

# IMPROVING REGENTS' OVERSIGHT OF THE SMITHSONIAN BUDGET: STEPS REQUIRED TO IMPLEMENT GOVERNANCE RECOMMENDATION 22

*Recommendation 22:* The Finance and Investment Committee, working with the Secretary and the Chief Financial Officer, will review the Smithsonian federal and trust budget formulation and monitoring process to ensure that the Committee and the Board have adequate opportunities to provide strategic direction in the development of budget priorities and meaningful oversight of the Smithsonian budget and financial resources. The Committee will report to the Board on its findings and recommendations in 2008.

Recommendation 22 focuses on implementing budget formulation and monitoring processes and procedures that ensure the Regents are fully engaged in establishing the Institution's strategic plans, budget priorities, and program goals; in approving budgets that align resources against these priorities and goals; and in monitoring resources' usage against the approved budgets.

## BACKGROUND

On August 21, 2007, the Finance and Investment Committee met to discuss the implementation of Recommendation 22 and to provide guidance to the team examining the budget and related business practices. The Committee asked the team to complete three tasks, following a three-step approach:

- Task One** Identify the key budgetary events and activities that would benefit from or require the Regents' direct involvement
- Task Two** Determine whether the time frames for conducting budgetary and related activities would need to be modified to accommodate increased involvement and participation by the Regents
- Task Three** Recommend changes to existing processes to ensure the Regents are provided appropriate opportunity to influence, guide, and monitor the Institution's budget and performance management functions

This paper addresses all three tasks: identifying key budgetary events and activities; determining time frames for engaging the Regents on Smithsonian budget events; and proposing changes necessary to achieve the appropriate Regents' oversight of the Smithsonian budget.

## TASK ONE

The Institution's budgetary process consists of five distinct components: strategic and annual planning, formulation of the Federal budget, formulation of the Trust budget, approval of the integrated (Federal/Trust) budget plan, and monitoring funds' usage against plan during the year of execution. The key events and activities that comprise these budget processes are listed in Table 1. This table also identifies the critical stakeholder roles associated with each event and activity. The role definitions are provided following the table.

<b>Table 1. Smithsonian Budget and Planning Events/Activities and Roles</b>				
<b>Event/Activity</b>	<b>Key Stakeholder Roles</b>			
	<b>Regents</b>	<b>Secretary</b>	<b>US/F&amp;A</b>	<b>Direct Reports/SI Directors</b>
<b>STRATEGIC AND ANNUAL PLANNING</b>				
▪ Develop/revise/approve five-year strategic plan	Approve	Recommend	Lead	Participate
▪ Develop/approve facilities master plans	Affirm	Approve	Lead	Participate
▪ Develop/approve annual budget priorities	Approve	Lead	Participate	Participate
▪ Identify/approve major program initiatives and major facilities projects	Approve	Recommend	Participate	Lead
▪ Develop/approve annual performance plan (Federal)	Affirm	Approve	Lead	Participate
▪ Develop/approve multi-year Smithsonian Business Ventures' (SBV) business plan	Affirm	Approve	Participate	Lead Recommend
▪ Develop/approve annual Smithsonian goals	Affirm	Lead Approve	Participate	Participate
<b>FEDERAL BUDGET FORMULATION</b>				
▪ Develop/submit/approve FY+2 OMB budget request	Approve	Recommend	Lead	Participate
▪ Negotiate budget settlement with OMB	Participate	Lead	Participate	Participate
▪ Prepare/submit FY+2 budget to Congress	Approve	Recommend	Lead	Participate
▪ Defend FY+2 Federal budget request	Participate	Lead	Participate	Participate
<b>TRUST BUDGET FORMULATION</b>				
▪ Develop/approve FY+1 central Trust budget	N/A	Approve	Lead	Participate
▪ Develop/approve FY+1 SBV budget	N/A	Approve	Participate	Lead Recommend
▪ Develop FY+1 non-allocated Trust budget	N/A	Affirm	Lead	Participate Approve
<b>INTEGRATED BUDGET APPROVAL</b>				
▪ Develop/approve FY+1 Integrated Budget Plan <sup>1</sup>	Approve	Recommend	Lead	Participate
<b>BUDGET EXECUTION</b>				
▪ Develop/approve monthly expense budgets	N/A	N/A	Lead Affirm	Approve
▪ Monitor spending against integrated budget plan	Participate	Participate	Lead	Participate
▪ Monitor spending against approved monthly expense budgets	N/A	Participate	Lead	Participate

