



# REPORT TO THE CONGRESS

FILE COPY - COMP GEN

Improvement Needed In Financial  
Management Activities Of The  
Smithsonian Institution,  
Washington, D.C. B-133332

BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES

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JULY 1, 1970

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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

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To the President of the Senate and the  
Speaker of the House of Representatives

This is our report on the need for improvement in financial management activities of the Smithsonian Institution. Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Bureau of the Budget, and to the members of the Board of Regents and the Secretary of the Smithsonian Institution.

A handwritten signature in cursive script that reads "James B. Stacks".

Comptroller General  
of the United States

D I G E S T

AGC 00421  
GSA - AGC 00017

WHY THE REVIEW WAS MADE

The Smithsonian Institution is financed principally from Federal appropriations but also receives substantial funds from private sources.

Because of its statutory responsibilities, the General Accounting Office (GAO) reviewed, on a test basis, the receipt and use of these public funds, compliance with laws and regulations, and the effectiveness of the Institution's internal financial controls.

FINDINGS AND CONCLUSIONS

The Smithsonian used \$40,095 of an appropriation intended for constructing additions to the Natural History Building to pay for alterations to the Arts and Industries Building. (See p. 8.)

The Smithsonian also used \$3,835 of this appropriation for supplies and equipment which, it acknowledged, were charged incorrectly to the appropriation. (See p. 8.)

GAO believes that the Smithsonian had no legal authority for using the appropriation for either purpose. A Federal law provides that appropriations are to be used solely for the purposes for which they are made except as otherwise provided. (See pp. 9 through 12.)

The Smithsonian used an additional \$336,000 of the same appropriation for the purchase of furniture and equipment, including storage cases, drawers, trays, book stacks, shelving, typewriters, calculators, and laboratory equipment. Although the Smithsonian's budget estimate for the construction project included a provision for furniture and equipment, information submitted to the Congress and the related record contain no explanation of the specific nature of such furniture and equipment. Thus GAO could not determine whether the Congress intended for the Smithsonian to pay for these items from the construction appropriation. (See pp. 9 and 10.)

The Smithsonian's instructions on purchase of goods and services require its organizational units to submit purchase requisitions to the Supply Division, which is responsible for buying, after determination by the Fiscal Division that funds are available.

In many instances, these procedures have not been followed and staff members have often placed orders directly with vendors and notified the Fiscal and Supply Divisions later. The orders were placed without obtaining competition, that is without either advertising or soliciting bids from other qualified sources of supply.

As a result (1) Federal laws requiring competition have not always been complied with and the most favorable prices may not have been obtained and (2) the Smithsonian's records on available funds have not been current and have not provided the control to ensure that appropriated funds have not been overspent. (See p. 14.)

Although it was not possible to determine to what extent the lack of competition resulted in higher prices, GAO did note one instance in which competition resulted in a lower price. In purchasing carpeting for a Smithsonian exhibit hall, the Supply Division, by soliciting competitive price proposals, obtained the carpeting for \$5,000, a savings of about \$3,000. (See pp. 17 and 18.)

The Smithsonian receives money from various revenue-producing activities, including sale of books and other articles, concessions, and special events where admission fees are charged. These activities have been financed partly from private funds and partly from Federal appropriations, but all revenue has been treated as private funds of the Smithsonian. In fiscal year 1968, the Smithsonian received about \$1.7 million from these sources.

GAO found that appropriated funds were being used to finance revenue-producing activities although all receipts from those activities were considered to be private funds. (See pp. 23 and 24.)

Internal auditing should be made a more effective and integral part of the Smithsonian's management control system. The Smithsonian has made only limited use of internal audit as a management tool, particularly in federally financed activities. (See p. 25.)

#### RECOMMENDATIONS OR SUGGESTIONS

GAO recommended to the Secretary that the Smithsonian:

- Reimburse the Natural History Building construction appropriation \$43,930 from other funds for the cost of the alterations to the Arts and Industries Building and for the cost of supplies and equipment incorrectly charged to the appropriation. (See p. 12.)
- Continue to develop an internal audit staff of sufficient size and competence to perform effective audits of all the Smithsonian's activities, including those involving Federal as well as private funds. (See p. 26.)

GAO suggested that the Smithsonian enforce its instructions on practices to be followed in purchasing goods and services. (See p. 21.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Secretary has expressed the view that the cost of the alterations to the Arts and Industries Building properly was chargeable to the Natural History Building construction appropriation as a contingency expense. (See pp. 9, 11 and 12.) In GAO's opinion, there is no reasonable basis for considering alterations to another building to be contingencies relating to the Natural History Building construction project.

The Secretary agreed that \$3,835 for supplies and equipment was incorrectly charged to the appropriation for additions to the Natural History Building and stated that other funds were available to reimburse the appropriation for these charges. He believed that all remaining charges to the appropriation for furniture and equipment were authorized because the Smithsonian's budget estimate included an item of \$685,000 for furniture and equipment.

GAO is unsure, however, whether the Congress expected the budget estimate for furniture and equipment in the construction appropriation to include items relating to the preservation, exhibition, and increase of the Smithsonian's collections, since funds for these purposes are included in the Smithsonian's annual appropriations. (See pp. 10 through 12.)

To strengthen administrative controls over purchasing practices, the Secretary issued additional instructions providing for high-level reviews of all purchases made without following prescribed procedures. GAO believes that, if properly administered, these additional instructions should improve the Smithsonian's purchasing practices. (See pp. 21 and 22.)

Further information is being developed by Smithsonian and GAO on the financing of revenue-producing activities from appropriated funds when all income from these activities is considered private funds. Whether an acceptable arrangement can be developed to report to the Congress the extent to which appropriated funds contribute to the Smithsonian's private fund activities will also be considered. (See p. 23.)

