



Smithsonian  
Institution

**Weaknesses in the  
Smithsonian Tropical  
Research Institute's  
Financial Management  
Require Prompt Attention**

**Office of the Inspector General  
Report Number A-13-01  
October 29, 2013**



# In Brief

## ***Weaknesses in the Smithsonian Tropical Research Institute's Financial Management Require Prompt Attention*** ***Report Number A-13-01, October 29, 2013***

### **Why We Did This Audit**

The Smithsonian Tropical Research Institute (STRI) is the only Smithsonian organization based outside of the United States. Its geographically remote location, and the unique demands of operating in another country, present challenges for the Smithsonian to oversee and manage STRI's operations.

Our audit objective was to evaluate high risk areas of STRI's financial operations, including cash operations, accounts receivable transactions, and procurement activities.

### **Background**

Located in the Republic of Panama (Panama), STRI is a research center dedicated to understanding biological diversity and its relevance to human welfare. It has marine laboratories on both coasts of Panama, giving access to two different ocean environments.

### **What We Found**

We found that STRI has not performed bank account reconciliations or posted cash transactions to the Smithsonian's official accounting records (general ledger) timely. STRI's bank account reconciliations were not complete, and there was a lack of segregation of duties over the payroll operations.

We also found that STRI's accounts receivable does not reconcile to the general ledger. STRI had approximately \$50,000 of accounts receivable balances that were more than 90 days delinquent as of fiscal year-end 2012. Moreover, STRI did not have a written policy that outlined procedures to collect the delinquent balances.

During our review of procurement activities, we found that STRI management did not ensure that the Office of Facilities Engineering and Operations (OFEO) participated in the design stage of a construction project. This caused OFEO to disapprove the use of a science lab for safety reasons. We also found that STRI management had not assigned a custodian to control purchased assets.

Lastly, we found that STRI has filled two key directorates with outside consultants, which increases the risk of loss of continuity of business operations and management stability.

### **What We Recommended**

We recommended that STRI develop and implement written policies and procedures over bank account reconciliations, as well as accounts receivable and collections activities.

We also recommended that STRI coordinate with OFEO on construction and improvement projects; assign responsibility for the control and maintenance of accurate inventory records; and develop a succession plan for key directorates currently being filled by outside consultants.

Management concurred with our findings and recommendations and has planned corrective actions to address the recommendations. We will continue to monitor management's progress towards completion of these recommendations.

**For additional information or a copy of the full report, contact the Office of the Inspector General at (202) 633-7050 or visit <http://www.si.edu/oig>.**



# Smithsonian Institution

Memo

Office of the Inspector General

Date October 29, 2013

To William Wcislo, Acting Director, Smithsonian Tropical Research Institute

cc Albert Horvath, Under Secretary for Finance and Administration/Chief Financial Officer

Eva Pell, Under Secretary for Science

Leopoldo Leon, Comptroller, Smithsonian Tropical Research Institute

Hossein Sadid, Consultant, Office of Finance and Accounting

Patricia Bartlett, Chief of Staff, Office of the Secretary

Judith Leonard, General Counsel

Stone Kelly, Program and Budget Analyst, Office of Planning, Management and Budget

From Scott S. Dahl, Inspector General

A handwritten signature in blue ink, appearing to read "S. Dahl".

Subject Audit Report on the Smithsonian Tropical Research Institute's (STRI) Financial Operations, A-13-01

Attached please find a copy of our final report titled *Weaknesses in the Smithsonian Tropical Research Institute's Financial Management Require Prompt Attention*.

We made 12 recommendations to improve STRI's financial operations. Management concurred with our findings and recommendations and has planned corrective actions to address the recommendations. We will continue to monitor management's progress towards completion of these recommendations.

We appreciate the courtesy and cooperation of all Smithsonian staff during this review.

Please call me or Michael Sinko, Assistant Inspector General for Audits, on 202.633.7050 if you have any questions.

## INTRODUCTION

This report presents the results of our audit of the Smithsonian Tropical Research Institute's (STRI) financial operations. Located in the Republic of Panama (Panama), STRI is a research center dedicated to understanding biological diversity and its relevance to human welfare. It has marine laboratories on both coasts of Panama, giving access to two different ocean environments.

STRI is the only Smithsonian organization based outside of the United States. Its geographically remote location, and the unique demands of operating in another country, present challenges for the Smithsonian to oversee and manage STRI's operations. Our objective in this audit was to evaluate high risk areas of STRI's financial operations, including cash operations, accounts receivable transactions, and procurement activities.

