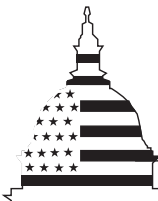


December 2009

SMITHSONIAN  
INSTITUTION

Implementation of  
Governance Reforms  
Is Progressing, but  
Work Remains



G A O

Accountability \* Integrity \* Reliability



Highlights of [GAO-10-190R](#), a report to congressional committees

## Why GAO Did This Study

The Smithsonian Institution (Smithsonian) is the world's largest museum complex. Its funding comes from its own private trust fund assets and federal appropriations. The Smithsonian Board of Regents, the Smithsonian's governing body, is responsible for the long-term stewardship of the Smithsonian. In recent years, GAO and others have documented significant governance and accountability breakdowns at the Smithsonian, which could ultimately put funding and the organization's credibility at risk.

In 2007 the Board of Regents Governance Committee released a report recommending 42 governance reforms. In May 2008 GAO found that the Board of Regents had implemented 30 of these 42 reforms. GAO also made 4 additional recommendations.

In response to a congressional mandate, this report provides an update on the status of the Smithsonian's implementation of governance reforms recommended by the Board of Regents Governance Committee and GAO. The work for this report is based on analysis of Smithsonian documents, interviews with Smithsonian officials, and a GAO report on Smithsonian governance (GAO-08-632).

GAO is not making any new recommendations. The Smithsonian and the Board of Regents concurred with the findings of this report.

View [GAO-10-190R](#) or key components. For more information, contact Mark L. Goldstein, (202) 512-2834 or [goldsteinm@gao.gov](mailto:goldsteinm@gao.gov).

## SMITHSONIAN INSTITUTION

### Implementation of Governance Reforms Is Progressing, but Work Remains

#### What GAO Found

Since May 2008, the Smithsonian has implemented 9 reforms recommended by its Governance Committee—in addition to the 30 it had implemented prior to May 2008—and 1 of 4 GAO recommendations, but work remains on 3 reforms and 3 recommendations, as summarized in the following table.

**Status of the Smithsonian's Implementation of Governance Reforms and Recommendations**

Source	Total	Implemented as of May 2008	Implemented as of December 1, 2009	Work Remains
Governance Committee, June 2007	42	30	9	3
GAO, May 2008	4	N/A	1	3

The nine Governance Committee reforms implemented since May 2008 include efforts such as revising policies related to travel and expense reimbursement and event expenses, creating a regents' annual public forum, and clarifying roles and responsibilities of and developing an assessment process for the Board of Regents. The Smithsonian has not completed implementation of three Governance Committee reforms related to the Smithsonian's contracting policy, a comprehensive review of financial reporting and internal controls, and enhancing the role of advisory boards.

Regarding GAO's May 2008 recommendations, the Smithsonian implemented GAO's recommendation to evaluate what actions it can take in the event of persistent neglect of duties by a regent, but has not completed implementation of the following three recommendations:

- The Board of Regents took steps towards, but has not implemented, GAO's recommendation to develop and make public its process for the selection, use, and evaluation of nonregents. The Board of Regents posted on its Web site the process for selecting nonregent committee members but did not make a final decision regarding a proposed bylaw to give nonregent committee members the same roles and responsibilities as regents.
- The Board of Regents took steps to improve its relationship with stakeholders, including advisory boards. However, due to limitations of the efforts thus far—such as their informal nature and focus on dissemination of information from the regents rather than two-way communication—several advisory board chairs with whom we spoke expressed concern that the Board of Regents still lacked a sufficient understanding of Smithsonian museums and other entities to govern as effectively as possible.
- The Board of Regents has not yet conducted a comprehensive evaluation of its reforms but plans to do so in fiscal year 2010.



GAO

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United States Government Accountability Office  
Washington, DC 20548

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December 10, 2009

The Honorable Dianne Feinstein  
Chairman  
The Honorable Lamar Alexander  
Ranking Member  
Subcommittee on Interior, Environment, and Related Agencies  
Committee on Appropriations  
United States Senate

The Honorable Norman D. Dicks  
Chairman  
The Honorable Michael K. Simpson  
Ranking Member  
Subcommittee on Interior, Environment, and Related Agencies  
Committee on Appropriations  
House of Representatives

Subject: *Smithsonian Institution: Implementation of Governance Reforms Is Progressing, but Work Remains*

The Smithsonian Institution (Smithsonian) has been referred to as America's museum, as its museums hold and provide access to irreplaceable national collections in American and natural history, art, and other areas. The Smithsonian has evolved into the world's largest museum complex and research organization; two of its museums on the National Mall in Washington, D.C., are among the most highly visited in the world. In fiscal year 2008, two-thirds of the Smithsonian's annual operating revenues—which equaled about \$1 billion—came from federal appropriations, with the rest coming from its own private trust fund assets. The act establishing the Smithsonian in 1846 provided that, among other things, the business of the Smithsonian be conducted by a board of regents. Currently, the Board of Regents is composed of 17 regents, including 2 ex-officio regents<sup>1</sup>—the Chief Justice and the Vice President of the United States—6 congressional regents, and 9 citizen regents. As the Smithsonian's chief decision-making body, the Board of Regents is responsible for the long-term stewardship of the Smithsonian's mission. In recent years, we and others have documented significant governance and accountability

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<sup>1</sup>An ex-officio regent is a regent not by appointment but by virtue of holding a certain office.

breakdowns at the Smithsonian, which could result in a lack of trust from donors, grantors, and appropriators and ultimately put funding and the organization's credibility at risk.

In 2007, following a report from the Smithsonian's Inspector General to the Board of Regents on the then-Secretary's compensation package and expenses and related inquiries, the then-Secretary resigned. Two subsequent studies were published in June 2007, one by the Board of Regents Governance Committee and the other by an Independent Review Committee (IRC), created at the Board of Regents' request, that identified such governance and accountability breakdowns as the following:

- Policies and internal controls were inadequate in such areas as conflicts of interest, compensation, and travel.
- The Board of Regents did not routinely receive or request information necessary to support vigorous deliberation, well-reasoned decision making, and adequate oversight.
- The Board of Regents' roles and responsibilities were not clearly defined, leaving the role of the regents subject to interpretation.
- The Board of Regents may have lacked sufficient expertise to conduct effective oversight in some areas, and the size and structure of the Board of Regents itself may be contributing to this problem.

Both studies recommended changes to address these governance challenges. The Board of Regents adopted all 25 of the Governance Committee's recommendations and stated that the IRC's recommendations were, for the most part, encompassed by the Governance Committee's recommendations. In 2008, in a previous report<sup>2</sup> assessing the Smithsonian's implementation of these recommendations, we determined that some of these recommendations had multiple parts. In order to assess the Smithsonian's efforts to implement these recommendations, we analyzed each reform contained in the recommendations separately; therefore, we assessed the Smithsonian's efforts related to 42 reforms relating to the following areas:

- executive and ethics reforms,
- executive travel policies,
- policies on broader Smithsonian operations,
- access of senior officials and level of information available to the Board of Regents,
- transparency of the Board of Regents' and the Smithsonian's activities,
- communication and stakeholder relationships,
- regents' roles and responsibilities,
- the Board of Regents' structure and composition, and

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<sup>2</sup>GAO, *Smithsonian Institution: Board of Regents Has Implemented Many Governance Reforms, but Ensuring Accountability and Oversight Will Require Ongoing Action*, [GAO-08-632](#) (Washington, D.C.: May 15, 2008).

