



Smithsonian Institution
Office of the Inspector General

SEMIANNUAL REPORT TO THE CONGRESS

April 1, 2013 to September 30, 2013



Cover image: A child watches a sea lion at the Smithsonian National Zoological Park.
Image Credit: Steven Uejio.

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Message from the Inspector General

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 September 30, 2013. During this semiannual period, we issued three audit reports and reviews, including a report on funding and budget issues for the construction of the National Museum of African American History and Culture. We also issued our fiscal year 2014 annual audit plan. In addition, I testified before the Committee on House Administration concerning collections stewardship challenges, along with the Smithsonian Secretary and the Deputy Under Secretary for Collections and Interdisciplinary Support.

On the investigative side, we continue to investigate criminal allegations of contractor fraud at Smithsonian's parking operation at the Steven F. Udvar-Hazy Center. During the semiannual period, a former manager for the parking contractor pled guilty to conspiracy to defraud the government of approximately \$1.4 million and was sentenced to 40 months imprisonment.

We appreciate the cooperation of Smithsonian management and staff, as well as the ongoing interest of the congressional committees with which we work. We also thank the Board of Regents' Audit and Review Committee for its support of the OIG mission and commitment to improving the Smithsonian through effective oversight.



Scott S. Dahl
Inspector General

Background

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 to found “an establishment for the increase and diffusion of knowledge.”

The Smithsonian is the largest museum and research complex in the world. It currently includes 19 museums and galleries, the National Zoological Park, 9 research centers, and numerous research programs. The Smithsonian is the steward of approximately 137 million objects and specimens, which form the basis of world-renowned research, exhibitions, and public programs in the arts, culture, history, and the sciences.

Federal appropriations provide the core support for the Smithsonian’s science efforts, museum functions, and infrastructure. That support is supplemented by trust resources, including private donations and grants.



View of the Smithsonian Castle. Image from the National Parks Service Historic American Buildings Survey. Image credit: Jack E. Boucher.

Office of the Inspector General Profile

The Inspector General Act of 1978, as amended in 1988, created the Office of the Inspector General as an independent entity within the Smithsonian. The OIG reports directly to the Smithsonian Board of Regents and to the Congress.

Office of Audits

The Office of Audits conducts audits and reviews of the Smithsonian's programs and operations to improve their efficiency and effectiveness. We are guided by an annual audit plan that identifies high-risk areas for review. The Office of Audits also monitors the external audit of the Smithsonian's financial statements and oversees the reviews of the Smithsonian's information security practices.

Office of Investigations

The Office of Investigations 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 Smithsonian's programs and operations. It refers matters to the U.S. Department of Justice for prosecutive decision and action whenever the OIG has reasonable grounds to believe there has been a violation of federal criminal law. The Office of Investigations also identifies fraud indicators and recommends measures to management to improve the Smithsonian's ability to protect itself against fraud and other wrongdoing.

Office of Operations

We recently established an Office of Operations. The Office of Operations provides support to the Offices of Audits and Investigations, and is also responsible for administrative matters that the OIG handles as an independent office, such as budgeting, procurement, human resources, information technology, and managing organizational performance. The office is establishing a continuous audit program to identify potential fraud, noncompliance with Smithsonian policies and procedures, or regulations, as well as weak internal controls.

Counsel

The Counsel to the Inspector General provides independent legal advice to the Inspector General and the audit and investigative staff.

Audits and Reviews

During this semiannual period, we issued three reports and completed substantial work on ongoing audits. We also issued our annual audit plan for fiscal year 2014.

Reports and Advisories

Construction Management for the National Museum of African American History and Culture – Funding and Budget Issues

The \$500 million National Museum of African American History and Culture (NMAAHC) building project is important to the Smithsonian and the public. During this period, we released our third report in a series of audits to help ensure the Smithsonian has sufficient controls in place to keep this project on time and within budget. For this audit, we assessed whether (1) management's funding plans align with the timing of projected expenses, and (2) management has a contingency plan should the Smithsonian not receive expected federal appropriations or private donations.

We found that management's funding plans for the NMAAHC building project did not align with the timing of the project's funding requirements. However, due to the difficulty in predicting the timing and amounts of both federal appropriations and private donations, management did not expect available funds to align with funding requirements. Therefore, management planned to borrow funds to meet these requirements until fundraising for this project is completed. We also found that NMAAHC did not use the Smithsonian's central donor database system for reporting private donations. This resulted in the museum providing Smithsonian management with overstated fundraising amounts that were used to make future funding decisions.

