



Cotton & Company LLP  
635 Slaters Lane  
4<sup>th</sup> Floor  
Alexandria, VA 22314

P: 703.836.6701  
F: 703.836.0941  
www.cottoncpa.com

## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

December 22, 2006

To the Audit and Review Committee of the Smithsonian Board of Regents:

Cotton & Company LLP performed the procedures enumerated below, which were agreed to by the Smithsonian Institution Office of the Inspector General and the Institution's Chief Financial Officer, solely to assist you in evaluating compensation of the Secretary of the Smithsonian Institution and in determining if travel and other reimbursable expenditures incurred by the Secretary were reasonable in the context of a business expense related to the Smithsonian mission. The Smithsonian was responsible for preparing the four schedules provided for our review: Schedule of Expenditures of the Office of the Secretary, Schedule of Compensation for the Secretary of the Smithsonian Institution, Schedule of Housing Allowances for the Secretary of the Smithsonian Institution, and Schedule of Donations from the Secretary to the Smithsonian Institution.

We conducted this agreed-upon procedures engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of procedures described below either for the purpose for which this report has been requested or for any other purpose.

### OBJECTIVES

The Smithsonian identified its overall objectives as follows:

1. Determine if transactions included on the Schedule of Expenditures were properly supported.
2. Determine if transactions included on the Schedule of Expenditures were valid business expenses related to the Smithsonian mission or were not incurred in accordance with Smithsonian policies and guidance.
3. Verify total compensation paid to the Secretary of the Smithsonian, to include, if applicable:
  - Salary
  - Bonuses
  - Benefits
  - Housing allowances
  - Honoraria
  - Loans or cash advances
  - Housing or relocation expenses

- Automobile allowances
  - Other remuneration or compensation, including severance and deferred compensation
4. Verify the total amount of donations or securities contributions made by the Secretary to the Institution.
  5. Verify the total amount of related matching gifts associated with the Secretary's donations to the Smithsonian.

#### **BACKGROUND AND SCOPE**

The Secretary of the Smithsonian, on behalf of the Audit and Review Committee of the Board of Regents, requested an independent third-party review of the Secretary's expenditures and compensation. The Smithsonian contracted with Cotton & Company to review the Schedules of Expenditures, Compensation, Housing Allowances, and Donations prepared by the Smithsonian's Chief Financial Officer (CFO). The period of the agreed-upon procedures was Fiscal Years (FYs) 2000 through 2005.

To gain an understanding of the requirements of this agreed-upon procedures engagement, Cotton & Company met with the acting Inspector General (IG) and senior managers from other Smithsonian organizations on July 26, 2006, and on subsequent dates as necessary. We reviewed schedules prepared by the Smithsonian Office of the Chief Financial Officer, as well as the supporting documentation. We also interviewed Smithsonian officials who assist with daily administration and operation of the Secretary's office.

In addition, we reviewed policies and procedures, references, handbooks, and memorandums provided by the Smithsonian as guidance to assist us in performing the agreed-upon procedures (See Appendix A for a comprehensive list of references and guidance.) To the extent that the Secretary's employment agreement did not address, or was ambiguous regarding, reimbursement of certain expenditures, we obtained clarification from the Secretary's office and the Board of Regents on the intent of that agreement. We provided periodic status updates to the acting IG and Smithsonian staff, as well as the draft report documenting the results of our agreed-upon procedures.

#### **AGREED-UPON PROCEDURES AND RESULTS**

##### **A-1. Trace all expenditures reported on the Schedule of Expenditures<sup>1</sup> to source documentation to determine if expenditures were properly supported.**

The Smithsonian provided adequate documentation to support 998 of the 1,040 transactions we reviewed. Documentation could not be located for 12, and available documentation for the other 30 was not adequate to substantiate the business validity of the transaction. These unsupported transactions are identified in Schedule B-1. We classified the supported transactions as either travel reimbursement or other, as follows:

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<sup>1</sup> The Schedule of Expenditures was prepared by the Smithsonian and was not reviewed by Cotton & Company for completeness.

<u>Cost Category</u>	<u>Number of Transactions</u>	<u>Dollar Value of Transactions</u>
Travel	260	\$298,735.28
Other	738	519,011.48
Unsupported	<u>42</u>	<u>28,565.58</u>
Total	<u>1,040</u>	<u>\$846,312.34</u>

**A-2. Review supporting documentation for all transactions identified on the Schedule of Expenditures to identify expenses not fulfilling the Smithsonian mission or not incurred in accordance with Smithsonian policies and guidance provided by Smithsonian staff.**

Smithsonian policies and guidance provided to us are listed in Appendix A. We identified unauthorized transactions totaling \$89,554.61 that were not incurred within limits prescribed by Smithsonian policies and guidance or that did not appear necessary to fulfill the Smithsonian mission. Detail for those transactions and the reason why each item was identified as unauthorized is provided in Schedule B-2.