- assessment of the Board of Regents.

We found that the Board of Regents had implemented 30 of the 42 reforms to address these areas of concern, and that it had not completed its implementation of 12 of the recommended reforms. In that report, we also made four recommendations to strengthen the Board of Regents' governance reform efforts: that the Board of Regents (1) develop and make public a clear policy regarding the selection, use, and evaluation of nonregents who serve on the Board of Regents' committees; (2) develop mechanisms to ensure the Board of Regents is considering and responding to stakeholder concerns; (3) evaluate actions the Board of Regents can take in the event of persistent neglect of duties by any of its members; and (4) arrange for a comprehensive evaluation of reforms after a suitable time has passed.

In this report, in response to a congressional mandate,<sup>3</sup> we are providing an update on the Smithsonian's status in implementing governance reforms recommended by the Board of Regents Governance Committee and by GAO.<sup>4</sup> We conducted our work for this report from October through December 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 obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Information regarding the Smithsonian's governance changes is based on our May 2008 report on Smithsonian governance and updated documentary and testimonial information provided by Smithsonian officials, including the Board of Regents. We assessed the extent to which the Smithsonian has implemented governance reforms recommended by its Governance Committee and GAO, but we did not evaluate the effectiveness of these reforms in improving Smithsonian governance. The Board of Regents and the Smithsonian provided comments on this report. Their comments are contained in enclosures II and III, respectively. For more information on the scope and methodology of this report, see enclosure I.

## Background

Congress established the Smithsonian in 1846 to administer a large bequest left to the United States by James Smithson, an English scientist, for the purpose of establishing in Washington, D.C. an institution "for the increase and diffusion of knowledge among men."<sup>5</sup> In accepting Smithson's bequest on behalf of the nation, Congress

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<sup>3</sup>Explanatory Statement in the 2009 Committee Print of the House Committee on Appropriations on H.R. 1105, at 1156-1157 accompanying the Omnibus Appropriations Act for FY 2009, Pub. L. No. 111-8, Div. E, Title III, 123 Stat. 524, 740-741 (2009).

<sup>4</sup>GAO-08-632.

<sup>5</sup>The Act of August 10, 1846, as amended, is codified at 20 U.S.C. §§ 41-67.

pledged the “faith of the United States” to carry out the purpose of the trust.<sup>6</sup> To that end, the act establishing the Smithsonian provided for the administration of the trust, independent of the government itself, by a board of regents and a secretary, who were given broad discretion in the use of the trust funds. The Board of Regents currently consists of nine private citizens, as well as members of all three branches of the federal government, including the Chief Justice of the United States, the Vice President, and six congressional members, three from the Senate and three from the House of Representatives.<sup>7</sup>

Over the last 160 years, the Smithsonian’s facilities inventory has expanded to include 19 museums and galleries, 9 research centers, a zoo, and other facilities—most located in or near Washington, D.C. The major buildings owned by the Smithsonian range in age from about 170 years old to about 5 years old, with most of the facilities’ growth occurring since the 1960s (see fig. 1). The Smithsonian’s growth will continue with the construction of an aircraft restoration area—phase II of the National Air and Space Museum Steven F. Udvar-Hazy Center<sup>8</sup>—and the design and construction of a National Museum of African American History and Culture, authorized by Congress in 2003.<sup>9</sup> Beyond this, in May 2008, Congress established a commission to study the potential creation of a National Museum of the American Latino and whether the museum should be located within the Smithsonian.<sup>10</sup>

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<sup>6</sup>A trust is a fiduciary relationship involving a right of property held by the trustee for the benefit of another.

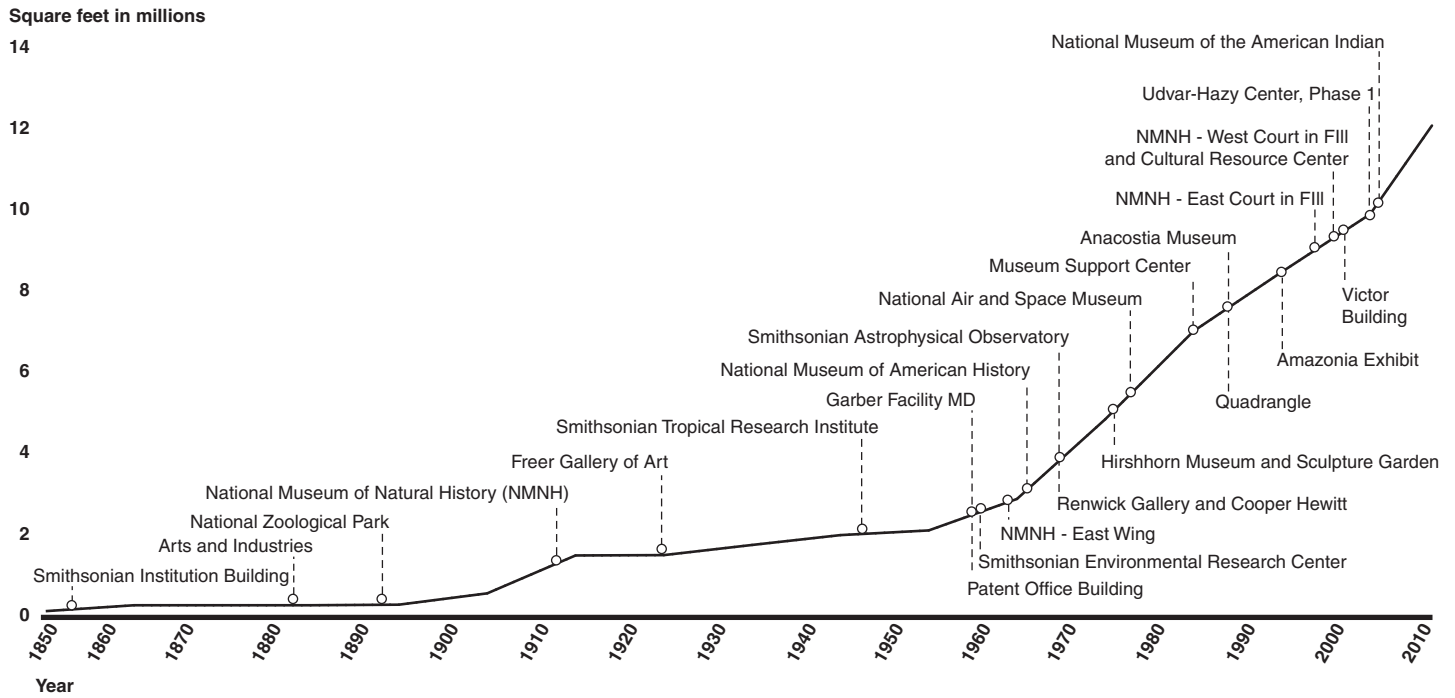
<sup>7</sup>The three senators are appointed by the President of the Senate, the three representatives are appointed by the Speaker of the House, and nine citizens are appointed by joint resolution of Congress—two from the District of Columbia and seven from the states.

