

SMITHSONIAN INSTITUTION

Office of the Inspector General

**Audit Plan
Fiscal Year 2010**

September 2009

Introduction

This Fiscal Year 2010 Audit Plan communicates the Smithsonian Office of the Inspector General's audit priorities to the Smithsonian Institution, the Congress, and other interested parties.

Our office promotes effective governance and enhances accountability by providing the Board of Regents, Congress, Smithsonian management and the public with independent and objective evaluations of the Institution. We strive to conduct audits of those programs and operations at highest risk, focusing on areas where we may effect meaningful results. Our audits also advance the Institution's organizational goals in the four broad strategic areas of ***Planning for the Future, Advancing Our Vision, Preserving Our Treasures, and Aspiring to Best Work Place Practices***.

Our audits for FY 2010, listed on the following page, fall into three categories. First are audits carried over from FY 2009, which we described in detail in our FY 2009 Audit Plan. Second are four mandatory sets of audits : (1) the annual audits of the Smithsonian's financial statements, which we oversee; (2) the annual reviews under the Federal Information Security Management Act, which we also oversee; (3) an audit of the Smithsonian's administration of contracts awarded under the American Recovery and Reinvestment Act; and (4) an audit of the travel and other expenses of members of the Board of Regents, conducted at their request to fulfill a statutory requirement.

The third, and most significant, category comprises the discretionary audits we selected after considering the key challenges facing the Smithsonian. They include audits of major contract proposals for fair and reasonable pricing, an area especially deserving of attention as the Smithsonian builds the new National Museum of African American History and Culture. We will again emphasize mission-critical functions in our reviews. We will continue our multi-year commitment to examine the collection practices of the museums to safeguard their assets from damage and loss. We are encouraged by the recent initiatives undertaken by the museums to enhance collections stewardship through formal assessment and quantitative management techniques and will expand our audit approach to review this new initiative. And while internal controls remain a focus in all our audit work, our planned comprehensive assessment of the Smithsonian's management of its institutional policies will spotlight this fundamental issue. And, we will review the business operations of Smithsonian membership organizations, in which we will seek an operating model that promotes increased membership and sound business practices.

The list of audits that follows reflects our current workload and estimated resources for FY 2010. (The appendix shows how we calculated total staff time available to conduct our work.) Because we identified more audits than we have resources to perform, this plan also includes a list of potential future audits. We believe every audit in this plan would yield significant benefits to the Institution. Yet we recognize that issues of more immediate concern may arise and we want to be able to address them as well. Thus, rather than a firm schedule, this plan outlines the larger projects we believe to be critical, with the understanding that if new matters merit review by OIG audit staff, we will adjust our priorities accordingly.

Planned Audit Work for FY 2010

FY 2009 Audits Carried Over

- Personal Property Accountability
- Capital Project Oversight
- Oversight of FY 2009 Federal Information Security Management Act Evaluation and Subset Audits
- Oversight of FY 2009 Financial Statement Audits

Mandatory Audits

- Oversight of 2010 Financial Statement Audits
- Oversight of FY 2010 Federal Information Security Management Act Evaluation and Subset Audits
- Oversight of American Recovery and Reinvestment Act Funds
- Travel and Other Expenses of the Board of Regents

Discretionary Audits

- Collections Stewardship at the National Museum of American History
- Acquisition Workforce Training
- Pre-Award and Post-Award Audit Services
- Controls over Corrections in the Financial System
- Payment Card Industry Standards Compliance
- Membership Organizations
- Management of Smithsonian Directives
- Cost Savings through Volume Purchasing
- Reducing Cancelled Funds

Mandatory Fiscal Year 2010 Audits in Detail

Oversight of the FY 2010 Financial Statement Audits

Objectives

We will oversee the Smithsonian's annual financial statement audits, which include the Smithsonian-wide financial statements, the federal special-purpose financial statements, the Smithsonian Enterprises Statement of Net Gain, and the OMB Circular A-133 Audit.