<sup>1</sup> The annual Integrated Budget Plan (IBP) is the budgetary document that establishes the Institution's overall budget for the upcoming fiscal year. The IBP consists of the following budget components: Federal Salaries and Expenses, Federal Facilities Capital, central Trust, non-allocated Trust, and SBV's annual budget. The IBP is presented to the Regents by the CFO at the September meeting and approved by the Regents. Actual financial performance is measured against this plan, and variances explained, at succeeding Regents' meetings as part of the CFO's Financial Position report. In approving the Integrated Budget Plan, the Regents also are approving the central Trust, non-allocated Trust, and SBV business budgets approved by the Secretary.

## Role Definitions

**Affirm:** validates or endorses another stakeholder's decision or approval

**Approve:** makes final decision

**Lead:** oversees or guides conduct of an activity, including other participation

**Participate:** assists in gathering, providing, or reviewing data and information; providing advice; evaluating issues; and making decisions

**Recommend:** makes recommendation to final approving authority

The Regents are currently involved, to varying degrees, in the budgetary and planning events in which they have identified roles, except for approval of the Institution's Strategic Plan, approval of the Smithsonian Business Ventures' (SBV) multi-year business plan, and affirmation of facilities' Master Plans and the annual Federal performance plan. The Regents' involvement and exceptions are detailed below:

- There is no recent record that the Regents have participated directly in developing, reviewing, or approving the Institution's strategic plan.
- The Regents have not been involved in reviewing or affirming the Institution's myriad long-term facilities Master Plans or the Institution's Federal annual performance plan.
- For the past several years, the Regents have endorsed the Institution's budget priorities when they approved the Federal budget request to the Office of Management and Budget (OMB) at their September meeting.
- The Regents have not always been involved in the front end when decisions are made to initiate, enhance, curtail, or eliminate major scientific, research, public engagement, or educational programs. Rather, the Regents' opportunity to engage on these actions and the associated budgetary adjustments is embedded at the back end of the Federal budget request approval process.
- Approval to proceed with major facilities construction and revitalization projects has been sought from the Regents when the project requires specific Congressional authorization and when the project's financing requires an internal advance of \$1 million or more, along with accompanying external debt.
- The Regents' Executive Committee has approved all new facility lease agreements with a net present value exceeding \$5 million, and the full Board of Regents has approved leases with net present value exceeding \$10 million.
- The requirement for the Regents to approve a multi-year business plan for Smithsonian Business Ventures is new and was recommended by the SBV Task Force in its January 28, 2008, report.
- The Regents formally approved the former Secretary's 2007 goals at their September 2006 meeting, and they were provided the opportunity to review the Acting Secretary's 2008 goals in November 2007.
- The Regents approve the Institution's Federal budget request to OMB and the Federal and Trust integrated budget plan for the upcoming year, at their regularly scheduled September meeting. However, many times this approval came after the Federal budget had been submitted to OMB (to meet OMB's early September deadline).

- The Regents often are consulted by the Secretary during OMB negotiations on the Federal budget request, which consists of preparing the Institution’s appeal to OMB’s budget guidance “passbacks” and responding to OMB’s proposed settlement.
- Finally, as part of their May, September, and November meetings during the past seven years, the Regents have been provided the opportunity to review and discuss execution of the current year budget (both Federal and Trust) in the context of the Institution’s annual integrated budget plan.