<sup>8</sup>The National Air and Space Museum Steven F. Udvar-Hazy Center near Washington Dulles International Airport is the companion facility to the National Air and Space Museum on the National Mall and is being built in two phases. Phase I opened in December 2003 and provides enough space for the Smithsonian to display thousands of aviation and space artifacts. Phase II will include a restoration hangar, archives, collections processing unit, conservation laboratory, and a collections storage facility.

<sup>9</sup>20 U.S.C. §§ 80r through 80r-9.

<sup>10</sup>Pub L. No 110-229, Title III, § 333, 122 Stat. 754, 784-787 (2008).

**Figure 1: Growth in Major Facilities Owned by the Smithsonian Institution**



Source: Smithsonian Institution.

Note: This figure tracks the square footage for all owned and leased buildings as they were added to the inventory over time. Only the major facilities are named in the figure, although the square footage of smaller buildings is included. Also, in November 2005 the Smithsonian Institution sold the Victor Building.

The Board of Regents is vested with governing authorities over the Smithsonian<sup>11</sup> and considers matters such as the Smithsonian’s budgets and planning documents, new programs and construction proposals, appointments to Smithsonian advisory boards, and a variety of other issues facing the Smithsonian. The Board of Regents also has stewardship responsibilities, including ensuring that the Smithsonian’s facilities and collections are maintained and that the Smithsonian has a funding strategy that provides sufficient funds to support these activities.

Although the Smithsonian is a trust instrumentality of the United States with a private endowment,<sup>12</sup> about two-thirds of its operating revenues in fiscal year 2008 came from federal appropriations. In fiscal year 2008, the Smithsonian’s operating revenues equaled about \$1 billion, while its federal appropriations equaled about \$678.4 million—\$107.1 million for facilities capital, which provides funds for construction and revitalization projects, and \$571.3 million for salaries and expenses, which includes funding for the program activities of each museum and research center,

<sup>11</sup>For example, 20 U.S.C. §42 establishes the Board of Regents’ responsibility to conduct the business of the Smithsonian, and 20 U.S.C. §50 provides for the Board of Regents to accept specimens and objects of art and for these items to be appropriately classed and arranged.

<sup>12</sup>GAO recently issued a report on federally created entities such as the Smithsonian. See GAO, *Federally Created Entities: An Overview of Key Attributes*, GAO-10-97 (Washington, D.C.: Oct. 29, 2009).

rents, utilities, and facilities' operations, maintenance, and security costs.<sup>13</sup> The Smithsonian's fiscal year 2008 appropriation was subject to an across-the-board rescission of 1.56 percent, which according to the Smithsonian resulted in an appropriation of \$105.4 million for facilities capital and \$562.4 million for salaries and expenses. The remaining operating revenues came from the Smithsonian's private trust funds. For fiscal year 2008, the Smithsonian was also appropriated an additional \$15 million for facilities capital (reduced to \$14.8 million by the rescission), referred to as the Legacy Fund, to be provided if the Smithsonian received matching private donations of at least \$30 million; however, according to a Smithsonian official, the Smithsonian did not meet the matching donations requirement and therefore has not received these funds.<sup>14</sup> In fiscal year 2009, the Smithsonian was appropriated \$123 million for facilities capital and \$593.4 million for salaries and expenses. The Smithsonian was also appropriated an additional \$15 million for the Legacy Fund, with the same requirements as for fiscal year 2008, except that funds were made available for individual projects in incremental amounts as matching funds were raised.<sup>15</sup> The Smithsonian was also appropriated an additional \$25 million for facilities capital under the American Recovery and Reinvestment Act of 2009.<sup>16</sup>

In fiscal year 2010, the Smithsonian was appropriated \$125 million for facilities capital and \$636.16 million for salaries and expenses.<sup>17</sup> Of the \$30 million appropriated for the Legacy Fund in fiscal years 2008 and 2009, the approximately \$29.8 million unobligated balance was rescinded, and \$29.8 million was appropriated under a new requirement—the Legacy Fund is now directed to the Arts and Industries Building for the purpose of facilitating the reopening of this building. The Appropriations Act makes funds available in incremental amounts as private funding becomes available. Private donations, including major in-kind donations, that contribute significantly to the building's reopening will be matched dollar for dollar.

### **The Smithsonian Implemented Most Governance Committee Reforms and One of Four GAO Governance Recommendations, but Work Remains on Others**

#### The Smithsonian Has Implemented 39 Governance Committee Reforms but Work Remains on 3 Reforms

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<sup>13</sup>Pub. L. No. 110-161, Div. F, Title III, 121 Stat. 1844, 2140 (2007).

<sup>14</sup>The fiscal year 2008 Appropriations Act establishing the Legacy Fund required that both private donations and federal matching funds be used for the restoration, renovation, and rehabilitation of existing facilities. Funds could not be used for day-to-day maintenance, salaries and expenses, or programmatic purposes, and in-kind donations did not count toward the match. See Pub. L. No. 110-161, 121 Stat. 1844, 2140 (2007).

<sup>15</sup>Pub. L. No. 111-8, Div. E, Title III, 123 Stat. 524, 740-741 (2009). Smithsonian's fiscal year 2009 appropriation is not subject to a rescission.

<sup>16</sup>Pub. L. No. 111-5, Title VII, 123 Stat. 115, 171 (2009).

<sup>17</sup>Pub. L. No 111-88, Title III, 123 Stat. 2904, 2951-2952 (2009).



Since May 2008, the Smithsonian has implemented 9 reforms recommended by the Board of Regents Governance Committee—in addition to the 30 reforms it had implemented as of May 2008—bringing the total number of reforms implemented to 39 of 42 reforms.<sup>18</sup> The 3 reforms that have not been completely implemented include 2 related to improving policies on broader Smithsonian operations—developing a contracting policy and conducting a comprehensive review of financial reporting and internal controls—and 1 related to communication and stakeholder relationships—to enhance the role of the Smithsonian advisory boards. Figure 2 summarizes the status of the Smithsonian’s implementation of the Governance Committee’s recommended reforms as of May 2008 and December 1, 2009.