### Cash Operations

STRI receives cash from a number of sources such as visiting researchers' fees, retail operations, and donations. Cash receipt and disbursement operations are conducted at multiple locations throughout Panama. In addition, STRI's deposit and disbursement transactions are conducted within three different accounts at two financial institutions.

### Accounts Receivable

Visiting scientists incur expenses while conducting their research at the various STRI locations for items such as lodging, meals, scientific equipment, and boat transportation. Scientists generally pay these expenses during their visit or later when they receive reimbursement from a sponsoring entity. STRI sets up accounts receivable to record amounts due to STRI from the scientists for expenses they incur.

### Procurement

STRI purchases goods and services using the following four methods: (1) petty cash, (2) purchase card, (3) purchase order, and (4) contracting. Both STRI's comptroller and procurement manager can approve purchases up to \$100,000. For purchases larger than \$100,000, STRI must get approval from the Office of Contracting in Washington, D.C.

During the course of our audit, we interviewed STRI management and tested controls related to cash, accounts receivable, and procurement. In addition, we reviewed all fiscal year 2012 bank account reconciliations, and samples of accounts receivable and purchase orders from multiple years.

A detailed description of our objectives, scope, and methodology is included in Appendix A.

## RESULTS IN BRIEF

STRI needs to improve its financial operations in all areas we reviewed -- bank account reconciliations, accounts receivable, and procurement. Set forth below are our findings in these three areas and the recommended actions to address the weaknesses.

### Bank Account Reconciliations

We determined that STRI is not performing bank account reconciliations or posting cash transactions to the Smithsonian's official accounting records (general ledger) timely. Also, STRI's bank account reconciliations were not complete. In addition, STRI did not have written policies and procedures, which contributed to its bank account reconciliation issues.

We recommended that STRI management implement the following improvements to bank account reconciliations:

- Develop and implement written policies and procedures over bank account reconciliations to increase control over cash.
- Reconcile bank accounts promptly and resolve reconciling differences.
- Post cash transactions to the general ledger timely.
- Continue to reconcile the third party processor payroll report to the disbursement file.

### Accounts Receivable

STRI's accounts receivable does not reconcile to the general ledger by approximately \$44,000. Also, STRI had approximately \$50,000 of accounts receivable balances that were more than 90 days delinquent as of fiscal year-end 2012. STRI did not have a written policy that outlined procedures to collect the delinquent balances.

We recommended that STRI management implement the following improvements to its accounts receivable controls:

- Develop and implement written accounts receivable collection policies and procedures.

- Review the current accounts receivable and correct the accounts in the point-of-sale (POS) system.
- Reconcile the accounts receivable from the POS system to the general ledger.
- Automate the recording of all account receivables from the subsidiary ledger to the general ledger.

### Procurements

During our testing of purchase orders, we reviewed one purchase order where STRI management did not ensure that the Office of Facilities Engineering and Operations (OFEO) participated in the design stage of a construction project. We also reviewed another purchase where STRI management had not properly controlled the assets after the purchase was complete.

We recommended for future procurements that STRI management:

- Collaborate with OFEO to review the design of facility improvements.
- Assign to a staff member the responsibility for purchased items.
- Not use STRI facilities to house private property.

### Succession Plan

We found that STRI has filled two key directorates with outside consultants, which increases the risk of loss of continuity of business operations and management stability.

We recommended that STRI management develop a succession plan for these two key positions that are currently being outsourced to consultants.

## **RESULTS OF AUDIT**

### **Bank Account Reconciliation Internal Controls Need to be Improved**

STRI uses three bank accounts to handle cash transactions: operating, payroll, and United States vendor disbursement. We found that STRI must improve the timeliness of its bank account reconciliations and effectively resolve reconciling differences. Also, STRI must ensure segregation of duties over the payroll bank account reconciliations.

Bank account reconciliations are a comparison between an organization's bank balances recorded in its general ledger and the balances reported on the bank statement. Normally, these balances do not agree because of timing differences



between the recording of activity by the bank and its account holder. For example, a deposit may be recorded by the organization in its accounting records but not yet recorded by the bank. This results in a reconciling difference. Bank account reconciliations are important to control cash because they help to detect errors on the part of the bank and the organization when recording transactions in accounts.