In assessing the appropriate level of Regent involvement in the Institution’s budgetary and planning processes, consideration must be given to overall roles and responsibilities for the Regents and the Secretary. The Regents, with consultation from the Secretary, should establish the Institution’s Strategic Plan and approve its overarching budget priorities and major investments. Detailed budget and planning decisions, however, should be within the Secretary’s purview. The budget the Secretary builds and presents to the Regents for approval should match the Regents’ goals and priorities. The main purpose of the Regents’ budget review therefore would be to ensure that it accurately reflects their guidance and direction.

## TASK TWO

The time frames for developing the Institution’s strategic plan and establishing the budget are tied to OMB’s deadline for submitting the Federal budget request (the second Tuesday in September each year) and to the start of the fiscal year (October 1 of each year) for establishing the integrated (Federal and Trust) budget plan and approving the central Trust budget. The Institution uses an overarching schedule to manage the various interrelated activities and events. The current time frames, the ideal time frames, and an illustrative schedule for the fiscal year 2009/2010 planning and budget cycle are detailed in Table 2. The events and activities noted in ***bold italic and underlined*** type represent proposed changes in timing from current practices.

<i>Table 2. Time Frames for Key Events and Activities</i>				
<i>Key events and activities</i>	<i>Generic Schedule</i>		<i>Specific “Ideal” Schedule</i>	
	<i>Current</i>	<i>Ideal</i>	<i>Fiscal Years 2009/2010 Planning and Budget Cycle</i>	
<b>STRATEGIC AND ANNUAL PLANNING</b>				
▪ Develop/revise/approve five-year strategic plan	Every three-to-five years	Every three years	Feb. 2009	Regents approve Strategic Plan for fiscal years 2009–14
▪ Develop/approve facilities master plans	Every 10–15 years	Every 5–10 years	TBD 2008	Regents affirm revised Smithsonian Environmental Research Center and National Zoo master plans
			TBD 2009	Regents affirm revised Smithsonian Tropical Research Institute master plan
▪ Develop/approve annual budget priorities	Final approval mid-to-late September for fiscal year starting in one year	Final approval early March for fiscal year starting in one year and six months	Mar. 2008	<b><i><u>Regents approve Federal fiscal year 2010 budget priorities</u></i></b> (This approval will occur in May/June 2008)