**Figure 2: Status of the Smithsonian’s Implementation of Governance Committee Reforms as of May 2008 and December 1, 2009**

Governance committee reform	GAO assessment of implementation	
	May 2008	December 1, 2009
<b>Executive and ethics reforms</b>		
Refine the executive compensation process to follow best practices	●	
Follow process to recommend range for Secretary’s compensation package	●	
Develop unified compensation policy	●	
Create leave accrual system for senior trust employees	●	
Develop overarching Smithsonian code of ethics	●	
Establish ethics hotline	●	
Develop policy prohibiting senior staff service on for-profit boards	●	
Develop database to identify potential conflicts of interest	○	●
<b>Executive travel policies</b>		
Adopt interim policies on travel and event expenses	●	
<b>Policies on broader Smithsonian operations</b>		
Require Smithsonian Business Ventures to follow Smithsonian policies	◐	●
Develop expense policies for regent events	◐	●
Review internal controls of travel and expense reimbursement	◐	●
Develop contracting policy	◐	◐
Conduct comprehensive review of financial reporting and internal controls	◐	◐
<b>Access of senior officials to the Board of Regents and level of information available to the board</b>		
General Counsel to have direct access to board	●	
Board review sufficiency of General Counsel resources	●	
Chief Financial Officer to have direct access to board	●	
Board review sufficiency of Chief Financial Officer resources	●	
Inspector General to have direct access to board	●	
Board review sufficiency of Inspector General resources	●	
Inspector General to relocate to downtown Washington	●	
Establish independent regent staff	●	

- Reform has been implemented
- ◐ Steps have been taken to implement the reform, but more work is needed
- Reform has not been implemented

<sup>18</sup>For more information on the reforms implemented as of May 2008, see [GAO-08-632](#).

Governance committee reform	GAO assessment of implementation	
	May 2008	December 1, 2009
<b>Transparency</b>		
Schedule at least four business meetings annually	●	
Revise how minutes are taken	●	
Secretary to delegate corporate secretarial duties to General Counsel	●	
Develop Freedom of Information Act policy	●	
Launch regents public Web page	●	
<b>Communication and stakeholder relationships</b>		
Enhance role of advisory boards	○	◐
Develop strategy to increase public and stakeholder access to Smithsonian information	●	
Create Regent Annual Public Forum	◐	●
<b>Roles and responsibilities</b>		
Adopt description of duties and responsibilities of all regents	●	
Adopt duties and responsibilities of Chair and Chancellor	●	
Provide for election of new Chair	●	
Develop board orientation process	◐	●
Develop opportunities to provide strategic direction in development of budget priorities	●	
<b>Structure and composition</b>		
Each committee to review and revise charters	◐	●
New leadership appointed for each committee	●	
Create standing committee on Facilities Revitalization	●	
Review existing appointment procedures to existing committees	◐	●
Create criteria for new citizen regents	●	
Examine board structure	●	
<b>Assessment</b>		
Develop regents' assessment process	◐	●

- Reform has been implemented
- ◐ Steps have been taken to implement the reform, but more work is needed
- Reform has not been implemented

Source: GAO presentation and analysis of Smithsonian data.

The following reforms have been implemented by the Smithsonian since May 2008:

- **Executive and ethics reforms—conflict of interest:** The Smithsonian completed its implementation of executive and ethics reforms by developing a database to identify potential conflicts of interest. This reform was one of several related to strengthening the Smithsonian’s policies regarding conflicts of interest. The Smithsonian’s policies in this area had come under concern because the previous policy resulted in two senior executives, including a former Secretary, serving on for-profit boards, one of which had a contract with the Smithsonian.
- **Operational policies—Smithsonian Business Ventures:** The Smithsonian implemented a reform to require the former Smithsonian Business Ventures (SBV)—now reorganized and renamed Smithsonian Enterprises to underscore that the Smithsonian’s revenue generating enterprises are in a distinct, but not separate, operational unit—to follow Smithsonian policies except in the case of a

few documented exceptions.<sup>19</sup> This reform came out of concerns about the propriety of SBV policies and activities.

- **Operational policies—event expenses:** The Smithsonian has implemented a reform to develop expense policies for regent events. New event guidelines for all special events using Smithsonian funding, including regent events, were given final approval by the Board of Regents in November 2009. The event expense guidelines require that each Smithsonian event funding organization establish and approve a special events annual plan. The guidelines also describe three categories of events, from the most formal to the least formal, and provide guidance on how event coordinators should determine the appropriate event category for any particular event, and how events in each category are to be approved. For example, a regent event in the most formal category is to be reviewed by the Chief Financial Officer (CFO's) office and authorized by the Chair of the Board of Regents. The approval form requires event coordinators to provide to the approving official the event location, total budget, number of guests, and catering cost per guest—as well as the same information on a comparable event, such as the same event in a prior year. According to a Smithsonian official, this comparable information is to help ensure that the approving official is able to judge whether event expenses are justifiable and reasonable. According to the CFO, the Smithsonian will create a review process to monitor and ensure that approving officials are held accountable for following the new guidelines. This reform effort relates to concerns about a former Secretary's entertainment expenses, as well as concerns raised in 2007 and 2008 about the reasonableness of the event expenses surrounding the departure of the former Director of the National Museum of the American Indian.
- **Operational policies—travel and expense reimbursement:** The Smithsonian implemented the Governance Committee's reform calling for a review of the Smithsonian's internal controls for travel and expense reimbursement. As a result of this review, the Smithsonian has implemented a number of additional accountability measures for travel and expense reimbursement. For example, in addition to ongoing review of all senior officials' travel (including the Secretary's travel) by the Smithsonian's Office of the Comptroller, a judgmental sample of nonsenior officials' travel is reviewed quarterly. The CFO reviews the Smithsonian Secretary's travel through travel authorizations prior to the travel and post-travel vouchers. The CFO presents a formal report of senior officials' travel and credit card use semiannually to the Board of Regents Audit and Review Committee, which includes information on all travel and expense card policy

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<sup>19</sup>SBV was a centralized entity responsible for the Smithsonian's various business activities. The documented exceptions were driven by the fact that SBV used different automated systems from the rest of the Smithsonian for financial accounting, payroll, and time and attendance.

violations. In addition, the Smithsonian implemented five recommendations made by the Smithsonian Inspector General in January 2009 to further improve travel accountability.<sup>20</sup>

- **Communication and stakeholder relationships—public forum:** The Smithsonian implemented a reform calling for the creation of a regent annual public forum. Two regent public forums have now been held—the first in November 2008 and the second in September 2009. This reform was adopted in response to criticisms about the lack of transparency regarding governance at the Smithsonian.
- **Roles and responsibilities—board orientation process:** The Smithsonian completed implementation of a reform that called for clarifying the regents' roles and responsibilities by developing a board orientation process. The orientation program includes a book with information on the Smithsonian, the Board of Regents, and the regents' roles and responsibilities. It also includes the expectation that as close as possible to the regents' first board meeting, new regents will meet with the Chair of the Board of Regents, the Secretary of the Smithsonian, and the Smithsonian's General Counsel and Inspector General. According to a Smithsonian official, all current regents received the orientation materials, and of the two regents appointed after the development of the orientation program, one has had the orientation, and the other, who was appointed in September 2009, will receive it around the time of the next board meeting. These reforms were developed because previously the roles and responsibilities of regents were not clearly and explicitly defined, which, in part, led to a lack of oversight and awareness.
- **Structure and composition—review of committee charters:** The Smithsonian implemented a reform calling for review and revision of the Board of Regents committees' charters. All committees had completed their charter review by October 2008. Previously, committees were not consistently examining their roles, responsibilities, and jurisdiction. The June 2007 Governance Committee report raised concerns that some committees were not effectively carrying out their proper oversight functions as a result.
- **Structure and composition—appointment procedures to committees:** The Smithsonian implemented a reform calling for a review of appointment procedures to Board of Regents' committees. Since 2008, the Board of Regents has standardized and clarified the appointment process for nonregents to committees and has made this process publicly available on the Smithsonian's Web site. This reform related to a concern that the Board's lack of expertise in some areas—such as finance or accounting—may have contributed to the lack of oversight of executive compensation and expenses. In our 2008 report, we noted that the Board of Regents had addressed this need by increasing the use of nonregents on committees, but stated that some issues were still under consideration regarding the appropriate selection and use of nonregents. We

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<sup>20</sup>The Inspector General recommended that Smithsonian management (1) encourage use of per diem allowances rather than actual expenses; (2) expand post-travel compliance reviews; (3) revise procedures to define more precisely what circumstances constitute adequate justification for actual expenses rather than per diem allowances; (4) ensure compliance with sponsored travel procedures; and (5) verify that employees with approval authority are not subordinates of the travelers. The Smithsonian implemented all five of these recommendations by May 2009.

discuss the Smithsonian's actions related to other issues regarding the use of nonregents on committees later in this report.