The Secretary has agreed to strengthen the internal audit function and stated that the Smithsonian will undertake to recruit a competent and adequate audit staff as soon as constraints are lifted on Federal employee ceilings. (See p. 26.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

The Smithsonian's use of the Natural History Building construction appropriation to pay for furniture and equipment is being reported to the

Congress for such consideration as may be appropriate. GAO is unable to determine whether these expenditures fulfill the intent of the Congress. (See p. 12.)

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## CHAPTER 1

### INTRODUCTION

The General Accounting Office has made a review of selected financial management activities of the Smithsonian Institution, Washington, D.C. The review was devoted primarily to those aspects of the Smithsonian's financial management activities which appeared to be in particular need of attention rather than to a general evaluation. The review covered selected financial transactions and procedures in fiscal years 1968 and 1969, with a limited examination of the records of prior years for specific types of transactions. The scope of the review is described on page 27 of this report.

The Smithsonian Institution, was created by an act of the Congress in 1846 (20 U.S.C. 41) in accordance with the terms of the will of James Smithson of England who in 1826 bequeathed his property to the United States to found at Washington an establishment for the increase and diffusion of knowledge among men. In receiving the property and accepting the trust, the Congress determined that the Federal Government was without authority to administer the trust directly and, therefore, constituted an establishment whose statutory members are the President of the United States, the Vice President, the Chief Justice, and the heads of the executive departments.

The business of the Smithsonian is conducted by a Board of Regents composed of the Vice President, the Chief Justice, three members of the Senate, three members of the House of Representatives, and six persons other than members of the Congress. The Regents elect a suitable person as Secretary of the Smithsonian Institution who also serves as Secretary of the Board of Regents. The Secretary is the Smithsonian's executive officer and the director of its activities.

To fulfill James Smithson's bequest, the Smithsonian performs fundamental research; publishes the results of studies, explorations and investigations; preserves for study and reference items of scientific, cultural, and

historical interest; maintains exhibits representative of the arts, American history, aeronautics, space exploration, technology, and natural history; and engages in programs of education and national and international cooperative research and training.

The Smithsonian derives its financial support from both Federal and private sources. These include annual appropriations from the Congress for operating expenses of the various Smithsonian museums, its educational and research centers, and its separate program of academic grants for overseas research projects financed from excess foreign currencies. Federal appropriations are also received for construction programs and, through the Government of the District of Columbia, for support of the National Zoological Park. Additional funds are received from Federal agencies and private institutions in the form of research grants and contracts. Private endowments and gifts support numerous specifically identified exhibitions and educational and research areas.

For the year ended June 30, 1969, financial support for the Smithsonian's operations was provided as follows:

Federal appropriations:

Salaries and expenses--normal activities	\$26,443,000
Special foreign currency program	2,316,000
Salaries and expenses--National Gallery of Art (a bureau of the Smithsonian with a separate board of trustees)	3,200,000

District of Columbia:

Operation of National Zoological Park	2,528,000
Research grants and contracts (Federal and private)	11,400,000

Private funds:

Gifts (excluding gifts to endowment funds)	1,987,000
Income from endowments and current fund investments (includes net income or loss from revenue-producing activities)	<u>1,365,000</u>

Total	<u>\$49,239,000</u>
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The data on financial support from research activities and private funds was furnished to GAO by the Smithsonian. The Smithsonian also received \$2,700,000 in Federal appropriations (plus contract authorization of \$12,197,000) to finance construction projects.

Of the 3,434 employees on the staff of the Smithsonian Institution in the pay period ended June 28, 1969, 2,300 were paid from Federal appropriations and 1,134 were paid from private funds.

The principal officials of the Smithsonian Institution responsible for the administration of the activities discussed in this report are listed in appendix II.

## CHAPTER 2

### USE OF CONSTRUCTION APPROPRIATION

#### FOR QUESTIONABLE PURPOSES

Our review of selected transactions relating to construction funds administered by the Smithsonian identified expenditures and obligations of Federal appropriations of about \$380,000 which appeared to be questionable in view of the purposes for which the funds were appropriated.

#### PURPOSE FOR WHICH FUNDS WERE APPROPRIATED

By the act of June 19, 1930 (46 Stat. 785), the Congress authorized the Smithsonian to extend the Natural History Building of the National Museum by additions on the east and west ends of the building. Funds for the construction of these additions, in the total amount of \$18,636,000, were appropriated by the acts of July 1, 1957 (71 Stat. 272), May 13, 1960 (74 Stat. 118), and August 3, 1961 (75 Stat. 262). Of the total amount appropriated, \$17,417,844 was transferred by the Smithsonian to the General Services Administration for use in planning and constructing the additions. The remaining funds, in the amount of \$1,218,156, were retained by the Smithsonian. By March 31, 1969, the Smithsonian had expended or obligated for expenditure \$1,196,610 of these funds, leaving a balance of \$21,546 unobligated.

The basic law governing the use of appropriated funds (31 U.S.C. 628) provides that, except as otherwise provided by law, sums appropriated shall be applied solely to the objects for which they are made.

We found one instance where \$40,095 of funds appropriated for the Natural History Building additions were used to pay for alterations to another building. We found also that the appropriation for the additions was used to purchase (1) about \$3,800 of equipment and supplies which were not authorized by the appropriation and (2) about \$336,000 of furniture and equipment although it seemed

questionable whether the appropriation authorized such purchases. These matters are discussed below.