#### Reconciliation Timeliness

STRI accounting staff were not reconciling all three of their bank accounts timely during fiscal year 2012. They took longer than a month to complete 21 of the 36 reconciliations we tested. Moreover, staff took longer than 2 months to complete 12 of those 21 reconciliations.

#### Reconciling Differences

STRI staff were not reconciling their operating and payroll bank accounts completely. Of the 24 reconciliations they prepared for fiscal year 2012, STRI accounting staff could not identify nor resolve reconciling differences on 22 of them. The reconciliations had differences ranging from under \$100 to over \$5,000. In addition, STRI had reconciling differences that they had identified, but had not corrected.

For example, STRI did not address multiple reconciling differences, the largest of which was \$125,000, for up to 3 months on its operating bank account reconciliation. Also, STRI did not address more than \$50,000 of reconciling differences on its payroll bank account reconciliation over a 3-month period.

At the end of fiscal year 2012, STRI's accounting staff caused another large reconciling difference totaling more than \$100,000 by recording payments for salaries in the general ledger prior to the money being disbursed from the bank. According to generally accepted accounting principles, instead of reducing the cash balance in the general ledger, accounting staff should have created a liability to represent the amount STRI owed employees for salaries earned but not yet paid.

#### Segregation of Duties for Reconciliation

During fiscal year 2012, STRI disbursed more than \$8 million to more than 350 employees without properly segregating the following duties: review of payroll bank account reconciliation, maintenance of payroll records, and disbursement of employees' pay. For instance, an employee in the accounting department was allowed to perform the following incompatible duties: coordinate payroll changes with STRI's third party payroll processor, forward the payroll report to the Office of the Comptroller (OC), and review the payroll bank account reconciliation. Although the employee reviewed the reconciliations, there were often unidentified reconciling differences on the payroll bank reconciliation.

STRI's failure to separate these duties could allow the employee to misappropriate cash by adding a fictitious individual or increasing the pay of another employee by altering the payroll records. Then, the employee could mask the theft by labeling the shortfall as an unidentified reconciling difference on the payroll bank reconciliation.

The employee periodically altered the payroll report from STRI's third party payroll processor rather than contacting the third party processor to correct the payroll report. By correcting minor mistakes, typically less than \$100, such as inaccurate amounts of overtime worked, the employee created unidentified reconciling differences.

Smithsonian Directive (SD) 310, *Financial Reporting and Risk Management Internal Controls*, requires directors of units to implement and execute all internal controls as they pertain to unit operations. According to the Smithsonian Comptroller, bank reconciliation internal controls include reconciling and posting transactions to the general ledger promptly. In addition, the Smithsonian Comptroller provided STRI management with written guidance that bank account reconciliations should be performed monthly. Performing timely reconciliations reduces the risk of misappropriation of assets.

SD 310 also requires directors of units to grant and delegate financial authority carefully, while maintaining the proper segregation of duties. Lastly, SD 310 describes segregation of duties as an example of an important control activity. Segregation of duties reduces the risk of asset misappropriation by theft or fraud.

The issues we found related to bank account reconciliations were due to the following:

- STRI lacked written procedures to perform reconciliations and a director to oversee the Finance and Administration department during the majority of fiscal year 2012.
- STRI's accounting staff developed lax bank reconciliation practices that management did not correct. In addition, STRI lost key accounting personnel in May 2012, who have not been replaced.
- STRI deposited and disbursed cash from its bank accounts without promptly recording these amounts in the general ledger.
- STRI delegated responsibility for managing the payroll activities to one individual within the accounting department.



- STRI's third party payroll processor's disbursement report frequently contained errors in the amounts to be disbursed to employees. Instead of notifying the third party processor of these errors, an accounting employee changed the disbursement file directly.

STRI's poor internal control environment contributed to lax oversight over cash. Because STRI accounting staff do not promptly reconcile bank accounts, do not timely record cash receipts and disbursements, and cannot identify reconciling differences, they may not detect potential losses of cash.

Further, because a STRI employee altered the disbursement file from the third party contractor, the bank account reconciliation was more difficult to perform and there were unidentified reconciling items. While this lack of segregation of duties increased the potential for theft of cash to occur through the payroll system, none came to our attention during our review.

As a result of a recommendation by OC, STRI implemented internal controls that improved segregation of duties and reconciliation of the payroll account after April 2012. STRI management also reassigned payroll maintenance duties from accounting to human resources staff and instituted supervisory review of changes to the third party payroll records. The accounting department now reconciles the disbursement file used to pay employees against the third party payroll processor's report to ensure that any changes made have been authorized by the human resources staff.

