Description of document: **Two Smithsonian Institution Inspector General (OIG) Audit Reports, 2001, 2004**

Requested date: 31-December-2008

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Titles of documents: 1. Audit Report: Financial Management of Traveling Exhibits, (A-00-03), dated September 26, 2001
2. Audit Report: Steven F. Udvar-Hazy Center Business Activities, (A-04-06), dated August 25, 2004

Source of document: Office of the Inspector General
Smithsonian Institution
MRC 524
PO Box 37012
Washington DC 20013-0712

Smithsonian Institution

Office of the Inspector General

January 26, 2009

On January 5, 2009, we received your letter dated December 31, 2008, in which you requested a copy of the following audit reports by our office: A-00-05; A-01-04; A-04-06; C-05-02; M-05-01; A-05-06; M-05-05; Management Advisory: Web4 Server Failure, June 8, 2005; and A-08-03.

In response to your request, we have enclosed the following documents:

1. 13-page audit report entitled "Financial Management of Traveling Exhibits" (A-00-05),[1] dated September 26, 2001;
2. 15-page report entitled "Steven F. Udvar-Hazy Center Business Activities" (A-04-06), dated August 25, 2004; and
3. 12-page report entitled "Report on Audit of Proposal for Initial Pricing Under Work Order Number [redacted]" (C-05-02), dated December 17, 2004.[2]

We are providing these records as a courtesy. The Smithsonian Institution and its Office of the Inspector General (OIG) are not subject to the Freedom of Information Act (FOIA), 5 U.S.C. § 552, or the Privacy Act, 5 U.S.C. § 552a. *Dong v. Smithsonian Institution*, 125 F.3d 877 (D.C. Cir. 1997), *cert. denied*, 524 U.S. 922 (1998); Requests for Smithsonian Institution Records, Smithsonian Directive 807 (Nov. 30, 2007). Nevertheless, we provide information to the public in keeping with the Institution's mandate to increase and diffuse knowledge. See 20 U.S.C. § 41 *et seq*. In answering requests such as yours, the Institution and its OIG adhere to the principles of FOIA and relevant caselaw. In addition, this office must comply with the requirements of the Inspector General Act of 1978, as amended, 5 U.S.C. App. 3, which places restrictions on what information can be released by OIG.

Accordingly, we have withheld the following documents pursuant to FOIA exemption 2, which protects from disclosure information related solely to the internal personnel rules and practices of an agency that the divulgence of which would risk the circumvention of a statute or agency regulation. 5 U.S.C. § 552(b)(2).

1. 24-page report entitled "Internal Controls Over Collections During the National Museum of the American Indian Move" (A-01-04), dated October 2, 2001;

[1] The report was labeled incorrectly as A-00-03.
[2] We have redacted this document consistent with the Freedom of Information Act exemption 4, which protects from disclosure trade secrets or financial information obtained from a person and privileged or confidential. 5 U.S.C. § 552(b)(4).

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2. 10-page report entitled "Web4 Server Failure" (M-05-01), dated June 8, 2005;
3. 29-page report entitled "Audit of Physical Security and Inventory Control Measures to Safeguard the National Collections at the National Museum of Natural History" (A-05-06), dated September 29, 2006;
4. 10-page report entitled "Management Advisory Report on Access Controls" (M-05-05), dated July 25, 2006; and
5. 22-page report entitled "Report on Fiscal Year 2008 Independent Audit of Smithsonian Astrophysical Observatory Scientific Computing Infrastructure" (A-08-03), dated September 30, 2008.

This completes this office's response to your December 31, 2008 request. Thank you for your interest in the Smithsonian Institution and its Office of the Inspector General.

Sincerely,

Epin H. Christensen
Counsel to the Inspector General

AUDIT REPORT

FINANCIAL MANAGEMENT OF TRAVELING EXHIBITS

Number A-00-03

September 26, 2001

Smithsonian Institution

Office of Inspector General

SUMMARY

We audited the financial management of traveling exhibits at the Smithsonian Institution to determine whether adequate financial controls were in place and operating as desired. We found that financial management controls were not adequate because the Institution did not have adequate managerial cost accounting information. Routinely available cost information is fundamental to any well-managed, cost effective organization. Furthermore, cost information is a basic and essential element of effective financial management systems. Without cost accounting policies and procedures, however, consistent and uniform cost information cannot be accumulated routinely. Since management did not know actual costs of individual traveling exhibits, reasonably informed decisions regarding the efficiency and effectiveness of operations cannot be made.

