



Smithsonian
Institution

**Analysis of Survey Results
on the Smithsonian's Annual
Financial Statement
Assurance Letter Process**

**Office of the Inspector General
Report Number A-13-08
January 31, 2014**



In Brief

Analysis of Survey Results on the Smithsonian's Annual Financial Statement Assurance Letter Process Report Number A-13-08, January 31, 2014

Why We Did This Audit

Our audit objectives were to evaluate (a) the process that unit directors use to attest to the effectiveness of their units' financial reporting controls and financial information reliability; (b) the training and guidance that the Office of the Comptroller provides to unit directors regarding financial reporting controls; and (c) Smithsonian management's response to deficiencies or areas of concern identified by the unit directors during the attestation letter process.

Background

All Smithsonian unit directors must attest annually that their units' financial reporting controls are operating effectively and that financial information does not contain material misstatements or omissions. In June 2011, Smithsonian management created Smithsonian Directive 310, *Financial Reporting and Risk Management Internal Controls*. This directive outlines the guidance to unit directors regarding their responsibility during the annual attestation letter process.

What We Found

In responses to our survey questions, unit directors stated that they generally understand what they are attesting to, and they have an effective process to support their attestations.

Over half of the respondents did not receive formal training regarding their responsibilities as outlined in SD 310. However, those that did attend training indicated that it was effective or very effective. In addition, while the unit directors believed that the Office of the Comptroller generally provided them with effective guidance, some of them would like more direction on internal control standards.

Unit directors did not identify any material weaknesses, deficiencies, or areas of concern during the fiscal year 2012 attestation letter process.

The survey results did not indicate any major problems with the fiscal year 2012 assurance letter process; however, the respondents did offer several areas where Smithsonian management could improve the process and offer additional training.

What We Recommended

To improve the annual assurance letter process, we recommended that the Chief Financial Officer evaluate the unit directors' comments to the survey and provide an action plan that addresses the survey's results.

Management concurred with our recommendation and plans to offer one annual classroom style training class as well as on-line training. Further, management will continue to offer individual sessions to directors by request.



Smithsonian Institution

Office of the Inspector General

Date January 31, 2014

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

cc Jean Garvin, Director, Office of Finance and Accounting
Teng Chamchumrus, Executive Officer - Finance, Office of the Under Secretary for Finance and Administration
Albert Lee, Associate Director for Finance, Office of Finance and Accounting
Hossein Sadid, Consultant, Office of Finance and Accounting
Porter Wilkinson, Chief of Staff, Board of Regents
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 Epin Christensen, Acting Inspector General

A handwritten signature in blue ink, appearing to read "Epin Christensen".

Subject Audit Report on the Financial Statement Assurance Letter Process, A-13-08

Attached please find a copy of our final report titled *Analysis of Survey Results on the Smithsonian's Annual Financial Statement Assurance Letter Process*.

We made one recommendation to improve the Smithsonian's annual Financial Statement Assurance Letter Process. You agreed with our recommendation and have planned corrective actions. We will continue to review the status of those corrective actions until their completion.

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

Please call me or Joan Mockeridge, Acting Assistant Inspector General for Audits, on 202.633.7050 if you have any questions.

INTRODUCTION

All Smithsonian unit directors must attest annually that their units' financial reporting controls are operating effectively and that financial information does not contain material misstatements or omissions. Smithsonian management requires that unit directors conduct this attestation because they are in positions that are critical for safeguarding Smithsonian assets and resources.

Our audit objectives were to evaluate (a) the process that unit directors use to attest to the effectiveness of their units' financial reporting controls and financial information reliability; (b) the training and guidance that the Office of the Comptroller (OC) provides to unit directors regarding financial reporting controls; and (c) Smithsonian management's response to deficiencies or areas of concern identified by the unit directors during the attestation letter process.