- **Assessment—Board of Regents' self-assessment process:** The Smithsonian implemented a reform calling for a regular assessment of the Board of Regents, its committees, and its members. In early fall 2008 the Board of Regents conducted a self assessment. The Board of Regents is currently in the process of conducting its second assessment, which includes a self-assessment of individual regents' performance, and its first assessment of all committees—and individual committee members' performance—to be completed by December 2009. Previously, the Board of Regents lacked a formal and regular assessment of its performance to determine its effectiveness in governance and oversight of Smithsonian management. In May 2008 we reported that a self-assessment of the Board of Regents, its committees, and individual members would enable the Board of Regents to identify areas for improvement in its operating procedures, governance practices, and committee structure.

### The Smithsonian Has Not Completed Implementation of Other Reforms Recommended by the Governance Committee

Since we last reported on these issues in May 2008, the Smithsonian has continued to work on, but has not completed, implementation of three reforms recommended by the Governance Committee: two related to policies on broader Smithsonian operations and one related to communication and stakeholder relationships. According to Smithsonian officials, generally, the Board of Regents is responsible for setting the policies and the Smithsonian administration is responsible for implementing those policies. While the Board of Regents has approved policies or plans related to the two policy-related reforms, the Smithsonian has not completed its implementation of these reforms. In our May 2008 report, we raised concerns about challenges associated with these efforts, stating that effectively implementing the new policies and procedures developed during these reviews was likely to depend on effectively training staff and establishing accountability, both of which could be challenging because of a level of standardization and requirements that did not previously exist. The following provides a brief summary of the Smithsonian's efforts regarding these reforms:

- **Operational policies—contracting:** The Smithsonian has taken steps toward, but has not fully implemented, the governance reform related to improving contracting policies and procedures. The Smithsonian issued a new contracting policy and is currently writing formal procurement and contracting procedure manuals that implement this policy and provide the rules and procedures for day-to-day procurement and contracting activities. According to the Smithsonian CFO, two of the seven parts of the manual are completed and in use with the rest scheduled to be completed by the end of fiscal year 2010. While the Smithsonian is not required to follow the Federal Acquisition Regulation (FAR), the Smithsonian's contracting policy and procedures are guided by the principles in the FAR. In this environment, where the FAR is not required, having strong procedure manuals may be even more important to ensuring that the contracting policy is effectively implemented and staff know what sections of the FAR the

Smithsonian has chosen to follow. Moreover, in previous work, we have found that a lack of agency-specific policies and procedures can result in an increased risk of improper or wasteful contract payments. Smithsonian officials indicated that the various parts of the Smithsonian's contracting procedures manual will incorporate the principles of the FAR applicable to its contracting activities. Additionally, the officials indicated that they believe the new contracting policy and procedures, when complete, will be comprehensive and will serve to obviate incidences of improper contracting activity. This reform effort stemmed from concerns that the Smithsonian had entered into confidential business contracts that appeared to have been awarded in a manner not consistent with contracting standards generally applicable in the public sector.

- **Operational policies—financial reporting and internal controls:** The Smithsonian has taken steps to implement its reform to conduct a comprehensive review of the Smithsonian's financial reporting and internal controls. This reform effort is related to concerns about whether the Smithsonian has appropriate policies and an effective process for enforcing and monitoring compliance with its policies.<sup>21</sup> Internal control—the plans, methods, and procedures used to meet missions, goals, and objectives—is the first line of defense in safeguarding assets and preventing and detecting fraud and errors and helps government program managers achieve desired results through effective stewardship of public resources. In May 2008 we reported that the Smithsonian had taken some steps to address this reform, including developing a framework with which to analyze 23 critical processes where there is financial risk. We also reported that its framework for this analysis was closely aligned with the framework established by our *Standards for Internal Control in the Federal Government*.<sup>22</sup> However, we pointed out that effectively implementing the new policies and procedures developed during such review efforts would likely depend on effectively training Smithsonian staff and establishing accountability, both of which could be challenging for the Smithsonian.<sup>23</sup> The Smithsonian's review of financial reporting and internal controls led to a plan—approved by the Audit and Review Committee in March 2009—to reduce the risk level of five processes identified by the Smithsonian as high risk by the end of fiscal year 2012. The work laid out in the plan for accomplishing this goal includes such items as writing new policies and procedures, training staff on responsibilities and procedures for which they are accountable, and testing and validating controls through policy compliance reviews or personal property inventories. The CFO reported to the Audit and Review Committee that effective execution of the plan will require a commitment to increasing staffing and other resources over time. During the discussion with the CFO, members of the Audit and Review committee expressed concern that

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<sup>21</sup>The Smithsonian has defined internal control as a process designed to provide reasonable assurance of the Smithsonian's ability to achieve and sustain effective and efficient operations, reliable financial reporting, and compliance with applicable laws, regulations, and policies. This definition is very similar to the definition we have established for internal controls.

<sup>22</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.2.1](#) (Washington, D.C.: November 1999).

<sup>23</sup>Accountability represents the processes, mechanisms, and other means by which an entity's management carries out its stewardship and responsibility for resources and performance.

providing these resources may be challenging for the Smithsonian, given limited available resources and other priorities, such as collections care and research. According to Smithsonian officials, the Smithsonian received funding in fiscal years 2009 and 2010 to improve internal controls, and Smithsonian officials recognize that vigilance with respect to internal controls is an ongoing process.

- **Communication and stakeholder relationships—role of advisory boards:** The Smithsonian has taken steps to implement its reform to enhance the role of its 30 advisory boards—which include a national advisory board, as well as advisory boards that focus on individual museums, research centers, or programs—but has not resolved all issues.<sup>24</sup> The primary purpose of an advisory board is to provide advice, support, and expertise to the directors of museums, research centers, and programs, as well as to the Board of Regents and the Secretary. This reform came out of concern that there was a lack of transparency and connection to stakeholders within the Smithsonian, including advisory boards. According to the Governance Committee’s report, the advisory boards provide a key link between the Board of Regents and the public and a direct connection to the museums. We discuss the Smithsonian’s efforts regarding this reform later in this report, when we discuss the Smithsonian’s actions towards implementing our related May 2008 recommendation.