**B-1. Trace amounts reported on the Schedule of Compensation<sup>2</sup> to taxable wage amounts reported on IRS Forms 990 (Non-Profit Tax Returns), Smithsonian's Statements of Earnings and Leave, Secretary's IRS Form W-2s (Record of Compensation), and employment agreement.**

Amounts shown on the Schedule of Compensation were supported by Smithsonian Statements of Earnings, IRS Form W-2s, and employment agreement. Amounts reported on the W-2s reconciled to the Smithsonian's Statement of Earnings and Leave, both of which are on a *calendar year* basis. Amounts reported on the Smithsonian's Statement of Earnings and Leave converted to a *fiscal year* basis did not, however, reconcile to taxable wage amounts reported on the Forms 990 for several fiscal years, as follows:

	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Taxable wage amounts on Form 990	\$356,700	\$655,904	\$746,069	\$746,713	\$790,440	\$819,323
Statement of Earnings and Leave	<u>356,700</u>	<u>649,176</u>	<u>731,947</u>	<u>745,606</u>	<u>827,196</u>	<u>819,322</u>
Difference	<u>\$0</u>	<u>\$6,728</u>	<u>\$14,122</u>	<u>\$1,107</u>	<u>\$(36,756)</u>	<u>\$1</u>

The Schedule of Compensation did not include expenditures for honoraria, loans or cash advances, or automobile advances.

<sup>2</sup> The Schedule of Compensation was prepared by the Smithsonian and was not reviewed by Cotton & Company for completeness.

**B-2. Trace amounts reported on the Schedule of Housing Allowances<sup>3</sup> to supporting documentation as follows to ensure existence of actual expenditures:**

We performed the following verifications:

Type of Reimbursement	Verification Performed
Utilities	Traced a sample of 2 transactions each year to supporting invoices
Insurance	Traced all transactions to supporting invoices
Real Estate Taxes	Traced all transactions to supporting invoices
Grounds Service	Traced all transactions over \$2,000 to supporting invoices
Cleaning (Housekeepers)	Traced total cost to the housekeepers' W-2s and the Employment Quarterly Contribution and Wage Report (unemployment tax)
Maintenance	Traced all transactions over \$2,000 and 5 transactions under \$2,000 to supporting invoices
Mortgage Interest or Equivalent Cost of Home Ownership*	No testing was performed

\* This is an imputed cost on the Schedule of Housing Allowances based on the \$3,488,095 estimated market price of the Secretary's home at the time his employment agreement was signed and the average interest rate of 8.32% for a 30-year fixed-rate mortgage at that time. Because this imputed cost was based on those assumptions, we did not perform testing on the calculation.

All expenditures tested were supported by invoices, work orders, receipts or payroll records.

**B-3. Compare the annual housing allowance ceiling (as reported on the Secretary's employment agreement) to costs incurred and imputed as reported on the Schedule of Housing Allowances.**

The ceiling identified in the Secretary's employment agreement is reported as "\$150,000 per year...for up to fifty percent (50%) of the actual costs of his housing." The housing allowance ceiling was increased each year as part of the Secretary's compensation package. Because the housing allowance is approved on an annual calendar year basis, we compared the ceiling to costs incurred each calendar year.

In each year, incurred and imputed costs reported on the Schedule of Housing Allowances exceeded the ceiling allowance. A summary of these costs follows:

	CY 2000	CY 2001	CY 2002	CY 2003	CY 2004	CY 2005
Costs Incurred	\$132,441	\$156,333	\$151,441	\$162,456	\$159,263	\$139,103
Imputed Costs	<u>290,208</u>	<u>290,208</u>	<u>290,208</u>	<u>290,208</u>	<u>290,208</u>	<u>290,208</u>
Total Costs	\$422,649	\$446,541	\$441,649	\$452,664	\$449,471	\$429,311
50% of Total Costs	\$211,325	\$223,270	\$220,824	\$226,332	\$224,736	\$214,656
Ceiling	\$150,000	\$150,000	\$157,155	\$162,027	\$169,172	\$179,322

A significant portion of the Secretary's housing costs are imputed as described above. The Board of Regents clarified that it intended that these amounts be considered "equivalent costs of home ownership" and thus reimbursable in accordance with the employment agreement.

<sup>3</sup> The Schedule of Housing Allowances was prepared by the Smithsonian and was not reviewed by Cotton & Company for completeness.

**B-4. Compare the annual housing allowance ceiling (as reported on the Secretary's employment agreement) to actual payments made to the Secretary.**

Payments to the Secretary were made periodically, based on the employment agreement ceiling, instead of on documented actual expenses. While incurred and imputed costs did exceed the ceiling, differences were noted between ceilings and actual payments (based on the Secretary's Statements of Earnings and Leave), as follows:

	CY 2000	CY 2001	CY 2002	CY 2003	CY 2004	CY 2005
Ceiling	\$150,000	\$150,000	\$157,155	\$162,027	\$169,172	\$179,322
Actual payments made to the Secretary	<u>150,000</u>	<u>150,000</u>	<u>156,558</u>	<u>162,027</u>	<u>140,977</u>	<u>179,322</u>
Ceiling Amount Exceeding Payments	<u>\$0</u>	<u>\$0</u>	<u>\$597</u>	<u>\$0</u>	<u>\$28,195</u>	<u>\$0</u>

**C-1. Trace all amounts from the Schedule of Donations<sup>4</sup> (cash or securities) to acknowledgement letters from the Smithsonian and accounting records documenting receipt of the transaction (i.e., general ledger) to determine if the amounts were accurately recorded. Trace all securities transactions on the Schedule of Donations to available supporting documentation to ensure that transactions were appropriately valued. Trace all matching gifts made by third parties contingent upon the Secretary's donations to available supporting documentation and accounting records documenting receipt of the transaction.**

Amounts reported on the Schedule of Donations represented four types of transactions, as shown below:

Transaction Type	Number of Transactions	Dollar Value of Transactions
Secretary's Cash Donations	7	\$2,938.31
Secretary's Securities Donations	8	426,355.67
Third-Party Matching Donations	11	120,000.00
In-Honor-Of Donations	<u>11</u>	<u>55,000.00</u>
Total	<u>37</u>	<u>\$604,293.98</u>

We traced all transactions to supporting documentation and traced receipts to the Smithsonian general ledger. Amounts were accurately recorded and valued. The general ledger balance for donations did not reflect receipts for 2 transactions totaling \$321. Transactions listed as "In Honor Of" were not contributions of the Secretary or matching contributions; we did, however, trace amounts to supporting documentation and verified receipt.