USE OF FUNDS APPROPRIATED  
FOR ONE BUILDING TO PAY FOR  
ALTERATIONS TO ANOTHER BUILDING

Our review of selected transactions showed that \$40,095 of the construction appropriation for the Natural History Building additions had been used by the Smithsonian to finance the cost of alterations to another structure, the Arts and Industries Building. A Smithsonian official provided the following explanation for this use of the Natural History Building funds:

The Smithsonian's plans for the additions to the Natural History Building had always contemplated that the enlarged building would provide adequate space for all departments of the Museum of Natural History. In April 1962, while the extensive construction work on the Natural History Building was in progress, it became necessary to relocate the Museum's Department of Entomology. The Smithsonian considered this to be a temporary relocation and intended that the relocated department would return to the Natural History Building when the construction work was completed. However, upon completion of the construction some 3 years later, the Smithsonian found that the planned return of the Department of Entomology could not be effected because of significant increases which had occurred in the space requirements of other Museum activities.

As a result of intensive studies, the Smithsonian concluded that, to accommodate the Department of Entomology in the Natural History Building, it would be necessary to relocate activities which occupied space there but which were not directly essential to natural history research. Accordingly, it was decided to relocate the Office of the Registrar of the National Museum from the Natural History Building to the Arts and Industries Building. To make this move possible, it was necessary to make certain alterations to the Arts and Industries Building to accommodate the Office of the Registrar.

These alterations included the construction of a mezzanine floor and the installation of partitions, doors, plumbing, air-conditioning ducts and electrical systems. A contract for this work, in the amount of \$40,095, was awarded to the lowest bidder by the Smithsonian on October 28, 1968, after advertising.

PURCHASES OF EQUIPMENT,  
SUPPLIES, AND FURNITURE

From our review of the record of the approval of the appropriation for the construction of the Natural History Building additions, we considered it questionable whether certain expenditures made from the appropriation were in accordance with the intent of the Congress.

In the budget estimate which the Smithsonian submitted to support its fiscal year 1961 request for Natural History Building construction funds, an amount of \$685,000 was included for furniture and equipment. The record does not contain any further elaboration regarding this provision.

As indicated previously, the Smithsonian turned over \$17,417,844 from construction appropriation to the General Services Administration to pay for construction costs and retained \$1,218,156 for other expenditures. Our examination included a review of expenditures comprising about one third of the amount retained. We summarized the expenditures reviewed as follows:

Storage cases, drawers, and trays	\$195,100
Book stacks, shelving, and wall units	39,700
Microscopes, microtomes, and accessories	25,200
Other laboratory equipment and supplies	41,300
Typewriters, calculators, and other office equipment	15,700
Movable partitions	2,500
Office furniture and supplies	1,900
Miscellaneous equipment and supplies	<u>18,700</u>
Total	<u>\$340,100</u>

From the record, we cannot determine whether the Congress intended that funds appropriated for the extension of

the Natural History Building would be used for acquiring some of these items which are used in preserving, exhibiting, and increasing the collections of the Smithsonian. Since the Smithsonian's annual appropriations for salaries and expenses are made for such purposes, we are unsure whether the Congress would have expected that the provision for furniture and equipment in the Smithsonian's budget estimate would have included provision for many of these items.

#### AGENCY COMMENTS AND GAO'S EVALUATION

In commenting on our draft report by letter dated March 12, 1970 (see app. I), the Secretary of the Smithsonian noted that the Smithsonian's fiscal year 1961 budget estimate for the construction of additions to the Natural History Building included a line item of \$570,000 for contingencies. The Secretary expressed the view that, on this basis, the cost of the alterations to the Arts and Industries Building was properly chargeable to the Natural History Building additions appropriation as a contingency expense incident to the proper execution of the Natural History Building construction project. The rationale provided by the Secretary for this view was that the stated purpose of the alterations in question was to improve space utilization within the Natural History Building.

We believe that the provision for contingencies in the Natural History Building construction budget logically must be construed as covering only such unforeseen exigencies as might have been experienced in the construction of the Natural History Building additions. Although there might be advantages in having all departments of the Museum of Natural History located in the Natural History Building, we believe that the Smithsonian had no legal authority for charging the construction appropriation with the cost of alterations to another building to accommodate the dispossessed tenant because the funds involved were specifically appropriated for the Natural History Building.

The Assistant Secretary of the Smithsonian agreed, with regard to the \$340,100 spent for the items listed above, that certain equipment and expendable supplies

should not have been charged to the construction appropriation. The Secretary subsequently advised us that a careful review of the expenditures showed that expendable supplies totaling \$967, which the appropriation did not authorize, had been charged to this appropriation and that four purchases of surveying and underwater equipment totaling \$2,868 had been incorrectly charged to the appropriation for the Natural History Building additions. The Secretary stated that other funds are available for reimbursing the appropriation for these charges.

It was the Secretary's view that the remaining charges to the construction appropriation, which we had questioned (a total of \$336,300), were proper. The rationale for his position was that \$685,000 had been included in the budget estimate for furniture and equipment and that congressional approval of the appropriation in the amount requested constituted authority for these purchases. We could not find any indication in the record of whether or not the term furniture and equipment was intended by the Congress to include many of the types of items which the Smithsonian indicated were authorized under the construction appropriation.

#### RECOMMENDATIONS TO THE SECRETARY OF THE SMITHSONIAN INSTITUTION

In the absence of specific authority for the use of \$40,095 of funds appropriated for the Natural History Building for alterations to the Arts and Industries Building, we recommend that the Secretary of the Smithsonian seek another source of financing for these expenditures and reimburse the appropriation. We recommend also that the appropriation be reimbursed from other funds in the amount of \$3,835 for the cost of the supplies and equipment identified by the Smithsonian as having been incorrectly charged to the appropriation.