#### The Smithsonian Has Implemented One of GAO’s Four Governance Recommendations, While Work Remains on the Other Three




In May 2008, we found that there were some areas where the Board of Regents Governance Committee had not yet developed reforms or where the Governance Committee’s reforms could be taken further. We therefore made four recommendations to strengthen the Smithsonian’s governance reform efforts. As shown in figure 3, the Smithsonian has implemented one of our four recommendations and has taken steps to implement the other three recommendations.

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<sup>24</sup>Most advisory boards (except for those with mandated statutory authority) have no independent governance function, and all are subject to the authority of the Board of Regents. The Smithsonian is not subject to the Federal Advisory Committee Act, which requires federal agencies that sponsor federal advisory committees and have at least one member that is not a federal employee to comply with requirements for establishing and managing advisory committees. See 5 U.S.C. App. 2.

**Figure 3: Smithsonian’s Progress in Implementing Our Governance Recommendations**

Category	Recommendation	Status
<b>Structure and composition</b>	Develop and make public a clear policy regarding the selection, use, and evaluation of nonregents.	
<b>Communication and stakeholder relationships</b>	Develop mechanisms to ensure the Board of Regents is considering and responding to stakeholders concerns.	
<b>Assessment</b>	Evaluate what actions the Board of Regents can take in the event of persistent neglect of duties by any of its members.	
	Arrange for a comprehensive evaluation of reforms after suitable time has passed.	

-  Recommendation has been implemented.
-  Steps have been taken to implement the recommendation, but more work is needed.
-  Recommendation has not been implemented.

Source: GAO.

As Figure 3 shows, the Board of Regents implemented one of our recommendations related to assessment—to evaluate what actions it can take in the event of persistent neglect of duties by any regents or their liaisons. In July 2009 the Board of Regents Governance and Nominating Committee<sup>25</sup> implemented this recommendation by considering a staff paper that described actions that could be taken in the event of persistent neglect of duties and approving an approach that included initial counseling and potential referral to the full Board of Regents for appropriate action. This recommendation came from a concern that because the Board of Regents has no authority to remove regents for cause, such as persistent neglect of duties during a regent’s term—only Congress can take action to remove a regent—a key challenge for the Board of Regents would be how to hold all regents accountable for individual performance. We therefore recommended that the Board of Regents evaluate actions it could take in the case of neglect of regent duties.

The following briefly summarizes the status of the Smithsonian’s implementation of our other three recommendations:

- **Structure and composition:** The Board of Regents has taken steps toward, but not implemented, our recommendation to develop and make public its process for the selection, use, and evaluation of nonregents. The Board of Regents has developed and posted on its Web site the process used to recruit and select the eight additional nonregents that have been added to its committees since our May 2008 report, thus fulfilling the part of our recommendation related to making

<sup>25</sup>The Board of Regents established the Governance Committee as a standing committee in March 2007 and then combined committee function with its Nominating Committee in June 2007, after the issuance of the Governance Committee’s report and recommendations on Smithsonian governance reforms. The committee is now called the Governance and Nominating Committee.



public its process for selecting nonregents.<sup>26</sup> In addition, in May 2008, the Board of Regents adopted a recommendation stating that nonregent committee members must be considered full and equal members of committees. However, the Board of Regents has not fully determined the implications of this recommendation for the roles and responsibilities of nonregent committee members in some areas. In July 2009, the Board of Regents Governance and Nominating Committee considered but tabled a motion on a proposed bylaw concerning the duties and responsibilities of nonregent committee members. Committee members discussed several issues related to establishing such a bylaw, including the fact that nonregent committee members do not go through the same nomination and appointment process as regents and do not exercise the statutory authority of regents. Committee members also discussed whether certain ethical and disclosure obligations for regents under the Board of Regents ethics guidelines and annual disclosure statement should apply to nonregent committee members, and requested that Smithsonian staff provide the regents with further information on potential implications of this bylaw. According to the chief of staff to the Board of Regents, subsequently, the Smithsonian concluded that existing governance requirements in committee charters require that all committee members, including nonregent members, file annual financial disclosures, and the Smithsonian plans to apply this requirement to these individuals. The Board of Regents official also stated that the Governance and Nominating Committee plans to further discuss this issue at its March 2010 meeting. This recommendation came from a concern that, while the Board of Regents had addressed issues regarding the need for additional expertise by increasing the use of nonregents on committees, there was little transparency as to how nonregent experts on committees were to be selected, used, or evaluated.

- **Communication and stakeholder relationships:** The Board of Regents has taken steps toward but not implemented our recommendation related to improving communication and stakeholder relationships by developing mechanisms to ensure consideration of and follow-up on the key concerns of advisory boards and other stakeholders. This recommendation came from a concern that, without mechanisms by which the Board of Regents could receive and consider unfiltered information from stakeholders on a regular basis, its reform efforts in this area may not have the desired impact of creating an environment for governance that is inclusive of the broad diversity of activities and viewpoints of stakeholders within and outside of the Smithsonian. The Board of Regents has taken steps toward implementing this recommendation. For example, the Board of Regents has now held two public forums and developed a process for each by which comments received were responded to. The Board of Regents has also taken several steps to improve its relationship with the Smithsonian advisory boards. For example, the Chair of the Board of Regents now sends a quarterly e-mail to all advisory board chairs providing information on the most recent meeting and asking advisory board chairs to contact her directly

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<sup>26</sup>The eight nonregents were recruited specifically from the various Smithsonian advisory boards and were vetted by the Secretary, the unit directors and advisory board chairs, and the Board of Regents committee chairs, as well as the Chair of the Board of Regents and the Governance and Nominating Committee. The criteria for selecting these nonregents were based on their expertise in areas subject to a committee's oversight responsibilities.

with any concerns.<sup>27</sup> According to a Smithsonian official, when a concern is brought to the Chair of the Board of Regents' attention, it is either responded to immediately or tracked by the Office of the Board of Regents until responded to. In addition, as part of its strategic planning process, the Smithsonian conducted a workshop of advisory board chairs in April 2009, which was organized through the regents and led by the Chair of the Board of Regents and the Secretary of the Smithsonian. According to Board of Regents officials, this workshop provided a critical opportunity for the Board of Regents to engage with advisory board chairs on the development of the plan and the role of the advisory boards in its implementation. According to a Smithsonian official, the input provided by these advisory board chairs was considered as the strategic plan was developed. Furthermore, seven regents sit on at least one advisory board,<sup>28</sup> and eight nonregent committee members have a current or past affiliation with an advisory board. According to five advisory board chairs with whom we spoke, the relationship between the Board of Regents and the advisory boards has improved.<sup>29</sup> However, limitations of the efforts thus far do not ensure that the Board of Regents is getting sufficient input from advisory boards to increase the effectiveness of its governance of the Smithsonian.

