



## In Brief

## Facilities Maintenance Funds

Report Number A-09-03-1, September 3, 2009

### Why We Did This Audit

We conducted an audit of the Smithsonian Institution's facilities maintenance to determine whether the Smithsonian properly funded and accounted for the cost of facilities and maintenance projects.

### What We Recommended

We made seven recommendations that will strengthen the Smithsonian's policies, procedures, and training on management of facilities funds. We also made three recommendations that the Institution identify prior maintenance obligations that may constitute Purpose Act or Anti-Deficiency Act violations and take appropriate action to correct or report funding errors as required by federal appropriations law.

While management denies that it improperly used maintenance funds for capital projects, management concurred, in whole or in part, with our recommendations, and proposed corrective actions that will resolve all of our recommendations.

During our audit of facilities maintenance and safety at the Smithsonian, we found that the Smithsonian used maintenance funds for capital expenditures and recorded information inaccurately in its financial accounting system. Because of the significance of the practice, we are issuing this report separately, ahead of our facilities maintenance and safety audit report.

### What We Found

The Smithsonian did not always ensure the proper use of and accounting for its federal facilities maintenance funds. Specifically, the Smithsonian used maintenance funds instead of capital funds to pay for unplanned capital projects.

For two fiscal year (FY) 2008 projects we reviewed, we found that the Office of Facilities Engineering and Operations (OFEO) improperly used maintenance funds for 53 percent of the projects' costs, or \$549,318 out of approximately \$1 million. Although there was a capital projects contingency fund, OFEO chose not to use it to pay for these unplanned projects. Consequently, the Smithsonian spent appropriated funds contrary to the intent of Congress. Furthermore, by diverting maintenance resources to unplanned capital projects, the Institution may not have accomplished all of its FY 2008 planned maintenance, which may result in increased capital costs in the future. The incorrect funding of these projects also resulted in OFEO personnel making erroneous accounting entries.

As a result of OFEO using maintenance funds to pay for capital projects, the Smithsonian is violating Smithsonian Directive (SD) 305 and the Purpose Statute. OFEO's actions may also constitute a violation of the Anti-Deficiency Act (ADA). A purpose violation does not result in an ADA violation if the proper funds were available from the time of the erroneous obligation to the time when the entity makes the correction. To assess whether the Smithsonian violated the ADA for these projects, management must determine whether the proper capital funds were available since the time of the erroneous obligations.

For additional information or a copy of the full report, contact the Office of the Inspector General at (202) 633-7050 or visit <http://www.si.edu/oig>.



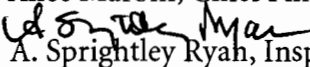
# Smithsonian Institution

Office of the Inspector General

Date September 3, 2009

To G. Wayne Clough, Secretary  
Judith Leonard, General Counsel  
Alison McNally, Under Secretary for Finance and Administration  
Bruce Kendall, Director, Office of Facilities Engineering and Operations  
Clair Gill, Deputy Director and Chief of Staff, Office of Facilities Engineering and Operations  
Bruce Dauer, Director, Office of Planning, Management and Budget  
Andrew Zino, Comptroller

cc Alice Maroni, Chief Financial Officer

From  A. Sprightley Ryah, Inspector General

Subject Facilities Maintenance Funds, Number A-09-03-1

During our audit of facilities maintenance and safety at the Smithsonian,<sup>1</sup> we found that the Smithsonian used maintenance funds for capital expenditures and recorded information inaccurately in its financial accounting system. Responsible officials in the Office of Facilities, Engineering, and Operations (OFEO) volunteered that they have used maintenance funds to finance unplanned capital projects in the past and intend to continue the practice in the future. As a result, the Institution may have run afoul of federal appropriations law and reported inaccurate financial information in its annual financial statements. Because of the significance and seeming purposefulness of the practice, we are issuing this report separately, ahead of our facilities maintenance and safety audit report.

This report covers one of the objectives of our facilities maintenance and safety audit: to determine whether the Smithsonian properly funded and accounted for facilities maintenance. We judgmentally selected two unplanned facilities capital projects that the Office of Facilities Engineering and Operations (OFEO) paid for using funds appropriated for maintenance purposes. Because OFEO kept insufficient records of completed projects and how they reached their funding decisions for these projects, we were unable to estimate the extent to which Smithsonian used maintenance funds to finance additional capital projects. We include a detailed description of our scope and methodology in Appendix A.

## RESULTS IN BRIEF

The Smithsonian did not always ensure the proper use of and accounting for its federal facilities maintenance funds. Specifically, the Smithsonian used maintenance funds instead of capital funds to pay for unplanned capital projects. As a result, the Smithsonian spent funds contrary to its annual appropriation in violation of Smithsonian Directive (SD) 305, *Administrative Control of Funds*, and did not comply with the Purpose Statute.<sup>2</sup> Spending funds in this manner may also constitute a violation of the Anti-Deficiency Act, but to make such a determination we would have had to evaluate whether the

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<sup>1</sup> Audit of Smithsonian Facilities Maintenance and Safety, No. A-09-03-2 (forthcoming).

<sup>2</sup> 31 U.S.C. § 1301(a).

Smithsonian had the proper capital funds available to cover these project costs. This evaluation would have required that we gather and analyze fund availability data for multiple years. We did not believe that it was practical for us to conduct these additional analyses but recommend that Smithsonian management undertake this task.

By diverting maintenance resources to unplanned capital projects, the Smithsonian may not accomplish all planned maintenance projects. OFEO's diversion of these funds may increase the Smithsonian's overall facilities costs in the future by forgoing the long-term savings that might be gained from conducting planned maintenance of its facilities.

Because the Smithsonian used maintenance funds for capital projects, it inaccurately recorded these capital project costs as current period expenses, rather than as capital assets. This incorrect recording resulted in inaccuracies in the 2008 financial statements by overstating current period expenses and understating both current year assets and related depreciation expenses in future years. Although the sum of the errors we identified was likely not material to the financial statements, there is a risk that other unidentified errors could, in the aggregate, have an impact on the Smithsonian's financial statements.

To ensure proper use of and accounting for maintenance funds, we recommended that the Smithsonian strengthen related policies, procedures, and training. We also recommended that the Institution identify prior maintenance obligations that may constitute Purpose Act or Anti-Deficiency Act violations and take appropriate action to correct or report funding errors as required by federal appropriations law.

## **BACKGROUND**

### *Smithsonian Facilities Program – Maintenance versus Capital*

The Smithsonian's facilities program is divided into three major segments: facilities operations, facilities maintenance, and facilities capital. Our audit focused on the facilities maintenance and facilities capital segments of the program. Congress appropriates federal funds separately for these segments. Appropriated maintenance funds must be obligated within one year. Appropriated capital funds remain available until expended.