#### MATTER FOR CONSIDERATION BY THE CONGRESS

In view of the inclusion of \$685,000 in the Natural History Building appropriation request for furniture and equipment and the approval of that request by the Congress

without comment, we are unable to determine whether many of such expenditures were in accordance with the intent of the Congress. Therefore, we are reporting this matter to the Congress for such consideration as may be deemed appropriate.

## CHAPTER 3

### NEED FOR MANAGEMENT TO STRENGTHEN CONTROLS

### OVER THE PROCUREMENT OF GOODS AND SERVICES

The objective of Government procurement is to obtain, at fair and reasonable prices and at the times required, needed quantities of materials and services of a satisfactory quality. This objective can be achieved through an effective procurement system. If such a system is to be effective, however, all organizational units must make maximum use of it.

Smithsonian instructions require that organizational units needing supplies, services, or equipment must submit purchase requisitions to the Supply Division, which has the responsibility for buying (after determination by the Fiscal Division that funds are available). We found, however, that many purchases were made directly by other Smithsonian divisions. Under such practices:

- statutory provisions requiring competition were not being complied with and, therefore, the Smithsonian might not have been obtaining the best prices for its purchases and
- records on the status of funds were not current and therefore could not provide control to ensure that appropriated funds were not overobligated.

The following sections discuss in detail the questionable procurement practices noted during our review.

#### PROCUREMENT BY THE SUPPLY DIVISION COULD RESULT IN OBTAINING MORE FAVORABLE PRICES

A Smithsonian study of procurement practices during the first quarter of fiscal year 1968 disclosed that staff elements were making commitments and placing orders with vendors for the purchase of services, supplies, and equipment instead of processing the required requisitions through the Fiscal Division and the Supply Division. This practice

resulted in contracts and purchase orders being issued subsequently by the Supply Division in confirmation of orders already placed by operating elements. The study showed that, during the period reviewed, 206 purchase orders totaling \$57,902 were issued by the Supply Division in confirmation of informal orders placed by other Smithsonian elements.

As a result of this study, the Secretary issued Smithsonian Institution Office Memorandum 730, dated December 29, 1967, which directed that all procurements would be made, following verification by the Fiscal Division of the availability of funds, by the Supply Division or through arrangements made by a contracting officer of the Supply Division.

A Smithsonian study, covering the 2-month period October 3 through December 3, 1968, indicated that the situation had not improved. In this 2-month period, 111 confirming purchase orders totaling \$42,429 were issued.

Our review of selected procurement transactions during fiscal years 1967-69 confirmed the findings of the Smithsonian studies and showed that the situation still existed. We found 71 instances in which orders for goods and services totaling \$172,000 were placed directly with vendors by Smithsonian operating units for which contracts and purchase orders were later issued by the Supply Division. In practically all these instances, the unit which placed the order did not obtain competition but made purchases without obtaining price quotations from more than one source.

Example 1--On June 24, 1968, the Smithsonian awarded a contract in the amount of \$5,200 for conducting orientation and technical familiarization courses for selected Smithsonian personnel in the field of documentary motion pictures. Invoices submitted by the contractor show that his services commenced on May 27, 1968, approximately 1 month before the contract was awarded. Smithsonian files indicated that the unit which made the arrangements for the contractor's services was the Office of Exhibits of the Museum of History and Technology. Smithsonian records indicate that the contractor was the only source solicited.

The Office of Exhibits did not prepare a purchase requisition for these services until June 5, 1968, 9 days after the services had commenced. After the availability of funds had been certified by the Fiscal Division on June 7, 1968, a contract was awarded by the Supply Division on June 24, 1968, effective May 27, 1968. The contractual documents show that the contract was negotiated on a sole-source basis. The contracting officer prepared a determination and findings which stated that the contractor was considered to be the sole source for the procurement because of his knowledge in the field and his knowledge of Smithsonian needs acquired as a result of his prior survey of the Smithsonian Institution Motion Picture Film Unit.

Example 2--The Smithsonian's Office of Education and Training engaged the services of a general consultant to assist the Director of Education and Training in the development of the Anacostia Neighborhood Museum. Although the consulting services began on August 1, 1967, a purchase requisition for these services was not prepared by the Office of Education and Training until September 29, 1967. The sole-source procurement was justified by the requisitioning office on the basis that the consultant, by virtue of education, training, experience, and background, appeared to be the only source for the required services.

After the availability of funds had been certified by the Fiscal Division on October 3, 1967, a purchase order was issued by the Supply Division. Because of the delay in the preparation and processing of the requisition, the purchase order was not issued until October 17, 1967, more than 2-1/2 months after the services began. The order provided for 166 hours of services at the rate of \$15 an hour, for a total of \$2,490.

Example 3--On July 18, 1968, the Division of Performing Arts prepared a requisition for the installation of electrical power and lights by a Maryland electric company for the Second Annual Festival of American Folklife which was held on the Mall during the period July 3-7, 1968. An invoice for these services in the amount of \$3,652 was submitted by the vendor on July 12, 1968. The vendor indicated that the company's employees began this job on or before July 1, 1968.

The availability of funds was certified by the Fiscal Division on July 18, 1968, and a contract was awarded by the Supply Division for the invoiced amount. The statement and certificate of award was dated July 1, 1968, 17 days before the date of the requisition. The Supply Division official who signed the award document was unable to explain the discrepancy between the award and requisition dates. The Chief of the Supply Division, however, stated that this was another instance of a confirming contract for a procurement in which the Smithsonian requiring activity had bypassed the Supply Division in the ordering process and that the Supply Division had to prepare the papers necessary to pay the vendor for services rendered.

In a supporting determination and findings dated July 1, 1968, the Smithsonian contracting officer stated that negotiated procurement was justified because it was impracticable to secure competition by means of formal advertising. The stated basis for this determination was that the Smithsonian did not have adequate specifications and data with which to prepare an invitation for bids for formal advertising because of insufficient time and the varying and changing requirements of performers.