To ensure that the NMAAHC project team has accurate information to manage the project's funding plans and requirements, we made recommendations for NMAAHC management to use fundraising data from the central donor database system when reporting on the status of the NMAAHC building project.

Review of the Smithsonian's Information Security Program

The Federal Information Security Management Act of 2002 (FISMA) directs the OIG to annually evaluate the information security program of the entity. The Smithsonian voluntarily complies with FISMA requirements because they are consistent with the organization's strategic goals. Information systems security is one of the Smithsonian's top management challenges.

As in previous years, we contracted with an independent auditor to conduct this review. For fiscal year 2012, the review focused on the general support system, the enterprise resource planning (ERP) system, several collections information systems, and a contractor-operated system.

We made recommendations to more quickly remediate security vulnerabilities; strengthen controls over installed applications; improve workstation configurations; better document deviations from established baselines; and improve continuous monitoring and tracking the mitigation of identified weaknesses.

Travel Expenses of the Board of Regents for Fiscal Year 2012

The statute that created the Smithsonian allows each member of the Board of Regents to be reimbursed for necessary travel and other actual expenses to attend Board and committee meetings. In 2007, the Executive Committee of the Board of Regents requested that the OIG conduct annual audits of the Regents' travel expenses.

During this period, we reviewed travel expenses for fiscal year 2012. We determined that the travel expenses for those Regents who sought reimbursement for expenses associated with attending Board meetings complied with laws and regulations and Smithsonian procedures.

Annual Audit Plan

In an effort to better assess the Smithsonian's risk and prioritize our work, we conducted a survey last summer that included an electronic questionnaire and interviews with key stakeholders. We issued the 2014 Audit Plan on September 30, 2013.

In selecting topic areas for audits, we focused on areas that pose the greatest risks to the Smithsonian's operations, with the goal of advancing the strategic priority of enabling the Smithsonian's mission through organizational excellence. We believe the audits we selected as a result of this process will improve the Smithsonian's programs and operations by promoting greater efficiency and reducing costs; enhancing accountability for funding decisions; supporting the growth of external financial resources; strengthening controls over Smithsonian operations; or serving programmatic priorities such as strengthening collections.

Our planned audits fall into two categories - mandatory and discretionary. We conduct or oversee three mandatory audits each year: the financial statements audits, the Federal Information Security Management Act audit, and an audit of the Board of Regents' travel expenses. We select the

discretionary audits based on our risk assessment, our prior work, and after consulting with stakeholders in the Smithsonian and the Congress.

Status of Recommendations

We worked with Smithsonian management to improve and solidify the process for managing and implementing OIG audit recommendations. Smithsonian management made progress in implementing the recommendations from audit reports we issued during this and prior semiannual reporting periods.

As a result, we closed 12 recommendations during the past 6 months. Implementation of these recommendations resulted in:

- Better stewardship of the collections;
- Improved oversight of senior executive travel;
- Improved collaboration between Smithsonian Enterprises retail and corporate divisions;
- More effective management of the National Museum of African American History and Culture construction project;
- Improved management over financial activities at the Center for Folklife and Cultural Heritage; and
- Strengthened adherence to personal property management policies and procedures.

While management made progress on closing recommendations, it is taking a considerable length of time to implement several important recommendations. We summarize the open recommendations from prior semiannual periods and the target implementation dates in Table 5.

Work in Progress

We have six audits and reviews in progress, as described below.

Selected Financial Operations of the Smithsonian Tropical Research Institute

The Smithsonian Tropical Research Institute (STRI) is the Smithsonian's only unit based outside of the United States. Its distance from the Smithsonian's other units and the unique demands of operating in another country result in management and oversight challenges unlike those of the other units within the Smithsonian. To help management address these challenges, we are engaged in an audit to evaluate high-risk areas of STRI's financial operations, including cash operations, accounts receivable transactions, and procurement activities.

Management of the Government Purchase Card Program

The Smithsonian uses purchase cards to reduce the administrative cost of small dollar purchases, incurring \$22.7 million in expenditures for 81,824 transactions during fiscal year 2012. The Smithsonian has a heightened interest in reducing the risk of fraud and misuse of funds in such vulnerable areas as cash processing and purchasing.

We are assessing whether the Smithsonian exercises effective management and oversight of the government purchase card program.

Management of the Smithsonian's Motor Vehicle Fleet Operations

In 2008, the Smithsonian implemented a fleet management system to reduce fleet costs, lower the fleet's environmental impact, increase utilization, and automate data collection.