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	<b>Current</b>	<b>Ideal</b>	<b>Fiscal Years 2009/2010 Planning and Budget Cycle</b>	
<ul style="list-style-type: none"> <li>Identify/approve major program initiatives</li> </ul>	In September concurrent with Regent approval of the budget	In conjunction with setting budget priorities	Mar. 2008	<u>Regents approve major program initiatives for fiscal year 2009 (Trust) and fiscal year 2010 (Federal)</u>
<ul style="list-style-type: none"> <li>Approve major facilities projects</li> </ul>	As required	As required	TBD	There are no major projects requiring front-end Regent approval at this time
<ul style="list-style-type: none"> <li>Develop/approve annual performance plan</li> </ul>	Annually, no specific date	Annually, in February	Feb. 2008	Smithsonian posts fiscal year 2009 Plan on public website
<ul style="list-style-type: none"> <li>Develop/approve multi-year SBV business plan</li> </ul>	No established process	Annually, in June	June 2008	<u>Regents approve plan for fiscal years 2009 through 2013, prior to completion of annual budget process</u>
<ul style="list-style-type: none"> <li>Develop/approve annual Institution's goals</li> </ul>	Quarter 1 of current fiscal year	August, prior to start of new fiscal year	Aug. 2008	<u>Regents affirm Institution's goals for fiscal year 2009</u>
<b>FEDERAL BUDGET FORMULATION</b>				
<ul style="list-style-type: none"> <li>Develop/submit FY+2 OMB budget request</li> </ul>	Begins in March; concludes in mid-September	Complete by late August	Aug. 2008	<u>Regents approve fiscal year 2010 OMB budget</u>
			Sept. 2008	Institution submits fiscal year 2010 budget to OMB
<ul style="list-style-type: none"> <li>Negotiate budget settlement with OMB</li> </ul>	Late November to mid December	No change	Dec. 2008	Institution reaches settlement with OMB on fiscal year 2010 budget
<ul style="list-style-type: none"> <li>Prepare/submit FY+2 budget to Congress</li> </ul>	Early February	No change	Jan. 2009	Regents approve fiscal year 2010 President's budget
			Feb. 2009	Institution submits fiscal year 2010 budget to Congress
<ul style="list-style-type: none"> <li>Defend Federal budget request</li> </ul>	February through September	No change	Mar. 2008	Secretary and Regents testify as required to defend fiscal year 2009 request
<b>TRUST BUDGET FORMULATION</b>				
<ul style="list-style-type: none"> <li>Develop/approve FY+1 central Trust budget</li> </ul>	Begins in April, concludes in late September	Complete process by August (dependent on approval of SBV budget)	Aug. 2008	<u>Secretary recommends his approved fiscal year 2009 central Trust budget.</u> The Regents are not involved in the formulation phase.
<ul style="list-style-type: none"> <li>Develop/approve FY+1 SBV budget</li> </ul>	Begins in April, concludes in September	Complete process by mid-July (SBV budget is required to complete central trust budget)	July 2008	<u>Secretary approves SBV's fiscal year 2009 operating and capital budget</u>

<i>Table 2. Time Frames for Key Events and Activities</i>				
<i>Key events and activities</i>	<i>Generic Schedule</i>		<i>Specific "Ideal" Schedule</i>	
	<i>Current</i>	<i>Ideal</i>	<i>Fiscal Years 2009/2010 Planning and Budget Cycle</i>	
<ul style="list-style-type: none"> <li>Develop FY+1 non-allocated Trust budget</li> </ul>	Begins in April, concludes in mid-July	No change required	July 2008	Institution collects, affirms, and consolidates unit-approved fiscal year 2009 budgets
<b>INTEGRATED BUDGET APPROVAL</b>				
<ul style="list-style-type: none"> <li>Develop/approve FY+1 integrated budget plan</li> </ul>	Begins in July, concludes in September	No change required	Sept. 2008	Regents approve fiscal year 2009 Federal and Trust integrated budget plan
<b>BUDGET EXECUTION</b>				
<ul style="list-style-type: none"> <li>Develop/approve monthly expense budgets</li> </ul>	By end of Quarter 1	By mid-November, but dependent upon timing of appropriation bill	Nov. 2008	Institution reviews and affirms unit-approved fiscal year 2009 monthly budgets
<ul style="list-style-type: none"> <li>Monitor spending against annual integrated budget plan</li> </ul>	Three times per year: May, September, January	No change required	May 2009	Institution documents variances from fiscal year 2009 plan and forecasts year-end results
			Sept. 2009	
			Jan. 2010	Institution documents actual fiscal year 2009 results and provides variance explanations
<ul style="list-style-type: none"> <li>Monitor spending against approved monthly expense budgets</li> </ul>	Three times per year: April, August, November	No change required	April 2009	Institution reviews fiscal year 2009 spending against plan at Operational Reviews
			Aug. 2009	
			Nov. 2009	

To achieve the ideal schedule, the Institution will need to modify the timing for eight of its key budgetary and planning events and activities to:

- provide the Regents the opportunity to affirm facility **master plans** before they are published
- ensure that the Regents' involvement in the setting of **budget priorities** occurs early enough in the planning and budgeting process to affect the Institution's internal budget formulation process
- provide the Regents the opportunity to approve all "**major program initiatives**" as part of the Institution's planning process
- incorporate the new requirement for the Regents to approve **SBV's multi-year business plan**