Supply Division officials agreed that, with better planning and more timely requisitioning action by the requiring activity, specifications probably could have been prepared which would have permitted the solicitation of competitive bids by formal advertising with the result that a more favorable price might have been obtained.

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We believe that in the circumstances discussed above there was no assurance that other qualified sources of supply were not available because solicitation of these sources was not attempted. Therefore, there was no reasonable assurance that the most favorable prices for the required services had been obtained. We believe that the most desirable means of obtaining supplies and services at truly competitive prices is to make procurements on a competitive basis, preferably by formal advertising.

Generally, lower prices will be obtained by making procurements on a competitive basis. We believe also that the procurement of goods and services without effective competition may foster inefficient and uneconomical practices and tends to circumvent a basic policy of the Congress that all qualified suppliers shall have an equal opportunity to compete for the Government's business.

In the absence of price quotations from other potential sources of supply, it was not possible for us to determine whether savings might have been realized if competition had been obtained in the procurements we reviewed. However, we did note an instance which illustrates the potential savings obtainable. This procurement involved carpeting for the First Ladies Hall of the Museum of History and Technology. The Design Office of the Museum of History and Technology, which required the carpeting, obtained price quotations from two vendors and prepared a requisition requesting the Supply Division to purchase the carpeting at the lowest quoted price it had received, \$8,099. A Smithsonian official stated that the Supply Division, by soliciting competitive price proposals, obtained carpeting of the same type and quality for \$5,078, a saving of more than \$3,000.

PROCUREMENT OF GOODS AND SERVICES  
PRIOR TO CERTIFICATION OF THE  
AVAILABILITY OF FUNDS

The law provides that no officer or employee of the United States make or authorize an expenditure or create or authorize an obligation under any appropriation or fund in excess of the amount available therein (31 U.S.C. 665). To assure compliance with this provision, it is imperative that Government funds not be obligated or committed until the availability of such funds has been established. Such assurance does not exist in situations where liabilities are created by virtue of procurement commitments made prior to certification of the availability of funds. In numerous instances noted in our review, such situations occurred because Smithsonian organizational units placed orders with vendors before obtaining certification from the Fiscal Division that funds were available for such purposes.

In many instances, a certification of the availability of funds was not obtained until after the supplies had been received or the services performed. For example, in a 1967 procurement, the Design Office of the Museum of History and Technology arranged to have a New York firm prepare and furnish drawings and specifications for an air-conditioned and humidified storage area for musical instruments. An invoice submitted by the vendor on July 28, 1967, in the amount of \$1,192, showed that the ordered services were performed during June and July 1967. A purchase requisition for this procurement was not prepared by the Design Office until August 17, 1967, and a certificate of the availability of funds was not obtained from the Fiscal Division until August 28, 1967, almost 2 months after the performance of the services had begun and 1 month after its completion.

In another instance, the Division of Performing Arts arranged with a Virginia supplier for the rental, installation, and operation of stages, scaffolds, screens, and lights for the Second Annual Festival of American Folklife held on the Mall during the period July 3-7, 1968. A purchase requisition for these services in the amount of \$4,297 was prepared by the requiring Smithsonian activity on July 24, 1968. A certification of the availability of funds was not obtained from the Fiscal Division until July 25, 1968--17 days after the services had been completed.

As a result of the procurement of goods and services prior to the certification of the availability of funds, the Smithsonian's records on the status of procurement funds are not current and therefore have not provided the control over obligations of appropriated funds necessary to ensure compliance with the requirements of 31 U.S.C. 665.

SPLITTING OF PURCHASE ORDERS TO  
AVOID THE "OPEN MARKET LIMITATION"

The Federal Property and Administrative Services Act of 1949, as amended (41 U.S.C. 252), provides that, with certain exceptions, all purchases and contracts for property and services shall be made by advertising. One of the exceptions to this requirement is that purchases and contracts

may be negotiated without advertising when the aggregate amount involved does not exceed \$2,500. This exception is commonly referred to as the open market limitation.

Our review of 65 purchase orders negotiated in fiscal years 1968 and 1969, totaling about \$120,000, revealed several instances where the open market limitation was exceeded. In some instances the limitation was exceeded because of successive purchases of like items by the same operating division. For example, in confirmation of orders placed by the Division of Performing Arts, the Supply Division issued four purchase orders, each under \$2,500 but totaling more than \$8,000, for the rental of tents for the Second Annual Festival of American Folklife held in July 1968. The Smithsonian might have been able to obtain a lower price if it had advertised for bids for the total requirement.

We also noted instances where the open market limitation was exceeded because operating divisions did not coordinate their procurement of common-use items. For example, two divisions, the National Portrait Gallery and the National Collection of Fine Arts, purchased certain items of furniture from the same vendor at approximately the same time. The furniture was acquired for joint use in an area used by both divisions. Although the amount of each purchase was less than the open market limitation, the combined purchases exceeded the limitation by about \$1,500.

#### AGENCY COMMENTS AND GAO'S EVALUATION

We discussed the questionable procurement practices with Smithsonian officials who generally agreed with our findings. The Acting Secretary observed that unauthorized purchases had been a chronic problem with most scientific and research organizations. He stated that this problem had been recognized by the Smithsonian's management and that, in an effort to alleviate the problem, the Smithsonian planned to issue a new requisitioning handbook for use by its staff members.

