

SMITHSONIAN INSTITUTION

Office of the Inspector General

**Audit Plan
Fiscal Year 2011**

September 2010

Introduction

This Fiscal Year 2011 Audit Plan communicates the Smithsonian Office of the Inspector General's audit priorities to the Smithsonian Institution, the Congress, and the public.

Our office promotes effective governance and enhances accountability by providing independent and objective evaluations of the Institution. We strive to conduct audits of those programs and operations that pose significant risks, focusing on areas where we may effect meaningful results. In developing this plan, we sought the input of management and staff throughout the Institution. All our proposed audits advance the Institution's strategic priority of enabling the mission through organizational excellence and, we hope, can inform the "Smithsonian Redesign" efforts now underway. Several audits also serve other programmatic priorities, including strengthening collections, broadening access, and measuring performance. Ultimately, our goal is for the results of our audits to increase all stakeholders' confidence in the Institution's stewardship of its resources, from its collections and research to its systems and staff.

The audits for fiscal year 2011 fall into three categories. First are audits carried over from FY 2010, which we described in detail in our FY 2010 Audit Plan.¹ Second are three 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; and (3) an audit of the travel expenses of members of the Board of Regents, conducted at their request to fulfill a statutory requirement.

The third category comprises audits we selected after considering the key ongoing and emerging risks facing the Smithsonian. We will conduct audit work in ongoing risk areas such as disaster preparedness; safety programs; and internal controls. In emerging risk areas, we will examine the use of social media at the Institution, and the operations of the Office of Sponsored Projects, whose workload is increasing dramatically as the Institution seeks more grants and contracts. We will also continue our multi-year commitment to examine the collections stewardship at the museums.

The list of audits that follows reflects our current workload and estimated resources for FY 2011. (The appendix shows how we calculated total staff time available to conduct our work.) We also include 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.

¹ [FY 2010 Audit Plan](http://si.edu/oig/AuditReports/AuditPlanFY10.pdf). The plan is also available at <http://si.edu/oig/AuditReports/AuditPlanFY10.pdf>.

Planned Audit Work for FY 2011

FY 2010 Audits Carried Over

- Collections Stewardship at the National Museum of American History
- Collections Accessioning
- Oversight of the FY 2010 Federal Information Security Management Act Evaluation
- Oversight of the FY 2010 Financial Statement Audits
- Management and Security of Connections, Routers, and Switches at the Smithsonian

Mandatory Audits

- Oversight of the FY 2011 Financial Statement Audits
- Oversight of the FY 2011 Federal Information Security Management Act Program Evaluation
- Travel Expenses of the Members of the Board of Regents

Other Audits

- Smithsonian Enterprises Financial Management Operations
- Office of Sponsored Project Operations
- Use of Social Media
- Safety Programs
- Collections Stewardship at the Cooper-Hewitt, National Design Museum
- Center for Folklife and Cultural Heritage Financial Operations
- Disaster Preparedness
- Implementation of Internal Controls Improvements
- Employee Travel Expenses
- Annual Reporting on Operational and Strategic Goals
- Effectiveness of the Recent Buyout

Mandatory Fiscal Year 2011 Audits in Detail

Oversight of the FY 2011 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, 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 oversight 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 letter will include our observations on and suggestions for improving the financial reporting and audit process, including following up on our prior year observations and evaluating and providing suggestions for the Smithsonian Finance Redesign efforts.

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 report on our observations on the Institution's financial accounting and reporting process and make recommendations for improvement.

Staffing Requirement

75 staff days

Oversight of the FY 2011 Federal Information Security Management Act Program Evaluation

Objectives

We will evaluate the effectiveness of the Institution's information security policies, procedures, and practices under the Federal Information Security Management Act (FISMA), including the effectiveness of the implementation of our recommendations in prior FISMA reviews.

Significance

The Smithsonian depends on computerized information systems and electronic data to carry out its programs and activities. Security measures are essential to prevent data tampering and destruction, service disruptions in critical operations, unauthorized disclosure of sensitive information, as well as fraud.

Although the Smithsonian is not subject to FISMA, it has elected to implement FISMA's requirements to ensure that 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, including the testing and evaluation of controls to safeguard information and systems. 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.

Potential Impact

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

Staffing Requirement

300 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 will recommend that the Executive Committee recover the funds.