<sup>4</sup> The Schedule of Donations was prepared by the Smithsonian and was not reviewed by Cotton & Company for completeness.

**D-1. Obtain management representation letters from Smithsonian management and from the Board of Regents to confirm to the best of their knowledge that representations were accurate and pertained to the period under review.**

We requested and received management representation letters from Smithsonian management and representatives from the Board of Regents.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of opinions on the Schedules described in the first paragraph. Accordingly, we do not express such opinions. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. This report is intended solely for the information and use of the Office of the Inspector General and the Smithsonian Board of Regents and is not intended to be and should not be used by anyone other than these specified parties.

COTTON & COMPANY LLP



Sam Hadley, CPA, CGFM  
Partner

**APPENDIX A**

**REFERENCE MATERIAL AND GUIDANCE PROVIDED BY THE  
SMITHSONIAN INSTITUTION**

**APPENDIX A**  
**REFERENCE MATERIAL AND GUIDANCE PROVIDED BY THE**  
**SMITHSONIAN INSTITUTION**

FY 1999 Federal Salaries & Expenses and Unrestricted General Trust Fund Budget Allocations, Attachment 6 - Use of Trust Funds for Representational and Special Event Expenses

Use of Trust Funds for Representational and Special Event Expenses, FY 2005 401 Allocation Memorandum

Trust Budget Allocations and Spending Plans, FYs 2000-2005

Decision Brief for the Under Secretary, August 4, 1998

Smithsonian Institution Travel Policies and Procedures Manual, in effect from June 29, 2000 through May 22, 2005

Smithsonian Directive (SD) 312, Travel, May 23, 2005

Smithsonian Institution Travel Handbook, May 23, 2005

Smithsonian Institution Employment Agreement for the Secretary

Smithsonian Institution: Compensation for Secretary Lawrence M. Small, Executive Committee of the Board of Regents, FYs 2001-2005

Smithsonian Directive (SD) 213, Trust Personnel Handbook, Common Types of Incentive Awards

OIG's Conclusions on the Applicability of Smithsonian Travel Policies, September 28, 2006

Interpretation of Paragraph 7 of Secretary Small's Employment Agreement, October 11, 2006



**APPENDIX B**

**SCHEDULE OF UNSUPPORTED AND INADEQUATELY SUPPORTED TRANSACTIONS**

**SCHEDULE OF UNAUTHORIZED TRANSACTIONS**

**SCHEDULE B-1**  
**SCHEDULE OF UNSUPPORTED AND INADEQUATELY SUPPORTED TRANSACTIONS**

<b>Invoice Date</b>	<b>Vendor</b>	<b>Amount</b>	<b>Status of Support</b>
01/05/2000	Fredrick Miley & Assoc.	\$46.00	No invoice, purchase order only
01/05/2000	Fredrick Miley & Assoc.	2,774.50	No invoice, purchase order only
01/07/2000	Hodges Original	6,442.80	No invoice, purchase order only
01/11/2000	L'enfant AP	327.35	No invoice, memo only
01/11/2000	L'enfant AP	944.43	No invoice, memo only
01/26/2000	Shepherd Electric Co, Inc.	4,600.00	No invoice, purchase order only
02/07/2000	SI	202.13	Invoices of \$57.19 are illegible
02/17/2000	Travel (Citibank Account)	212.00	No documentation provided
03/01/2000	Travel (Citibank Account)	97.00	No invoice, SFS invoice only
03/14/2000	Lawrence M. Small	124.59	No invoice, memo only
03/14/2000	Lawrence M. Small	142.00	No invoice, memo only
03/23/2000	Travel (Citibank Account)	2,493.80	No documentation provided
03/27/2000	Lawrence M. Small	287.53	No invoice, memo only
03/27/2000	L'enfant AP	287.53	No documentation provided
04/05/2000	August Georges	70.00	No invoice, purchase order only
04/05/2000	August Georges	2,043.00	No invoice, purchase order only
04/18/2000	ACE Beverage	138.58	No invoice, event schedule only
04/18/2000	Party Rentals, Ltd.	587.43	No invoice, event schedule only
04/27/2000	Bernhard Furniture	400.00	No invoice, purchase order only
04/27/2000	Bernhard Furniture	427.00	No invoice, purchase order only
05/25/2000	Lawrence M. Small	212.50	No invoice, memo only
06/09/2000	Lawrence M. Small	277.05	No documentation provided
06/27/2000	Lawrence M. Small	443.80	No invoice, memo only
08/31/2000	Palace Florist	115.27	Inadequately documented business purpose
09/25/2000	Travel (Citibank Account)	97.00	No documentation provided
10/03/2000	Travel (Citibank Account)	108.00	No documentation provided
10/20/2000	Lawrence M. Small	402.32	No documentation provided
10/25/2000	Lawrence M. Small	108.00	No documentation provided
10/31/2000	Palace Florist	117.00	Inadequately documented business purpose
01/12/2001	Travel (Citibank Account)	91.50	No receipt, wrong receipt provided
04/18/2001	Travel (Citibank Account)	91.50	No receipt, wrong receipt provided
04/18/2001	Travel (Citibank Account)	91.50	No receipt, travel voucher only
09/19/2001	ACE Beverage	3.31	No documentation provided
09/30/2001	Catering By Windows	2,487.38	No documentation provided
03/05/2002	Restaurant Associates	100.00	Inadequately documented business purpose
04/02/2002	Restaurant Associates	100.00	No documentation provided
05/03/2002	Travel (Citibank Account)	150.50	Travel voucher, no receipts
09/14/2002	Restaurant Associates	100.00	Inadequately documented business purpose
01/17/2003	Citibank	184.00	Travel authorization only
12/19/2003	Citibank	532.50	No documentation provided
04/06/2004	Palace Florist	18.15	Inadequately documented business purpose
07/25/2005	Citibank	86.63	No invoice, credit card statement only
		<b><u>\$28,565.58</u></b>	