Significance

The Institution's financial statements are audited by KPMG. As the Contracting Officer's Technical Representative with oversight responsibilities for the annual audits, we will review audit documentation, evaluate key judgments, and monitor progress in order to express concurrence with the external auditors' reports and determine whether their work conforms to relevant auditing and accounting standards. We will use the Government Accountability Office Financial Audit Manual and the audit programs developed by the Council of the Inspectors General on Integrity and Efficiency as guides for monitoring KPMG's work. At the completion of our work we will report the results of our oversight in a letter to the Audit and Review Committee.

The review of the Smithsonian Enterprises' net gain continues our response to a recommendation from our audit of executive compensation at Smithsonian Business Ventures, which noted that bonuses – a significant portion of executive compensation – are based on net gain, and that net gain figures had not been audited in the past.

Potential Impact

Our oversight will provide reasonable assurance that KPMG complied with professional standards in conducting the audits and that the Institution's financial statements are accurate and complete. We will suggest any needed operational improvements including strengthening financial accounting and reporting.

Staffing Requirement

40 Staff Days

FY 2010 Federal Information Security Management Act Evaluation and Subset Audits

Objectives

We will evaluate the effectiveness of the Institution's information security policies, procedures, and practices as designed within Federal Information Security Management Act (FISMA) architectures. We will review mission-critical information and systems, testing vulnerabilities and the safeguards implemented to ensure the confidentiality, integrity, and availability of Smithsonian computing resources. We will also oversee separate audits of the security of a subset of Institution systems. We will evaluate the Smithsonian Institution's Information Security Program in response to Office of Management and Budget reporting requirements as well as the effectiveness of measures implemented in response to prior recommendations.

Significance

The Smithsonian depends on computerized information systems and electronic data to carry out its programs and activities. The security of these systems is essential to prevent data tampering and destruction, service disruptions in critical operations, unauthorized disclosure of sensitive information, and nefarious acts such as fraud. Consistent with best practices, FISMA requires the testing and evaluation of controls to safeguard information and systems. Although the Smithsonian is not explicitly subject to FISMA, it has elected to implement FISMA's requirements to ensure it has an effective information security program. FISMA requires that the OIG perform an independent annual evaluation of the Institution's information security program and practices. Previous OIG information security audits have identified significant weaknesses in information systems and highlighted the need for improvements in network access controls, security awareness and training, disaster recovery, system documentation, flaw remediation, and configuration management.

OIG reporting on information security under FISMA may increase in Fiscal Year 2010 pursuant to a recent report by the Government Accountability Office (GAO). In it, GAO recommended that OMB require Inspectors General to report on the effectiveness of organization's systems to develop critical inventories, monitor contractors, and train employees on security procedures. We will be attentive to any expanded requirements in the course of our work.

Potential Impact

This audit will make recommendations to improve the efficiency and effectiveness of information security program activities.

Staffing Requirement

300 Days

Oversight of American Recovery and Reinvestment Act Funds

Objectives

The audit will assess whether the Institution is using its Recovery Act funds in accordance with the Recovery Act and Office of Management and Budget requirements. We will evaluate key internal controls over contract management and recipient reporting to ensure that they are in place and functioning adequately.

Significance

The American Recovery and Reinvestment Act of 2009 (Recovery Act), signed into law on February 17, 2009, provided the Smithsonian Institution with \$25 million for the repair and revitalization of existing facilities. The Smithsonian is using Recovery Act resources to focus on facility revitalization projects to improve the safety and security of visitors, staff, and its collections. Revitalization involves making major repairs or replacing declining or failed infrastructure to prevent further deterioration.

The OIG audit community is working together under the direction of the Recovery Accountability and Transparency Board to execute a uniform approach to auditing the use of Recovery Act funds, including the prompt posting of audit results to the federal website designated to track the progress of the implementation of the Recovery Act. The collective audit approach follows the expectations set forth by the Office of Management and Budget for organizations dispensing Recovery Act funds and for recipients using the funds.