In the fiscal year (FY) 2008 appropriations act, Congress appropriated \$51.4 million for "maintenance ... of buildings, facilities, and approaches." The facilities maintenance program focuses on facility preservation activities and encompasses the upkeep of property and equipment, or the work necessary to realize the originally anticipated useful life of a fixed asset.

Congress appropriated \$107.1 million to the facilities capital program in FY 2008 for the "repair, [and] revitalization ... of facilities ... and for construction." Revitalization involves making major repairs and replacing declining and failed infrastructure, which extend the useful life or increase the capabilities of the asset.

## *Federal Appropriations Law*

The Purpose Statute<sup>3</sup> restricts an entity's use of appropriated funds solely to the purposes authorized by Congress. It prohibits charging authorized items to the wrong appropriation. The Anti-Deficiency Act (ADA)<sup>4</sup> restricts an entity's use of appropriated funds to the amounts and time period authorized by Congress. Violations of the Purpose Statute (purpose violations) generally result only in administrative sanctions, whereas ADA violations are subject to administrative, civil or criminal sanctions and require the entities to report such violations to the President, Congress, and the Comptroller General. A purpose violation does not result in an ADA violation if the proper funds were available from the time of the erroneous obligation to the time when the entity makes the correction. An entity that violates the Purpose Statute must correct the fund source charged to avoid an ADA violation.

The Smithsonian has incorporated the requirements of these two appropriation statutes into SD 305, *Administrative Control of Funds*.

## *Federal and Smithsonian Guidance*

Accounting guidance defining maintenance expenditures differs across the federal government because there is no government-wide standard for which activities constitute maintenance activities versus capital activities. The Federal Accounting Standards Advisory Board (FASAB) suggests each agency establish its own threshold for what constitutes capital activity. As a result, some agencies rely on dollar thresholds to distinguish between the two. For example, the Department of Defense uses a threshold of \$100,000. Others, such as the Smithsonian, which is not required to follow FASAB guidance, rely on the nature of the work to make the maintenance versus capital determination.

Smithsonian's OFEO established internal guidance to determine the proper funding classification for maintenance and capital activities. (See Appendix B.) This guidance considers maintenance to be work done to realize the originally anticipated useful life of a fixed asset. The guidance states that revitalization, a capital activity, is work that materially extends the useful life of the asset.

## *Accounting Standards*

The distinction between maintenance and capital costs is important not only for making funding decisions, but for accurately reporting the financial position and the results of operations in the Smithsonian's annual financial statements.

When entities incur costs that either extend the useful lives of existing assets, or enlarge or improve their capacity, U.S. generally accepted accounting principles (GAAP) require that they capitalize and depreciate the costs over the remaining useful life of those assets. GAAP does not require capitalization thresholds; however, to ensure consistency, many companies that follow GAAP have thresholds ranging from \$0 to \$5,000. FASAB recommends that each federal entity establish its own capitalization threshold. The Smithsonian's *Financial Management Accounting Policies and Procedures Handbook* has no established capitalization criteria for buildings, fixtures or other real property.

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<sup>3</sup> 31 U.S.C. § 1301(a).

<sup>4</sup> 31 U.S.C. §§ 1341(a), 1342, and 1517(a).

## *Smithsonian's Planning and Quality Assurance Process for Use and Accounting for Maintenance Funds*

Various Smithsonian offices, including OFEO, the Office of the Comptroller (OC), and the Office of Planning, Management and Budget (OPMB), have processes to plan and review the funding and accounting for maintenance-funded transactions. The Office of the Under Secretary for Finance and Administration oversees these offices. The planning process begins in OFEO. OFEO develops a detailed maintenance plan each year, which lists the projects it intends to accomplish over five years. By virtue of being on the plan, OFEO has determined that maintenance funds will pay for these projects. However, OFEO undertakes unplanned projects if they pose a significant safety risk to the collections or to Smithsonian visitors and staff. Throughout our audit, we noted that the unplanned projects OFEO completed posed the most risk for inaccurate funding and accounting. For unplanned projects, OFEO management approves the funding source and accounting classifications, and maintenance personnel enter these transactions into the Institution's financial system. In performing these tasks, maintenance personnel rely on the general guidance contained in Smithsonian directives and procedures. They learn these tasks through on-the-job exposure. They receive little functional training in accounting or fund control specifically related to differentiating capital from maintenance.

The central OFEO business office, OPMB and OC perform reviews of each maintenance-funded transaction; however, these reviews are not designed to detect if OFEO used maintenance funds to pay for capital projects. The OFEO and OPMB reviews are only intended to detect whether the transactions reflect the appropriate distinction between maintenance and operations. Each quarter, OC reviews OFEO maintenance transactions, but OC limits its review to the accuracy of OFEO's accounting codes. We found the quality review process to be inadequate for detecting whether OFEO had properly used its maintenance appropriations.

### *Internal Controls*

An entity's control environment sets the overall tone of an organization, and is the foundation for all other components of an entity's internal control.<sup>5</sup> Factors such as management's authority and operating style, and the way management assigns authority and responsibility, influence the control environment.

The Government Accountability Office (GAO) identifies several characteristics of an effective control environment, including that management has 1) an appropriate attitude toward financial, budgetary, operational and programmatic reporting; 2) mechanisms in place to monitor and review operations and programs and 3) an established ethical tone at the top of the organization, which has been communicated to employees throughout the organization.

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<sup>5</sup> The Committee of Sponsoring Organizations (COSO) is a widely accepted authority that guides executive management and governance entities toward establishing more effective, efficient, and ethical business operations. COSO's internal control framework lists five components of internal control: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. The Office of the Chief Financial Officer's *Plan for Strengthening Internal Controls*, in response to the Board of Regents' Governance Committee Recommendation 23, uses the COSO framework to assess the Smithsonian's internal controls.

## RESULTS OF AUDIT

### THE SMITHSONIAN FUNDED CAPITAL PROJECTS WITH MAINTENANCE APPROPRIATIONS

We found that OFEO used maintenance funds instead of capital funds to pay for capital-related projects. Out of the two FY 2008 projects we reviewed, we found that OFEO improperly used maintenance funds for 53 percent of the projects' costs, or \$549,318 out of approximately \$1 million. Although there was a capital projects contingency fund, OFEO chose not to use it to pay for these unplanned projects. Consequently, the Smithsonian spent appropriated funds contrary to the intent of Congress. Furthermore, by diverting maintenance resources to unplanned capital projects, the Institution may not have accomplished all of its FY 2008 planned maintenance, which could result in increased capital costs in the future. The incorrect funding of these projects also resulted in OFEO personnel making erroneous accounting entries.