**SCHEDULE B-2**  
**SCHEDULE OF UNAUTHORIZED TRANSACTIONS**

**TRAVEL COSTS**

Invoice Date	Vendor	Total Amount	Unauthorized Amount	Description	Reason (see Note)
11/30/2000	Citibank (South Dakota), N.A.-	\$1,408.70	\$1,348.75	Charter flight from Washington, DC, to Lackawanna Station, PA	A
05/22/2001	Martin Air, Inc.	5.50	5.50	Charter flight cost: domestic segment fee	A
05/22/2001	Martin Air, Inc.	272.00	272.00	Charter flight cost: net of fuel surcharge and credit for flight delay	A
05/22/2001	Martin Air, Inc.	650.00	650.00	Charter flight cost: landing/parking	A
05/22/2001	Martin Air, Inc.	1,000.00	1,000.00	Charter flight cost: aircraft overnight	A
05/22/2001	Martin Air, Inc.	1,011.90	1,011.90	Charter flight cost: Federal excise tax	A
05/22/2001	Martin Air, Inc.	11,570.00	11,570.00	Charter flight cost for round trip from Washington to San Antonio	A
12/23/2003	Lawrence M. Small	67.06	67.06	Hotel, Chantilly VA	B
07/15/2004	Sandra H. Small	17,274.75	<u>5,764.00</u>	Trip to Cambodia: tour package	C
			<u>\$21,689.21</u>		

**OTHER COSTS**

Invoice Date	Vendor	Total Amount	Unauthorized Amount	Description	Reason (see Note)
02/08/2000	L'enfant AP	\$2,716.03	\$149.05	Lunches and spousal privilege fee	D,E
03/01/2000	SI	339.31	47.63	Meal with NASM director	E
04/06/2000	Occasions Caterers, Inc.	334.50	334.50	Lunch with Director of Policy & Analysis	E
05/23/2000	Design Cuisine	414.00	414.00	Staff breakfast	E
05/25/2000	Splendid Fare Catering	321.75	321.75	Lunch with development officer	E
05/31/2000	Design Cuisine	430.00	430.00	Staff breakfast	E
06/02/2000	Design Cuisine	414.00	414.00	Staff breakfast	E
06/10/2000	Design Cuisine	405.50	405.50	Staff breakfast	E
06/10/2000	Design Cuisine	421.50	421.50	Staff breakfast	E
06/21/2000	Design Cuisine	421.50	421.50	Staff breakfast	E
07/05/2000	Design Cuisine	421.50	421.50	Staff breakfast	E
07/14/2000	Design Cuisine	421.50	421.50	Staff breakfast	E
07/25/2000	ACE Beverage	193.81	5.96	Water, Secretary's direct report dinner	E
07/25/2000	Allan Woods Flowers/Gifts, Inc.	325.00	325.00	Flower arrangement, Secretary's direct report dinner	E