Staffing Requirement

20 staff days

Other Fiscal Year 2011 Audits in Detail

Smithsonian Enterprises Financial Management Operations

Objectives

The audit will assess Smithsonian Enterprises (SE) financial management operations.

Significance

SE comprises the majority of the revenue-generating functions of the Smithsonian Institution and is its most significant source of unrestricted funds. It operates four principal business activities: Smithsonian Magazine; museum stores and concessions; mail order catalogues; and product development and licensing. In fiscal year 2009, SE generated \$155 million in revenues, approximately 13 percent of total Smithsonian operating revenue. In 2005 revenues reached their peak of \$172 million but have been declining in both nominal and inflation-adjusted terms ever since. Nevertheless, net gain increased from \$18.8 million in 2007 to \$26.7 million in 2008, and increased somewhat again in 2009 to \$26.9 million. The Smithsonian needs strong revenue generating activities to fund its four grand challenges in an increasingly constrained budgetary environment.

Although SE has obtained clean audit opinions from external auditors, internal and external stakeholders have expressed concern about SE's internal financial reporting operations, including skepticism over the reliability, timeliness, and transparency of accounting data. There is also a concern about internal financial policies and unclear roles and lines of authority, as well as high employee turnover in financial management. There have also been significant changes in internal cost allocations and in how SE determines and accounts for museums' revenue shares. SE management has indicated that they have developed a plan to address many of these issues and that they have converted the financial reporting system from a manual to an automated one. Management has also noted that it is driving accountability for financial data down to all levels of the organization.

Potential Impact

We will make recommendations to improve the reliability, efficiency and transparency of SE's financial management operations.

Staffing Requirement

300 staff days

Office of Sponsored Projects Operations

Objectives

The audit will assess how the Office of Sponsored Projects (OSP) serves Smithsonian units and its ability to operate effectively with a substantial increase in its workload.

Significance

OSP helps Smithsonian units obtain external funding – grants and contracts – from both government and private sources to support research, exhibitions, and other mission-related projects. OSP helps with applications, budgeting, and compliance with grant and contract terms.

In fiscal year 2009, the Institution, excluding the Smithsonian Astrophysical Observatory (SAO), submitted a combined total of 451 grant and contract proposals amounting to over \$148 million and received 349 awards totaling over \$63 million, an increase of 41 percent over the prior year. For the Institution as a whole, the majority (85 percent) of award expenditures goes to research, while the other 15 percent goes to administration, capital, collections, education, and exhibitions.

Smithsonian leadership has identified sponsored projects as a key source of increased revenue for the Institution and expects rapid and continued expansion in this area. OSP projects that contract and grant awards may increase by 58% to \$100 million for fiscal year 2010 and expects even greater increases in the years to come.

It will be a challenge for OSP's current infrastructure to support such growth. In the fiscal year 2008 financial statement audit, KPMG identified concerns over OSP's implementation of a new billing and receivables module and recommended that OSP implement a routine reconciliation process to ensure that OSP records coincide with the general ledger. In the fiscal year 2009 audit, KPMG again reported that OSP has not conducted a full reconciliation. Furthermore, there have been numerous complaints about OSP's service to its customers.

Given the growing importance of this revenue stream to the Institution, it will be critical that OSP have an efficient workflow, robust internal control procedures, and appropriate training for staff.

Potential Impact

We will make recommendations to strengthen OSP service capabilities and to support the projected growth of sponsored funding.

Staffing Requirement

300 staff days

Use of Social Media

Objectives

The audit will assess policies regarding the use of social media across the Smithsonian and seek to identify best practices to minimize the risks posed by their use.

Background and Significance

Recognizing the growing use of social media, and the role they can play in the Institution's mission to increase and diffuse knowledge, the Institution's Strategic Plan emphasizes that it will "leverage the power of technology using new media and social networking tools to deliver information in customized ways and bring our resources to those who cannot visit in person." This audit will examine the following areas:

Policy– We will examine the policy for such matters as authorization of use; safeguarding personal information of users; use of service agreements; and restrictions over advertising and use of Smithsonian name and brand.

Strategic Planning– We will review the business and programmatic planning for use of social media and the resources required to support its use.

Management and Oversight– We will examine how the units are controlling the risks of routine uses, including protecting confidentiality of users; restricting release of protected information; and timely monitoring of postings.