### Recommendations

For more effective control over cash operations, we recommend that the Director of STRI ensure that the accounting department:

1. Develops and implements written policies and procedures over bank account reconciliations with the assistance of the Office of the Chief Financial Officer.
2. Reconciles bank accounts monthly and that reconciling differences are fully researched and resolved.
3. Posts cash transactions, such as receipts and disbursements, to the general ledger by the end of each month.
4. Continues to reconcile each bi-weekly third party processor payroll report to the disbursement file and ensures that the reconciliation is reviewed by a supervisor.

**STRI Needs to Reconcile its Accounts Receivable from Visitors and Improve its Collection Activities****Accounts Receivable Reconciliation**

STRI uses a POS system to monitor scientists' repayments of their obligations to STRI for expenses such as lodging, meals, scientific equipment, and boat transportation. The transaction detail in the POS system provides the basis for both the general ledger balance and the amounts scientists owe STRI. Then, STRI uploads entries from the POS system periodically to record accounts receivable activity in the general ledger, which is the Smithsonian's official accounting record.

STRI has two categories of accounts receivable in its POS system: one is for scientists that incur expenses at its facility on Barro Colorado Island (BCI), and the other is for scientists that incur expenses at the other locations. STRI must account for receivables incurred at its BCI facility separately from the other locations because of a federal requirement that the fees charged to visiting scientists be deposited in trust for the support of the island facility.

We found that STRI needs to improve management of accounts receivable for visiting scientists' expenses such as lodging, meals, and supplies. STRI's staff have been unable to reconcile its accounts receivable to the general ledger, which is important to ensure the accuracy of STRI's financial information.

As of September 30, 2012, STRI had a general ledger accounts receivable balance of approximately \$45,000. However, the POS system had an accounts receivable balance of approximately \$89,000, a difference of \$44,000.

STRI identified some of the differences as follows:

- Approximately \$25,000 of entries recorded in the POS system were not uploaded into the general ledger;
- Approximately \$14,000 in late fees recorded in the POS system were not uploaded into the general ledger; and
- Approximately \$2,000 of duplicate entries were recorded in the POS system.

However, STRI had a remaining unidentified difference of approximately \$3,000, which while small in comparison to the overall balance in the POS system, still demonstrates that STRI lacks sufficient thoroughness in its reconciliation process.

**Collection Activities**

During fiscal year 2012, STRI collected approximately \$100,000 in delinquent accounts. However, some of the visiting scientists still had 90-day delinquent

accounts totaling approximately \$50,000 as of fiscal year-end 2012. Even several employees of STRI had 90-day delinquent accounts.

Moreover, STRI management has not implemented a written collection policy, as prescribed by SD 301, *Financial Management Accounting Practices and Procedures*, to establish standards for setting credit limits and to follow up on unpaid charges.

SD 301 states that Smithsonian unit directors are responsible for the effective management of accounts receivable including reviewing outstanding balances for uncollectible accounts. Additionally, STRI has the primary responsibility to perform the monthly reconciliation in coordination with its headquarters office liaison, in OC, which was renamed the Office of Finance and Accounting in June 2013. OC was responsible for verifying that the monthly accounts receivable reconciliation was performed by the appropriate party. The units are required to have written policies regarding how they extend credit and procedures to conduct timely and systematic follow-up collection efforts on unpaid accounts.

STRI's mismanagement of accounts receivable results in the following:

- Management does not have an accurate cash flow analysis to support funding needs for STRI's scientific experiments.
- An increase in the risk of loss from delinquent accounts and a potential of lost funding to support operational goals.
- Because the POS system was not uploading into the general ledger properly, STRI staff could not separate the BCI receivable activity from the other receivables. In addition, STRI accounting staff had to create manual journal entries to upload BCI receivable activity into the general ledger. Manually uploading the entries is inefficient and may result in additional errors. In fact, during the audit of the Smithsonian's financial statements, the independent auditor found instances where STRI's accounting staff made manual journal entry errors.
- In addition, some of the scientists' accounts in the POS system have negative balances, which indicate an unusual situation where STRI owes the scientist money.