**SCHEDULE B-2**  
**SCHEDULE OF UNAUTHORIZED TRANSACTIONS**

**OTHER COSTS (CONTINUED)**

Invoice Date	Vendor	Total Amount	Unauthorized Amount	Description	Reason (see Note)
07/25/2000	Party Rentals, Ltd.	\$580.81	\$580.81	Flatware, tables, china, glassware rental for the Secretary's direct reports dinner	E
07/25/2000	Harvest Moon Inc T/A Equinox	1,239.00	1,239.00	Catering for the Secretary's direct reports dinner	E
07/26/2000	Susan Gage Caterers	1,932.00	1,932.00	Catering for the Secretary's direct reports	E
08/02/2000	Design Cuisine	421.50	421.50	Staff breakfast	E
08/14/2000	Design Cuisine	421.50	421.50	Staff breakfast	E
08/14/2000	Design Cuisine	421.50	421.50	Staff breakfast	E
09/15/2000	Design Cuisine	449.00	449.00	Staff breakfast	E
09/26/2000	Design Cuisine	497.00	497.00	Staff breakfast	E
10/03/2000	Design Cuisine	497.00	497.00	Staff breakfast	E
10/24/2000	Design Cuisine	497.00	497.00	Staff breakfast	E
11/08/2000	Design Cuisine	561.50	561.50	Staff breakfast	E
11/10/2000	Design Cuisine	286.00	286.00	Lunch with SI management	E
01/17/2001	Design Cuisine	505.00	505.00	Staff breakfast	E
01/29/2001	Design Cuisine	497.00	497.00	Staff breakfast	E
02/05/2001	Design Cuisine	497.00	497.00	Staff breakfast	E
02/05/2001	Design Cuisine	739.00	739.00	Staff farewell breakfast	E
02/20/2001	Design Cuisine	497.00	497.00	Staff breakfast	E
03/07/2001	Design Cuisine	497.00	497.00	Staff breakfast	E
03/12/2001	Design Cuisine	497.00	497.00	Staff breakfast	E
03/12/2001	Design Cuisine	497.00	497.00	Staff breakfast	E
03/14/2001	Design Cuisine	497.00	497.00	Staff breakfast	E
03/16/2001	Restaurant Associates	150.00	150.00	Luncheon with SI museum directors	E
04/03/2001	Design Cuisine	533.00	533.00	Staff breakfast	E
04/06/2001	Design Cuisine	497.00	497.00	Staff breakfast	E
04/09/2001	Restaurant Associates	1,052.00	1,052.00	Staff breakfast	E
04/24/2001	Design Cuisine	533.00	533.00	Staff breakfast	E
04/25/2001	Design Cuisine	533.00	533.00	Staff breakfast	E
04/27/2001	Restaurant Associates	100.00	100.00	Luncheon with director of HMSG	E
05/01/2001	Design Cuisine	449.00	449.00	Staff breakfast	E
05/03/2001	Design Cuisine	533.00	533.00	Staff breakfast	E
05/08/2001	Design Cuisine	506.00	506.00	Staff breakfast	E
06/05/2001	Design Cuisine	533.00	533.00	Staff breakfast	E
06/19/2001	Design Cuisine	508.50	508.50	Staff breakfast	E
06/22/2001	Design Cuisine	506.00	506.00	Staff breakfast	E
07/02/2001	Design Cuisine	506.00	506.00	Staff breakfast	E
07/05/2001	Harvest Moon Inc.	1,100.00	1,100.00	Luncheon for direct reports	E
07/10/2001	Design Cuisine	1,127.00	1,127.00	Secretary's tea for the Under Secretary's staff	E
07/18/2001	Design Cuisine	533.00	533.00	Staff breakfast	E
07/25/2001	Allan Woods	225.00	225.00	Luncheon for direct reports	E
07/30/2001	Restaurant Associates	411.60	411.60	Luncheon with the Under Secretary's directors	E

**SCHEDULE B-2**  
**SCHEDULE OF UNAUTHORIZED TRANSACTIONS**

**OTHER COSTS (CONTINUED)**

Invoice Date	Vendor	Total Amount	Unauthorized Amount	Description	Reason (see Note)
07/31/2001	Party Rentals, Ltd.	\$304.56	\$304.56	China, glassware, flatware, and linens rental for direct reports luncheon	E
08/03/2001	Restaurant Associates	294.75	294.75	Luncheon with the Under Secretary's directors	E
08/14/2001	Design Cuisine	128.00	128.00	Service charges for canceled staff breakfast	E
09/25/2001	Design Cuisine	534.00	534.00	Staff breakfast	E
09/28/2001	Design Cuisine	555.50	555.50	Staff breakfast	E
10/16/2001	Restaurant Associates	376.00	376.00	Staff breakfast	E
10/26/2001	Design Cuisine	489.00	489.00	Staff breakfast	E
10/31/2001	Design Cuisine	412.00	412.00	Staff breakfast	E
11/02/2001	Design Cuisine	495.50	495.50	Staff breakfast	E
12/05/2001	Restaurant Associates	380.00	380.00	Staff breakfast	E
12/14/2001	Restaurant Associates	380.00	380.00	Staff breakfast	E
12/29/2001	Restaurant Associates	350.00	350.00	Service charges for canceled staff breakfast	E
01/09/2002	Restaurant Associates	365.00	365.00	Staff breakfast	E
02/05/2002	Restaurant Associates	380.00	380.00	Staff breakfast	E
03/04/2002	Restaurant Associates	100.00	100.00	Lunch with HMSG director	E
05/14/2002	Susan Gage Caterers	1,725.00	1,725.00	Dinner to welcome new director of development	E
05/18/2002	Restaurant Associates	585.00	585.00	Refreshments for direct reports and unit heads	E
05/23/2002	Allan Woods Flowers/Gifts, Inc.	340.00	340.00	Centerpiece, foyer arrangement, powder room for dinner to welcome new director of development	E
06/17/2002	Design Cuisine	406.00	406.00	Staff breakfast	E
06/25/2002	Design Cuisine	471.50	471.50	Staff breakfast	E
06/28/2002	SI	281.18	124.50	Dinner with development director	E
07/06/2002	Restaurant Associates	100.00	100.00	Luncheon with SAO director	E
07/20/2002	Restaurant Associates	100.00	100.00	Luncheon with acting NMNH director	E
09/14/2002	Restaurant Associates	400.00	400.00	Office of the Secretary staff lunch	E
09/23/2002	Harvest Moon Inc.	1,368.00	1,368.00	Direct reports dinner	E
09/25/2002	Design Cuisine	455.00	455.00	Staff breakfast	E
09/27/002	DC Party Rental LLC	775.20	775.20	Glassware, flatware, china, and linen rental for direct reports dinner	E
10/24/2002	Allan Woods	300.00	300.00	Flower arrangements for direct reports dinner	E
12/20/2002	Design Cuisine	427.50	427.50	Staff breakfast	E
01/15/2003	Restaurant Associates	100.00	100.00	Lunch with NMAH director	E
02/28/2003	Design Cuisine	462.00	462.00	Staff breakfast	E