We were unable to determine how often, overall, OFEO paid for projects using the wrong funding source, or for what amounts, because OFEO did not document how it makes funding decisions. As a result, assessing whether projects of a capital nature were funded with maintenance appropriations would require extensive interviews and examination of project records. It was not practical for us to perform enough work to estimate the full extent of funding errors.

We brought our concerns over the misuse of maintenance funds to finance capital projects to the attention of senior officials in OFEO. We learned that the practice is long-standing and serves as a back-up strategy for ensuring that unplanned, critical capital projects can be undertaken. OFEO will draw from maintenance funds to cover the cost of unforeseen capital projects that were not approved in its 5-year capital plan or were not paid for using capital contingency funds. An official within OFEO management volunteered that spending maintenance funds on projects of a capital nature is a regular occurrence at the Smithsonian and cited escalator and elevator overhauls at the National Museum of American History (NMAH) and the Smithsonian castle as two recent examples of unplanned capital projects financed with maintenance funds. The official informed us that these examples are just two of "thousands" of such projects. OFEO officials emphasized, however, that the use of maintenance funds for capital projects is not excessive and believe OFEO spends no more than \$1 million in maintenance funds on unplanned capital projects annually. While that amount is only a small fraction of the overall appropriation for facilities maintenance, we found nothing in the Smithsonian's appropriations that allow any amount of such funds to be used for purposes other than maintenance.

Table 1 below shows the detail for each project we reviewed and the proportion of each project's cost that OFEO funded incorrectly.

*TABLE 1  
Incorrectly Funded Costs for Two Projects Tested*

FY 2008 Project Tested	\$ Incorrectly Funded	Total \$ Transaction	Percent Incorrectly Funded
NMAH Escalator Project	\$338,227 <sup>6</sup>	\$816,461	41%
F Street Portico Project	\$211,091	\$211,091	100%
Total Incorrect Funding	\$549,318	\$1,027,552	53%

For the NMAH escalator project, OFEO used maintenance funds on 41 percent of its total project costs for replacement parts that extended the escalators' useful lives, OFEO's defining factor for determining a capital project. OFEO replaced parts vital to the safe operation of the escalators, including steel chains and wheel assemblies, roller guides, and steel track systems. The investment in replacement parts, in our judgment, will extend the useful life of the escalators. Part of the project did consist of equipment cleaning, a maintenance activity. We found no evidence that OFEO performed an analysis to determine which portions of the project constituted capital or maintenance activities. Rather than basing its decision on the anticipated extension to the useful life of the escalators, OFEO split the cost of the contract equally between its maintenance and capital programs.

In our second example, OFEO fully replaced the base, drainage, and paving stones of the F Street portico at the Donald W. Reynolds Center, which constitutes a capital activity according to OFEO's definitions. However, OFEO paid for the project with maintenance funds. OFEO performed this work to address drainage problems and a tripping hazard caused by cracked pavers. The project manager for the project stated that because the building had just undergone a renovation, OFEO had already expended all its capital funds for this building. As a result, the project manager did not notify the capital program director and OFEO used maintenance funds to pay for the entire cost of the project.

There are a number of causes for the weaknesses in the Smithsonian's process for making maintenance funding determinations, including an ineffective control environment, the Smithsonian's dispersed assignment of responsibility, and inadequate training, review, and documentation.

- Smithsonian management did not emphasize the importance of fund controls for unplanned facilities projects. Instead, there was an overriding commitment to serve the facilities needs of the Smithsonian as a whole. Disregarding proper fund control in pursuit of responsive facilities service, though understandable, does not convey a supportive attitude towards internal control. The relaxed view toward internal controls was evident in our discussion with senior OFEO officials who expressed their preference for ambiguous policy regarding fund control. OFEO management believes that current policy guidance is broad, and appropriately allows managers to reach contradictory conclusions and grants them the desired discretion on how they choose to finance unplanned projects.

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<sup>6</sup>The only maintenance costs were those related to cleaning. OFEO did not have records indicating the actual cost of cleaning. As such, we calculated the funding error using OFEO's estimate of the contractor's time spent on cleaning.

- Responsibility for ensuring the proper use and accounting for federal funds is dispersed among several Smithsonian offices. In SD 305, the Secretary delegated to the Chief Financial Officer (CFO) responsibility for assuring that the Smithsonian is in compliance with federal appropriations law. The Director of OPMB is responsible to the Secretary for budgetary control of funds. SD 305 requires the OPMB Director to ensure that the Smithsonian obligates funds within the amounts and for purposes authorized. Unit<sup>7</sup> heads who are recipients of funds also share this responsibility. At the time of our review, the SD 305 in effect, dated March 15, 1999, stated that the Comptroller was responsible for ensuring that funds committed by the units comply with applicable federal appropriations law; SD 305 was revised on July 2009, and no longer assigns this responsibility to the Comptroller.

This dispersed responsibility creates confusion across the units, resulting in errors. The units lack a common understanding of the purpose and rules governing fund control. As a result of this confusion, the Smithsonian did not consistently apply OFEO guidance differentiating between maintenance and capital activities. Instead, employees used other criteria, such as varying thresholds ranging from \$200,000 to \$300,000, to classify activities as either maintenance or capital.

Moreover, we found that the Smithsonian does not hold anyone accountable for errors such as those we identified in this report. For example, we found that the OFEO director and the Comptroller do not believe that responsibility for identifying and correcting these budget errors rests with them. We also found that the OPMB director does not believe his office should serve in an enforcement role to ensure compliance with federal appropriations law. Because the duty to enforce compliance with its annual appropriations is dispersed rather than assigned to one unit, the Smithsonian is structurally constrained from preventing similar problems in the future.

- Last, we observed a lack of training, supervision, and documentation. Employees lack adequate training on using OFEO's facilities definitions to properly classify maintenance or capital activities in the financial system. An OFEO employee told us they were unaware of how to make the distinction. Also, supervisors do not adequately review employees' classification decisions to ensure that the OFEO definitions are properly applied. Further, for capital projects paid for using maintenance funds, OFEO does not always document authorizations, funding decisions or rationales, making it difficult to determine whether OFEO made funding decisions using the appropriate criteria.

We found that OFEO's use of maintenance funds for unplanned capital projects might extend beyond the two cases in our sample. However, we were unable to determine the magnitude of this problem because testing the remaining projects would have taken significantly more time and resources, given OFEO's insufficient documentation of how it makes funding decisions.