In a report draft which we submitted to the Secretary of the Smithsonian for advance comments, GAO agreed that a proposed requisitioning handbook might be of some help in reducing problems in the Smithsonian's procurement practices

by providing a ready reference source for procurement rules. We expressed the opinion, however, that the issuance of the handbook would not correct procurement problems because the handbook would be essentially a reiteration of existing instructions--instructions which, as we have shown, Smithsonian personnel had not consistently observed. In this respect, as stated on page 15 of this report, the Secretary issued specific instructions to staff members in December 1967, directing that all procurements were to be made through the Supply Division following verification by the Fiscal Division of the availability of funds. As shown by our review, these specific instructions had not been followed in a number of instances. We concluded that appropriate administrative controls were needed to enforce compliance with such instructions.

Therefore, we proposed that the Secretary instruct the certifying officers not to approve for payment any voucher or invoice for goods or services without the Secretary's approval when the procurement transaction does not include an advance determination of the availability of funds from the Fiscal Division and when the purchase is not processed through the Supply Division.

In commenting on our draft report, the Secretary expressed the opinion that the proposed requisitioning handbook would be beneficial for improving control over procurement practices. Additionally, he indicated his intention to reissue positive instructions requiring that, except in cases of public exigency, all procurements be made through the Supply Division after verification by the Fiscal Division of the availability of funds.

#### AGENCY ACTION

The Secretary subsequently issued a memorandum on April 1, 1970, on the subject of procurement practices and policies, addressed to all principal professional and administrative members of the Smithsonian staff. In this memorandum the Secretary stressed the need for compliance with the established procedures to provide assurance that goods and services for Smithsonian activities were procured at reasonable prices and within the funds available. Additionally, he pointed out that staff members were subject to

statutory and administrative penalties for the violation of procurement regulations and for exceeding available funds.

The memorandum further provided that any procurements made without following the prescribed procedures would be referred to the Assistant Secretary of the Smithsonian or other appropriate authority; that these officials would investigate the matter and recommend to the Chief of the Supply Division whether the improper procurement should be ratified or canceled; and that the Secretary reserved the right to refuse payment for any such improper procurements.

#### CONCLUSION

We believe that the additional administrative controls established by the revised procedures should, if properly administered, be effective in improving the Smithsonian's procurement practices.

## CHAPTER 4

### REVENUE-PRODUCING ACTIVITIES

The Smithsonian Institution engages in several revenue-producing activities, including the sale of books and other articles, concessions, and special events for which fees are charged. According to Smithsonian officials, these activities are carried on by authority of the Smithsonian Board of Regents in furtherance of its educational mandate. Our review showed that the Smithsonian's revenue-producing activities had been supported partly from Federal appropriations and partly from Smithsonian private funds; however, all revenue had been considered as private funds by the Smithsonian. According to the privately audited financial statements included in the Smithsonian's annual report to the Congress, expenditures of private funds for these activities in 1968 totaled \$1.9 million; revenues from these activities covered \$1.7 million of these costs and the balance of approximately \$200,000 was provided from the Smithsonian's unrestricted private funds.

In our audit, we did not develop information concerning the amounts of income derived from individual revenue-producing activities and the nature of such activities. The extent to which direct and indirect costs relating to the activities were paid from Federal funds could not be readily determined because the accounting records of the Smithsonian do not segregate the appropriated funds used for such activities. We did note, however, that appropriated funds were used to pay for certain direct expenses and certain indirect expenses, such as heat, light, maintenance, repairs, janitorial services and supplies, guard service, and other costs relating to the operation, maintenance, and administration of the Smithsonian Institution's buildings and grounds.

### CONCLUSION

Further information is being developed by Smithsonian and GAO regarding the financing of revenue-producing activities, in whole or in part, from appropriated funds when all income from such activities is considered to be private funds. Consideration will be given to the question of

whether an acceptable arrangement could be developed to report to the Congress the nature of these revenue-producing activities, specific amounts of revenue accruing from each of them, the extent to which the costs thereof are paid from Federal funds, and the extent to which the Institution applies its own funds to these public service activities.

## CHAPTER 5

### NEED TO REAPPRAISE INTERNAL AUDIT ACTIVITIES

Section 113 of the Accounting and Auditing Act of 1950 (31 U.S.C. 66) requires that the head of each executive agency establish and maintain systems of accounting and internal control, including internal audit, designed to provide, among other things, effective control over and accountability for all funds, property, and other assets for which the agency is responsible. Our review revealed that the Smithsonian had made only limited use of internal auditing as an element of management control.

In an April 1965 letter report to the Secretary on the results of a GAO audit of Smithsonian payroll activities, we commented on the need for the Smithsonian to establish internal auditing procedures to test the adequacy of its internal controls. In its reply of May 20, 1965, the Smithsonian agreed that there was a need for an effective internal audit function and assured GAO that action would be taken to develop an independent internal audit staff which would report to the Secretary through the Assistant Secretary.

Our review showed that many activities and programs had not been subjected to any regular program of internal audit and that there was no internal audit manual or other written guidelines which stated the objectives of internal audit, the scope of the audit work to be performed, or standards of an internal auditor's performance. During the greater part of our review, the Smithsonian's internal audit staff consisted of one auditor who was employed in July 1968. Prior to that time, the Smithsonian had had no internal audit staff for several years. One additional auditor was employed shortly before our review was completed.

Most of the work of the internal audit staff had been on private fund activities which were also audited annually by a national firm of certified public accountants. We found that only a limited amount of the internal audit effort had been directed to the federally funded activities even though salaries and expenses paid from Federal

appropriations had increased from about \$4.4 million in fiscal year 1957 to about \$26 million in fiscal year 1969.

The Acting Secretary stated that the internal audit effort had been concentrated on private funds because the problems in that area had been more pressing than those involving Federal funds. He indicated, however, that the auditors were turning their attention to Federal operations and that the audit staff would be expanded as constraints were lifted on the Smithsonian's Federal employment ceilings.