**SCHEDULE B-2**  
**SCHEDULE OF UNAUTHORIZED TRANSACTIONS**

**OTHER COSTS (CONTINUED)**

Invoice Date	Vendor	Total Amount	Unauthorized Amount	Description	Reason (see Note)
03/08/2003	Restaurant Associates	\$100.00	\$100.00	Lunch with development director	E
03/15/2003	Restaurant Associates	100.00	100.00	Lunch with acting NMNH director	E
04/12/2003	Restaurant Associates	2,083.00 <sup>5</sup>	100.00	Lunch with NMAH director	E
06/28/2003	Restaurant Associates	100.00	100.00	Lunch with NMAH director	E
07/21/2003	Design Cuisine	453.00	453.00	Staff breakfast	E
07/21/2003	Design Cuisine	462.00	462.00	Staff breakfast	E
09/19/2003	Restaurant Associates	100.00	100.00	Lunch with NMAH director	E
10/06/2003	Restaurant Associates	100.00	100.00	Lunch with HMSG director	E
10/09/2003	Design Cuisine	466.50	466.50	Staff breakfast	E
10/24/2003	Restaurant Associates	350.00	350.00	Farewell lunch for the Under Secretary	E
12/04/2003	Restaurant Associates	300.00	300.00	Luncheon with SI employees	E
03/18/2004	Restaurant Associates	100.00	100.00	Lunch with NMAH director	E
05/27/2004	Restaurant Associates	100.00	100.00	Lunch with NMAH director	E
06/09/2004	Restaurant Associates	410.00	410.00	Staff breakfast	E
06/30/2004	Restaurant Associates	100.00	100.00	Lunch with FSG director	E
07/20/2004	Restaurant Associates	100.00	100.00	Lunch with NMAH director	E
07/26/2004	Lawrence M. Small	33.77	33.77	Breakfast with SBV Board Member	E
10/05/2004	Restaurant Associates	488.70	488.70	Staff breakfast	E
11/25/2004	Citibank	550.00	100.00	Lunch with NMAH director	E
03/14/2000	Lawrence M. Small	266.59	142.00	Meal in 1999	F
05/06/2000	ACE Beverage	15.99	15.99	Alcoholic beverages	G
05/17/2000	ACE Beverage	160.68	140.88	Alcoholic beverages	G
07/25/2000	ACE Beverage	193.81	187.85	Alcoholic beverages, Secretary's direct report dinner	G
09/18/2000	ACE Beverage	437.08	412.81	Alcoholic beverages	G
10/10/2000	ACE Beverage	253.33	248.86	Alcoholic beverages	G
11/21/2000	ACE Beverage	539.17	448.09	Alcoholic beverages	G
02/23/2001	ACE Beverage	163.38	163.38	Alcoholic beverages	G
05/24/2001	ACE Beverage	80.94	80.94	Alcoholic beverages	G
05/30/2001	ACE Beverage	260.54	238.83	Alcoholic beverages	G
11/05/2001	ACE Beverage	55.96	55.96	Alcoholic beverages	G
01/16/2002	ACE Beverage	107.92	107.92	Alcoholic beverages	G
05/14/2002	ACE Beverage	133.14	109.41	Alcoholic beverages	G
05/31/2002	ACE Beverage	161.27	142.89	Alcoholic beverages	G
09/24/2002	Ace Beverages	186.04	186.04	Alcoholic beverages	G
06/19/2004	Ace Beverages	139.88	139.88	Alcoholic beverages	G
01/22/2004	Restaurant Associates	100.00	100.00	Lunch for personal contact	H
03/18/2004	Restaurant Associates	100.00	100.00	Lunch for personal contact	H
04/08/2004	Restaurant Associates	100.00	100.00	Lunch for personal contact	H
05/21/2004	Restaurant Associates	100.00	100.00	Lunch for personal contact	H
10/25/2004	Citibank	580.00	200.00	Lunch for personal contact	H
07/25/2005	Citibank	950.00	100.00	Lunch for personal contact	H
06/02/2000	L'enfant AP	4,811.50	4,811.50	Cash award to the Executive Assistant to the Secretary	I

<sup>5</sup> Actual invoice and amount paid to the vendor were \$100. The \$2,083.00 was a system error.