The Institution should establish policies and procedures for accumulating and reporting costs regularly, consistently, and reliably. Such cost information is necessary to manage its operations and to carry out its fiduciary duties and responsibilities effectively. We, therefore, recommended that the Chief Financial Officer establish a task force to develop and implement cost accounting policies and procedures. The Chief Financial Officer agreed with our recommendation and provided an acceptable implementation plan.

Office of the Inspector General

Office of the Inspector General

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ACRONYM

SITES – Smithsonian Institution Traveling Exhibition Service

CHAPTER 1
INTRODUCTION

A. Purpose

We included this audit of the financial management of traveling exhibits in our fiscal year 2000 plan because the Smithsonian Institution has a major national outreach initiative that includes traveling exhibitions. The purpose of the audit was to determine if adequate financial management controls were in place to manage traveling exhibits efficiently and effectively. We had additional objectives, but due the limited financial information available, we focused on financial management.

B. Scope and Methodology

The scope of our audit included fiscal years 1998 and 1999. Although nine organizations completed traveling exhibits during this period, we focused most of our efforts on the Smithsonian Institution Traveling Exhibition Service (SITES).

We interviewed SITES personnel and other staff that develop and market traveling exhibits at the Institution. We observed operations and tested a randomly selected sample of SITES traveling exhibits.

We conducted our audit in accordance with generally accepted government auditing standards during the period September 2000 to September 2001.

C. Background

SITES is one of the Smithsonian's major national outreach programs[1] designed to reach audiences beyond the Washington, D.C. area. Although the primary mission of SITES is to produce and circulate traveling exhibitions, Smithsonian museum, research facilities, or other organizations may also develop and circulate traveling exhibits. During fiscal years 1998 and 1999, nine Institution organizations completed the tours for 40 traveling exhibitions. Of this number, SITES closed 16 of its exhibits and 8 other organizations closed the remaining 24 exhibits (see Appendix B).

Although SITES accumulated the total amounts of revenue and expense from the Smithsonian Financial System and SITES's reports, the reports did not produce revenue and expense information on a project basis. The absence of consistent financial data makes it difficult to answer rationally fundamental questions regarding traveling exhibits. For instance, could Smithsonian funds and other resources be used more efficiently and effectively by having one organization develop and market traveling exhibits? With at least nine organizations developing and circulating traveling exhibitions, how could

[1]SITES, Smithsonian Affiliations, The Smithsonian Associates, and the Smithsonian Center for Education and Museum Studies are the major Smithsonian national outreach initiatives.

potential customers or venues identify the universe of available Smithsonian traveling exhibitions? Why do the larger object museums use SITES and smaller art museums develop their own traveling exhibits? To manage traveling exhibitions effectively, managers need regular, consistent, and reliable cost information.

The Federal Accounting Standards Advisory Board is the principal organization responsible for developing standard methods for accumulating and reporting costs in the Federal sector. In July 1995, following the Advisory Board's recommendations, the Office of Management and Budget and the General Accounting Office published *Statement of Federal Financial Accounting Standard No. 4: Managerial Cost Accounting Concepts and Standards for the Federal Government.* These concepts, standards, and guides represent best practices for effective financial management systems and they provide reasonable methods for developing and implementing cost accounting systems. Cost accounting is a basic and integral part of an organization's financial management system.

CHAPTER 2
RESULTS OF AUDIT

A. Managerial Cost Accounting

The Institution does not have managerial cost accounting policies nor procedures needed to accumulate and report costs for traveling exhibits. None of the organizations included in our audit were able to calculate the revenues and expenses of individual traveling exhibits accurately and consistently. Without cost accounting policies or procedures, management is unable to develop consistent and accurate information on the costs of operations.

Background and Criteria

The Congress, the Board of Regents, the Secretary, and senior executives all need cost information to determine if resources are allocated to programs rationally and if the programs operate efficiently and effectively. According to Statement No. 4, the five major purposes of using managerial cost information are:

- Budgeting and Cost Control
- Performance Measurement
- Determining Reimbursements and Setting Fees and Prices
- Program Evaluations
- Economic Choice Decisions

Standard No. 4 is based on sound cost accounting concepts and allows sufficient flexibility for organizations to develop managerial cost accounting practices that are suited to their specific environment. We recognize that cost accounting standards and practices are likely to evolve as an organization gains experience in using them. Standard No. 4 provides a discussion on the following topics regarding managerial cost accounting:

- Requirement for cost accounting,
- Responsibility segments,
- Full cost,
- Inter-entity costs, and
- Costing methodology.