Business Agreements– We will review select business agreements with major media providers to confirm that key contractual commitments are being met, emphasizing the high-risk aspects of third party performance including restrictions on tracking user identities.

Information Technology and Business Cost–We will assess the risks posed by relying on third parties to host websites and other forums and whether the Office of the Chief Information Officer is adequately supporting its user customers.

Potential Impact

The audit will make recommendations to help ensure that the Institution minimizes risks associated with social media through appropriate controls over its authorization, review, and use.

Staffing Requirement

400 staff days

Safety Programs

Objectives

We will determine whether the Institution has (1) adequately designed and effectively implemented internal controls to mitigate health and safety risks and (2) implemented recent recommendations to improve its asbestos safety, education, and abatement management program.

Significance

One of the objectives of the Institution's strategic plan is to "build, operate, maintain and ensure a safe, secure and healthy physical environment for the public and workforce." The Institution faces multiple classes of health and safety risks at its many geographically dispersed locations, including the use of dangerous chemicals by researchers and curators and exposure to asbestos by maintenance staff. The Institution also operates the National Zoological Park in Washington, D.C., where workers must care for and feed animals in close quarters, duties which have resulted in worker injuries from animal attacks in the past. Finally, as at all workplaces, falls, trips, and other injuries occur during routine building maintenance, exhibit construction, and collection transfers at the Institution's approximately 600 building locations.

One of the ways the Office of Safety, Health, and Environmental Management (OSHEM) identifies risk is by inspecting the Institution's facilities and issuing Management Evaluation and Technical Review (METR) reports. However, management at some Institution facilities has not always implemented OSHEM's findings and recommendations. Some Smithsonian officials believe that this inaction may be the result of fragmented lines of authority across the Institution.

The Smithsonian had an independent expert perform an evaluation of their environmental assessment and asbestos management programs. The review team completed their review in two phases. The first phase focused on the Smithsonian Institution's asbestos management program and was completed in the first quarter of fiscal year 2010. The second phase focused on the environmental assessment program and was completed in the third quarter of fiscal year 2010. Management plans to have recommendations from the phase I asbestos report implemented by the start of fiscal year 2011.

Potential Impact

The audit will make recommendations to improve the effectiveness of Smithsonian safety programs and reduce the risks to Institution staff and visitors.

Staffing Requirement

350 staff days

Collections Stewardship at the Cooper-Hewitt, National Design Museum

Objectives

The audit will assess the internal controls over the collections at the Cooper-Hewitt, National Design Museum. Specifically, we will evaluate the adequacy of the physical security safeguarding the collections of the museum, confirm that all collections items are recorded in the museum's inventory records and can be accounted for, and evaluate the care of the collections.

Significance

Strengthening collections is a key priority in the Institution's strategic plan. Because collections are fundamental to the mission, the Institution recognizes its responsibility to preserve them for future generations. The physical security and proper condition of the collections are essential to continuing their preservation and enabling public and scholarly access.

The Cooper-Hewitt collections are international in scope and include both contemporary and historic examples of design and numerous rare and unique items. The museum holds its collections at the Carnegie Mansion in New York City, which is closing for two years of renovations, and at a commercial storage facility in New Jersey.

This audit is part of an ongoing series of OIG audits of collections stewardship at the Smithsonian.

Potential Impact

We will make recommendations to help ensure that all collections items are on hand and are housed in a secure environment that supports their long term care.

Staffing Requirement

200 staff days

Center for Folklife and Cultural Heritage Financial Operations

Objectives

The audit will determine whether the Smithsonian Center for Folklife and Cultural Heritage (CFCH) accurately accounts for all its business activities and generates sufficient revenues to cover its costs.

Significance

CFCH produces the annual Folklife Festival, Folkways Recordings, and other educational exhibits and publications consistent with the Center's and the Smithsonian's mission. The Center's activities are funded by federal appropriations; Smithsonian trust funds, contracts and agreements with national, state, and local governments; foundation grants; gifts from individuals and corporations; income from the Festival; and Folkways product sales. Currently, the Folklife Festival and Folkways combined generate annual revenues of over \$4 million.

Folklife officials believe the Enterprise Resource Planning (ERP) system does not meet their needs because the account structure is limited. Folklife staff thus augment ERP with ad-hoc accounting processes to record all the revenues and expenses of their different operations. The supplementary procedures are somewhat informal. Further, they rely extensively on the institutional memory of a few seasoned employees who operate them. This use of multiple systems and processes increases the risk of error and makes comparing costs and revenues difficult.