To meet these objectives, we conducted a survey of all unit directors who must attest to the effectiveness of their units' financial reporting controls and the reliability of their units' financial information. We provided a redacted copy of the responses to the survey to the Under Secretary for Finance and Administration/Chief Financial Officer (CFO). See Appendix A for our transmittal memo of the survey responses to the CFO. A detailed description of our objectives, scope, and methodology is included in Appendix B. The summary of the results of our survey are included in Appendix C, and management's response to the audit report is in Appendix D.

After we started our audit, in June 2013, OC and the Office of the Treasurer were combined to form the Office of Finance and Accounting. Our review focused on the attestation letter process for fiscal year 2012—the period prior to this reorganization.

BACKGROUND

In June 2011, Smithsonian management created Smithsonian Directive (SD) 310, *Financial Reporting and Risk Management Internal Controls*, based on the principles outlined in the Committee of Sponsoring Organizations of the Treadway Commission evaluation methodology, the Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Control*, and the Sarbanes Oxley Act of 2002. This directive outlines the guidance to unit directors regarding their responsibility during the annual attestation letter process. To follow up on the directive, in September 2011, Smithsonian management offered formal training to assist unit directors in understanding their responsibilities for financial reporting and internal controls.

SD 310, *Financial Reporting and Risk Management Internal Controls*

SD 310 requires unit directors to implement and execute all internal controls as they pertain to unit operations. In addition, SD 310 outlines the unit directors' responsibility to provide assurance that their units' financial reporting controls are

operating effectively and that financial information does not contain material misstatements or omissions.

SD 310 Definitions

Assurance Statement — A written statement by each unit director that is submitted to the Office of the Chief Financial Officer at the close of each fiscal year as assurance that a unit's internal controls are operating effectively and that the unit's financial information fairly represents the unit's financial condition.

Attestation — The term "attestation" is used interchangeably with the term "assurance."

Critical Controls — Those controls, which by their absence or weakness, could have a material impact on the Smithsonian's presentation of financial information to both internal and external stakeholders.

Material Weakness — A deficiency or a combination of deficiencies in internal controls, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Process Custodians — Unit directors who are responsible for implementing and executing all internal controls as they pertain to unit operations. Unit operations are not always financial in nature, but nevertheless contribute to providing reasonable assurance that financial reports are reliable and accurate.

RESULTS OF AUDIT

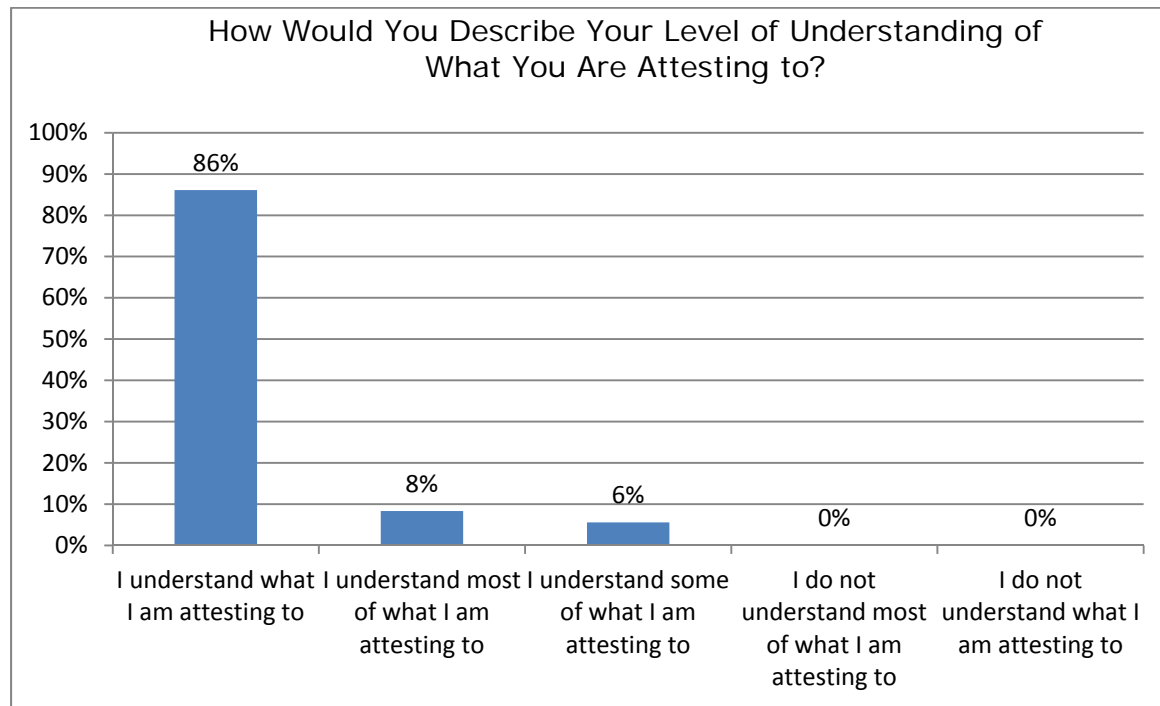
Based on our interviews with management, as well as our review of the survey results, training records, and the fiscal year 2012 attestation letters:

1. Unit directors stated that they generally understand what they are attesting to, and they have an effective process to support their attestations.
2. Over half of the respondents did not receive formal training regarding their responsibilities as outlined in SD 310. However, those that did attend relevant training indicated that it was effective or very effective. In addition, while the unit directors believed that OC generally provided them with effective guidance, some of them would like more direction on internal control standards.
3. No unit directors identified any material weaknesses, deficiencies, or areas of concern during the fiscal year 2012 attestation letter process.

We issued a survey to all the directors that provided fiscal year 2012 attestations. Of the 52 we surveyed, 36 responded; 5 of the 16 individuals who did not respond were no longer in a position that required them to provide an annual attestation letter because they had left the Smithsonian or were no longer in a director's role.

Directors Stated That They Generally Understand What They Are Attesting to and They Have an Effective Process to Support Their Attestations

According to the unit directors, they generally understand what they are attesting to in the fiscal year-end attestation letter. As illustrated in the figure below, 86 percent of the respondents stated that they understand what they are attesting to, and 14 percent of respondents stated that they understand most or some of what they were attesting to in the attestation letter. Furthermore, none of the respondents stated that they do not understand most or all of what they are attesting to in the letter.



We determined that unit directors generally have an effective process to support their attestations. We asked unit directors to describe the process they go through to support their attestation. Based on our evaluation of the 36 responses to this question, we concluded that the directors were conducting reasonable internal control and monitoring activities to support their attestations. Although the responses varied, the following two were representative of the respondents' answers and contained characteristics that are part of a sound process:

"I meet weekly with my director of finance and as part of that meeting review any/all business operations for compliance. Additionally I meet every 2 weeks with my senior managers and discuss any changes to business operations including new or updated SD's to provide guidance for our work."

"I have a meeting with each of my direct reports and discuss the control procedures used in their respective areas and their effectiveness. In some cases, I also ask them to provide written assurance for their respective areas of responsibility."

Although Over Half of the Respondents Did Not Have Training, the Directors Stated that OC Generally Provided Them with Effective Guidance

According to our survey, 61 percent of the respondents replied they did not receive training. However, for those who indicated they did have training, 86 percent described the training as "Very Effective" or "Effective."