- accelerate the establishment of the Institution's **annual goals** so that the Regents can affirm the Secretary's plan prior to the start of the fiscal year
- provide the Regents the opportunity to review, discuss, and **approve the Federal budget submission** at least two-to-three weeks prior to the OMB deadline so that any questions or concerns can be addressed prior to submitting the budget
- accelerate completion of **SBV's annual budget** for the upcoming fiscal year so that SBV's approved budget can be incorporated into the Institution's central Trust budget formulation process
- complete **formulation of the allocated (central) Trust budget** prior to requesting Regents' approval of the Institution's integrated budget plan

### **TASK THREE**

To ensure the Regents are provided appropriate opportunities to influence, guide, and monitor the Institution's planning and budget processes, there are several changes that should be adopted by the Institution and the Regents. The details of nine proposed changes follow.

#### **Recommended Changes to the Smithsonian Planning and Budgetary Processes**

1. The Regents should be directly involved in establishing and approving the Institution's Strategic Plan. This plan should reflect the combined vision of both the Regents and the Secretary.
  - a. By a time to be determined, the Regents and the Secretary should complete development of the Smithsonian Institution's Strategic Plan for fiscal years 2009 to 2014.
  - b. The Regents should decide which of its committees will oversee the Institution's strategic planning process.
  - c. Thereafter, the Strategic Plan should be revised and updated at least every three years.
2. To ensure the Institution's Master Plans are consistent with the Strategic Plan and to help guide future Strategic Plan revisions, the Secretary should present to the Regents for their information and affirmation each revised (or newly developed) Facility Master Plan prior to the Plan being published.
  - a. The Regents should consider delegating oversight authority for the Institution's facilities master planning process to the Facilities Revitalization Committee.
3. The Secretary, along with his leadership team, should accelerate establishment of the Institution's annual budget priorities so that these priorities can guide formulation of the Institution's next Federal budget submission (FY+2). The Regents' approval should be obtained prior to March of each year.
  - a. Put in place a set of budget priorities by early March of each year to ensure that unit directors and Smithsonian leadership appropriately reflect the Regents' priorities as the Federal and Trust budgets are being formulated and final recommendations are made during senior leadership decision meetings.

- b. Once approved, the budget priorities should be posted on the Regents' and the Smithsonian's public websites.
4. At the front-end of the budget formulation process, the Secretary should establish a formal process to identify, review, vet, and recommend major program initiatives (MPIs), similar to the process now used by the Capital Planning Board to approve major facility and information technology (IT) investments and long-term operating leases.
  - a. By January 2009, the Secretary should propose to the Regents the criteria for categorizing an initiative as an MPI and a proposed review process.
    - i. This new process should be in place in time for the fiscal year 2011 Federal budget process.
    - ii. The Regents should approve all MPIs by March of each year.
  - b. The Regents should decide which of its committees will be responsible for oversight of the MPI process.
5. No later than January each year, and before it is posted concurrently on the Institution's public website with the Federal budget each February, a copy of the Institution's Annual FY+2 Federal Performance Plan (which is prepared to comply with Government Planning and Results Act requirements) should be provided by the Secretary to the Regents for their affirmation.
6. The Secretary should require the Smithsonian Business Ventures to prepare a five-year business plan, in conjunction with the Institution's strategic planning process, to establish long-term assumptions, strategies, investments, and performance metrics for the business enterprise.
  - a. The five-year business plan should be submitted to the Regents for review and approval in June of each year.
  - b. The Regents should decide which of its committees will provide oversight of the business activity planning process.
7. The Secretary should complete development of his goals for the upcoming fiscal year by August of each year so that the Regents can review and affirm these goals prior to the start of each fiscal year. These goals are important because they focus Smithsonian resources on achieving the Institution's strategic goals and performance objectives. Additionally, these goals are the basis for tracking organizational performance achievements and are integrated into every Smithsonian employee's individual performance plan.
8. The Secretary should provide the proposed FY+2 Federal budget to the Regents no later than early August of each year to ensure the Regents have adequate time to review and influence the Federal budget submission before they are asked to approve it.
  - a. The Regents should consider delegating approval of the Federal budget to the Finance and Investment Committee and the Executive Committee.
  - b. Special meetings of these committees will need to be conducted no later than late August of each year for the purpose of approving the budget request to OMB.