### Recommendations

To strengthen controls over accounts receivable, we recommend that the Director of STRI:

5. Develop and implement written accounts receivable and collection policies and procedures that include parameters for extending credit to scientists, guidance on following up with delinquent parties, and criteria for determining when to write-off delinquent accounts after collection efforts have failed. Submit the revised policies to the Office of Finance and Accounting, as required by the Smithsonian *Financial Management Accounting Policies and Procedures Handbook*.
6. Assign responsibility to review the current accounts receivable and correct the accounts in the POS system to record the accurate amounts.
7. Assign responsibility to reconcile the accounts receivable from the POS system to its general ledger account monthly and ensure that a managerial review process is established.
8. Assign responsibility to implement an automated method to accurately record the BCI accounts receivable from the subsidiary ledger to the general ledger.

### **Unusual Procurements Require Greater Attention**

During our testing of purchase orders, we did not find any significant deviations from procurement policy or systemic problems, with the following two exceptions that we detail below. We reviewed one purchase order for approximately \$10,000 for which STRI staff did not ensure that OFEO participated in the review of a lab building design as mandated by SD 410, *Facility Construction and Improvement Projects*. We also reviewed another purchase for approximately \$10,000 in which STRI staff had not properly controlled the assets after the purchase was complete, as required by SD 315, *Personal Property Management*.

### OFEO Design Involvement

During fiscal year 2012, in Bocas del Toro, STRI started a construction project that converted a 40-foot shipping container into a science lab without consulting OFEO during the design process. SD 410 requires all facility altering projects to be managed by, or in consultation with, OFEO to maintain the safety, health, and welfare of Smithsonian staff and visitors. The contractor completed the lab according to the statement of work, but once the lab was built, OFEO disapproved the use of the science lab for safety reasons.

Until recently, STRI had managed facilities services locally. However, during fiscal year 2012, the Smithsonian moved the oversight and funding of STRI's facilities

service function to OFEO's headquarters office located in Washington, D.C. This unit now oversees the funding, management, and execution over capital improvements and maintenance at STRI. STRI began this science lab construction project during this transition. Because STRI staff did not believe the project was a facility alteration, they did not initially involve OFEO in the construction of the lab.

Although there was a compelling urgency to have this lab completed by March 7, 2012, STRI had been unable to use the lab for more than a year because OFEO had not approved the lab's use. STRI management informed us that the work was finally completed in May 2013 with the assistance of OFEO. The project's initial cost was approximately \$10,000, but according to management, the additional work cost approximately \$12,000 an increase of 120 percent over the initial cost.

#### Custody of Property

During fiscal year 2010, STRI's procurement manager authorized the purchase of approximately \$10,000 of pine wood from buildings that had been disassembled on Gamboa. STRI purchased the wood to use for repairs on other buildings. In addition, the Director of STRI informed us that he also purchased a portion of the wood from the disassembled buildings and stored it in the same building as STRI's wood, a Smithsonian property asset.

According to the purchase order for this transaction, STRI purchased approximately 15,000 square feet of pine wood, and STRI staff took an initial inventory of this wood. During our visit, STRI officials could not identify a custodian for this wood.

SD 315 defines property control as the proper care, custody, protection, maintenance of accurate records, and assignment of all personal property. Because STRI management could not identify a custodian for its purchased wood, they could not assure that SD 315 was being followed with regards to proper care, custody, protection, and assignment of all personal property.



The non-routine nature of this purchase contributed to STRI not assigning responsibility for its custody. STRI increases the risk of undetected loss or theft of its wood by not assigning responsibility for it to an employee. In addition, STRI risks the misappropriation of its wood by storing both sets of wood in the same building. Finally, STRI should not be providing storage space for a third party.

#### Recommendations

Facility construction and improvement projects should support a safe environment for research studies; therefore, we recommend that the Director of STRI:

9. Ensure that future construction and improvement projects contain the necessary documentation indicating OFEO's involvement in the beginning of the design stage, as required by SD 410.

To ensure proper custody and accountability over purchased property, we recommend that the Director of STRI:

10. Assign responsibility for the control and maintenance of accurate inventory records for STRI's pine wood and any future purchases, as required by SD 315. In addition, have the assigned custodian determine what the market cost would have been for the period the private property was stored.



11. Ensure that STRI facilities only house property intended for official use by the Smithsonian.

### **STRI Relies on Consultants for Two Key Positions**

Currently, the Director of Advancement and the Director of Finance and Administration are outside consultants rather than full-time Smithsonian employees. The Director of Advancement position is important because that department is responsible for fundraising. STRI has placed a renewed emphasis on fundraising to achieve its fiscal year 2013 priorities and assist the Smithsonian in its capital campaign.