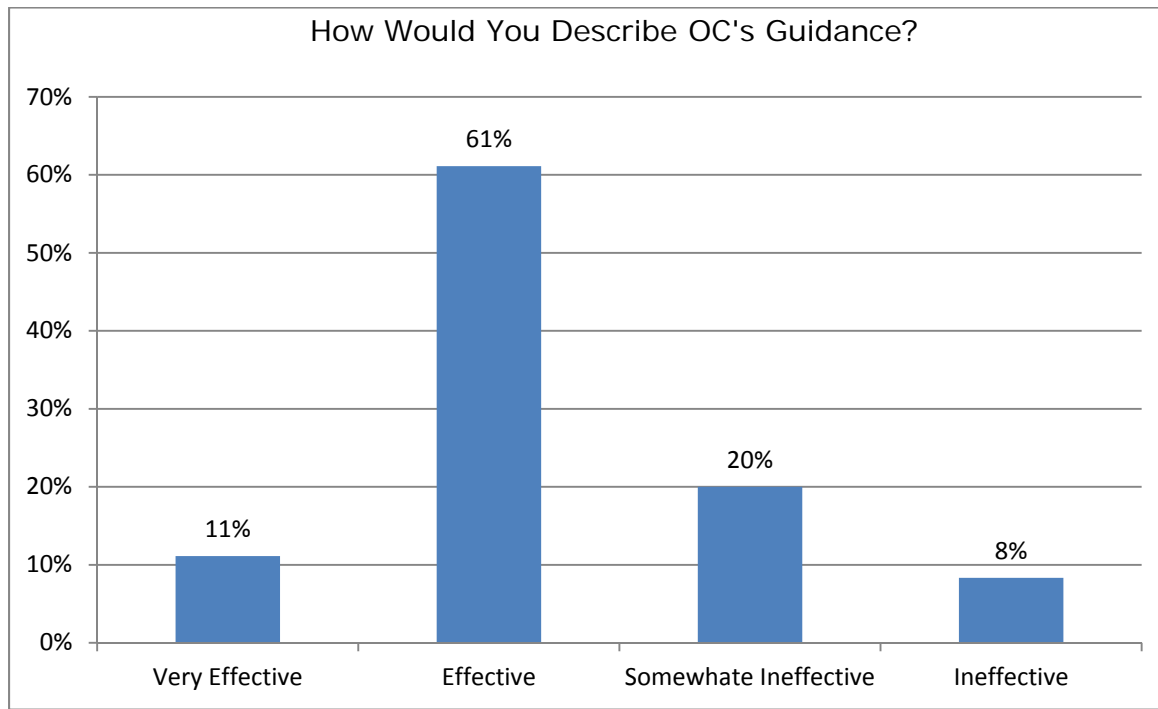
The respondents had the option to leave comments and some of them thought additional training or guidance would be helpful. Two respondents commented as follows:

"Effective at the time but regular, easily accessible refresher training is essential."

"We are provided no [guidance] in establishing controls. Each unit is expected to implement their own controls. Instead of us spending time creating a process, why can't the SI provide us with a process and teach this to the financial teams in the units?"

OC offered formal training in September 2011 and October 2012, after Smithsonian management issued SD 310. The directive required unit directors to attest to the effectiveness of their units' financial internal controls and the reliability of their units' financial information. By not offering more periodic training, directors may be unable to effectively attest. For example, they may not have a sufficient control structure in place to support their attestations.

Notwithstanding this lack of training among respondents, the survey results indicated that OC generally provided effective guidance regarding the respondents' responsibilities as process custodians and attestation signatories. As illustrated in the figure below, 72 percent of the respondents replied that OC's guidance was very effective or effective.



In addition, the respondents had the option to add comments regarding OC's guidance. The following quote is an example of the respondents' comments:

"If I had a question about [the] process, [the comptroller] was very responsive."

No Material Weaknesses, Deficiencies, or Areas of Concern Were Identified During the 2012 Attestation Letter Process

Based on our review of fiscal year 2012 attestation letters, no unit director identified material weaknesses. Likewise, according to management, unit directors reported no material weaknesses in fiscal year 2013.

Based on the results of our survey, unit directors generally appear to have processes that identify and resolve control deficiencies, including material weaknesses. However, some unit directors would like more guidance, as illustrated by the following comment by a respondent:

"There should be one document that says, if we audit you, this is exactly what we are going to be looking for and this is the process that you should be following (daily, weekly, monthly?) to ensure that you are compliant."