The Smithsonian identified a total of 30 projects to be financed with Recovery Act funds. The Smithsonian has already awarded contracts to various vendors totaling over \$17.8 million, with about \$4 million in additional contracts to be awarded by September 2009. As awards are made, we will monitor the administration of these projects, specifically whether awardees adhere to contract specifications and requirements. We will also examine the reports from the contractors on the creation and retention of any jobs attributable to the Recovery Act funds received from the Smithsonian.

Potential Impact

Continued oversight of these funds will promote transparency and enable the audit team to alert Smithsonian managers of project-related risks and recommend controls to prevent fraud, waste, and abuse; and ensure program goals are met and funds are accurately tracked and reported.

Staffing Requirement

190 staff days

Travel Expenses of the Members of the Board of Regents

Objectives

We will audit the travel expenses for those members of the Board of Regents who seek reimbursement for expenses associated with attending Board meetings.

Significance

The Executive Committee of the Board of Regents requested this audit to fulfill the statutory requirement under 20 U.S.C. § 44.

This is an annual audit by the Office of the Inspector General on behalf of the Audit and Review Committee of the Board of Regents. The audit will ensure that expenditures are authorized, supported, and reasonable.

Potential Impact

For those expenditures that are not authorized or not supported with sufficient documentation, or that may appear excessive, we may recommend that the Executive Committee recover the funds.

Staffing Requirement

15 staff days

Planned Discretionary Fiscal Year 2010 Audits in Detail

Collections Stewardship at the National Museum of American History

Objectives

The audit will assess (1) whether physical security at the National Museum of American History (NMAH) is adequate to safeguard the collections, (2) whether inventory controls are in place and working adequately, and (3) the condition of the collections.

Significance

The physical security and proper condition of the Smithsonian's collections are essential to allowing the public and scholars the appropriate access to these assets. Museum collecting units are responsible for ensuring that collections are maintained in controlled areas that are adequately protected against theft and vandalism. With this audit, we will have the opportunity to confirm that collections inventories are properly secured and in an acceptable condition and to identify opportunities to improve collections management that may follow from the summary results of ongoing collections surveys.

The NMAH Behring Center has over 3 million artifacts in its collection, reflecting all aspects of the history of the United States. The museum reopened in November 2008 after a 2-year renovation. It also recently moved a significant portion of its stored collections to the Penny Collections and Support Center in Landover, Maryland.

This audit is part of an ongoing series of audits we are conducting to address any weaknesses in the physical security and inventory controls for the national collections. In this audit we will continue to examine these two areas but will expand our objectives to include an assessment of the condition of the collections, an area of renewed emphasis across the museums. In 2009, the Secretary established an organizational goal to develop collection assessment standards that can be applied to all Smithsonian collections. The National Collections Coordinator developed a survey instrument for Museum Directors to use in ranking the care of their collections. The Smithsonian expects to rely on the ranking results to establish uniform quantitative standards for collections care and eventually, individual performance standards for collections stewardship. We will review the success in improving collections stewardship through the use of data collection tools and performance management.

Potential Impact

The audit will make recommendations to advance collections stewardship through improved security management and collections care.

Staffing Requirement

325 staff days

Acquisition Workforce Training

Objectives

The audit will assess the training and certification of the Smithsonian's acquisition workforce, which includes contracting officers, contracting officers' technical representatives, contract specialists, and program and project managers, with special attention to the training of staff involved in contracting with Recovery Act funds.

Significance

Sound acquisition practices help agencies guard against inefficiency and waste and improve their ability to obtain quality supplies and services that are on time and within budget. One such practice is to build the skills of the acquisition workforce to negotiate for more favorably priced contracts and to effectively manage contract costs.

The Regents' Governance Recommendation 23 highlighted the Institution's need for increased monitoring and training for contracting personnel to improve its internal control foundation. In FY 2008, the Office of Contracting and Personal Property Management (OCon&PPM) processed about 1,276 actions totaling over \$209 million, which represents approximately 28% of the federal funds appropriated to the Smithsonian that year. A significant amount of OCon&PPM's contract activity is for specialized services such as Architect and Engineering and Construction and Information Technology. These types of services require unique contracting expertise.

For contracts awarded using Recovery Funds, the Recovery Accountability and Transparency Board requires Inspectors General to assess contract staffing and qualifications. Our audit will build on this assessment.