9. The Secretary should accelerate completion of the central Trust budget formulation process so that the Regents can affirm the Secretary's decisions when they review and approve the overall integrated budget plan at their annual September meeting.
  - a. This will require that SBV completes its FY+1 budget build process by July of each year.

## **SUMMARY**

The Regents' Governance Recommendation 22 is focused on ensuring that the Regents are fully engaged in establishing the Institution's strategic goals and budget priorities, and in approving budgets and management plans that align resources against these goals and priorities. The process changes proposed in this paper will enhance the Regents' involvement in the Institution's budgetary and planning activities by providing them with adequate and appropriate opportunities to influence resource decisions and monitor resource utilization as it relates to program performance.

Implementation of the changes presented in this paper will need to be phased and synchronized with the arrival of the new Secretary, as necessary. Upon approval of Recommendation 22 changes by the Regents, the Secretary should provide a detailed implementation plan to the Regents within 60 days to show how these changes can be implemented most effectively. However, the Regents should encourage the Secretary to implement approved changes as soon as possible, and not wait for their final approval of the Recommendation 22 detailed implementation plan.

## **BEYOND RECOMMENDATION 22**

Two appropriate and necessary follow-up steps related to this recommendation are described below:

1. The Finance and Investment Committee and the Regents' Chief of Staff should work with the Secretary, the Under Secretary for Finance and Administration, and the CFO to determine the adequacy of planning and budgetary information currently provided to the Regents to perform their strategic planning, budgetary, and financial monitoring responsibilities.
  - b. The Committee should identify gaps in the amount, scope, and level of budgetary information provided to it so that the Institution can modify its budget processes, documents, and deliverables to further enhance and improve its fiduciary partnership with the Regents.
  - c. In particular, the Regents should determine if they need supporting narrative justification to accompany the non-allocated Trust budget. About 93 percent of the non-allocated Trust budget is restricted in nature and the use of funds must comply with donor and sponsor restrictions. Therefore, the Institution has very little flexibility in utilizing these funds for other purposes. The remaining 7 percent of the non-allocated Trust budget represents unrestricted funds earned and controlled by the Smithsonian units.

2. The Under Secretary for Finance and Administration should develop appropriate material to educate existing and incoming Regents members on their budgetary and planning roles and responsibilities.

### **MOTIONS FOR THE FINANCE AND INVESTMENT COMMITTEE'S APPROVAL**

On May 1, 2008, the Finance and Investment Committee will meet to review its recommendations on changes to the Institution's strategic planning and budgetary processes. These changes are necessary to ensure the Committee and the Board of Regents have adequate opportunities to provide strategic direction and meaningful oversight of the Smithsonian's budget and financial resources. The Finance and Investment Committee will consider and be asked to approve the following motions:

**VOTED** that the Finance and Investment Committee approves the nine recommendations detailed under Task Three of this paper. These recommendations reflect the findings of the Committee from its review of the Smithsonian budget processes as required by the Regents' Governance Committee Report Recommendation 22. The Committee authorizes the Secretary to begin implementing the necessary changes to fully implement each recommendation. The Committee shall also work with the Board of Regents' Chair to incorporate the Board's new and expanded fiduciary and planning duties into appropriate committees and procedures.

**VOTED** that the Finance and Investment Committee requires the Secretary to submit a plan, with proposed milestones and deliverables, to fully implement the nine recommendations by the end of 2010; and to report annually to the Committee on the Institution's progress in implementing the recommendations, until each recommendation has been implemented.