Results of Review

Financial management controls for traveling exhibits were not adequate because there were no cost accounting policies or procedures in place for the consistent and accurate accumulation of traveling exhibit costs. In order to test the accuracy, reasonableness, and usefulness of profit and loss statements on traveling exhibits, we selected a random sample of five exhibits[2] with revenue over $50,000 that closed between October 1, 1997, and April 30, 2000. Then we requested to examine actual profit and loss statement from SITES officials. SITES officials were unable to provide profit and loss statements for any of the five exhibits selected. When we inquired why this information was not available, SITES accounting officials advised us that they normally do not accumulate or maintain actual profit and loss statements. In addition, the financial goals and objectives for traveling exhibits were not clearly defined. For instance, SITES cited cost recovery as a goal, but their goal was to recover only auxiliary activities expenses. Auxiliary activities expenses were only 20 percent[3] of their annual expenditures. Several other units also cited cost recovery as a goal, but each unit defined it differently.

None of the nine organizations routinely accumulated the full costs of traveling exhibits, employed consistent methods of identifying costs, or produced exhibit-level financial reports for traveling exhibits. Therefore, accurate and consistent cost information was not available in a form needed to make informed management decisions or inter-unit comparisons regarding traveling exhibits.

Conclusions

The fiduciary responsibilities of the Institution as a trust require the development of a cost accounting system. Doing so on an Institution-wide basis requires the participation of officials from all organizations with significant involvement in developing traveling exhibits as well as financial management officials. Several museums and research institutes conduct traveling exhibits and many other organizations conduct projects or programs where cost accounting policies and procedures might help improve program or project management and decision making. Although cost accounting will be integral to a new enterprise resource planning system, in the interim, cost accounting information can be obtained using whatever cost methodologies and cost finding techniques that may be determined to be appropriate for each organization. Initiating a process to develop cost accounting policies will be beneficial to implementing a new system and obtaining accurate, complete, and consistent managerial cost accounting information necessary for sound decision making.

Recommendation

We recommended that the Chief Financial Officer oversee the development and implementation of managerial cost accounting policies and procedures for traveling exhibits and other projects and programs.

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[2] The exhibits included in our tests were The Flag in American Indian Art, Full Deck Art Quilts, Major League/Minor League, Ocean Planet, and Seeing Jazz.

[3] During fiscal year 1999, SITES had total revenue of $7.9 million and source 420 (auxiliary activities) expenses totaling $1.6 million.

Management Comments

Agreed. The Chief Financial Officer plans to oversee the development and implementation of managerial cost accounting policies and procedures for traveling exhibits and other projects and programs. The Office of the Comptroller's Policies and Procedures Division is expected to complete the development and implementation of cost accounting policies and procedures for traveling exhibits and other projects and programs by September 2002.

APPENDIX A

GLOSSARY

Cost – The monetary value of resources used or sacrificed or liabilities incurred to achieve an objective such as to acquire or produce a good or to perform an activity or service.

Full Cost – The sum of all costs required by a cost object including the costs of activities performed by other entities regardless of funding sources.

Managerial Cost Accounting System – The organization and procedures that accumulates and reports consistent and reliable cost information and performance data. The accumulated and reported cost data enables management and other interested parties to measure and make decisions about the segment's ability to improve operations, safeguard assets, control its resources, and determine if mission objectives are being met.

Responsibility Segment – A significant organizational, operational, functional, or process component which has the following characteristics: (a) its manager reports to the top management; (b) it is responsible for carrying out a mission; and (c) its resources and results of operations can be clearly distinguished, physically and operationally, from those of other segments.

APPENDIX B

Smithsonian Institution Organizations That Had Traveling Exhibits Which Ended During Fiscal Years 1998 and 1999

Organization	No. of Exhibits	Cost Policies	Cost Info.
Anacostia Museum	4	No	No
Arthur M. Sackler Gallery	4	No	No
Hirshhorn Museum and Sculpture Garden	1	No	Yes
National Museum of the American Indian	1	No	Yes
National Portrait Gallery	2	No	No
National Postal Museum	1	No	Yes
Smithsonian Institution Traveling Exhibition Service	16	No	No
Smithsonian American Art Museum	9	No	No
Smithsonian Tropical Research Institute	2	No	No
Total	40		

No – Either the organization responded "no" when asked about the existence of policies or information on costs (expenses) or the documentation was not available.

Yes – The organization responded that they had cost (expense) information by traveling exhibit.

Smithsonian Institution

Chief Financial Officer

Memorandum

Date: SEP 24 2001

To: Thomas D. Blair, Inspector General

From: Alice C. Maroni, Chief Financial Officer

Subject: Draft Audit Report, "Financial Management of Traveling Exhibits," Number A-00-93, dated August 31, 2001

Thank you for the opportunity to review the Draft Audit Report, "Financial Management of Traveling Exhibits," Number A-00-93, dated August 31, 2001.