**SCHEDULE B-2**  
**SCHEDULE OF UNAUTHORIZED TRANSACTIONS**

**OTHER COSTS (CONTINUED)**

Invoice Date	Vendor	Total Amount	Unauthorized Amount	Transaction Description	Reason (see Note)
06/30/2000	Palace Florist	\$690.70	\$690.70	Floral arrangements to former SI employees and balance forward on account	J
07/31/2000	Palace Florist	54.65	54.65	Floral arrangement to SI employee	J
09/15/2000	Palace Florist	164.23	164.23	Floral arrangement to SI employee	J
09/18/2000	SI	137.56	137.56	Gifts for donors	J
10/31/2000	Palace Florist	276.88	276.88	Floral arrangements to SI employees	J
11/21/2000	SI	269.85	19.96	Donor gifts	J
11/21/2000	SI	456.02	424.00	Gifts	J
11/30/2000	Palace Florist	275.90	275.90	Floral arrangements to SI employees	J
12/04/2000	SI	318.24	97.60	Donor gifts	J
12/30/2000	Palace Florist	212.95	212.95	Floral arrangement to SI employee	J
01/31/2001	Palace Florist	119.95	119.95	Floral arrangement to SI employee	J
02/22/2001	SI	136.85	52.56	Donor gifts	J
02/28/2001	Palace Florist	72.45	72.45	Floral arrangement to donor	J
04/03/2001	Palace Florist	118.70	118.70	Floral arrangement to donor	J
04/04/2001	SI	48.54	48.54	Books for a donor	J
05/31/2001	Palace Florist	112.95	112.95	Floral arrangement to former SI employee	J
06/30/2001	Palace Florist	315.95	315.95	Floral arrangement to SI employees	J
08/01/2001	SI	70.16	15.99	Gift for donor	J
10/31/2001	SI	349.98	349.98	Champagne and a gift basket for SI employees	J
12/06/2001	SI	26.00	26.00	Gift for a donor	J
12/31/2001	Palace Florist	325.90	325.90	Floral arrangement to SI employees	J
12/31/2001	Palace Florist	338.85	338.85	Floral arrangements to SI employees	J
02/28/2002	Palace Florist	577.70	577.70	Floral arrangements to SI employees, former employee, former Regent and spouse of donor	J
03/22/2002	SI	71.18	13.69	Gift for donor	J
03/22/2002	SI	80.00	40.00	Book for former Chair of SNB	J
03/30/2002	Palace Florist	340.90	340.90	Floral arrangements to spouse of employee, donor, and spouse of donor	J
04/30/2002	Palace Florist	388.85	388.85	Floral arrangements to SI employees	J
06/02/2002	Palace Florist	212.95	212.95	Floral arrangement to SI employee	J
07/16/2002	Palace Florist	338.85	338.85	Floral arrangements to SI employees and donor	J
08/30/2002	Palace Florist	112.95	112.95	Floral arrangement to SI employee	J
09/27/2002	SI	9.00	9.00	Museum ticket for donor	J
09/30/2002	Palace Florist	275.90	275.90	Floral arrangements to SI employees	J
10/31/2002	Palace Florist	501.80	501.80	Floral arrangements to SI employees and balance forward	J
11/30/2002	Palace Florist	285.90	285.90	Floral arrangements to former SI employee and Regent	J
12/31/2002	Palace Florist	35.00	35.00	Floral arrangement to SI employee	J
01/31/2003	Palace Florist	260.90	260.90	Floral arrangements to SI employees	J
03/31/2003	Palace Florist	27.95	27.95	Floral arrangement to donor	J
07/12/2003	Palace Florist	260.90	260.90	Floral arrangement to Regent and balance forward	J

**SCHEDULE B-2**  
**SCHEDULE OF UNAUTHORIZED TRANSACTIONS**

**OTHER COSTS (CONTINUED)**

Invoice Date	Vendor	Total Amount	Unauthorized Amount	Transaction Description	Reason (see Note)
08/31/2003	Palace Florist	\$66.57	\$66.57	Floral arrangement to SI employee	J
08/31/2003	Palace Florist	536.80	536.80	Floral arrangements to SI employee and a former Regent, includes balance forward	J
10/31/2003	Palace Florist	44.80	44.80	Floral arrangement to a supporter	J
11/30/2003	Palace Florist	224.60	224.60	Floral arrangements to donors	J
12/31/2003	Palace Florist	119.44	119.44	Floral arrangement to SI employee	J
03/31/2004	Palace Florist	158.05	158.05	Floral arrangement to former chair of SNB	J
04/06/2004	Palace Florist	242.75	242.75	Floral arrangement to former SI employee and balance forward	J
04/21/2004	Lawrence M. Small	257.60	257.60	Gift to chair of SNB	J
06/21/2004	Palace Florist	68.90	68.90	Floral arrangement to former Regent	J
06/26/2004	Palace Florist	163.95	163.95	Floral arrangement to former Regent	J
06/30/2004	Palace Florist	139.90	139.90	Floral arrangement to former SI employee	J
07/31/2004	Palace Florist	731.55	731.55	Floral arrangements to SI employees and a SNB board member, includes balance forward	J
09/15/2004	Palace Florist	114.95	114.95	Floral arrangement to SI employee	J
12/03/2004	Lawrence M. Small	404.76	404.76	Gifts to donors	J
12/25/2004	Citibank	1,806.76	664.96	Smithsonite for donors	J
01/25/2005	Citibank	114.95	114.95	Floral arrangement to SI employee	J
01/28/2005	Lawrence M. Small	458.04	248.51	Gift to a Regent	J
02/25/2005	Citibank	121.51	121.51	Floral arrangement to donor	J
03/25/2005	Citibank	174.38	174.38	Floral arrangement to SI employee	J
04/18/2005	Lawrence M. Small	20.79	20.79	Book for a Regent	J
04/25/2005	Citibank	242.01	242.01	Floral arrangements to donors	J
05/25/2005	Citibank	173.38	173.38	Floral arrangement to SI employee	J
06/22/2005	Lawrence M. Small	224.12	224.12	Floral arrangement to donor	J
06/25/2005	Citibank	265.31	265.31	Floral arrangements to SI employees	J
07/25/2005	Citibank	121.51	121.51	Floral arrangement to SI employee	J
08/11/2005	Lawrence M. Small	248.83	248.83	Gift to former Secretary of SI	J
08/25/2005	Citibank	492.57	492.57	Floral arrangements to SI employees	J
09/25/2005	Citibank	64.95	64.95	Floral arrangement to Regent staffer	J
			<u>\$67,865.40</u>		