The Director of Finance and Administration position is also important because the department oversees critical areas such as procurement, accounting, finance, human resources, and information technology functions, all of which support the rest of STRI's operations.

Based on our conversations with STRI management, it is our opinion that both positions were being filled by consultants because:

- The positions are difficult to fill due to STRI's Panamanian location; and
- STRI management has not clearly defined the needs and requirements for these full-time positions.

In the specific case of the Director of Advancement, STRI management hired the consultant to produce a branding strategy, but later determined that they also needed the consultant to develop and temporarily lead an advancement department so the branding strategy would be successful.

For the Director of Finance and Administration, STRI is using a consultant who was recommended by a private donor to fill the role.

We question management's decision to fill these two positions long-term with consultants rather than full-time employees because of the importance of the offices they lead. These two directors are limited in their ability to lead offices because, as outside consultants, they cannot perform inherently government functions, per Federal Acquisition Regulation guidance. In addition, according to Smithsonian policy, they are not permitted to supervise employees.

According to the Office of Personnel Management, succession planning is critical to mission success and creates an effective process for recognizing, developing, and retaining top leadership talent. We understand the challenges that staffing these positions in Panama with full-time employees entails. However, the use of consultants in key positions increases the risk of loss of continuity of business operations and management stability.

Recommendation

To ensure a more stable and consistent management structure, we recommend that the Director of STRI:

12. Develop and implement a written succession plan to fill the Director of Advancement and the Director of Finance and Administration positions with full-time Smithsonian employees.

**APPENDIX A****OBJECTIVES, SCOPE, AND METHODOLOGY**

The objective of the audit was to evaluate high-risk areas of STRI's financial management operations. These areas included cash operations, accounts receivable transactions, and procurement activities.

To accomplish our objective, we reviewed Smithsonian policies and procedures for internal controls, contracting, procurement, property management, design, construction, and accounting. We also assessed the internal controls over the Enterprise Resource Planning Financial System, which is the Smithsonian's general ledger, and the STRI POS system, which details STRI's accounts receivable. Because of transaction errors made by STRI staff, we did not rely on the data from these systems. As a result, we developed findings and recommendations to ensure the data's reliability.

We met with the Office of the Comptroller, the Office of Facilities Engineering and Operations, the Office of Advancement, the Office of the Chief Information Officer, and the Office of Contracting to discuss STRI's financial management operations.

We conducted site visits in Panama at Tupper, Barro Colorado Island, Bocas del Toro, Naos, Culebra, and Gamboa facilities to visually inspect selected procurements and to conduct walkthroughs and verify controls over cash and accounts receivable.

Our audit assessed the bank account reconciliation process for all three of STRI's bank accounts. We reviewed all monthly reconciliations of STRI's three bank accounts for fiscal year 2012. In addition, we evaluated the internal controls over cash processing, cash receipts from site activities, and cash security.

We also assessed the internal controls over updating payroll records and processing payroll payments. We tested 100 percent, approximately 350, of the Panamanian employee files to ensure that all of STRI payroll payments were for legitimate employees.

To evaluate the accuracy of the accounts receivable data, we reviewed the accounts receivable reconciliation as of the end of fiscal year 2012. To determine that appropriate accounts receivable setup controls were in place, we interviewed STRI accounting and visitor services staff and tested a judgmentally selected sample of 40 high-balance, delinquent, and unusual records. We also assessed STRI's policies and procedures for extending credit to scientists and researchers, monitoring accounts, collecting delinquent balances, and writing off uncollectible accounts.

To evaluate the controls over procurement and the appropriateness of goods and services purchased, we interviewed STRI accounting and procurement staff. We also selected a judgmental sample of 51 purchases that included all purchase orders that were more than \$50,000, primarily made in fiscal year 2012. In

addition, we included some unusual procurements in the sample from other years, regardless of dollar amount.

Because we selected a judgmental sample for our review of accounts receivable and procurements, we cannot project the results of our review to STRI's universe of accounts receivable and procurements.

We conducted this performance audit in Washington, D.C. and the Republic of Panama, from October 2012 through March 2013, 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 we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## APPENDIX B

## MANAGEMENT'S RESPONSE



## Smithsonian Institution

Date: October 22, 2013

To: Michael Sinko, Assistant Inspector General for Audits  
Brian Lowe, Audit Supervisor

From: Albert Horvath, Under Secretary for Finance and Administration/CFO  
William Weislo, Acting Director, Smithsonian Tropical Research Institute

Subject: Management Response to STRI Draft Audit Report

Attached please find our responses to the recommendations presented in the above noted audit report. We thank you for your constructive feedback and, as noted in our responses, our teams have already begun to address the issues identified. Our detailed responses follow.