We have reviewed the draft audit report, and we agree with the facts presented. We concur with the results of your audit and your recommendation that this office oversee the development and implementation of managerial cost accounting policies and procedures for traveling exhibits and other projects and programs.

As you probably know, the Office of the Comptroller is in the process of staffing its Policies and Procedures Division, and we are hoping to hire a division manager as soon as next month. Having a fully staffed Policies and Procedures Division will enable us to do a comprehensive review and analysis of existing financial policies, procedures, and directives. This division can then consolidate the financial policies and procedures of the entire Smithsonian Institution, including the area you discuss in the subject draft report on traveling exhibits.

We expect that by the time you finalize your report, our new division manager will be hired. We will then complete the development and implementation of managerial cost accounting policies and procedures for traveling exhibits and other projects and programs. We expect this will be completed by September 2002.

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APPENDIX D

Major Contributors to This Report

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AUDIT REPORT

STEVEN F. UDVAR-HAZY CENTER BUSINESS ACTIVITIES

A-04-06

August 25, 2004

Smithsonian Institution

Office of Inspector General

SUMMARY

The Office of the Inspector General audited business activities at the National Air and Space Museum Steven F. Udvar-Hazy Center (the Center). Our purpose was to determine whether adequate controls were in place to ensure that revenues and expenses were at levels expected and were promptly reported and recorded in official accounting records. Also, we determined if funds borrowed and advanced to complete the Center were being paid as expected. We focused on concessions, the IMAX theater, museum store, simulators, and visitor parking.

Funds borrowed and advanced to construct the Center were being paid consistently with plans. The Smithsonian Institution made payments to bondholders as scheduled and had started repaying trust funds advanced.

Improvements were needed in three areas of the Center's business activities: (1) parking revenue reporting and reconciliations, (2) parking procedures, and (3) concession reporting. We therefore made recommendations to improve controls in those areas as summarized below:

- Provide instruction to contractors to provide more accurate revenue reports and to strengthen procedures over non-revenue transactions.
- Develop written contracting procedures for monitoring contractor performance.

Management concurred with our recommendations and provided implementation plans. We believe that these implementation plans are responsive to our recommendations.

Office of the Inspector General

Office of the Inspector General

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ABBREVIATIONS AND ACRONYMS

Center	Steven F. Udvar-Hazy Center
NASM	National Air and Space Museum
OMB	Office of Management and Budget
SBV	Smithsonian Business Ventures
SD	Smithsonian Directive

INTRODUCTION

A. Purpose

The purpose of the audit was to determine whether the Center's internal controls over its business activities were adequate in four areas. Specifically, we examined whether: (1) revenue was promptly and accurately collected and transferred to the Institution; (2) revenues and expenses from the business activities were being recorded into the Smithsonian PeopleSoft and Smithsonian Business Ventures (SBV) Lawson accounting systems promptly and accurately; (3) revenues and expenses were promptly and accurately reported to the Treasurer's office by the National Air and Space Museum (NASM) and SBV and by contractors to NASM and SBV management; (4) bond and "advance" funds[1], which were used to fund construction of the Center, were being repaid as expected.

B. Scope and Methodology

The audit was conducted from March 8, 2004, to June 29, 2004, in accordance with generally accepted government auditing standards. We evaluated the adequacy of the controls and procedures over the accounting for activity at the Center and tested transactions for compliance with applicable laws, policies, and procedures.

The audit covered business activity from December 15, 2003, to March 31, 2004. The scope of the audit did not cover funds received from donor pledges or special events fees.

We reviewed the following:

- Policies and procedures relating to the accounting for business activities at the Center;
- Prior audits and investigations of Smithsonian activities and of similar activities from other federal and local government agencies;
- Daily, weekly, and monthly transactions at the Center for the period December 15, 2003, through March 31, 2004;
- Contracts for all business activities operated by a contractor;
- Revenue collection processes for all of the business activities, from the receipt of the cash to the deposit in the bank and recording in the PeopleSoft and Lawson financial accounting systems;
- Bond documents; and
- Revenue-sharing documents.

We interviewed staff from offices involved with the Center such as the Office of the Comptroller, the Office of the Treasurer, NASM, SBV, and the Office of Contracting. We also interviewed the food and beverage and simulator contractors' management and staff. Through interviews and transaction reviews, we reviewed Center practices and controls over accounting, contracting, and operations.

[1] "Advance" funds are advances of funds against almost certain revenues expected in the near future. Typically, such revenues are expected from confirmed grants or signed gift pledges.