Conclusion

The survey results did not indicate any major problems with the fiscal year 2012 assurance letter process; however, as described in their open-ended comments, the respondents did offer several areas where Smithsonian management could improve the process and offer additional training.

Recommendation

To improve the annual assurance letter process, we recommend that the CFO evaluate the unit directors' comments to the survey and provide an action plan that addresses the survey's results.

Management concurred with our recommendation and plans to offer one annual classroom style training class as well as on-line training. Further, management will continue to offer individual sessions to directors by request. The full text of their response appears in Appendix D.

Appendix A



Smithsonian Institution

Memo

Office of the Inspector General

Date November 21, 2013

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

cc Teng Chamchumrus, Executive Officer - Finance, Office of the Under Secretary for Finance and Administration
Albert Lee, Associate Director for Finance, Office of Finance and Accounting
Hossein Sadid, Consultant, Office of Finance and AccountingFrom  Michael Sinko, Assistant Inspector General for Audits

Subject Survey Results on the Financial Statement Assurance Letter Process (Audit Number A-13-08)

Attached please find a copy of the redacted results of our survey on the Smithsonian's financial statement assurance letter process. As you know, we had previously discussed the survey scope and methodology with your staff prior to issuing the survey to the directors. We surveyed 52 unit directors who were designated to provide an attestation on the effectiveness of their units' internal controls and the reliability of their financial information. Thirty-six unit directors responded. In our survey, we asked the unit directors seven questions as described in the attachment.

We will provide you with a Draft Report at a later date at which point we will schedule an exit conference to discuss the audit results, conclusions, and recommendations.

We appreciate the courtesy and cooperation of all unit directors that participated in this survey.

Please call me or Bruce Gallus, Supervisory Auditor, on 202.633.7050 if you have any questions.

MRC 524
PO Box 37012
Washington, DC 20013-7012
202.633.7050 Telephone
202.633-7079 Fax

APPENDIX B

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this audit were to evaluate (a) the process that unit directors use to attest to the effectiveness of their units' financial reporting controls and financial information reliability; (b) the training and guidance that the Office of the Comptroller provides to unit directors regarding financial reporting controls; and (c) Smithsonian management's response to deficiencies or areas of concern identified by the unit directors during the assurance letter process.

To accomplish our objectives, we developed a seven-question survey that we sent to all 52 of the fiscal year 2012 attestation letter signatories. The survey consisted of multiple-choice, dichotomous, and open-ended questions. The majority of the evidence we used to support our findings and conclusions came from the survey. We did not review the underlying documentation that directors stated they used to support that processes and controls were in place to enable them to attest to their units' financial reporting effectiveness. Refer to Appendix C for the statistical results of the survey.

In addition, we reviewed Smithsonian Directive 310, *Financial Reporting and Risk Management Internal Controls*. We also reviewed the fiscal year 2012 attestation letters signed by the unit directors. We did not assess the reliability of computer processed data because no information technology systems were relevant to the objectives of our audit.

We met with management and staff from the Office of the Chief Financial Officer, the Office of the Comptroller, and representatives of certain unit directors. In addition, we answered various questions from survey respondents through telephone and email.

We conducted this performance audit in Washington, DC from June 2013 to November 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 C

SUMMARY OF THE SURVEY RESULTS

Survey Response Rate

	Total	Percentage
Responded	36	69%
Not Responded	16	31%
Total Surveys Sent	52	100%

Not Responded	Number	Percentage to Population
No Longer at Smithsonian or Not in the Director Role	5	10%
Not Responded	11	21%
Total	16	31%

Survey Questions

1. As a unit director, you are responsible for signing a September 30th fiscal year end annual assurance letter. How would you describe your level of understanding of what you are attesting to?