We look forward to receiving the final audit report and welcome your further comments and questions.

CC: Scott Dahl, Inspector General  
Eva Pell, Under Secretary for Science  
Judith Leonard, General Counsel  
Leopoldo Leon, Comptroller, STRI  
Hossein Sadid, Consultant, OF&A

## APPENDIX B

## MANAGEMENT'S RESPONSE (Continued)

**Recommendations for Cash Operations:**

For more effective control over cash operations, we recommend that the Director of STRI ensure that the accounting department:

1. Develops and implements written policies and procedures over bank account reconciliations with the assistance of the Office of the Chief Financial Officer.

**Comment:** Concur.

**Planned Action:**

A written draft of the policy and procedures for bank account reconciliations has been prepared by the Office of Finance and Accounting (OF&A). The draft is being reviewed with the STRI comptroller and accounting staff responsible for the bank account reconciliation.

**Target Date:** November 29, 2013

2. Reconciles bank accounts monthly and that reconciling differences are fully researched and resolved.

**Comment:** Concur.

**Planned Action:**

Financial Analysis and Reporting Division of OF&A is reviewing the status of the STRI bank account reconciliations and the reconciling items to be sure that all reconciliations are in good standing. The goal is to complete this task in the first quarter of FY14 and continue monitoring the reconciliations monthly to make sure the established policy and procedures (noted in the response to item 1 above) are followed.

**Target Date:** December 31, 2013

3. Posts cash transactions, such as receipts and disbursements, to the general ledger by the end of each month.

**Comment:** Concur.

**Planned Action:**

Timely recording of cash activities on the SI general ledger has been emphasized in the above policy and procedures. Effective October 1, 2013, the Cash Management Division of OF&A will monitor and track any violations of the posting requirement as outlined in the policy and procedures document. In order for the Cash Management Division of OF&A to monitor



## APPENDIX B

## MANAGEMENT'S RESPONSE (Continued)

and track violations, STRI will record all deposits (cash and credit card) in the ERP AR module and discontinue recording deposits via journal entries.

**Target Date:** October 1, 2013

4. Continues to reconcile each bi-weekly third party processor payroll report to the disbursement file and that the reconciliation is reviewed by a supervisor.

**Comment:** Concur.

**Planned Action:**

A reconciliation procedure is currently in place, but needs to be refined and formally documented. One person performs the reconciliation and a supervisor reviews and approves the reconciliation and disbursement. Calculations from the local payroll provider, TECNASA, will be accepted and the STRI payroll disbursement will be based on the TECNASA calculations. When STRI identifies errors in the TECNASA calculations, STRI will request and justify changes to TECNASA, who, in turn, will submit a modified data file to STRI. TECNASA's figures are the official record. STRI plans over the course of the next year to reassess its arrangement with TECNASA and study the feasibility of handling payroll functions using the SI system.

**Target Date:** October 1, 2013.

**Recommendations for Accounts Receivables:**

To strengthen controls over accounts receivable, we recommend that the Director of STRI:

5. Develop and implement written accounts receivable and collection policies and procedures that include parameters for extending credit to scientists, guidance on following up with delinquent parties, and criteria for determining when to write-off delinquent accounts after collection efforts have failed. Submit the revised policies to the Office of Finance and Accounting, as required by the Smithsonian *Financial Management Accounting Policies and Procedures Handbook*.

**Comment:** Concur.

**Planned Action:**

During a site visit by the OF&A team to STRI in September 2013, the OF&A worked with the STRI Controller to develop written policies and procedures covering accounts receivable and collection policies and procedures. A draft of these policies and procedures is currently under review. These written policies and procedures will supplement the existing accounts receivable policies defined in the SD301 Handbook. Once these policies and procedures

## APPENDIX B

## MANAGEMENT'S RESPONSE (Continued)

are finalized, the Financial Analysis and Reporting Division of OF&A will monitor the account receivable activities to ensure full compliance with these policies and procedures. Any breakdown in following these policies and procedures will be brought to the attention of OCFO and STRI Director.

**Target Date:** June 30, 2014

6. Assign responsibility to review the current accounts receivable and correct the accounts in the POS system to record the accurate amounts.