For the three and one-half month period from December 15, 2003, to March 31, 2004, the Center produced net income of approximately $3.2 million from the operation of the parking lot, concessions, theater, simulators, and museum shops, according to SBV's Lawson system and the Institution's PeopleSoft system (see Chart 1).

Chart 1

Net Income for the Period of December 2003 to March 2004 According to the Lawson and PeopleSoft Systems[2]

Activity	Revenue	Expenses	Net Income
Parking	1,298,395	3,387	1,295,008
Theater	795,119	214,224	580,895
Food and Beverage Concession	73,000	33,583	39,417
Simulators	65,534	743	64,791
Store	1,453,830	192,820	1,261,010
Totals	3,685,878	444,757	3,241,121

During the audit we sought to answer questions such as:

1. Was the revenue expected to be received actually received?
2. Were revenues and expenses accurately and promptly recorded in the accounting records?
3. Were expenses supported by documents such as purchase orders and invoices?
4. Was there good communication of accounting and management information between the contractors and the Institution?
5. Were the bond and advance funds being repaid as expected?

[2] Parking revenues and expenses are recorded in PeopleSoft and other business activities revenues and expenses are recorded in SBV's Lawson system.

C. **Background**

The Steven F. Udvar-Hazy Center

The Center is an annex to the NASM. The Center is located at Washington Dulles International Airport in Northern Virginia, approximately 30 miles from the National Mall in Washington, D.C. The Center opened on December 15, 2003, and provides exhibit areas for aircraft and spacecraft, educational facilities for school groups and educators, areas for business activities (including a large format IMAX theater, restaurant, museum shop, simulators, and visitor parking), and an observation deck from which visitors can watch aircraft arriving and departing from Washington Dulles International Airport.

The Business Activities

NASM oversees visitor parking, and SBV oversees the IMAX theater, museum store, food and beverage concession, and simulators. NASM uses a contractor to operate the visitor parking. SBV operates the IMAX theater and museum store and uses contractors to operate the concession and simulators.

The parking contractor collects parking revenues in return for a percentage of gross parking receipts collected. The simulator contractor provides three motion-ride systems for a percentage of gross receipts. The concessions contractor provides food and beverage services for a percentage of gross receipts. The museum store sells aviation-themed items at a store and a kiosk in the Center. The IMAX operation provides theater entertainment.

Financial Reporting

OC staff records the revenues and expenses from the parking lot into PeopleSoft, the Institution's financial system. SBV staff records revenues and expenses from the Center's other business activities into SBV's accounting system, Lawson. At year-end, the accounting information from the Lawson system is consolidated into the PeopleSoft system.

Center Construction Financing

NASM had to finance a cash-flow gap between the amount of cash needed to pay for the Center's construction costs and the cash flow provided from contributions and business activities. The Institution bridged NASM's cash-flow need by funding construction of the Center with a trust fund advance. The Institution decided to fund the advance with debt.

RESULTS OF AUDIT

A. Parking Contractor Revenue Reporting and Reconciliation Procedures

NASM staff was unable to obtain accurate parking revenue data from the parking contractor at the Center. Therefore, they could not accurately determine if the amount of parking revenue received from the parking contractor agreed with the amount of revenue NASM should have received from the opening of the Center on December 15, 2003, through March 31, 2004. NASM staff could not accurately determine the revenue they should have received because contractor reports did not distinguish between the following items: paying and non-paying vehicles; refunds; and sales of $12 versus $50 parking passes. During our audit NASM management developed procedures to resolve differences between actual and expected revenue received from the parking contractor.

Background

To effectively monitor revenue from the Center's parking operation, NASM staff had to distinguish between different payment options available to visitors. First, they allowed certain types of vehicles to park at the Center without paying, such as: employees, tour and school buses, taxis, and vehicles picking up or dropping off visitors. Second, they offered visitors the option of purchasing a $12 daily pass or a $50 annual pass. NASM discontinued $50 annual pass sales in January 2004. Third, due to the limited food options at the Center when it was opened, NASM management instructed the contractor to allow visitors to re-enter the parking lot without paying. Fourth, visitors could receive refunds. The challenge for NASM and the parking contractor was to identify the number of each of these different types of transactions each month, calculate the revenue produced by these transactions, and then compare the revenue received to the revenue expected. Although the contract terms gave the contractor 120 days to provide reporting plans to NASM, we believe that adequate reporting should have been in place from the start.