First, much of the increased communication from the Board of Regents to advisory boards is due to efforts of the current Chair of the Board of Regents and has not been formalized to ensure that these improvements continue if the chairmanship of the Board of Regents changes hands. Moreover, while the advisory board chairs with whom we spoke stated that they would contact the Chair of the Board of Regents if they had a particular concern, several commented that regular e-mail updates from the Chair of the Board of Regents are one-way communications that do not encourage a full flow of information in both directions. In another example, except for the Chief Justice, who is on two advisory boards in an ex-officio position, the six regents who are on advisory boards are on a total of four advisory boards, leaving the majority of advisory boards without regent representation. Moreover, most of the nonregent members of committees who are current or past advisory board members come from the Smithsonian-wide National Board. Therefore, while this intermingling may be valuable, it is not significantly increasing the breadth of the regents' knowledge about the different museums and other entities that make up the Smithsonian. Board of Regents officials clarified that the overarching purpose of adding nonregent committee members to Board of Regents' committees is to supplement the Board of Regents' subject-matter expertise. While the Board of Regents' policy calls for giving primary consideration to nonregent members who possess significant ties to the Smithsonian, such as leaders of the advisory boards, if

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<sup>27</sup>The position description for the Chair of the Board of Regents states that the Chair serves as the primary liaison between the Board of Regents and the Smithsonian National Board and other advisory boards.

<sup>28</sup>One of these seven regents is the Chancellor—the Chief Justice of the United States—who is an ex-officio member of two advisory boards.

<sup>29</sup>Four of the five people we interviewed were current advisory board chairs as of December 2009. One person had rotated off of the advisory board in October 2009, but was the advisory board chair prior to the governance reforms and during the time that the changes described above took place.

needed expertise is absent in that pool, the Board of Regents will then look outside the advisory boards.

Several advisory board chairs with whom we spoke expressed concern that the Board of Regents still lacked a sufficient understanding of the many museums and other Smithsonian entities to govern as effectively as possible—an understanding that could be gained through developing additional mechanisms to ensure substantive interactions between the Board of Regents and the advisory boards. For example, several advisory board chairs with whom we spoke suggested that each regent take ownership over understanding a certain number of museums or programs, which could include practices such as periodic telephone conversations with the advisory board chair, regular visits to the museum's exhibits, and reading important museum, program, or advisory board documents. Board of Regents officials stated that because the regents are collectively responsible for the governance of the entire Smithsonian, better governance counsels against fragmentation of interests or promotion of the idea that an individual regent represents a particular museum constituency. GAO did not evaluate the suggestions of the advisory board chairs for improving interaction between the advisory board and the Board of Regents or the Board of Regents' concerns. Board of Regents officials also stated that additional opportunities for interaction between regents and advisory boards have been and are being developed. These officials stated that, for example, regent dinners and meetings routinely contain mission-related components that include tours or presentations by museum directors and staff; and a 2010 goal of the Office of the Regents is to collect, analyze, and routinely inform the Board of Regents of issues gleaned from the minutes and other papers of the advisory boards. According to Board of Regents officials, in addition, both advisory board chairs and their respective museum or program directors will be requested annually to identify the most promising opportunities and most pressing challenges or issues that face the museum or program and the advisory board for dissemination to the Board of Regents.

- **Assessment—evaluation of reforms:** The Board of Regents has taken steps toward, but has not implemented, our recommendation to conduct an evaluation of its reform efforts after a suitable time has passed. In May 2008 the Board of Regents took steps towards implementing this recommendation by approving a plan to conduct an evaluation of its governance reform effort every 3 years, beginning in 2010. This recommendation stemmed from a concern that the Board of Regents had no mechanism planned to evaluate the implementation and effectiveness of the governance reforms after enough time had passed for the Smithsonian to operate in a fully reformed environment. Board of Regents officials stated that the Board of Regents has been consistent in its commitment to conduct a review of the efficacy of the governance reforms in 2010.

### **Agency Comments**

We provided a draft of this report to the Board of Regents and the Smithsonian for review and comment. Both the Board of Regents and the Smithsonian concurred with the findings of this report. The Board of Regents stated that it has made significant progress over the past 2 years in making the Smithsonian a leader in nonprofit governance, and that the Board of Regents is continuing to identify ways to

strengthen relationships with Smithsonian advisory boards, including ways to formalize improvements in communication that have been made. The Board of Regents also reiterated its commitment to assess the efficacy of its governance reform efforts in 2010. The Smithsonian Institution stated that it is proud of the progress that has been made with regard to governance reform, and that the Smithsonian expects to complete the remaining reforms over the course of the coming year. In addition, both the Board of Regents and the Smithsonian provided technical clarifications and comments to the draft, which we incorporated into the final report as appropriate. The Board of Regents' comments on our report can be found in enclosure II, and the Smithsonian's comments to our report can be found in enclosure III.

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We are sending copies of this report to the appropriate congressional committees. We are also sending this report to the Chair of the Board of Regents and the Secretary of the Smithsonian. In addition, this report will be available at no cost on the GAO Web site at <http://www.gao.gov>. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.

If you or your staff have any questions regarding this report, please contact me at (202) 512-2834 or at [goldsteinm@gao.gov](mailto:goldsteinm@gao.gov). Key contributors to this report include David Sausville (Assistant Director), Brian Hartman, Jennifer Kim, Susan Michal-Smith, Sara Ann Moessbauer, Ruth Walk, Alwynne Wilbur, and Carrie Wilks.



Mark L. Goldstein  
Director, Physical Infrastructure Issues

Enclosures

## Enclosure I: Scope and Methodology

To analyze the extent to which the Smithsonian Institution (Smithsonian) had implemented its Governance Committee and our May 2008 governance recommendations, we took the following steps. As described in 2008, in assessing the Smithsonian's implementation of its Governance Committee's 25 recommendations, we determined that some of these recommendations had multiple parts. In order to assess the Smithsonian's efforts to implement these recommendations, we analyzed each reform contained in the recommendations separately; therefore, we assessed the Smithsonian's efforts related to 42 reforms that related to the following areas:

- executive and ethics reforms,
- executive travel policies,
- policies on broader Smithsonian operations,
- access of senior officials to the Board of Regents and level of information available to the Board of Regents,
- transparency of the Board of Regents' and the Smithsonian's activities,
- communication and stakeholder relationships,
- regents' roles and responsibilities,
- the Board of Regents' structure and composition, and
- assessment of the Board of Regents.

We found that the Board of Regents had implemented 30 of the 42 reforms to address these areas of concern, and that it had not completed its implementation of 12 of the recommended reforms. In that report, we also made four recommendations to strengthen the Board of Regents' governance reform efforts. For this report, we assessed the status of the Smithsonian's implementation of the 12 governance reforms that had not been implemented as of May 2008 and our four recommendations from prior work. We assessed the extent to which the Smithsonian has implemented governance reforms recommended by its Governance Committee and GAO, but we did not evaluate the effectiveness of these reforms in improving Smithsonian governance.

In order to perform this assessment, we reviewed our May 2008 report on the Smithsonian's governance reforms, and we reviewed Smithsonian documentary and testimonial evidence. To assess the status of the Smithsonian's implementation of all the reforms and recommendations, we interviewed Smithsonian officials, including the Board of Regents Chief of Staff, and the Smithsonian Chief Financial Officer, among others, and five current or recently past advisory board chairs. In addition, we reviewed the following evidence related to the reform areas:

- To review the Smithsonian's steps to implement the Board of Regents Governance Committee's reform on ethics, we reviewed a document describing the process

for implementing the conflicts of interest database from the Smithsonian's Office of General Counsel.