In 2009, President Obama issued *Executive Order 13514 – Federal Leadership in Environmental, Energy, and Economic Performance*, which established goals and priorities towards sustainability in the federal government. The Office of Management and Budget monitors performance measures of sustainability and energy efficiency. One of these measures is fleet petroleum use.

Our objectives for this audit are to assess the effectiveness of the Smithsonian's fleet management, including provisions for authorizing, controlling, and monitoring vehicle purchase, use, maintenance and repair services, and disposal.

Financial Statement Assurance Letter Process

Smithsonian Directive 310, *Financial Reporting and Risk Management Internal Controls*, requires unit directors to provide assurance that no material weaknesses exist in the design or operation of their unit's controls over financial reporting, and that they have no knowledge of fraud, suspected fraud, or conflicts of interest.

We are conducting an audit of the Smithsonian's financial statement assurance letter process. The objectives of this audit are to: (1) evaluate the process that unit directors use to attest to their units' financial reporting controls effectiveness and financial information accuracy; (2) assess the training and guidance that the Office of the Comptroller provides to unit directors regarding their financial reporting controls; and (3) review management's response to deficiencies or areas of concern identified by the unit directors during the assurance letter process.

Pan-Institutional Initiatives Addressing Collections Care

With this audit, we continue our ongoing monitoring and assessment of the Smithsonian's progress towards a pan-institutional approach to collections care. Our objectives are to: (1) evaluate the impact the Smithsonian initiatives have on collections care; (2) assess management's plans for using the data collected to-date in addressing collections care issues Smithsonian wide; and (3) examine future funding and contingency plans for collections care.

Management of Leased Office Space

We are evaluating the Smithsonian's management of leased office space. Our general objectives are to evaluate the Smithsonian's short and long-term plans for managing its leased office portfolio and also to assess management strategies for identifying opportunities to reduce costs relating to leased office space.

Investigations

Types of Investigations and Activities

The types of allegations that the agents investigated during this semiannual period include the following: embezzlement, false representations, theft of property, improper reprisal, workers compensation fraud, misuse of government travel card, and time and attendance fraud.

For several of the investigations, the agents worked jointly with other federal law enforcement agencies, including the Federal Bureau of Investigation and the Department of Labor. OIG agents promulgated subpoenas for documents, prepared and executed a search warrant, and seized evidence. They have provided investigative work products to federal prosecutors for criminal investigations. They also provided the results of investigations to management for administrative action to be taken.

During the reporting period, we received 27 complaints and closed 40 complaints.

Summaries of Several Investigations

The following are summaries of several investigations conducted during the period.

Theft of Funds

We previously reported that OIG and FBI agents arrested three employees of Parking Management Inc. (PMI) on August 4, 2012, on charges of stealing visitor parking fees collected at the Smithsonian Institution's Steven F. Udvar-Hazy Center in Chantilly, Virginia. OIG agents determined that these PMI employees began stealing parking fees in April 2009, shortly after PMI took over management of the museum's parking lot. On some days, each stole more than \$4,000 from the Smithsonian.

On July 19, 2013, a former PMI on-site manager was sentenced to 40 months in prison followed by 3 years of supervised release, and ordered to pay approximately \$1.4 million in restitution, for his role in a conspiracy to steal visitor-parking fees. We previously reported that two other former PMI employees were sentenced to 20 months and 27 months in prison for their roles in the thefts. Another former PMI employee committed suicide.

Return of Collections Items

OIG agents assisted Smithsonian curators in reviewing items seized in an outside organization's investigation. We determined that 148 items of limited historical significance belonged to the Smithsonian collections. These items were returned to the Smithsonian.

Return of Artifacts

OIG agents are assisting the Department of Homeland Security with the return of historical artifacts allegedly taken illegally from the battlefield by an American soldier during the Korean War. The artifacts are being returned to the Republic of Korea in cooperation with the Korean Cultural Heritage Administration. The artifacts were never in the possession of the Smithsonian or part of its collections.

Other Investigative Activities

Fraud Awareness Program

We continue our efforts to reach out to Smithsonian staff and inform them about fraud awareness in Smithsonian programs and operations. During this reporting period, we made fraud awareness presentations to 237 new employees during their orientations.

Involvement with Other Organizations

OIG agents remain actively involved with the Washington Metro Electronic Crimes Task Force, the Metropolitan Area Fraud Task Force, the Security Association of Financial Institutions workgroup, and the Interagency Fraud Risk Data Mining Group. This data mining group assists other OIGs and similar offices to identify systemic fraud and other risks through automated techniques.