NASM had the additional challenge of checking the revenues received against the contractor's reports. Beginning in December 2003, when the Udvar-Hazy Center opened, NASM received two different reports of parking activity from the parking contractor. The first report was a daily income report, and the second report was a monthly activity report. Beginning in February 2004, the contractor began sending NASM a third report, called a "count log". The "count log" report identified the revenue provided from the sales of two ticket types: a $12 daily pass and a $50 annual pass.

Smithsonian Directive 115, *Management Controls*, states that, "Transactions should be promptly recorded and accounted for in order to prepare timely accounts and reliable financial reports." The Directive and the Office of Management and Budget Circular A-123 define management controls to include policies and procedures to ensure reliable data are obtained, maintained, reported, and used for sound decision-making.

The parking contract between NASM and the parking contractor requires the contractor to furnish the Smithsonian with monthly statements consisting of (1) revenue and number of tickets generated by booth, shift, and day; (2) a list of dates and preset dollar amounts transferred from the contractor's bank account to the Smithsonian's bank account; (3) a bill if funds were over-transferred or a check if funds were under-transferred; and (4) an itemized bill of any after-hour parking services approved and expended. The contract did not require the contractor to submit reports that identified transactions by type of ticket sold ($12 daily passes versus $50 annual passes), or that tabulated the number of non-revenue transactions or refunds. The contract also provided the contractor 120 days to provide all reporting plans, including the cash management plan.

Results

NASM staff could not accurately determine the revenue they should have received because contractor reports did not distinguish between the following items: paying and non-paying vehicles; refunds; and sales of $12 versus $50 parking passes. NASM staff had not received an accurate contractor report which could be compared to the revenue data on any of the three reports provided by the contractor. Therefore, they could not accurately determine whether the revenues received from the parking contractor agreed with the types of transactions processed each month.

From December 2003 to January 2004, NASM received revenue data only on the posted daily income report. NASM staff could not determine from this report if revenue was received for all vehicles which should have paid, because the report lacked a vehicle count.

Beginning in February 2004, NASM and contractor officials developed more detailed report formats, and the contractor began submitting a spreadsheet called the Smithsonian "count log." NASM staff determined sales by type of ticket, the number of non-revenue transactions, and the number of refunds from the "count log." The contractor then went back and produced the "count log" reports for December 2003 and January 2004 activity and submitted them to NASM. NASM and contractor officials later determined that the "count log" underreported sales of $50 annual passes for December 2003 and January 2004. NASM and the contractor determined that for those two months, the contractor's "count log" understated revenue from $50 annual pass sales by $31,344. This amount represents approximately two percent of the total revenue of $1,527,743 for sales of both $12 daily passes and $50 annual passes during that period. NASM also determined that the "count log" contained inaccurate vehicle counts, which prevented NASM from comparing vehicle counts to revenues received.

NASM was unable to reconcile vehicle activity to revenues received from the contractor, because the contractor's reports from December 2003 to January 2004 were not formatted to meet NASM's needs. The contractor reports did not distinguish between paying and non-paying vehicles, refunds, and sales of $12 versus $50 parking passes, because NASM officials had not included these requirements in the contract. The contract only required the contractor to report (1) the revenue and number of tickets generated by booth, shift, and day; (2) a list of dates and preset dollar amounts transferred from the contractor's bank account to the Smithsonian's bank account; (3) a bill if funds were over-transferred or a check if funds were under-transferred; and (4) an itemized bill of any after-hour parking services approved and provided. According to NASM management, they formulated their contractor report requirements based on input from their parking experts. They said their parking experts told them that the reports proposed by the parking contractor represented the industry standard. NASM did not realize until they started working with the reports that they needed a different report format to distinguish between paying and non-paying vehicles, refunds, and sales of $12 versus $50 parking passes. Once NASM management realized the need for a vehicle count report to match against revenues received, it requested one, but the contractor was unable to provide a report with accurate vehicle counts. NASM management told us that there appeared to be communication problems within the contractor's organization which were delaying the production of reports which would meet NASM's needs. During the audit, NASM management discontinued the sale of $50 passes and developed written procedures for reconciling revenues received to vehicle counts from the parking contractor.

We determined that NASM should have received approximately $1,527,743 from the sale of $12 daily passes and $50 annual passes from December 15, 2003 to March 31, 2004. NASM actually received $1,528,435, or an overpayment of $692. This amount represents less than 1 percent of the revenue NASM should have received. NASM should have received $59,708 from the sale of $50 annual passes from December 2003 to January 2004; however, NASM actually received $28,364, an underpayment of approximately $31,345 (52 percent).

Conclusion

NASM could strengthen controls over its parking contractor by requiring more meaningful data from its contractors. NASM has started to improve its controls by working with the contractor to provide reports that meet its needs.