As a result of OFEO using maintenance funds to pay for capital projects, the Smithsonian is violating SD 305 and the Purpose Statute. OFEO's actions may also constitute a violation of the Anti-Deficiency Act. A purpose violation does not result in an ADA violation if the proper funds were available from the time of the erroneous obligation to the time when the entity makes the correction. To avoid an Anti-Deficiency Act violation, an entity that violates the Purpose Statute must correct the fund source charged. To assess

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<sup>7</sup>Units refer to the Smithsonian's museums, research institutes and offices.



whether the Smithsonian violated the Anti-Deficiency Act for these projects, management must determine whether the proper capital funds were available since the time of the erroneous obligations.<sup>8</sup>

We acknowledge that the projects we reviewed were necessary. However, by diverting maintenance resources to unplanned capital projects, OFEO may not accomplish all the maintenance projects it had planned. Forgoing maintenance in favor of capital investment may result in increased costs due to failures and breakdowns, costs which could have been avoided with proper maintenance attention. The average maintenance project completed in FY 2008 cost approximately \$27,000. Using the information from Table 1, we estimate that OFEO could have performed an additional 20 maintenance projects in FY 2008, had it not paid for these capital projects. Electrical upgrades, lighting and plumbing repairs are examples of the types of projects that OFEO may not have accomplished because it spent maintenance funds on these two projects.

#### *Inaccurate Accounting*

The incorrect funding of these two projects also resulted in OFEO personnel making erroneous accounting entries. Specifically, OFEO inaccurately recorded \$549,318 of the two projects' total cost of \$1 million as maintenance expenses. Because the projects were capital in nature, OFEO should have recorded these costs as depreciable assets. As a result, the Smithsonian overstated current period expenses and understated current year assets and related depreciation expenses in its financial statements.

We identified several other control weaknesses that caused OFEO personnel to make erroneous accounting entries:

- The Institution lacks adequate guidance on capitalization criteria for real property. The Smithsonian's *Financial Management Accounting Policies and Procedures Handbook* has not established a capitalization threshold or defined any capitalization criteria for buildings, fixtures or other real property. Instead, OC provides periodic verbal guidance to OFEO. As a result, OFEO personnel who assign and review accounting codes may not be using consistent criteria when deciding whether to record project costs as capitalized assets or expenses.
- OFEO personnel lack adequate training on proper use of accounting codes. While the Institution offers training on the financial management computer system, which addresses accounting codes, the training does not focus on our specific concerns in this report.
- OFEO's process for reviewing accounting classifications is not designed to identify misclassifications stemming from maintenance-funded capital projects. Because OFEO bases its accounting decisions on the funding source, if OFEO does not identify funding errors, they may not detect and correct accounting errors.

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<sup>8</sup> Although federal appropriations law does not expressly prohibit an entity's use of future no-year funds (i.e., funds that are available indefinitely) to correct a potential ADA violation, ADA prohibits an entity's obligation of funds in advance of appropriations for that purpose. Accordingly, we believe that the Smithsonian may not use future capital no-year funds to correct these potential ADA violations. It is possible that the Smithsonian could use future no-year funds in this manner, but Smithsonian management must identify the legal basis for doing so.

We believe that the lack of account code training identified during this audit could have other significant financial and budgetary impacts. In FY 2008, OC identified a total of approximately \$16.5 million in trust-funded capital project costs that museums inaccurately recorded as expenses when they should have capitalized them. Representatives from OC expressed frustration with the number of accounting errors and the limited influence anyone has had on preventing similar errors from recurring.

The Smithsonian has recognized these issues in its response to the Board of Regents' Governance Recommendation 23<sup>9</sup> related to use of funds restrictions and capital projects. The Smithsonian's plans for implementing Recommendation 23 should help address weaknesses in the Smithsonian's process for ensuring that funding and accounting codes are accurate.

## **RECOMMENDATIONS**

To ensure proper funding for maintenance and capital activities, as well as the propriety of the resulting accounting classifications, we recommend that the Under Secretary for Finance and Administration:

1. Ensure that OFEO discontinues the practice of using maintenance funds to pay for capital-type projects.
2. Establish a quality control process to review significant maintenance and capital transactions to ensure that the funding source and accounting classifications are consistent with the policy created in Recommendation 3, and that errors are identified and resolved in a timely manner.

We recommend that the Chief Financial Officer:

3. Create a policy that identifies the proper funding source and related accounting classifications for maintenance and capital activities. This policy should be consistent with federal budget and accounting guidelines and should be communicated to all employees who record and review facilities transactions.

We recommend that the Director of OFEO, in coordination with the Director of OPMB:

4. Require individuals who authorize the use of federal funds, as well as those who assign and review funding classifications, to receive periodic funds management and appropriations law training.

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<sup>9</sup> In June 2007, the Board of Regents' Governance Committee issued a report recommending numerous governance reforms, including Recommendation 23, which states:

The Audit and Review Committee, working with the Secretary and Chief Financial Officer, will review the Smithsonian's financial reporting systems and internal controls to ensure that appropriate systems and controls are in place to enable the Committee and the Board to provide meaningful oversight of the accuracy and integrity of Smithsonian financial statements and reports. The Committee will report to the Board on its findings and recommendations in 2008.

We recommend that the Director of OFEO:

5. Develop written procedures to ensure that federal funds committed by OFEO are for the authorized purposes in accordance with SD 305. These procedures should require OFEO officials to document their final funding decision and rationale.
6. Identify obligations incurred from FY 2004 to the present in which OFEO used maintenance funds for capital projects.
7. Correct material accounting misclassifications resulting from the errors identified in Recommendation number 6.
8. Develop and implement a policy to ensure that OFEO uses contingency funds for unplanned capital projects, such as the ones identified in this report.

We recommend that the General Counsel:

9. Determine if any of the obligations identified by OFEO in Recommendation 6 constitute a violation of the Anti-Deficiency Act and take appropriate action to correct or report funding errors.

We recommend that the Comptroller:

10. Provide account code training to Smithsonian staff who enter or review account codes for real property transactions.

## **MANAGEMENT COMMENTS**

OFEO management concurred in whole or in part with all ten of our recommendations. The August 27, 2009 response to our draft audit report from the Deputy Director and Chief of Staff, Office of Facilities Engineering and Operations, acknowledged that OFEO did not have rigorous policies, procedures and thresholds to guide work classification and funding decisions for unplanned, urgent repair projects and that it had not established rules for documenting decisions in questionable cases.

However, OFEO management believes that for the two projects we reviewed, the funding classification was correct. Notwithstanding the fundamental disagreement over the misclassification of specific contracts and the possibility that the Smithsonian violated the Purpose Statue and the Anti-Deficiency Act, OFEO agreed to undertake a review of a random sample of prior-year projects to determine whether maintenance funds were improperly used to finance capital projects.