Other OIG Activities

Congressional Liaison

We continue to meet with staff from various House and Senate committees that have jurisdiction over the Smithsonian to brief them on our work and to solicit suggestions for future audits and reviews.

On July 17, 2013, the Inspector General testified before the Committee on House Administration on collections stewardship at the Smithsonian. We also provided a response to Chairman Issa and Ranking Member Cummings on open and unimplemented OIG recommendations and the associated potential cost savings. Finally, we submitted a semiannual response to Senators Grassley and Coburn on all closed investigative matters.

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. We also reviewed draft Smithsonian directives that affect the Office of the Inspector General or the Smithsonian's programs and operations.

The Counsel to the Inspector General, working with counsel from other Inspector General offices across the federal government, also monitored congressional bills and issues relating to the Inspector General community.

Peer Reviews

Government Auditing Standards require audit organizations to undergo external peer reviews by independent reviewers every three years. Our most recent peer review, conducted by Federal Deposit Insurance Corporation Office of Inspector General and issued in September 2011, concluded that our quality control system was designed to meet government auditing standards, and complied with those standards, for the 15-month period ending March 31, 2011. We received a peer review rating of pass.

Other Activities

OIG auditors and IT staff are actively involved in the TeamMate Federal Users Group. The office's working groups are driving a number of improvement initiatives, including updating and implementing the strategic plan, a comprehensive risk assessment process, and a streamlined audit process.

OIG staff is also involved in the Institute of Internal Auditors, the Association of Certified Fraud Examiners, and other professional organizations.

Tables

Table 1: List of Issued Audits and Reviews

Report Number	Title	Date Issued	Questioned Costs	Funds for Better Use
A-12-08	FY 2012 Review of the Smithsonian Information Security Program	6/3/2013	\$0	\$0
A-13-07	Annual Audit of Travel Expenses of the Board of Regents for Fiscal Year 2012	7/26/2013	\$0	\$0
A-13-02	Construction Management for the National Museum of African American History and Culture – Funding and Budget Issues	8/23/2013	\$0	\$0

Table 2: Audit Recommendation Activity

Status of Recommendations	Numbers
Open at the beginning of the period	40
Issued during the period	8
Subtotal	<u>48</u>
Closed during the period	<u>12</u>
Open at the end of the period	36

Table 3: Reports Issued with Recommendations that Funds Be Put to Better Use

Reports	Number	Funds For Better Use
Reports for which no management decision has been made by the commencement of the reporting period	1	\$2,325,045
Reports issued during the reporting period	0	<u>\$0</u>
<i>Subtotal</i>	1	\$2,325,045
Reports for which a management decision was made during the reporting period		
• Dollar value of recommendations that were agreed to by management		\$557,967
• Dollar value of recommendations that were not agreed to by management		<u>\$89,970</u>
Reports for which no management decision has been made by the end of the reporting period	1	\$1,677,108
Reports for which no management decision was made within 6 months of issuance	1	\$1,677,108

Table 4: Reports Issued with Questioned or Unsupported 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	0	\$0	\$0
<i>Subtotal</i>	0	\$0	\$0
Reports for which a management decision was made during the reporting period <ul style="list-style-type: none"> • Dollar value of disallowed costs • Dollar value of costs not disallowed 	0	\$0	\$0
Reports for which no management decision has been made by the end of the reporting period	0	\$0	\$0
Reports for which no management decision was made within 6 months of issuance	0	\$0	\$0

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

Audit Title (Date)	Number of Recs	Summary of Recommendations	Target Date
Smithsonian Astrophysical Observatory Scientific Computing Infrastructure (9/30/2008)	1	The CIO should develop, document, and implement controls to ensure Smithsonian policy is updated timely to include new IT requirements and disseminated to system sponsors and contractors.	6/30/2013
Smithsonian Institution Privacy Program (5/29/2009)	6	The SAOP and the CIO should develop, document, and implement privacy policies and procedures to support an overall privacy program that adequately addresses privacy-related risks. The SAOP should develop, document, and implement policies for safeguarding PII used by the Smithsonian; establish and implement requirements to reduce holdings of PII; develop and implement procedures to enforce compliance with all PII policies and procedures; develop, document, and implement procedures for privacy impact assessments (PIAs); and post completed PIAs on the Smithsonian's public website.	8/16/2013
Collections Stewardship of the National Collections at the National Museum of American History – Inventory Controls (2/8/2011)	3	The Director, NMAH, should conduct staffing assessments for OCA to identify deficiencies and develop a plan to address the deficiencies; ensure that the budget requests reflect the needs identified in the assessments; and, develop a succession plan to address potential staff turnover in OCA.	10/31/2013 to 11/22/2013