Potential Impact

This audit will make recommendations to help the Institution improve its acquisition workforce training and thereby manage its acquisition program more efficiently and cost-effectively and in conformance with contracting policies and regulations.

Staffing Requirement

300 staff days

Pre-Award and Post-Award Audit Services

Objectives

We will provide pre-award and post-award audit services to the Office of Contracting and Personal Property Management (OCon&PPM) upon request. We will audit offerors' and subofferors' price proposals and claims to ensure that the final agreed-to prices are fair and reasonable.

Significance

Several multi-million dollar projects will begin in FY 2010, and the OCon&PPM Director has requested audits of prospective offerors' and subofferors' proposals. One such project will be the Architect & Engineering (A&E) contract for the design of the National Museum of African-American History and Culture. Other projects include the National Museum of American History, *Kenneth E. Behring Center* Public Space Renewal Program Phase III, and the Arts and Industry Building's feasibility study on roof replacement. All A&E contracts are subject to the Brooks Act, under which awards are made on the basis of demonstrated competence and qualification for the type of professional services required, not on price. Only after the firm is selected is a price proposal submitted. Our audit of the price proposals will determine whether the prices are fair and reasonable.

Potential Impact

Pre-award and post-award audits will provide a valuable service to the Smithsonian in its contract negotiations and close-outs and may provide the Institution with additional funds that could be put to better use.

Staffing Requirement

100 staff days

Controls over Corrections in the Financial System

Objectives

We will audit a sample of high-dollar corrections and reclassifications to the accounting records at the Smithsonian, including adjustments between Federal and Trust accounts, to confirm that the adjustments are proper and receive adequate scrutiny before processing.

Significance

Units submit Service Request Forms to process corrections in the financial accounting system. The corrections often involve the reclassification of expenditures between federal and trust funds. Reclassifying funds between federal and trust should be closely monitored to ensure that funds are expended for their intended purposes. In FY08, the Smithsonian processed corrections in excess of \$52 million.

Smithsonian Directive 305 states that the Office of Planning, Management and Budget (OPMB) and the Comptroller are responsible for ensuring that obligations and expenditures are made only for authorized purposes. Current policy does not call for the units to provide OPMB with documentary evidence to support the purpose and amount of each financial correction. Without supporting documents, OPMB cannot responsibly ensure that the adjustments are appropriate. The audit will focus on large correction requests with missing or insufficient documentation and pursue them with the initiating units to assess the propriety of the request.

The Board of Regents Governance Committee Recommendation 23 identified the control over the use of federal and trust funds as a high-risk area. The recommendation noted a lack of consolidated policy on the use of federal and trust funds as well as a lack of enforcement mechanisms.

Potential Impact

The audit will make recommendations to strengthen internal controls governing the use of funds and to help prevent or modify financial adjustments that may be improper or need additional documentary evidence.

Staffing Requirements

285 staff days

Payment Card Industry Standards

Objectives

We will evaluate the effectiveness of the Institution's compliance with Payment Card Industry standards.

Significance

The Payment Card Industry (PCI) has established security standards to protect customers' private information for organizations that rely on payment cards (credit cards and debit cards) to conduct business. These standards apply to the Smithsonian in its catalogue, stores, and food service operations. The Data Security Standard (DSS) is a set of requirements for enhancing payment account data security including requirements for security management, policies, procedures, network architecture, software design and other critical protective measures.

The DSS carries strong expectations for organizations to follow them and firm consequences for those that do not. Penalties include fines of up to \$50,000 per day for non-compliance with specific standards; fines of up to \$500,000 per incident of compromised data; liability for all fraud losses incurred from compromised accounts and for all costs of re-issuing payment cards; and suspension of merchants' accounts.

