



Smithsonian Institution

Memo

Chief Financial Officer

Date August 21, 2009

To Members of the Smithsonian Board of Regents Executive Committee
Members of the Smithsonian Board of Regents Audit and Review Committee

cc G. Wayne Clough, Secretary
Patricia Bartlett, Chief of Staff
Virginia Clark, Director, Office of External Affairs
Richard Kurin, Under Secretary for History, Art, and Culture
Alison McNally, Under Secretary Finance and Administration
Charles Alcock, Acting Under Secretary for Science
Judith Leonard, General Counsel
John Lapiana, Office of the Regents
Evelyn Lieberman, Director, Office of Communications and Public Affairs
A. Sprightley Ryan, Inspector General
Directors of Museums, Research Centers, and Offices
CFO Contacts

From Alice C. Maroni, Chief Financial Officer

Subject Management Response on Review of Non-Travel Business Expenses of Smithsonian Executives and Boards, Number A-08-07

On July 2, 2009, in response to a request by the Board of Regents, the Inspector General (IG) issued a review of non-travel business expenses of Smithsonian executives and boards. The agreed-upon-procedures review was conducted by an independent auditor engaged by the IG. The independent auditor questioned expenses made by 4 of the 18 units reviewed and by 4 of the 5 Advisory Boards reviewed, representing a total of approximately 10 percent of the transactions reviewed (measured in dollar terms), specifically \$94,000 out of a total of \$944,000.

As a result of this review, the IG identified and characterized as unreasonable two examples of expenses (consisting of 16 separate transactions). Management does not agree with the IG's characterization in either instance and explains the basis for its disagreement below. Regarding the remainder of the report, the vast majority of questioned transactions were, in the IG's words, "...the result of incomplete records and inattentiveness to policies...." Management agrees that improved recordkeeping and policy compliance is needed and this memo highlights recent actions taken and other actions under way to address these areas.

In light of the comments and observations made by the IG, management would like to bring to your attention its perspective on some of the issues raised and highlight recent actions taken and other actions under way.

Questioned Costs – Unreasonable Expenses

IG Comment #1: The independent auditor deemed as unreasonable spending incurred by the Office of Facilities Engineering and Operations (OFEO) for executive leadership training. Specifically, in 2007, OFEO spent \$47,800 (\$23,900 per person for coursework, lodging, and meals) to send two executives to a three-week executive training program at the University of Texas-Austin, teamed with the Construction Industry Institute (CII). The IG agreed that the amount spent was excessive and urged OFEO to be more prudent.

Management Response #1: Quality executive leadership training is highly valued. When it is appropriately targeted to a career field, it is even more prized. The University of Texas-Austin offers a one-of-a-kind, executive leadership program targeted precisely to engineering and architecture professionals. It is a high quality training opportunity directly applicable to OFEO executives and an honor to be selected to attend.

Management acknowledges that the cost of this training is at the higher end of its genre, but notes that it is not generally out of line with other high-end executive development programs. For example, members of the federal government's Senior Executive Service and GS-15s compete for the honor of attending the Federal Executive Institute which charges federal agencies \$18,375 per attendee (\$36,750 for two) for the four-week program in Charlottesville, Virginia. The program is logically somewhat less expensive than the Texas-CII program because it is broadly geared toward executive professional development (generalists) with no career field targeted.

Management appreciates that OFEO has made executive leadership training a high priority and supports participation in this premiere program. OFEO will reassess attendance annually, based on funds availability and Institution priorities.

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IG Comment #2: The independent auditor deemed as unreasonable spending incurred by the Cooper Hewitt National Design Museum (CHNDM) for the use of a car service for local travel in New York for executives and dignitaries, which totaled \$39,668 during the period reviewed. Specifically, 15 transactions for a total of \$2,325 were questioned because they occurred after the April 2008 clarification of Smithsonian policy regarding use of a car service. The IG noted that the Smithsonian Travel Handbook provides guidance on car service use which is allowable under certain circumstances for employees on travel and suggested that the Institution should continue to carefully review all car service use and emphasize to employees that it should be used sparingly, if at all.