As the Institution increasingly relies on, and seeks to expand, revenue-generating activities, it is critical that there be appropriate internal controls to promote efficient and effective operations, to minimize waste, and to ensure the greatest return.

Potential Impact

The audit will make recommendations to improve the accuracy, efficiency and transparency of financial reporting at CFCH.

Staffing Requirement

100 staff days

Disaster Preparedness

Objectives

The audit will determine if the Smithsonian Institution's key units have adequate Disaster Management Plans in place, including whether the plans mitigate disaster risks through effective training and testing.

Significance

The Smithsonian's disaster preparedness plan, entitled ***Disaster Management Program and Business Continuity Master Plan***, addresses three key areas for the Smithsonian as a whole: disaster preparedness, response, and recovery. The Disaster Preparedness Manager, who works in the central Office of Protection Services, is in charge of managing disaster preparedness for the Institution and for monitoring disaster preparedness at the units.

In addition, each unit and critical office has its own disaster management plan. Presently, there are more than thirty unit-based disaster management plans in place for the Institution. The number of unit-based disaster plans, and the apparent autonomy with which they were developed, make oversight and quality control difficult.

We will review a cross-section of unit disaster management plans.

Potential Impact

The audit will make recommendations to strengthen the Institution's disaster preparedness and mitigate the risks to employee health, data, and property.

Staffing Requirement

300 staff days

Implementation of Internal Controls Improvements

Objective

The audit will assess the Institution's progress in implementing selected internal control improvements.

Significance

In January 2009, in response to Recommendation 23 of the Regents' June 2007 Governance Report, the Chief Financial Officer (CFO) presented to the Audit and Review Committee ***A Plan for Strengthening Internal Controls***. The CFO identified 23 critical financial and reporting processes and formed Team 23 to review each process, rank it in terms of risk, identify control gaps, and design and implement solutions. The Institution reports having made significant improvement in certain high-risk areas, such as personal property management, and contracting and procurement. Other areas are still in the high- to medium-risk range, including capital projects; charitable contributions; use of funds; IT security; cash management; and external grants and contracts. Since the issuance of the Regent's report we have conducted audits of several of these high-risk areas. In this audit we will examine additional high-risk areas, and assess the work done to date to implement the internal control plan, including any changes resulting from Smithsonian Finance Redesign efforts.

Internal controls are essential to proper stewardship at the Smithsonian. They constitute the methods and procedures to organize and control the routine operations; when properly designed and implemented they ensure accountability and safeguard the Smithsonian's resources against fraud and waste, and they advance the Institution's mission.

Potential Impact

The audit will make recommendations to enhance the effectiveness of the selected internal control process improvements to safeguard and make best use of the Institution's resources.

Staffing Requirement

250 staff days

Employee Travel Expenses

Objectives

The audit will assess compliance with travel policies and determine the causes for continued patterns of non-compliance.

Significance

In reviewing internal controls in response to Recommendation 23 of the 2007 Regents' Governance Committee Report, the Office of the Comptroller (OC) noted that there was a lack of appropriate follow-up and accountability for noncompliance with travel policies. Periodic compliance reviews that OC has conducted since 2008 reveal continuing noncompliance and a lack of consequences for noncompliance. For employees traveling on Smithsonian-financed trips, the reviews found such problems as exceeding per diem allowances without adequate justification or pre-authorization; inadequate documentation to support traveler reimbursements; duplicate reimbursements from the Smithsonian and external sponsors; and excessive or untimely travel advances. For externally funded travel, OC noted problems with clearances from the Office of General Counsel and again with duplicate reimbursements and inadequate documentation of expenses.

These travel errors raise concerns as to why the units continue to violate travel policy and why there appear to be no consequences for violations. Noncompliance wastes the Institution's limited resources and creates the risk of reputational harm to the Institution.

Potential Impact

The audit will make recommendations to improve compliance with travel policies through better management and review practices and will recover funds from any inappropriate travel reimbursements.

Staffing Requirement

100 staff days

Annual Reporting on Operational and Strategic Goals

Objective

The audit will examine the adequacy of the Smithsonian's planning and performance management process and test the reliability of the Institution's annual performance and accomplishments data.