### **Work Classification for No-Year Facilities Capital vs. Annual Facilities Maintenance Funding of Projects**

OFEO management cited FASAB and NRC general definitions for the classification of capital versus maintenance activities. They acknowledge that classification of projects can be unclear; in such instances, they rely on the experience and judgment of staff to make the determination.

OFEO management conceded that there is inconsistent application and interpretation of the work classification definitions and funding sources for the two projects we reviewed. However, management asserted that using maintenance funds to finance capital projects is not a standard practice within the organization.

### **The NMAH Escalator Project**

OFEO management provided background information for the escalator project, indicating that this unplanned project was vital to the re-opening of the museum. At the time OFEO decided to execute this project, it decided that a 50-50 split between capital and maintenance funds was appropriate. However, OFEO did not perform a detailed analysis of what constituted maintenance or capital activities for the project.

As part of OFEO's management response, OFEO provided a chart that identifies the classification based on the work performed. OFEO management believes the decision to charge maintenance and capital equally is justified when the change order<sup>10</sup> is taken into consideration.

### **The F Street Portico Project at the Donald W. Reynolds Center**

OFEO management provided background information for the portico project, indicating that the project was necessary due to drainage and safety concerns. OFEO provided a chart that summarizes the work performed on the portico, which they believe was maintenance. However, they acknowledge that they did not use this chart, nor document the decision, when determining which funds to use for this project.

### **Inaccurate Accounting**

OFEO management reiterated the criteria used in the report regarding capital and maintenance definitions. According to OFEO management, these industry standards, as defined by FASAB and the Federal Facilities Council (FFC), are under revision to be more consistent. OFEO believes that the main distinction between maintenance spending and capital investment would be a change in function or increased capacity, and does not believe the two projects we reviewed would meet this future definition.

### **Possible Violations of the Purpose Statute and the Anti-Deficiency Act**

OFEO management asserted that they did not violate the Purpose Statute and Anti-Deficiency Acts because they feel they appropriately expended facilities maintenance funds for the projects in question. Management further stated that, even if they had violated the Purpose Act, they did not violate the Anti-Deficiency Act since they could correct the purpose violation by transferring the necessary funds from the Smithsonian's Facilities Capital appropriation.

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<sup>10</sup> Apparently management is referring to the change order for replacement of the escalator steps, which came after the part of the project whose funding we discuss above (page 6).

## **Recommendations**

OFEO concurred with, and cited a target date of completion of December 31, 2009, for all of the recommendations, except for the following:

**Recommendation 1:** OFEO concurs in part. Although OFEO disagrees with our conclusions about the two projects, they agree that policies need to be updated and enforced, and funding decisions need to be documented. OFEO provided a target completion date of December 31, 2009.

**Recommendation 6:** OFEO concurs in part. OFEO does not believe this is a necessary recommendation, but will test a sample of projects completed in prior years using updated policy referenced in Recommendation 3. OFEO provided a target completion date of March 31, 2010.

**Recommendation 7:** OFEO concurs, but disagrees that the projects were misclassified. OFEO did not provide a completion date.

We include the full text of management's response in Appendix C.

## **OFFICE OF THE INSPECTOR GENERAL COMMENTS**

We appreciate OFEO's efforts to further explain management's process related to determining the nature and funding of the projects we reviewed. However, based on the criteria and information available during the course of the audit, as well as in their response, we believe that our conclusions remain valid.

### **NMAH Escalator Project**

OFEO management provided additional information regarding a change order, which occurred *after* the original funding decision, which they believe supports the initial conclusion that the expected capital and maintenance costs were equally split. During the course of the audit, we examined this change order and determined that it had no bearing on the initial decision. The project we reviewed was to make the escalators safe for operation. OFEO initiated the change order because the appearance of the escalator steps, after completion of the work whose funding we audited, was not in line with the newly renovated museum spaces. The funding we examined (and report on in Table 1, p. 6) did not include this subsequent change. OFEO funded the change order with capital funds, as it should have.

In response to management's comments, we reviewed the change order again, and we again concluded that it is not relevant to our analysis and does not yield the even split described in the response. Further, the change order and the additional financial analysis cannot be sourced to official accounting records.

## **Recommendations**

We noted that OFEO responded to Recommendations 9 and 10, even though we directed them to the General Counsel and Comptroller, respectively. We will follow up with the appropriate offices to confirm their concurrence with the recommendations.

## APPENDIX A. SCOPE AND METHODOLOGY

To determine whether the Smithsonian adequately manages risk with existing maintenance funding, we interviewed management and staff from the Office of Facilities Engineering and Operations (OFEO), the Office of the Comptroller (OC), and the Office of Planning Management and Budget.

During the course of these meetings, we learned that OFEO was not accomplishing all of its planned maintenance work because it was using maintenance funds to pay for unplanned urgent issues that were capital in nature. Based on information obtained during these meetings, we judgmentally selected a vertical transportation project for review to determine whether OFEO properly funded and accounted for this project.

In addition, we met with representatives from OC, who expressed concern regarding OFEO's improper accounting for facilities costs. Based on OC's list of fiscal year 2008 year-end adjustments, we judgmentally selected and reviewed the F Street Portico project to determine whether OFEO used maintenance funds for a project that was capital in nature.

We reviewed Smithsonian policies and procedures, industry standards, and federal statutes related to facilities management and funding.

We did not review the overall internal control structure of the OFEO maintenance program. We limited our review to those controls related to the funding of and accounting for transactions paid for using maintenance funds.

We conducted our work in Arlington, VA and Washington, D.C. from November 2008 to June 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## APPENDIX B. SMITHSONIAN GUIDANCE ON FACILITIES TERMINOLOGY

### SMITHSONIAN FACILITIES TERMINOLOGY

Based on National Research Council definitions and the SI official budget structure approved by OMB with FY 2004 budget appropriations request.

#### FACILITIES CAPITAL

Revitalization  
Construction

#### SALARIES & EXPENSES

Facilities Maintenance  
Facilities Operations, Security & Support

#### I. FACILITIES CAPITAL

**A. Revitalization.** Revitalization activities, often termed Capital Repairs (or incorrectly as Deferred or Backlogged Maintenance), correct extensive and serious deficiencies, materially extend service life, and often add capital value (sometimes called recapitalization). These capital repairs can entail rehabilitation, renovation, or modernization of existing buildings and/or systems of existing physical plant inventory. Work of this type is so significant in scope and cost as to be of a capital nature and is distinguished from maintenance and routine, minor repairs. An example is the Reynolds Center. Revitalization is synonymous with renewal and can entail repair by replacement, such as demolition of an uneconomically repairable structure with a newly constructed one of the same general function and size.