- To assess the steps taken by the Board of Regents to implement its Governance Committee's reforms on broader Smithsonian operations, we reviewed (1) documents relating to the former Smithsonian Business Ventures, (2) approved actions from the Board of Regents' January 26, 2009, meeting, (3) a Chief Financial Officer report to the Audit and Review Committee on the results of the Smithsonian's ongoing senior executive travel review, (4) Smithsonian-wide e-mail announcements containing travel policy reminders, (5) portions of the Smithsonian's travel handbook guidance, (6) the Smithsonian's contracting policy (Smithsonian Directive 314), (7) and two plans (January 2009 and March 30, 2009) developed by the Chief Financial Officer for strengthening internal controls at the Smithsonian. We also reviewed two recent relevant Smithsonian Inspector General reports—a January 2009 report on travel oversight at the Smithsonian and an October 2008 report on the travel and event expenses of the former Director of the National Museum of the American Indian. To assess the steps taken by the Smithsonian to implement its Governance Committee reforms and our May 2008 recommendation related to communication and stakeholder relationships, we watched the Webcast of the Smithsonian's November 2008 public forum posted on the Smithsonian's Web site and analyzed comments and responses posted on the Smithsonian's Web site. We also reviewed a summary of comments received during and after the public forum created by the Smithsonian and provided to several Smithsonian parties, and we reviewed documentary evidence on the September 2009 annual public forum. In addition, we reviewed a document created by the Board of Regents and provided to the chairs of advisory boards detailing new efforts to improve communication and information sharing between the Board of Regents and the advisory boards. We analyzed three e-mails sent to Advisory Board chairs from April through October 2009, information on regents membership on advisory boards and advisory board membership on Board of Regents' committees, and we spoke with five current or just prior advisory board chairs about the effectiveness of efforts to increase the role of the advisory boards.
- To assess the steps taken by the Board of Regents to implement its Governance Committee reforms related to the Board of Regents' roles and responsibilities, structure and composition, and assessment, and our May 2008 recommendations related to the Board of Regents' structure and composition and assessment, we reviewed and analyzed the September and November 2008 and January, June, and September 2009 board meeting minutes; the Board of Regents' orientation package; committee charters; self-assessment instruments used to conduct the Board and committee self-assessments; results of the Board of Regents' first self-assessment; and the procedures for recruiting and selecting nonregents for committees, which are posted on the Smithsonian Web site.

We conducted our work in Washington, D.C., between October and December 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 obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Enclosure II: Comments from the Smithsonian Institution's Board of Regents



### Smithsonian Institution The Board of Regents

**Chancellor**  
The Chief Justice of  
the United States

**Chair**  
Patricia Q. Stonesifer  
Washington State

**Vice Chair**  
Alan G. Spoon  
Massachusetts

**Members**  
The Vice President of  
the United States

The Honorable  
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Mississippi

The Honorable  
Christopher J. Dodd  
Connecticut

The Honorable  
Patrick J. Leahy  
Vermont

The Honorable  
Xavier Becerra  
California

The Honorable  
Sam Johnson  
Texas

The Honorable  
Doris Matsui  
California

Phillip Frost  
Florida

Shirley Ann Jackson  
New York

Robert P. Kogod  
Washington, D.C.

John W. McCarter Jr.  
Illinois

David M. Rubenstein  
Maryland

Roger W. Sant  
Washington, D.C.

December 2, 2009

Mark L. Goldstein  
Director, Physical Infrastructure Issues  
Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Mr. Goldstein:

On behalf of the Board of Regents of the Smithsonian Institution, I'd like to join Secretary Clough in expressing our appreciation for the Government Accountability Office's review of the implementation of our governance reforms. Over the past two years, the Regents have made significant progress toward making the Smithsonian a leader in 21st century non-profit governance and, in doing so, we have welcomed the analysis and guidance provided by the GAO. We recognize, however, that good governance requires us to regularly assess our progress and reset our goals to ensure that they continue to reflect the best practices in non-profit governance.

In that regard, we continue to identify ways to strengthen our key relationships with the museum and research center advisory boards. As your report notes, I have continued the practice begun by my predecessor, Roger Sant, to send quarterly reports to the advisory board chairs and meet personally with many of them to discuss issues facing their respective museums or research centers. We will also continue holding an annual meeting with the chairs; this April, Secretary Clough and I will lead a conversation with the advisory board chairs on the launch of the national campaign.

Following our recommendation, many advisory board chairs now provide critical input on the development of unit goals and the evaluation of unit directors' performance. We are committed to fostering such meaningful opportunities for communication and will implement procedures to learn from their input. We remain mindful that effective oversight of a diverse and complex organization such as the Smithsonian must reflect the perspective and expertise of our dedicated advisory board members.

We accept your recommendation that many of these improvements should now be formalized. During the first quarter of the new year, I will be working closely with the Chair of the Governance and Nomination Committee, Dr. Shirley Ann Jackson, to codify our processes for two-way communications between the Regents and advisory board chairs. In doing so, we will continue to look at the best practices of diverse organizations with similar advisory board structures for new ways to promote communication and better tap the expertise and dedication of our advisory board members.

When the Regents committed ourselves to an ambitious and aggressive governance reform agenda in June 2007, we recognized the need to assess the efficacy of our efforts in 2010. We are now preparing for that review and no doubt will benefit from the solid foundation already laid by you and your colleagues.

Sincerely,

Patricia Q. Stonesifer



**Enclosure III: Comments from the Smithsonian Institution**



Smithsonian Institution

G. Wayne Clough  
Secretary

December 1, 2009

Mr. Mark L. Goldstein  
Director, Physical Infrastructure Issues  
Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Mr. Goldstein:

On behalf of the management and staff of the Smithsonian Institution, I would like to thank you and your colleagues for your thorough assessment of the progress we have made in improving our governance system. We are pleased that the Government Accountability Office (GAO) took the time to understand the Institution and the challenges we face.

The Institution's Board of Regents, senior management and staff have worked hard to improve the governance of the Institution, and we have completed implementation of almost all the recommendations made by the Regents' Governance Committee, the Independent Review Committee and GAO. As a result, our governance now more accurately reflects best practices. Indeed, as one commentator noted, we "developed new governance policies that are clearly 'second generation' in nature and thus worthy of close notice by other nonprofit organizations." We are very proud of the progress we have made with regard to governance reform, and I believe that both the Institution and the American public are better served as a result of this effort.

With respect to further progress to be made, I expect that we will complete the remaining reforms over the course of the coming year. For example, our new contracting policy was completed and issued in June 2008, and all seven parts of the accompanying procedures manual will be completed by the end of 2010. We have received additional federal funding to improve our internal controls, and the results of that enhanced effort are already visible, though, like governance itself, control of internal operations is a continual process.

Thank you again for your efforts.

Sincerely,

A handwritten signature in black ink, appearing to read "G. Wayne Clough".

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1 Exempt Organization Tax Review, Vol. 57, No. 3, September 2007, p. 282.

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