### CONCLUSION

We believe that expansion of internal audit effort by the Smithsonian on activities financed with Federal funds would result in more effective audit coverage of operations. We believe also that the various questionable policies and practices discussed in the previous chapters of this report demonstrate the need for increased internal audit attention to activities financed with Federal funds.

### RECOMMENDATION TO THE SECRETARY OF THE SMITHSONIAN INSTITUTION

We recommend that the Secretary continue efforts to develop an internal audit staff of sufficient size and competence to perform effective audits of all activities, including those involving Federal as well as private funds.

### AGENCY COMMENTS

The Secretary concurred in our recommendation and stated that the Smithsonian would undertake to recruit a competent and adequate internal audit staff.

## CHAPTER 6

### SCOPE OF REVIEW

Our examination consisted of (1) an evaluation of administrative procedures and internal controls on the receipt and disbursement of funds appropriated for selected activities, (2) a review of the policies and practices on the procurement of goods and services, and (3) a detailed review of the administration of funds appropriated for certain construction projects. Our examination also included such tests of financial transactions and records as we considered appropriate. We did not review the private funds administered by the Smithsonian Institution.



**APPENDIXES**





SMITHSONIAN INSTITUTION  
*Washington, D.C. 20560*  
*U.S.A.*

MAR 12 1970

Mr. Allen R. Voss  
Associate Director  
Civil Division  
General Accounting Office  
Washington, D. C. 20548

Dear Mr. Voss:

Thank you for the opportunity to review and comment on your proposed report to the Congress on the improvement needed in the financial management activities of the Smithsonian Institution.

The following comments are submitted for your consideration.

Use of Construction Funds for Equipment and Furniture

[See GAO note.]

It is submitted that the construction appropriation was approved by the Congress on the basis of a justification which specifically included a line item in the amount of \$685,000 for furniture and equipment. The printed House Hearings on the Department of Interior and Related Agencies Appropriations for 1961, on page 238, itemizes the purposes of the appropriation and clearly states the intent of the Congress in approving this appropriation in the full amount of \$13,500,000, as requested and as justified.

There follows a quotation from page 238, in pertinent part.

Use of construction funds for equipment and furniture (continued)

## Estimate:

1.	New construction.....	\$5,822,000
2.	Special foundations.....	300,000
3.	Elevators .....	280,000
4.	Air-condition extension <sup>1</sup> .....	1,200,000
5.	Remodeling in existing building.....	1,739,000
6.	Air-condition existing building <sup>1</sup> .....	1,860,000
7.	Furniture and equipment.....	685,000
8.	Divert large storm sewer.....	450,000
9.	Ventilate basement area.....	30,000
10.	Reservations.....	208,000
11.	Contingencies.....	570,000
	General expenses:	
	Drawings and specifications. \$731,000	
	Supervision..... 180,000	
	Office expense..... 45,000	
	Smithsonian Institution..... 200,000	
		<hr/> 1,156,000
		<hr/>
	Total estimated limit of cost.....	14,300,000
	Appropriated under Public Law 85-77, approved Sept. 1, 1957.....	800,000
		<hr/>
	Additional to be appropriated.....	13,500,000

<sup>1</sup>This climatic control is required in Washington to preserve the irreplaceable national collections.

[See GAO note.]

Inclusion of furniture and equipment in other construction appropriations

The inclusion of an amount in a construction appropriation to provide necessary furniture and equipment may be found in other appropriation acts, as outlined in the paragraphs below.

Example 1.

The Smithsonian appropriation for "Restoration and Renovation of Buildings" for fiscal year 1968 was based on a justification printed in the House Hearings on the Department of Interior and Related Agencies Appropriations, starting on page 1006. Included in the justification for completing renovation of the Smithsonian Institution Building is the following statement:

"It is now proposed that improvements be made at the western end of the first floor, comprising the old Chapel, west range, and the library. Improved lighting, flooring, partitioning, book stacks, display cases, and appropriate furnishings can convert this area into a study and discussion hall and library. This portion of the project is estimated to cost \$200,000."

Example 2.

In the same Hearings, on page 1008, reference is made to the renovation and modification to the old Civil Service Building to accommodate the National Collection of Fine Arts and the National Portrait Gallery. The following statement is submitted:

"The building is being fitted with shelves, display cases, equipment and other items necessary to receive the collections."

In both of the preceding examples, the appropriations were approved by the Congress either in the full amount requested or with specific reductions not involving furnishings and equipment.

Example 3.

It has been learned from Mr. William A. Schmidt, former Commissioner of the Public Buildings Service, General Services Administration, that in the years prior to the lease-purchase program

Example 3. (continued)

for the construction of public buildings throughout the country, items for furnishings and equipment were included in the building construction appropriations for that Service.

Example 4.

The "Memorandum of Understanding and Agreement for Design and Construction Services," No. PBS-67-5, transmitted to the Smithsonian Institution by letter dated March 20, 1967, by the Acting Commissioner of the Public Buildings Service, General Services Administration, included in the total estimated cost of \$15,000,000 an amount of \$500,000 for furnishings for the Hirshhorn Museum and Sculpture Garden.

Example 5.

We note in the House Hearings for the Department of Interior and Related Agencies Appropriations for 1969, for the Bureau of Indian Affairs, starting on page 730, that construction and furniture and equipment funds are requested under the same heading, "Construction."

In consideration of the foregoing statements, it is submitted that the expenditure for furniture and equipment as a part of the project for the Natural History Building Additions was in accordance with the intent of Congress and was also consistent with the practice of the Institution and of other agencies.