Revitalization includes several broad categories of work, such as -

- Rehabilitation;
- Renovation;
- Replacements;
- Repairs (capital);
- Modernization and upgrade work to incorporate new codes and standards;
- General overhaul with multiple parts replacement.

Revitalization project types include -

- Replacing road base, drainage, pavement, irrigation and controls;
- Replacing roof;
- Restoring a building exterior envelop and/or replacing interior walls;
- Replacing power distribution transformers, cabling, and switchgear;
- Replacing underground piping systems to correct corrosion;
- Replacing chillers and pumps for a chilled water system;
- Replacing HVAC air handlers and filter box;
- Replacing windows to correct leakage and heat loss.

**B. Construction.** This term entails expansion through the creation of new buildings or facilities resulting in additional new footprint to the inventory. Examples are NMAI and Pod 5.

Note: Facilities capital provides funds for planning and design which includes identification and analysis of long term revitalization and expansion requirements; preparation of facilities master plans; and design of specific capital program projects. Facilities capital also includes expenses for field supervision and administration

## APPENDIX B. SMITHSONIAN GUIDANCE ON FACILITIES TERMINOLOGY (CONTINUED)

### II. Facilities Maintenance

Recurring, day-to-day routine maintenance and minor repair is the upkeep of property and equipment with work necessary to realize the originally anticipated useful life of a fixed asset. The monumental buildings of the Smithsonian have lifetimes that last centuries, although most of the building components typically have a design service life of between 10 and 30 years.

Maintenance includes work such as -

- Periodic or occasional testing and inspection;
- Adjustment;
- Lubrication;
- Cleaning (non-janitorial) of equipment;
- Routine repair and/or replacement of broken parts;
- Painting;
- Resurfacing driveways.

Maintenance examples include -

- Spot repairs to roofs, roads, and building exteriors/interiors;
- Repairing water main breaks (does nothing to extend life of system);
- Repairing failed insulation on motor or transformer windings;
- Rebalancing motors and other rotating machinery to correct vibration;
- Oiling and greasing machinery;
- Replacing broken shaft on a large chiller (does not extend life of remainder of the old chiller);
- Painting deteriorated surfaces;
- Sealing driveways;
- Replacing security sensors, equipment, and cameras;
- Repairing inoperable security barriers and bollards;
- Replacing damaged security film and blast mitigation.

Maintenance and repair are distinguished from revitalization. Whereas revitalization activity extends service life and adds capital value, maintenance and repair does not materially prolong the design life of a property or equipment nor add to the asset's value. Routine repairs and parts replacement are actions taken to restore a system or piece of equipment to its original capacity, efficiency, or capability. Routine repairs are not intended to increase significantly the capacity of the item involved.



## APPENDIX C. MANAGEMENT RESPONSE



Smithsonian Institution

Memo

Office of Facilities Engineering and Operations

Date August 27, 2009

To A. Sprightley Ryan, Inspector General

cc G. Wayne Clough, Secretary  
Alison McNally, Under Secretary Finance and Administration  
Judith Leonard, General Counsel  
Alice Maroni, Chief Financial Officer  
Bruce Dauer, Director, Office of Planning, Management and Budget  
Andrew Zimo, Comptroller  
Bruce Kendall, Director, Facilities Engineering and Operations

From Clair Gill, Deputy Director and Chief of Staff, Office of Facilities Engineering and Operations /signed CFG/

Subject Management Response on Report on Use and Accounting for Facilities Maintenance Funds, Number A-09-03-1

Thank you for the opportunity to respond to this audit report on the Use and Accounting for Facilities Maintenance Funds (the "Report"). Management acknowledges that it did not have rigorous policies, procedures and thresholds to guide work classification and funding decisions for unplanned, urgent repair projects. Further, rules had not been established for documentation of such decisions in questionable cases.

The Report indicates that OFEO diverted unplanned facilities maintenance funds for facilities capital work that was then inaccurately recorded as current period expenses. The Report concludes that, as a result, the Smithsonian spent funds contrary to its annual appropriation and in violation of Smithsonian Directive 305, *Administrative Control of Funds*, and the Purpose Statute. The Report also suggests the Smithsonian may have violated the Anti-Deficiency Act. These conclusions are based primarily on a finding that OFEO improperly chose to use maintenance funds for two FY 2008 projects that OIG auditors had "judgmentally selected." These projects were:

- The NMAH Escalator Project that fell in the transition zone outside of the major capital project to revitalize the central core of that building, and whose repairs were deemed crucial to the re-opening of the museum to the public. These escalators had been shut down for over two years during the adjacent major renovation.
- The F Street Portico Project at the Donald W. Reynolds Center that also fell outside of a major capital revitalization project where repairs to damaged paving stones were deemed crucial to re-opening that center to prevent a tripping hazard and address drainage problems.

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## APPENDIX C. MANAGEMENT RESPONSE (CONTINUED)

We firmly disagree with the Report's conclusion that the Smithsonian inappropriately used facilities maintenance funds in connection with these projects. This is an issue of Work Classification where senior, experienced facilities professionals made proper decisions after much discussion and debate of the projects and with the input of their subordinates – some who had differing views. Further, we disagree with any suggestion that the organization and its leaders purposefully or willfully violated Smithsonian Directives, internal controls, or federal statutes. Finally, it is important to remember that these funds were used to accomplish unplanned repairs to restore systems to fully functional and safe status; we disagree with any suggestion that such a use of funds may increase the Smithsonian's overall facilities costs in the future. We expend all facilities funds entrusted to our care in the most efficient and effective manner we know to support the overall maintenance and upkeep of this Institution. The Institution has been expressly commended by GAO for both its project prioritization processes and its maintenance and revitalization programs. Please see GAO Report 05-369 "Smithsonian Institution: Facilities Management Reorganization Is Progressing, but Funding Remains a Challenge," and GAO Report 07-1127 "Smithsonian Institution: Funding Challenges Affect Facilities' Conditions and Security, Endangering Collections." Additional supporting detail follows.

### **Work Classification for No-Year Facilities Capital vs. Annual Facilities Maintenance Funding of Projects**

The Report notes that there is "no government-wide standard for which activities constitute maintenance activity versus capital activity." Smithsonian management, informed by the FASAB, other federal agencies, and the National Research Council, has developed over the years a set of general definitions for determining whether particular work should be classified as capital or maintenance (Appendix B in the Report's 7/23/09 Draft). At either end of the spectrum, it is not difficult to apply the guidance and classify the work; however, there are many gray areas in-between where experience and judgment must be brought to bear in determining the proper classification of the work—and the funding source. We believe that this expertise exists on our team and that it has been properly applied to these two projects.