Recommendations

We recommended that the Director, National Air and Space Museum ensure that his staff amend the contract with the parking contractor to provide accurate revenue reports containing relevant information and reconcile the revenue it should have received to the revenue it actually received.

Management Comments

Concur. During our FY05 contract negotiations, which will be completed December 31, 2004, we will incorporate additional reports that will meet the Inspector General's stated recommendations.

Office of the Inspector General Response

The Director's plan of action, if implemented, is responsive to our recommendation.

B. NASM Parking Procedures

NASM's parking procedures allow some visitors to park their vehicles without paying, which decreases parking revenue and increases the risk of cashier theft and visitor non-payment. NASM's procedures provide an opportunity for cashiers to explain improper behavior, such as unrecorded sales, as legitimate non-payment transactions. The procedures also provide visitors with a motivation to broadly interpret non-payment rules to their advantage. As a result of these procedures, NASM is not receiving approximately 13 percent of the monthly revenue it could have received from parking fees. The procedures also increase the risk of lost revenue from undetected cashier theft and visitor non-payment schemes. NASM management told us that they have eliminated several types of non-payment transactions.

Background

From December 15, 2003, to March 31, 2004, 18,636 visitors out of a total of 147,411 visitors, or 13 percent, were allowed to park in the parking lot without paying. The parking contractor collected a total of $1,545,300 for $12 parking passes but would have collected $1,768,932 if all these visitors were charged.

In our discussions with the parking contractor, they advised that non-revenue transactions were not standard practice and could decrease control over parking operations. In addition, the International Parking Institute publication, *Parking 101- A Parking Primer*, states the following: Non-revenue tickets should be controlled by requiring cashiers to itemize non-revenue tickets for each shift and supervisors should itemize them for each daily report. When a type of non-revenue ticket is increasing in frequency, the cause may be fraudulent. The documentation of all non-revenue tickets facilitates the early detection of possible problems.

Results

NASM policy permits approximately 13 percent of vehicles to enter the Udvar-Hazy Center each month without paying, which decreases the revenues received from the Center's parking facility. NASM's policy allowed people to pick up and drop off visitors, and allowed visitors to re-enter the Center's parking lot without paying. These transactions totaled on average approximately $56,000 per month in potential revenue.

The contractor's procedures called for reconciliation of sales, returns, and exceptions (non-revenue transactions) to cash received. The procedures did not require the cashiers to retain physical documentation -- such as ticket stubs -- for non-revenue transactions. Instead, the procedures required the cashiers to identify the type of non-revenue transactions on a "Free Item Log." NASM management decided to allow re-entry of visitors due to the limited food options at the Center. NASM management wanted visitors to be able to leave, eat lunch, and then return because there was only one food vendor at the Center.

NASM's policy to allow non-revenue transactions and the parking contractor's procedures together increased the risk that cashiers could charge a visitor $12 for a daily parking pass and pocket the money without detection. The cashier could record the transaction on their Free Item Log as a non-revenue transaction -- such as a re-entry --

and a supervisory review of their "Free Item Log" would not detect the theft. NASM management told us that they had eliminated the practice of allowing visitors to leave and return on a daily parking pass and they had eliminated other groups of non-revenue transactions. NASM management told us that there were legitimate non-revenue visitors such as employees or their identified contractors, special guests, representatives of Metropolitan Washington Airports Authority on official business, tour buses, and hotel vans. NASM is determining whether to continue to allow free drop off of visitors not parking at the Center.

Conclusion

NASM could decrease the number of non-revenue transactions and the risk of lost revenue by requiring the contractor to document non-revenue transactions. For example, cashiers could be required to maintain existing numbered ticket stubs as evidence of non-revenue transactions. Improved signage, by directing visitors to non-payment lanes where applicable, may also reduce lost revenue from non-paying visitors. NASM management told us that a contract has been executed to improve signage beginning in August 2004. Periodic reviews of the supporting documentation for non-revenue transactions could also deter improper cashier behavior.

Recommendation

We recommended that the Director, National Air and Space Museum instruct the contractor to strengthen their procedures to ensure non-revenue transactions are legitimate.

Management Comments

Concur. We will review our current non-revenue options and increase controls as necessary by December 31, 2004.

Office of the Inspector General Response

The Director's plan of action, if implemented, is responsive to our recommendation.

C. Smithsonian Business Ventures Contracting Procedures

SBV did not have its practices documented in the form of written procedures. SBV management told us the contracts with its vendors represented its contracting procedures. One of the two SBV concession contractors at the Center did not submit monthly management reports and did not promptly remit the revenue it could have remitted as a result.