To further the adoption of the PCI DSS, the PCI Security Standards Council defines credentials and qualifications for auditors referred to as Qualified Security Assessors (QSAs). Organizations must submit to an annual audit of their compliance with PCI standards as a condition for using payment cards to transact business. Historically, the Smithsonian has contracted directly with QSA-qualified security specialists, who are certified annually by the PCI Security Standards Council, to assess compliance with PCI standards. Smithsonian Enterprises (SE) is currently responsible for a majority of the Institution's payment card transactions. SE's Chief Information Officer requested that the OIG oversee or conduct this audit. Due to the unique qualifications needed to perform a review of PCI standards, we expect to conduct this audit under contract with QSA-certified specialists. As the Smithsonian looks to expand the use of payment cards, including in increased use in fundraising, safeguarding payment information becomes even more important.

Potential Impact

This audit will make recommendations to strengthen the Institution's compliance with PCI standards and enhance the security of purchaser and donor private information.

Staffing Requirement

20 staff days

Membership Organizations

Objectives

The audit will compare and assess membership organizations at the Smithsonian in terms of clarity of purpose, adequacy of management, financial performance, service delivery, and customer satisfaction, and, to determine best practices to consider for common implementation to maximize membership and balance the autonomy of each organization with pan-Institutional goals for membership organizations.

Significance

The Smithsonian currently has 19 membership organizations. Each organization offers a package of benefits and opportunities to its paying members. Each is self-financed and serves the interests and expectations of its members. Some of the organizations offer their members opportunities to enjoy a variety of special events and financial discounts across the Smithsonian Institution. Others limit membership participation to specific museums. Each organization operates with substantial independence. This independence may lead to counterproductive competition for members and may contribute to inconsistent approaches to management, recruitment, and customer service, and thereby not serve the overall fund-raising, educational and outreach goals of the Smithsonian.

The Institution faces challenges in achieving its membership goals, challenges exacerbated by the difficult economy. Nonetheless, the Smithsonian is planning an ambitious national fundraising campaign, which may, in part, depend on memberships. At the same time, the Smithsonian is completing its long-term strategic plan, which will include a careful review of all functions within the Institution.

The audit will seek to identify best practices that could serve the Institution's interests while maximizing enrollment. We will seek to identify those membership organizations with established success. Areas we will review include growth of the organization; costs to acquire new members; financial performance; customer feedback; attrition; and support by external advocates.

Potential Impact

The report will serve as an advisory document for the Secretary and the Under Secretaries to use in considering any reforms to membership organizations, including recommendations to enhance membership service and strengthen financial controls.

Staffing Requirement

300 staff days

Management of Smithsonian Directives

Objectives

This audit will assess to what extent Smithsonian Directives (SDs) are up-to-date and accurate, how the Smithsonian maintains, disseminates, and enforces SDs, and whether the process for developing, reviewing, and approving SDs can be improved.

Significance

The majority of the 117 SDs are available on-line to employees. However, 42 of the 117 (36%) are over 10 years old. Consequently, much of the information contained within the documents is no longer relevant to the Institution's operations. In addition, four of the 116 directives are not available on-line because they are significantly outdated and unavailable in electronic format. In the course of other audits, we encountered operating practices that did not align with the expectations set forth in policy. Often, the failure of actual practice to meet the policy expectations set forth in the SD's resulted in little management reaction or consequence.

The care and control of management of fundamental operating policies convey an organization's commitment to a sound control environment. A control environment sets the overall tone of an organization and is the foundation for all other components of its system of internal control. One critical part of establishing an effective control environment is having operating policies and procedures that are clearly written, well communicated, current, and consistently enforced.

Potential Impact

Inadequate attention to maintaining accurate and timely directives leads to numerous, inter-related difficulties. Compliance with changed laws and regulations; alliance with emerging best practices; clarity of expectations regarding specific job expectations; consistency in operations; functional efficiency; and integration of mission priorities and operational procedures, all are compromised when policy directives are obsolete, out of date, or unknown. Our recommendations will aim to improve the management of the Smithsonian Directives by recommending ways in which they may be kept current, disseminated timely, enforced effectively, and reviewed responsibly.

Staffing Requirement

300 staff days

Cost Savings through Volume Purchasing

Objectives

The audit will determine whether the Smithsonian can achieve cost savings through volume purchasing of certain common items such as office supplies, photocopiers, and printers.