	Number	Percentage
I understand what I am attesting to.	31	86%
I understand most of what I am attesting to.	3	8%
I understand some of what I am attesting to.	2	6%
I do not understand most of what I am attesting to.	0	0%
I do not understand what I am attesting to.	0	0%
Total	36	100%

2. Have you had training that addressed your responsibility for establishing and maintaining adequate internal controls over financial reporting as described in the assurance letter?

	Number	Percentage
Yes	14	39%
No	22	61%
Total	36	100%

3. If yes, how would describe the training's effectiveness?

	Number	Percentage
Very effective	6	43%
Effective	6	43%
Somewhat ineffective	2	14%
Ineffective	0	0%
Total	14	100%

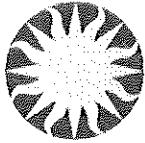
4. How would you describe the Office of the Comptroller's guidance on your responsibility as a Process Custodian, as defined in SD310, and attestation signatory?

	Number	Percentage
Very effective	4	11%
Effective	22	61%
Somewhat ineffective	7	20%
Ineffective	3	8%
Total	36	100%

5. Indicate what critical internal control documentation you use to support your attestation.*

Documentation Type	Total
Risk Assessment	20
Critical Control Assessment	19
Flow Charts or Narrative Descriptions	11
Unit Level Policies and Procedures	30

***Some unit directors chose more than one type of documentation.**



Smithsonian Institution

Appendix D - Management's Response

Date: January 24, 2014

To: Michael Sinko, Assistant Inspector General for Audits

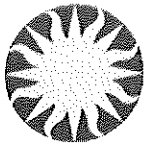
From: Albert Horvath, Under Secretary for Finance and Administration/CFO *A. Horvath*

Subject: Management Response to Draft Audit Report on Financial Statement Assurance Letter Process

Thank you for the opportunity to respond to the draft report of OIG Audit of the 2012 Financial Statement Assurance Letter Process. Attached please find the management response to the audit recommendation which provides you with our comment, actions planned in response to the audit and the target date for the completion of the planned actions.

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

CC: Bruce Gallus
Teng Chamchumrus
Jean Garvin
Salim Mawani
Hossein Sadid



Smithsonian Institution

Recommendation

To improve the annual assurance letter process, we recommend that the CFO evaluate the unit directors' comments to the survey and provide an action plan that addresses the survey's results.

Comment: Concur.

As part of the 2011 and 2012 assurance statement process, OF&A offered several training sessions for Smithsonian directors regarding their role and responsibilities in this critical financial process. Unit directors were given the option to attend the classroom style training sessions or assign a representative from their office to participate. Additionally, OF&A supplemented the classroom training by meeting, upon request, with individual Directors and their staff on the importance of internal controls and their role in the process.

We are committed to offer classroom style training annually on the importance of SD 310 and internal controls. Additionally, beginning in January 2014, the CFO has launched an online training course titled "Introduction to Smithsonian Financial Management" that includes a separate training module dedicated to "The Importance of Internal Controls" and the annual assurance statement process. This online training is available on Prism for all Smithsonian employees.

Planned Action:

OF&A will offer at least one annual classroom style training on the importance of maintaining sound internal controls using SD310 as a guide for the training. We will invite all covered employees to attend the training. The training for this fiscal year will be planned around June 30, 2014. In addition, we will offer online training on SI financial management, importance of internal controls and annual assurance statement process. Finally, we will continue to offer individual sessions with Directors, if requested, in conjunction with the annual attestation process.

To convey the serious nature of annual attestation and to bring about further awareness of the annual assurance statement process, we will make available to the SI community the OIG survey questionnaire used in the audit as a self-assessment tool in the online training module.

Target Date: September 30, 2014

APPENDIX E**MAJOR CONTRIBUTORS TO THIS REPORT**

Bruce Gallus, Supervisory Auditor
Joseph Benham, Auditor-in-Charge
Elsy Woodill, Auditor