It was noted in the Report that: "Responsible officials in the Office of Facilities Engineering and Operations (OFEO) volunteered that they have used maintenance funds to finance unplanned capital projects in the past and intend to continue this practice in the future." This does not reflect either the policy or the practice of OFEO. It is apparent however, that there is conflict among staff over the interpretation of work classification definitions and funding sources in both the unplanned NMAH Escalator and the F Street Portico projects that fell outside of budgeted capital revitalization projects.

### **The NMAH Escalator Project**

This project was to restore escalators that had been shut down for over two years during

## APPENDIX C. MANAGEMENT RESPONSE (CONTINUED)

the major revitalization project for the central core of NMAH to full and safe operation. Upon investigation as we were working the "transition zones" to bring the museum back to full operation, it was discovered that the escalators had accumulated a lot of peripheral construction dirt during the renovation, and determined that they needed a combination of both maintenance and capital work to restore them to full operation. Given that escalators, by their very nature, are comprised of numerous mechanical components that needed rebuild or replacement, OFEO senior leadership decided to fund this unplanned project with a 50 - 50 split between maintenance and capital funds. A more detailed analysis of each of the pieces and parts of the project was considered untimely to support the re-opening of the museum and it was felt that it would have been inconclusive as to which pieces could be classified as maintenance and which as capital. This project was debated within OFEO as documented via emails, with the conclusion that the capital and maintenance portions of the job were roughly equivalent in cost.

Below is an after-the-fact chart summarizing the work that OFEO requested the contractor to perform. It was not used in the deliberation process, however it reflects the scope of the discussions.

Work Requested:	Work Classification:	Materials Labor Cost:
Furnish and install steel step chains and wheel assemblies in units 1-10. This is the primary component of the escalator that forms the connecting linkage between each of the steps and the drive machine. Motion of the escalator is transmitted to the step assemblies via the step chain.	Capital Revitalization - Refurbishment with multiple part replacement.	\$173,093
Remove and transport all step assemblies in each of the ten escalators to the vendor warehouse. A machine shall be utilized to steam clean each step assembly in order to restore the original finish. The step assemblies shall be returned to NMAH for reinstallation and adjustment.	Maintenance - Non-janitorial cleaning.	\$165,833
Furnish and install new roller guides on all step assemblies.	Maintenance - Routine repair or replacement of broken parts.	\$154,990
Furnish and install complete steel track system in each of the ten escalators. In conjunction with the truss, the tracks are the main support system for the step band in order to guide the step chain and wheels for the step assemblies. The existing steel tracks are original and therefore exhibit wear resulting from the existing step chains and wheels.	Capital Revitalization - Refurbishment with multiple part replacement	\$114,551
Furnish and install new bearings in the lower end idler sheaves in each of the ten escalators.	Maintenance - Routine repair or replacement of broken parts.	\$143,783

## APPENDIX C. MANAGEMENT RESPONSE (CONTINUED)

Remove all construction related dust and debris from the truss, upper and lower landing floors, handrail drive assemblies (inclusive of roller guides), handrail drive assemblies (inclusive of roller guides), handrail drive sprockets, machines, motors, controllers, soft starts and all safety related devices. This work is applicable to all ten escalators.	Maintenance – Non-janitorial cleaning.	\$48,925
Drain the gear boxes in each of the ten escalators and replenish with new oil.	Maintenance – Oiling and greasing machinery.	\$14,259

Management agrees that this decision was not contemporaneously documented for the record. However the actual work performed demonstrates that the decision to charge both the maintenance and capital accounts in equal amounts was justified under the circumstances and when you include the change order for the repairs.

### The F Street Portico Project at the Donald W. Reynolds Center

The major Public Space Renewal Project of the former Patent Office Building (POB), completed in July 2006, called for restoral of the F Street Portico area, and some minor railing, cleaning and electrical work. After a year of operation, in August 2007, it was brought to management's attention that the office area located below the portico was experiencing water leaks. Upon investigation it was determined that there were a significant number of sandstone pavers that were broken and/or rocking, creating a tripping hazard; also that they were impacting drainage and were staining. In order to fix the drainage problem these pavers had to be removed, and then reset. To address the broken and rocking pavers issue, they were reset on a sand setting bed. Comparing options presented to put the old pavers back, or use a slightly more expensive but sturdier and more impervious granite stone, it was decided to be more cost effective to use granite. This decision was made by senior OFEO leadership to repair the leaks, and concurrently replace the failed Portico flooring materials and system, appropriately using maintenance funding.

Below is an after-the-fact chart summarizing the work that OFEO requested the contractor to perform. It was not used in the deliberation process, however it reflects the scope of the discussion.

Work Requested	Work Classification	Materials Labor Cost
Remove and replace approx. 3128 square feet of pavers.	Maintenance- replacement of failed sandstone material.	\$166,886
Disassemble, move and re-install all kitchen equipment located on portico. To include but not limited to, Stainless bar, counter top, cabinets, refrigerator and coffee maker.	Maintenance - collateral work required to repair pavers and drainage.	\$2,869

## APPENDIX C. MANAGEMENT RESPONSE (CONTINUED)

Remove and replace 3 drains and associated piping located on the portico and extend to paver surface.	Maintenance- replacement of parts materials.	\$6,366
Replace waterproofing material.	Maintenance- replacement of waterproofing material.	\$23,943
Extend and paint railing at the South Portico accessible ramp.	Maintenance- ancillary work for code compliance.	\$10,936

Management agrees that this decision was not contemporaneously documented for the record.

### Inaccurate Accounting

OFEU developed general guidelines and definitions based on best practices that could be found in other departments/agencies and National Research Council publications for classifying projects. These were captured in informal documents such as the April 2008 publication of "Smithsonian Institution: Museums and Facilities—Critical Improvements." They were intended to be general guidelines for our facilities professionals. Questionable calls on funding sources cited in this audit rise to the most senior leadership responsible for the capital and the maintenance programs who base their ultimate decisions on these guidelines, their experience, and their judgment.