Significance

In FY 2008, the Institution purchased 18,659 items at a cost of \$109 million using both federal and trust funds. The units currently purchase these items through various means such as purchase orders and purchase cards. Centralizing control over functions such as purchase card usage has met with resistance from the units in the past and has led to inefficiencies. OMB has identified expanded use of enterprise-wide strategic initiatives as one means federal entities should use to achieve savings in government acquisitions.

Potential Impact

This audit provides the opportunity to identify cost savings and operational efficiencies by expanding an Office of Contracting pilot program to centrally negotiate computer and photocopy paper purchases and to increase the use of blanket hotel agreements. Furthermore, we believe that the Smithsonian could save additional funds through better management of purchase agreements. Since the Smithsonian relies on its units to take advantage of these blanket purchase agreements, additional monitoring of unit's participation could also identify and generate additional savings for the Smithsonian.

Staffing Requirement

200 staff days

Reducing Cancelled Funds

Objectives

We will examine new procedures implemented by the Smithsonian to reduce unexpended funds that are returned to the Treasury.

Significance

Every federal entity returns a small amount of federal funds to the U.S. Treasury each year. The reasons why funds are returned vary but may include overly conservative fiscal management or inaccurate estimation of future payments to contractors at the end of the fiscal year. The Smithsonian returned \$12 million to the U.S. Treasury in cancelled appropriations over the last three years. Congress, the Board of Regents, and senior Smithsonian officials are concerned about the level of returned funds and are looking to reduce the level of cancelled funds in the future.

The Institution is planning to implement certain actions for current year obligations and expenditures to attack the problem, including:

- Minimize the unexpended funds at year end;
- Improve the cost estimates included in contracts for work to be done; and
- Determine which offices have a history of contracts with significant downward adjustments after the close of the fiscal year.

Our audit will determine the effectiveness of these efforts to reduce cancelled funds.

Potential Impact

This audit will make recommendations to improve the efficiency of budget formulation and execution to minimize returned funds and thereby increase resources available for the mission.

Staffing Requirements

60 staff days

Potential Future Audits

Title	Objectives	Estimated OIG Staff Days
Management of Network Devices	Evaluate the impact of the current management of network devices to provide communication links that enable modern networking. Evaluate the state of the technology, the adequacy of the security services, and the operational efficiency of the devices.	150
Wireless Network Management	Evaluate the use, management, and security of the Smithsonian Institution's internal and public access wireless networks.	150
Security and Inventory Practices at Smithsonian Libraries	Determine if the physical security over the Smithsonian Institution Library system is adequate to safeguard the collections and if collection inventory controls are in place and adequately working, to ensure that the collections are properly accounted for in compliance with library collections policies, procedures, and best practices.	300
Freedom of Information Act	Assess the Smithsonian's responsiveness to requests from the public for documents and information and the Smithsonian's compliance with its promise to respond to all written requests for documents within 20 business days of receipt.	200
Asbestos Safety	Confirm that the Smithsonian has completed planned actions to minimize asbestos-related health risks; completed a comprehensive review of its asbestos safety policies and submitted them to an independent expert for comment; submitted its annual environmental assessment to an independent safety consultant; and conducted promised asbestos safety training for all eligible employees.	300
Facilities Maintenance and Safety	For a select number of systems, determine whether the Smithsonian could reduce overall facilities costs by maximizing the useful life of equipment while minimizing the risk of injury from equipment deterioration.	200
Disaster Management	Assess the Smithsonian's disaster management planning and procedures for Mall facilities to ensure continuous and safe operations during natural or man-made disasters.	200

APPENDIX

Estimated Staff Days Available For New Audits in FY 2010

Description	Estimated Staff Days
Total FY 2010 staff days*	2801
Staff days required to complete FY 2009 carry-over audits	<u>365</u>
Available staff days for new audit starts in FY 2010*	<u>2436</u>

*We calculated available staff days for FY 2010 based on 15 full-time auditors and a standard work year of 205 days per annum per auditor, reduced for the part-time status and limited availability of certain staff members.