Management Response #2: The policy revision in the handbook addressed only use of a car service for employees on travel, and did not address use of a car service for local travel. Because there was no policy on local use of a car service, the CHNDM did not seek advance approval nor retain documentation to support such usage. Without such documentation, it is difficult to determine whether the expenses were appropriate,

reasonable and advantageous to the Smithsonian, according to the standard in the handbook for use of car service while on travel. Management is not prepared to conclude, as the IG has done, that all such uses were unreasonable. In August, 2009, management will clarify the policy and procedures in the Travel Handbook to require that all use of a car service, whether on travel or for local transportation, must be approved in advance by the unit director, can only be approved if such use of a car service is advantageous to the Institution, and the reasons and expenses must be documented in writing. While on travel, unit directors must obtain prior approval of their respective Under Secretary as well as that of the Under Secretary for Finance and Administration for use of a car service. The Office of the Comptroller has recently revised the policies and procedures for all miscellaneous expense reimbursements (formerly known as petty cash), including local travel whether by taxi or car service. In August 2009, management will issue an Institution-wide communication outlining the revised policies and procedures for miscellaneous expenses reimbursements, emphasizing the approvals required and the need to retain expense documentation for audit purposes.

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Questioned Costs – Lack of Supporting Documentation

IG Comment #3: The independent auditor questioned transactions valued at almost \$42,000 due to their lack of supporting documentation. Three specific sets of transactions were singled out for comment by the IG.

- CHNDM transactions valued at \$5,126 were identified as lacking supporting receipts. The IG urged CHNDM to improve its recordkeeping.
- Likewise, the IG was critical of the fact that units and Advisory Boards did not routinely keep the documentation provided by Smithsonian service units providing, for example, audiovisual services or event-planning services (\$10,632 in the case of the National Museum of American History's Advisory Board and \$12,049 in the case of the Smithsonian National Board).
- The IG was critical of the National Zoological Park for not making documentation available to the independent auditor who questioned \$4,882 in costs for Zoo activities reviewed.

Management Response #3: Smithsonian policy requires units to retain appropriate documentation to support their expenditures. Cooper-Hewitt leadership recently strengthened its procedures for recordkeeping and documentation. The IG noted that the Director of the Office of Special Events and Protocol (OSEP) recently issued an email reminder to units of the critical need to retain copies of documentation from all event service providers, including email expense confirmations from OFEO and OSEP. Management agrees that units need to be more disciplined about retaining as required appropriate expense documentation to support purchase orders and credit card transactions and will include a reminder emphasizing this point to all Smithsonian staff in its August 2009 communication on the policies and procedures associated with miscellaneous expense reimbursements.

Management notes with specific reference to the IG's criticism of the Zoo's recordkeeping that the Advisory Board expenses in question were not Zoo transactions, but rather those of the Friends of the National Zoo (FONZ) a related, yet entirely separate entity from the Smithsonian. The expenses in question were in the FONZ general ledger, and backup documentation was stored at their warehouse and was not immediately available for the auditors. The FONZ is now aware of the importance of maintaining documentation of expenses made on behalf of NZP and the Zoo Advisory Board and has agreed to post more details on such expenses in their general ledger.

The Office of the Comptroller currently reviews 100% of all requests for reimbursement for miscellaneous expenses that generally cannot be purchased with a purchase order or government purchase or travel credit card (for example, meals in support of donor cultivation and local travel including parking). The absence of sufficient documentation often results in payment processing delays. The policy on expense reimbursements is being revised to ensure that the proper advance approvals and documentation accompany all requests for expense reimbursements.

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Board of Regents – Transactions Not Traceable to the General Ledger

IG Comment #4: The IG was silent on the concern raised by the independent auditor that they were unable to trace nine individual purchase card transactions of the Board of Regents to the Institution's general ledger. The independent auditor did not take exception to the expenditures but remarked that the practice indicates a weakness in internal controls.

Management Comment #4: Management is uncertain about how the independent auditor reached its conclusion. Although each of the nine Board transactions was not recorded separately in the Institution's general ledger, each and every transaction is in accordance with Smithsonian accounting practices, appropriately documented by the Office of the Comptroller. Due to the sheer volume of transactions, general ledger transactions are posted in total, by unit. Individual transactions are easily identifiable through the documentation maintained by the Office of the Comptroller. It is important that the Board of Regents understands that this criticism is unfounded and does not represent an internal control deficiency. Management notes that the IG did not express concern in her report with the way in which these transactions are recorded.