial Drawings from the Smithsonian*. Developed by the Smithsonian's National Museum of American History, Behring Center, from the collections of the National Museum of American History and the Smithsonian Institution Libraries.

Investigations

During the reporting period, we received 24 complaints, opened 5 cases and closed 16 complaints and 1 case, resulting in 2 resignations, 1 admonishment, and a 30-day suspension. Our investigators provided assistance to auditors in reviewing executive compensation, relocation expenses, and travel. We also delivered a fraud presentation to employees attending a Simplified Acquisition class. During this reporting period, one of our two investigators retired, and we hired a replacement.

Summary of Investigative Activity

The following table summarizes complaint activity for this reporting period:

Table 6: Summary of Complaint Activity

Status	Numbers
Open at the start of the reporting period	31
Received during the reporting period	24
Subtotal	55
Closed during the reporting period	16
Total complaints pending	39

Computer-Assisted Analytical Techniques

OIG agents continue to refine our use of computer assisted analytical 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 analytical tools to assist auditors in analyzing and combining databases for their audit research.

The following table summarizes investigative activity for this reporting period:

Table 7: Summary of Investigative Caseload, Referrals, and Results

Investigations	Amount or Number
Caseload	
Cases pending at beginning of reporting period	1
Cases opened during the reporting period	5
Subtotal	6
Cases closed during the reporting period	1
Cases carried forward	5
Referrals for Prosecution	
Pending at the beginning of the period	1
Referred for prosecution	2
Pending at the end of the period	3
Successful Prosecutions	
Convictions	0
Fines	0
Probation	0
Confinement	0
Monetary Recoveries and Restitutions	0
Administrative Remedies	
Terminations	0
Resignations	2
Reprimands or admonishments	1
Reassignments	0
Demotions	0
Revocation of privileges	0
Suspensions	1
Monetary loss prevented	\$0
Funds Recovered	\$0

Other OIG 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.

Fraud Awareness Program

We continue our effort to reach out to Institution staff to acquaint them with our fraud awareness program—a cornerstone in our efforts to prevent and detect waste, fraud and abuse and promote economy, efficiency and effectiveness at the Smithsonian. During this semi-annual period, we made one fraud awareness presentation.

We explained our office's mandate and role as it relates to the programs and operations of the Smithsonian; 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. The 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. 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. We will continue making these presentations, expanding our efforts to include museum, research, curatorial, non-financial departments and other areas of the Institution.

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 a number of Smithsonian Directives. Most significantly, we provided comments on revisions to new Technical Notes issued by the Office of the Chief Information Officer. For example, we suggested revisions to their draft policy on Smithsonian-issued cellphones and Blackberry and other personal digital assistant devices to ensure that the agreements users sign clearly notify the users that they have no expectation of privacy in their data, and to ensure that OIG investigators could employ whatever means are available in investigating abuse of the devices.



A group of schoolchildren at the National Zoo's Bird House listens to FONZ volunteer Paula Carney explain about different types of feathers.



This marine snail, *Tylodina fungina*, was collected in a dredge sample with its host sponge. This species feeds exclusively on a single species of sponge that matches its yellow color exactly. Despite being featured in field guides, very little is known about its biology. Photo credit: Antonio Baeza, Smithsonian Tropical Research Institute

Office of the Inspector General
HOTLINE
703-603-1894

or

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

or write to

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PO Box 3012 MRC 1204, WASHINGTON, DC 20013-7012

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