Significance

According to a recent McKinsey & Co. best practices report, the Smithsonian's development of annual goals has evolved over the past several years from a "back of the envelope" list from the Secretary to a comprehensive process involving many parts of the Institution. McKinsey & Co. made recommendations to improve and streamline the process, especially in the areas of alignment between annual goals and the budget; metrics; Smithsonian-wide communication; and methods for collecting, sharing, and reporting on goals and measures.

Managing and measuring performance is a key component of the Smithsonian Strategic Plan. The Institution just formed the Smithsonian Metrics Redesign Team with the ultimate goal of building a Smithsonian Performance Dashboard. Managing performance through annual goal-setting and budgeting and developing relevant performance indicators, targets, and measures form the basis for accomplishing the Plan's goals and for providing stakeholders confidence in the results the Institution reports.

Potential Impact

The audit will provide independent assurance that the Smithsonian's planning and performance management process is operating effectively and that the data underlying performance results are accurate and complete.

Staffing Requirement

200 staff days

Effectiveness of the Recent Buyout

Objectives

The audit will determine whether the Institution's fiscal year 2010 employee buyout met its intended goal of reducing salary costs and of realigning the Institution's workforce with its new strategic plan.

Significance

The Institution announced a buyout program at the end of fiscal year 2009. The goals for the buyout were to: (1) reduce salary costs and (2) reshape the workforce to meet current and future programming needs. The plan did not specify the amount of cost savings anticipated by the program. However, Smithsonian officials indicated that \$5.7 million in savings related to the buyout were released to the units in fiscal year 2010 to use as each saw fit. The allocated savings were based on budgetary estimates and did not reflect the actual results of the buyout program.

To demonstrate that the Institution generated actual cost savings from the buyout program and applied the savings to reshape the work force calls for a tracking method to demonstrate how each unit responded to the loss of positions. The actual savings achieved will depend on whether the units replaced the vacated positions and, if so, whether the new hires came aboard at a lower salary than was paid previous employees who took the buyout. The buyout reporting we reviewed showed budgeted salary savings but did not compare the budget figures to any realized savings.

We will formally request that the Institution compile the actual savings realized after completing any hirings to refill vacated positions. We will then evaluate the reported savings and examine how the savings were applied to reshape the Smithsonian workforce to achieve program goals.

Potential Impact

The audit will make recommendations to improve the effectiveness of any future buyouts.

Staffing Requirement

200 staff days

Potential Future Audits

Title	Objectives	Estimated OIG Staff Days
Digitization of Smithsonian Assets	Evaluate the Institution's progress in converting Smithsonian assets into digital format.	300
Collections Stewardship at the National Museum of the American Indian	Assess (1) whether the physical security at the National Museum of the American Indian's three facilities is adequate to safeguard the collections; (2) whether inventory controls are in place and working adequately; and (3) the condition of the collections.	250
Systems Supporting the Capital Campaign	Evaluate the implementation of the interim information system and business processes put in place by the Office of Development to support the Smithsonian's capital campaign before the tentatively scheduled full conversion of these systems in 2014.	300
Office of Protection Services Staffing	Determine if the Office of Protection Services staffing plan achieved its goal to augment security and retain valued members of its security force, including whether the new plan improved attendance and reduced the need for overtime pay.	250
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
External Quality Control Review of the Federal Trade Commission's Office of Inspector General	Determine if the Office of Audit at the Office of Inspector General of the Federal Trade Commission conducts its audits in compliance with Government Auditing Standards.	100
Wireless Network Management	Evaluate the use, management, and security of the Smithsonian Institution's internal and public access wireless networks.	150
Accountability and Maintenance of the Institution's Fleet	Assess the effectiveness of SI fleet management, including (1) provisions for authorizing and controlling all vehicle maintenance and repair services; (2) provisions for authorizing and monitoring all vehicle use and activity; and (3) vehicle purchase and disposal.	250

APPENDIX

Estimated Staff Days Available For New Audits in FY 2011

Description	Estimated Staff Days
Total FY 2011 staff days*	3280
Staff days required to complete FY 2010 carry-over audits	<u>205</u>
Available staff days for new audit starts in FY 2011*	<u>3075</u>

*We calculated available staff days for FY 2011 based on 16 full-time auditors and a standard work year of 205 days per auditor.