Use of funds appropriated for one building to pay for alterations to another building

Your draft report states that the Smithsonian had no legal authority for charging the appropriation for the construction of the Natural History Building Additions with the cost of alterations to the Smithsonian's Arts and Industries Building in order to accommodate a dispossessed tenant of the former building.

It is submitted, to the contrary, that this appropriation was justified to the Congress specifically describing the necessity of including such alterations and improvements as may be necessary to integrate the Additions with the existing building.<sup>a/</sup> The justifica-

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<sup>a/</sup> House Hearings on the Department of the Interior and Related Agencies Appropriations for 1961, page 237.

Use of funds appropriated for one building to pay for alterations to another building (continued)

tion specifically included the amount of \$570,000 for contingencies, that is, those exigencies of construction which may be expected in order to carry out properly the purposes of the construction project.

The relocation of the Office of the Registrar from the Natural History Building to the Arts and Industries Building was judged to be essential as a part of the objective of the improvement of the Natural History Building. To make this relocation possible, it was necessary to make alterations to the Arts and Industries Building. Since the purpose of this expenditure was to improve space utilization within the Natural History Building, it is our judgment that the expenditure for the necessary alterations within an adjoining Smithsonian building was necessary and proper. This opinion is believed to be consistent with Section 4.5 of the General Accounting Office Policies and Procedures Manual, Title 7, where it states:

"Where an appropriation is made for a particular purpose, it confers, by implication, authority to incur expenses which are necessary or incident to the proper execution of the purpose, . . . ."

Controls over the procurement of goods and services

Your comments and recommendations in regard to controls over the procurement of goods and services have been reviewed carefully. It is noted that you recommend that the Secretary instruct the certifying officers not to approve payment for any voucher or invoice for goods or services without his specific approval if the transaction did not include an advance determination of the availability of funds from the Fiscal Division and if the purchase was not processed through the Supply Division.

As you recognized, the Supply Division with the support of the Secretary has endeavored to maintain control over procurement in the interest of improved administration. The Requisitioning Handbook for use by Smithsonian staff members should be helpful in providing a ready reference source of procurement rules. The Secretary has already issued and will now reissue positive instructions to all concerned members of the staff that all procurements are to be made through the Supply Division, following verification by the Fiscal Division of the availability of funds. This procedure will be subject to exception only in the case of public exigency.

[See GAO note.]

Reappraisal of internal audit activities

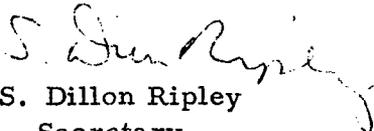
Included in the comments on the need to reappraise the internal audit activities of the Institution, there is a recommendation that the Secretary continue his efforts to develop an internal audit staff of sufficient size and competence to perform effective audits of all functional areas, including those involving Federal as well as private funds.

The Smithsonian concurs in this recommendation and will undertake to recruit competent and adequate staff for this important function.

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It is felt that the above given information satisfactorily clarifies and answers the points raised in your recent report. I would like, however, to add the further related statement. The Smithsonian welcomes constructive criticism of the type you have given us. At the same time, for a balanced picture of our situation, the record should carry a statement of the intense efforts which have been carried on for the past year or more, and are now continuing, to bring about improvements in our financial and accounting affairs. This includes such fundamental steps as the reorganization of the Fiscal Division, upgrading of personnel, complete and uniform coding of accounting transactions, changes to accrual accounting methods, automation and computerization of certain procedures including a new combined payroll-personnel program, and current efforts to prepare regularly more meaningful monthly reports to aid executives in the management and direction of their resources. These efforts have been supplemented by the issuance of a new procedural manual on the subject of property management. A new manual on procurement procedures will be issued in the near future and a new manual on auditing is in process also. Only the elements of time, manpower, and money are restricting these improvement efforts. They will be continued at maximum levels within the resources available to us.

Sincerely yours,

  
S. Dillon Ripley  
Secretary

GAO note: Deleted comments pertain to material presented in the draft report which has been revised or which has not been included in the final report.

PRINCIPAL OFFICIALS OF THE SMITHSONIAN INSTITUTION  
RESPONSIBLE FOR THE ADMINISTRATION OF  
THE ACTIVITIES DISCUSSED IN THIS REPORT

		<u>Tenure</u>	
		<u>From</u>	<u>To</u>
<b>BOARD OF REGENTS:</b>			
Earl Warren	Chief Justice of the United States, Chancellor	1953	1969
Warren E. Burger	do.	1969	Present
Hubert H. Humphrey	Vice President of the United States	1965	1969
Spiro T. Agnew	do.	1969	Present
Clinton P. Anderson	Member of the Senate	1949	1974
J. William Fulbright	do.	1959	1974
Hugh Scott	do.	1966	1970
Frank T. Bow	Member of the House of Representatives	1959	1970
Michael J. Kirwan	do.	1962	1970
George H. Mahon	do.	1964	1970
John Nicholas Brown	Citizen of Rhode Island	1969	1975
William A. M. Burden	" " New York	1962	1974
Crawford H. Greenewalt	" " Delaware	1956	1974
Caryl P. Haskins	" " Washington, D.C.	1956	1974
Jerome C. Hunsaker	" " Massachusetts	1949	1968
Thomas J. Watson, Jr.	" " Connecticut	1969	1975
James E. Webb	" " Washington, D.C.	1970	1976
<b>SECRETARY:</b>			
S. Dillon Ripley		1964	Present
<b>UNDER SECRETARY:</b>			
James Bradley		1970	Present
<b>ASSISTANT SECRETARIES:</b>			
James Bradley (Administration)		1961	1970
Charles Blitzer (History and Art)		1968	Present
Sidney R. Galler (Science)		1965	Present
William W. Warner (Public Service)		1968	Present