Audit Title (Date)	Number of Recs	Summary of Recommendations	Target Date
Smithsonian Institution Information Security Program (3/15/2011)	3	The Chief Information Officer should update SD 920 and other related documents to provide clear criteria for designating systems for inclusion in the Smithsonian's FISMA inventory; centrally document as part of its on-going risk management process the decisions by the Under Secretaries and the Unit managers to include or exclude systems in the FISMA inventory; and, implement controls to ensure that all SI-owned laptops/mobile devices that may be used to store sensitive information are secured with an appropriate encryption technology.	3/15/2013 to 12/15/2013
Smithsonian Institution Information Security Program (5/15/2012)	4	The Chief Information Officer should ensure that continuous monitoring of major systems is operating effectively; ensure that major system POCs provide quarterly POA&M progress updates and notify the CIO and Unit Directors when POA&M scheduled completion dates are not being met; improve the current server and standard desktop workstation procedures to identify any required operating system or application security patches; and, test and provide patch updates for the Smithsonian's standard desktop workstation software inventory within 30 days for vendor identified critical security patches and 60 days for vendor identified high risk security patches following the release of the patch.	5/15/2013 to 2/15/2014
The Center for Folklife and Cultural Heritage Needs to Improve Its Financial Management Operations (9/28/2012)	6	The Director of CFCH should: develop and implement policies and procedures for the selected application of the inventory method to include aging thresholds used to write-off inventory and ensure that staff receive proper training regarding the inventory method selected; review and research current inventory documentation to identify actual account balances, and if necessary rebuild the accounts to accurately reflect assets; review and research NetSuite accounts receivable to identify the actual account balances, and if necessary rebuild the accounts to accurately reflect assets; formalize and implement procedures to document incoming inventory and ensure that all products are entered in the POS system prior to sale; formalize and implement inventory close-out procedures for vendor accounts; and, develop and implement additional written policies and	8/30/2013 to 9/30/2013

Audit Title (Date)	Number of Recs	Summary of Recommendations	Target Date
		procedures for key financial activities.	
Management Advisory Regarding Portable Computer Encryption (3/4/2013)	3	<p>The Under Secretary for Finance and Administration, in coordination with the other Under Secretaries, should direct Unit IT staff to: determine which laptop computers in their inventory may be used to store sensitive data and, with assistance from OCIO, configure those computers with whole drive encryption; and, identify all laptop computers that will not be configured with encryption and clearly indicate to users with a prominent label that those computers must not be used to store sensitive information.</p> <p>The Chief Information Officer should revise IT-930-TN28 to assign responsibility to staff with the knowledge and skills to ensure laptop computers are configured with appropriate encryption technology.</p>	5/1/2013 To 12/15/2013
Review of Senior Executive Travel (3/27/2013)	2	<p>The Director of the Office of Human Resources should develop a standardized service agreement, in accordance with the Federal Travel Regulations. Revise the Federal and Trust Personnel Handbooks to incorporate the standardized service agreement. Additionally, include language in the Handbooks to address Overseas Tour Renewal Agreement Travel (OTRAT) travel to destinations other than an employee's original place of residence.</p> <p>The Director of OCon&PPM should update the Travel Handbook to include OTRAT procedures, in accordance with the revised Handbooks.</p>	9/30/2013 to 12/31/2013

Table 6: Summary of Complaint Activity

Status	Number
Open at the start of the reporting period	49
Received during the reporting period	<u>27</u>
Subtotal	76
Closed during the reporting period	<u>40</u>
Total complaints pending	36

Table 7: Summary of Investigative Activity

Investigations	Amount or Number
Caseload	
Cases pending at beginning of reporting period	3
Cases opened during the reporting period	<u>4</u>
Subtotal	7
Cases closed during the reporting period	<u>1</u>
Cases carried forward	6
Referrals for Prosecution	
Pending at the beginning of the period	1
Accepted during the period	1
Pending at the end of the period	2
Successful Prosecutions	
Convictions	1
Fines	
Probation	
Confinement	40 months
Monetary Recoveries and Restitutions	\$1,383,195
Administrative Actions	
Terminations	0
Resignations	0
Reprimands or admonishments	0
Collection items recovered	148

The Office of the Inspector General 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 Smithsonian's programs and operations.

Office of the Inspector General HOTLINE

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Although you may remain anonymous, we encourage you to provide us with your contact information. The ability to gather additional information from you may be the key to effectively pursuing your allegation.