**Comment:** Concur.

**Planned Action:**

All parties agree that it would make most sense for STRI to adopt the ERP A/R module instead of the POS system. Before doing so we need to fully understand why the POS was installed to begin with and insure that ERP A/R module can handle all of STRI's need. Until this determination is made and effective immediately, the STRI controller will ensure that all accounts receivable in the POS system are current and that they are posted on the SI general ledger in an accurate and timely manner. The STRI Controller will prepare written procedures for maintaining the accounts receivable in the POS system and the integration of those receivables into the SI general ledger. Accounts receivable data (including collection data) must be entered in ERP with the customer and invoice information included for reconciliation purposes. Accounts receivable reports such as aging reports by fund must be submitted to the Financial Analysis and Reporting of OF&A within fifteen days after the month-end closing. Also, the written procedures will include an audit trail to ensure that merchant activity (credit card transactions) is accounted for, posted in the ERP system in a timely manner and reconciled with the associated bank account. The STRI Controller plans to seek assistance from the Chief of the Financial Analysis and Reporting Division of OF&A in preparation and implementation of these procedures.

**Target Date:** September 30, 2014

7. Assign responsibility to reconcile the accounts receivable from the POS system to its general ledger account monthly and ensure that a managerial review process is established.

**Comment:** Concur.

**Planned Action:**

Please see the response to '6' above. The managerial review responsibility is with the STRI Controller. OF&A will monitor to ensure POS receivable balances agree with the SI general ledger balances.

## APPENDIX B

## MANAGEMENT'S RESPONSE (Continued)

**Target Date:** September 30, 2014

8. Assign responsibility to implement an automated method to accurately record the BCI accounts receivable from the subsidiary ledger to the general ledger.

**Comment:** Concur.

**Planned Action:**

In developing the written procedures, STRI will make sure that receivables incurred at its BCI facility (along with other BCI entries) are kept separately from the other locations because of a federal requirement that the fees charged to visiting scientists be deposited in trust for the support of the island facility. Please also see the response to '6' above.

**Target Date:** September 30, 2014

**Recommendations for Other Areas:**

Facility construction and improvement projects should support a safe environment for research studies; therefore, we recommend that the Director of STRI:

9. Ensure that future construction and improvement projects contain the necessary documentation indicating OFEO's involvement in the beginning of the design stage, as required by SD 410.

**Comment:** Concur.

**Planned Action:**

Effective with the current fiscal year, the STRI OFEO will ensure that all capital projects at STRI follow the procedures defined in SFD410 and that necessary documentation is maintained in the project file indicating OFEO's involvement throughout the project.

**Target Date:** October 1, 2013

To ensure proper custody and accountability over purchased property, we recommend that the Director of STRI:

10. Assign responsibility for the control and maintenance of accurate inventory records for STRI's pine wood and any future purchases, as required by SD 315. In addition, have the assigned custodian determine what the market cost would have been for the period the private property was stored.

**Comment:** Concur.

## APPENDIX B

## MANAGEMENT'S RESPONSE (Continued)

**Planned Actions:**

Effective November 1, 2013, the responsibility for the control and maintenance of accurate inventory records for STRI's pine wood and any future purchases, as required by SD315, has been assigned to the STRI Procurement Manager who reports to the STRI Controller. In addition, the Procurement Manager has been asked to determine the market cost for the period that the private property was stored.

**Target Date:** November 1, 2013

11. Ensure that STRI facilities only house property intended for official use by the Smithsonian.

**Comment:** Concur.

**Planned Action:**

On September 25, the STRI Director notified all STRI employees that effective immediately, the STRI facilities will not be used for activities unrelated to the mission of STRI or meet prudent business practice requirements.

**Target Date:** October 1, 2013

To ensure a more stable and consistent management structure, we recommend that the Director of STRI:

12. Develop and implement a written succession plan to fill the Director of Advancement and the Director of Finance and Administration positions with full-time Smithsonian employees.

**Comment:** Concur.

**Planned Action:**

Due to the current transition in the Director of STRI position, the development of the permanent organizational structure including a written staff succession plan is expected to be completed once a new Director is in place in the next nine to twelve months.

**Target Date:** September 30, 2014

**APPENDIX C****MAJOR CONTRIBUTORS TO THIS REPORT**

Brian Lowe, Supervisory Auditor  
Joseph Benham, Auditor-in-Charge  
Kayla Norwood, Auditor  
Elsy Woodill, Auditor