Background

Smithsonian Directive 115, *Management Controls*, and OMB Circular A-123, *Management Accountability and Control*, define management controls to include policies and procedures to ensure reliable data are obtained, maintained, reported, and used for sound decision-making. In addition, Smithsonian Directive 115 refers to management controls cited in OMB Circular A-123. These controls include policies and procedures used by managers to ensure that programs achieve their intended results and that resources are protected from the risks of waste, fraud, and mismanagement.

SBV had to bring in a new, temporary, concession contractor to the Center due to ongoing negotiations with the original concession contractor and the need to put a food and beverage vendor in place by the Center's opening date. A two-page memorandum of understanding was the initial agreement between the Institution and the temporary concession contractor. SBV and the temporary concession contractor intended to replace the memorandum of understanding with a more detailed contract, which was awaiting signature at the time of our audit. The temporary concession contractor also submitted weekly sales figures to SBV.

Results

We found that SBV did not have written procedures to manage concession contracts and contractors. In fact, we found that SBV generally lacked written contracting procedures. SBV management had not established written contracting procedures because they believed that the language in the concession contracts represented their contracting procedures. Although the contract terms might complement contracting procedures, they are not a substitute for them. The Office of Contracting demonstrated the use of written procedures in the case of the parking contractor overseen by NASM personnel. In that instance, the Office of Contracting issued the Contracting Officer's Technical Representatives a list of responsibilities for monitoring the contractor's performance.

Written contracting procedures could have provided SBV guidance on the key elements to include in the memorandum of understanding, such as reporting and remittance instructions. The memorandum of understanding did not require the contractor to report or remit funds within specified time frames. The lack of written contracting procedures, combined with the hurried drafting of the memorandum of understanding to hire a short-term food and beverage vendor, resulted in a memorandum of understanding that failed to address monthly reporting or remitting funds to SBV.

These omissions increased the likelihood that the contractor would not send SBV monthly activity reports or remit revenue to SBV monthly. The contractor did submit weekly sales figures to SBV's Concessions Director and the contractor remitted $92,179 in concession revenue for the period from December 15, 2003, to March 31, 2004, to SBV on April 1, 2004.

Conclusion

Written contracting procedures are a best practice for communicating expectations to employees who manage contractors. We believe that such procedures could provide detailed instructions for SBV personnel and provide the opportunity to clarify responsibilities between SBV units. For example, the duties for following up and monitoring contractors between SBV's operational and accounting personnel could be more fully explained in the procedures. Such procedures can increase the accuracy and timeliness of contractor revenue reports, improve revenue, reduce risk, and provide the basis for sound decisions.

Recommendation

We recommended that the Chief Executive Officer for SBV ensure that his staff develops written contracting procedures for monitoring contractor performance.

Management Comments

Concur. SBV will establish written contract administration policies and procedures for all Business Units by January 1, 2005.

Office of the Inspector General Response

The Chief Executive Officer's plan of action, if implemented, is responsive to our recommendation.

APPENDIX A

WRITTEN COMMENTS BY THE DIRECTOR, NATIONAL AIR AND SPACE MUSEUM

Smithsonian
National Air and Space Museum

Memo

Office of the Director

Date August 19, 2004

To Thomas D. Blair
Inspector General

From J.R. Dailey
Director

Subject Revised Draft Report on the Audit of Steven F. Udvar-Hazy Center Business Activities

We have reviewed your August 10, 2004 Draft Report on the Udvar-Hazy Center's business activities. We concur with recommendation #1, and during our FY05 contract negotiations, we will incorporate additional reports that will meet the Inspector General's stated recommendations. For recommendation #2, we concur with the recommendations and will review our current non-revenue options and increase controls as necessary.

We look forward to working with your staff to bring this report to completion.

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WRITTEN COMMENTS BY THE CHIEF EXECUTIVE OFFICER, SMITHSONIAN BUSINESS VENTURES

Smithsonian Business Ventures

Gary Beer
Chief Executive Officer

August 11, 2004

Mr. Thomas D. Blair
Inspector General
Smithsonian Institution
Victor Building
Suite 4200
750 Ninth Street, N.W.
Washington, D.C. 20560-0905

Dear Mr. Blair:

I have reviewed your revised draft report on the Audit of Accounting for Business Activities at the Steven F. Udvar-Hazy Center dated August 10, 2004.

We concur with your recommendation that the Chief Executive Officer for SBV ensure that written contracting procedures for reporting and reconciling revenue from contractors be developed. SBV will establish contract administration policies and procedures in writing for all Business Units. Our goal is to have this completed by January 1, 2005.

Very truly yours,

Gary M. Beer

Gary M. Beer

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