The Report states that the distinction between maintenance and capitalization is that anything that extends the useful life of an asset is capital. FASAB Standard 6 established a definition of maintenance which is shown below. This definition is now being reviewed and revised by the FASAB Working Group on Deferred Maintenance. In 1999, the FFC Operations and Maintenance Committee published a report on how federal agencies were to meet the requirements of FASAB Standard 6, as amended, and noted that the use of the term "expected life" was problematic. (Technical Report 141). The FFC modification to the FASAB definition is now under consideration and current thinking is to modify the FASAB definition to be more in line with the FFC definition (also shown below). The main distinction between maintenance and capital would be a change in function or increased capacity. In the two projects cited, this was clearly not the case. Also, the argument being used by a number of members on this working group is that, in the federal inventory, the majority of assets has already exceeded their "expected life" but, with proper maintenance and repair, continue to function. Also, both definitions allow for the "replacement of parts and structural components" as maintenance.

#### Current FASAB Definition (Standard 6):

*For purposes of this standard, maintenance is described as the act of keeping fixed assets in acceptable condition. It includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable services and achieves its expected life. Maintenance excludes activities aimed at expanding the capacity of an asset or otherwise*

## APPENDIX C. MANAGEMENT RESPONSE (CONTINUED)

*upgrading it to serve needs different from, or significantly greater than, those originally intended.*

FFC Definition (141 Report):

*Maintenance and repairs are activities directed toward keeping fixed assets in a condition to effectively support the mission. Activities include preventive maintenance, repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to support the mission. Maintenance and repairs exclude activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from or significantly greater than its current use.*

We provide this definition detail to illustrate how complex the determination can be between a maintenance and capital project. Of the over 140 maintenance projects OFEO executed in 2008, the two projects highlighted in this report were discussed and debated in depth among the senior officials.

### **Possible Violations of the Purpose Statute and the Anti-Deficiency Act.**

Management does not agree that, in funding these two projects, the Smithsonian violated the Purpose Act. In FY 2008, the Smithsonian received in part the following appropriation:

#### **Salaries and Expenses:**

*"For necessary expenses of the Smithsonian Institution, as authorized by law, including... maintenance, alteration, operation, lease (for terms not to exceed 30 years), and protection of buildings, facilities, and approaches..."*

This appropriation authorizes the Smithsonian to spend funds on maintenance projects. As explained in detail above, the two projects were properly classified, in whole or part, as facilities maintenance. Accordingly, on these facts, the funds at issue were expended consistently with the Institution's FY 2008 Appropriation.

Even if the Smithsonian had incorrectly expended maintenance funds for all or a portion of either project, there would be no violation of the Anti Deficiency Act. The Smithsonian currently has more than \$1.6 million remaining in its FY 2008 Facilities Capital Appropriation account. Thus, if the Purpose Act was violated (and we believe it was not), the Smithsonian could correct any such violation by transferring the necessary funds from its Facilities Capital Appropriation.<sup>1</sup>

<sup>1</sup> The facts thus do not raise the question suggested in footnote 8 of the Report, i.e., whether future capital no-year funds could be used to correct a violation of the Anti Deficiency Act.

## APPENDIX C. MANAGEMENT RESPONSE (CONTINUED)

### RECOMMENDATIONS

#### Undersecretary for Finance and Administration

1. Ensure that OFEO discontinues the practice of using maintenance funds to pay for capital type projects.

**Management Response:** Concur, in part. We disagree on the underlying assumptions regarding misclassification of the two projects in question. However, the Office of Facilities Engineering and Operations will revise the Planning and Project Manual to emphasize and enforce the policy that will be developed for recommendation number 3 and ensure proper documentation of decisions. Target completion date: December 31, 2009

2. Establish a quality control process to review significant maintenance and capital transactions, to ensure that the funding source and accounting classifications are consistent with the policy created in Recommendation 3, and that errors are identified and resolved in a timely manner.

**Management Response:** Concur. Target completion date: December 31, 2009

#### Chief Financial Officer

3. Create a policy that identifies the proper funding source and related accounting classification for maintenance and capital activities. This policy should be consistent with federal budget and accounting guidelines and should be communicated to all employees who record and review facilities transactions.

**Management Response:** Concur. Policy clarifications will be incorporated into existing policy to emphasize the proper use of funds for both maintenance and capital activities. Accounting classifications will be addressed in the training classes to be offered by the Office of the Comptroller, as further described in recommendation 10. Target completion date: December 31, 2009

#### Director of OFEO in coordination with the Director of OPMB

4. Require individuals who authorize the use of federal funds, as well as those who assign and review funding classifications, to receive periodic funds management and appropriations law training.

## APPENDIX C. MANAGEMENT RESPONSE (CONTINUED)

**Management Response:** Concur. The Office of the Comptroller is in the process of engaging contractor support to secure funds management training to be offered to applicable personnel throughout the Institution. Contract award is expected in the 4<sup>th</sup> quarter of FY 2009. Target completion date: December 31, 2009

### Director of OFEO

5. Develop written procedures to ensure that federal funds committed by OFEO are for the authorized purposes in accordance with SD 305. These procedures should require OFEO officials to document their final funding decision and rationale.

**Management Response:** Concur. The Office of Facilities Engineering and Operations will revise the Planning and Project Manual to ensure federal funds are appropriately used and to document the funding decision and rationale. Target completion date: December 31, 2009

6. Identify obligations incurred from FY 2004 to the present in which OFEO used maintenance funds for capital projects.

**Management Response:** Concur, in part. Management believes that this requirement is not necessary but acknowledges that policies drafted in accordance with Recommendation number 3 above should be tested. These will be tested with a random sample of five completed prior-year projects, as well as ongoing and future work and funding classifications. Target completion date: March 31, 2010.

7. Correct material accounting misclassifications resulting from the errors identified in Recommendation number 6.

**Management Response:** Concur, however as noted in Management Response to Recommendation 1, we disagree with the underlying assumptions regarding misclassification.

8. Develop and implement a policy to ensure that OFEO uses contingency funds for unplanned capital projects, such as the ones identified in this report.

**Management Response:** Concur. Project contingency funds are used to accomplish work generated from unknown conditions that arise during the course of construction of capital projects. Reference to project contingency funds will be incorporated into our policy. Target completion date: December 31, 2009

9. Determine if any of the obligations identified by OFEO in Recommendation 6 constitute a violation of the Anti-Deficiency Act and take appropriate action to



## APPENDIX C. MANAGEMENT RESPONSE (CONTINUED)

correct or report funding errors.

**Management Response:** Concur. See response to Recommendation number 7 above.

10. Provide account code training to Smithsonian staff who enter or review account codes for real property transactions.

**Management Response:** Concur. The Office of the Comptroller has already developed the materials for charfield training for real property transactions. Training to OFEO staff will be offered beginning in the 4<sup>th</sup> quarter of FY 2009. Target completion date: December 31, 2009.

## **APPENDIX D. CONTRIBUTORS TO REPORT**

The following individuals from the Smithsonian Office of the Inspector General contributed to this report:

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