**SCHEDULE B-2**  
**NOTES**

- A. The Secretary took charter flights from Washington, DC, to Scranton, Pennsylvania, on November 30, 2000, and from Washington, DC, to San Antonio, Texas, on May 22, 2001, to attend Smithsonian-related social functions. The Smithsonian travel policy states that travelers should select "the mode of transportation that is most advantageous to SI when cost and other factors are considered.", and that special conveyances (such as private aircraft) may be used if authorized. SI could not provide authorization for these flights. Justification for the San Antonio charter indicated that there were commercial flights available, but the charter flight was chosen because of concerns about potential flight delays.
- B. The Secretary had overnight accommodations at a hotel in Chantilly, Virginia, for Udvar-Hazy events on December 22, 2003. Chantilly is approximately 24 miles from the Secretary's Washington, DC, office, which is considered his official duty station. The Smithsonian's travel policy states that per diem starts when an employee departs his home, office, or duty station. Due to the proximity of the events, a Chantilly destination is considered local travel and thus not eligible for lodging reimbursement.
- C. The Secretary and his spouse attended a Smithsonian National Board (SNB) meeting in China in May 2004. Before returning to the United States, Mrs. Small took a side trip to Cambodia with the SNB, but without the Secretary. She later received reimbursement for that trip. The Smithsonian travel policy states that spouses of SI employees who are traveling to attend an official function may be authorized to travel if their services in an official capacity can be demonstrated in advance, and the travel is approved by the Under Secretary. Smithsonian representatives could not provide support to document that the trip was authorized in advance, or approved by the Under Secretary.
- D. The Secretary received reimbursement for his membership in the Cosmos Club, which provides the option of spousal privilege. The Secretary opted to pay the \$34 spousal privilege fee and was reimbursed from the Smithsonian for the year 2000. The Secretary's employment agreement does not authorize spousal privilege at Smithsonian expense, and Mrs. Small was not an employee who would be entitled to such membership.
- E. The Secretary frequently worked through lunch or dinner with his staff and charged meal costs on these occasions. He also hosted a number of staff breakfasts. The costs of these meals were charged to Funds 401 and 402. The 1999 Use of Trust Funds for Representational and Special Event Expenses, the Institution's official policy regarding the use of trust funds, states:

*Trust funds may not be used to cover costs of working luncheons involving only SI staff members.*

Further, it states:

*Smithsonian-provided meals are limited to occasions where they are judged essential to efficient, successful completion of the project.*

This guidance was updated on December 1, 2004, to state that trust funds can only be used for staff meetings and luncheons if "authorized for use by the Secretary...to support staff breakfast/lunch meetings." We therefore classified only those staff meal costs incurred before December 1, 2004, as unauthorized.

- F. The Secretary was reimbursed in March 2000 for a December 8, 1999, lunch with a Smithsonian employee. The Secretary was not yet a Smithsonian employee in December. Therefore, the reimbursement is unauthorized.
- G. Costs of alcoholic beverages served at dinners hosted by the Secretary were paid out of the 401 Fund. The 1999 Use of Trust Funds for Representational and Special Event Expenses does not list alcoholic beverages as an allowable expense, while the 2004 version explicitly states that the 401 Fund cannot be used for alcoholic beverages.<sup>6</sup>
- H. The Secretary was reimbursed for lunches with personal contacts. Those lunches were not hosted for Smithsonian business purposes. Therefore, reimbursement of personal contact lunches is not authorized.
- I. The Secretary awarded a \$4,812 cash bonus to the Executive Assistant to the Secretary in June 2000. The Smithsonian bonus policy, Common Types of Incentive Awards, identifies two types of cash awards: cash awards for sustained superior performance and for special acts or services. Based on the evidence provided, the Executive Assistant's bonus did not qualify under either of these descriptions and is therefore unauthorized.
- J. The Secretary purchased various gifts (such as flowers, plants, books, ties, and smithsonite) for Smithsonian employees, donors, and others. These gifts were charged against 401 and 402 funds. The 1999 Use of Trust Funds for Representational and Special Event Expenses does not list gifts as an authorized expense, while the 2004 version explicitly states that trust funds cannot be used for gifts for any purpose for Smithsonian staff, volunteers, donors, etc.

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<sup>6</sup> The Secretary's staff believed that he was authorized to use Smithsonian funds to purchase alcoholic beverages and gifts because the FY 2004 and 2005 trust fund spending guidelines (issued by the Office of Planning, Management & Budget) state that "In addition to general authorized use of allocated central trust funds for representational and special event purposes, these funds are available to the Office of the Secretary to allow the Secretary to carryout [sic] his official duties." We do not believe, however, that this language allows the Secretary to use the funds in ways otherwise not authorized by the policy.

**APPENDIX C**

**ACRONYMS USED BY THE SMITHSONIAN INSTITUTION**

## APPENDIX C

### ACRONYMS USED BY THE SMITHSONIAN INSTITUTION

Acronyms	Full Name
CFO	Chief Financial Officer
FSG	Freer and Sackler Galleries
FY	Fiscal Year
HMSG	Hirshhorn Museum and Sculpture Garden
NASM	National Air & Space Museum
NMAH	National Museum of American History
NMNH	National Museum of Natural History
OIG	Office of the Inspector General
SAO	Smithsonian Astrophysical Observatory
SI	Smithsonian Institution
SBV	Smithsonian Business Ventures
SNB	Smithsonian National Board