

# **Summary Proceedings of the Board of Regents**

*January 29, 2007*

## **WELCOME TO NEW REGENTS AND CHAIR OF THE SMITHSONIAN NATIONAL BOARD**

The Chancellor opened the meeting by welcoming newly appointed Congressional Regents Christopher Dodd (in absentia) and Doris Matsui, as well as Smithsonian National Board Chair L. Hardwick “Hacker” Caldwell, who will represent the National Board at the Regents’ meetings for the duration of his term.

## **REPORT OF THE EXECUTIVE COMMITTEE**

The Regents’ Executive Committee met on November 20, 2006, to discuss the work of the Regents’ Nominating Committee, the status of the review of the Secretary’s and Smithsonian Business Ventures Chief Executive Officer’s expenses, the impact of mid-term elections on the Smithsonian, and highlights of the Government Accountability Office’s review of the Smithsonian On Demand agreement. The Committee also met on January 4, 2007, to review the proposed agenda for the January 29 meeting of the Board of Regents, as well as the report and recommendations of the Regents’ Committee on Compensation and Human Resources.

## **REPORT OF THE SMITHSONIAN NATIONAL BOARD**

The Board held its 2006 Fall Meeting in Washington, D.C., on October 19–21, 2006, and its 2007 Winter Meeting at the Smithsonian Tropical Research Institution in Panama on January 24–27, 2007. The report on the activities of the Board included a motion to appoint Peter Lunder as vice chair of the Board. Accordingly, the following motion was approved:

*VOTED that the Board of Regents appoints Peter Lunder as vice chair of the Smithsonian National Board effective October 2006.*

## **APPOINTMENTS TO SMITHSONIAN ADVISORY BOARDS**

*VOTED that the Board of Regents appoints Lynne N. Horning to the Advisory Board of the Anacostia Community Museum for a three-year term effective January 31, 2007.*

*VOTED that the Board of Regents appoints Agnes M. Brown, S. Taylor Glover, Susan Hutchison, Roger D. Percy, and Richard Sugden to the Board of the National Air and Space Museum for three-year terms effective February 2007.*

*VOTED that the Board of Regents reappoints Timothy J. Bork and Henry L. Thaggert III to the Board of the National Museum of African Art for three-year terms effective immediately.*

*VOTED that the Board of Regents appoints David McCullough to the Board of Directors of the National Museum of American History, Kenneth E. Behring Center, for a three-year term effective February 8, 2006.*

*VOTED that the Board of Regents appoints Gabriela Febres-Cordero, William H. Frist, Jane Lubchenco, and David Rubenstein to the Board of the National Museum of Natural History for three-year terms effective immediately.*

*VOTED that the Board of Regents appoints W. Dean Smith and reappoints Ella M. Foshay, V. Thanh Nguyen, R. Ted Steinbock, and Jack H. Watson, Jr., to the Commission of the National Portrait Gallery for four-year terms effective January 1, 2007.*

*VOTED that the Board of Regents appoints James Dyer and Steven A. Elmendorf to the Advisory Board of the National Zoological Park for three-year terms effective January 1, 2007.*

*VOTED that the Board of Regents appoints Gisele Galante Broida, Edgar M. Masinter, and Nion McEvoy to the Commission of the Smithsonian American Art Museum for four-year terms; reappoints Norma Lee Fungler and Clarice Smith for four-year terms; and reappoints Jesús Moroles for a one-year term, all effective immediately.*

*VOTED that the Board of Regents appoints Cristián Samper to the Board of Directors of Smithsonian Business Ventures for a one-year term and reappoints Gary Beer, Sheila Burke, Adolfo Marzol, and Don Steiner for three-year terms and Alice Maroni for a two-year term, all effective immediately.*

*VOTED that the Board of Regents appoints Marjorie Murtagh Cooke and reappoints Barbara L. Bedford, Frank Chaney, and Diane Ebert-May to the Advisory Board of the Smithsonian Environmental Research Center for three-year terms effective immediately.*

*VOTED that the Board of Regents appoints Pamela J. Braden to the Board of the Smithsonian Institution Libraries for a three-year term effective immediately.*

## **REPORTS OF SELECTED ADVISORY BOARDS**

The Board of Regents regularly receives updates from Smithsonian advisory boards to support communications between the boards and the Regents. At this meeting the Regents reviewed supportive, as well as constructive, reports from the advisory boards of Smithsonian Business Ventures and Smithsonian Institution Libraries. Both reports also conveyed the boards' grave concern about the debilitating impact of Federal funding cuts.

## **REPORT OF THE AUDIT AND REVIEW COMMITTEE**

The report of the Audit and Review Committee primarily focused on the failure of the Institution's independent auditors, KPMG, to deliver the fiscal year 2006 audit on or before its previously scheduled December 15, 2006, deadline. The Committee, which met on January 22, 2007, heard from Acting Inspector General (IG) Sprightley Ryan who summarized recent IG audits of executive compensation (including that of Smithsonian Business Ventures employees) and the Secretary's expenses (see Executive Session report on page xi). In addition, Chief Financial Officer

(CFO) Alice Maroni gave the Committee her perspective on the KPMG audit, as well as the implications for the Smithsonian of operating under a Continuing Resolution. The Committee met alone after three separate executive sessions with the Acting IG, the CFO, and KPMG representatives.

## **LEGISLATIVE ACTIVITIES AND ISSUES**

### ***Smithsonian-Related Legislation***

The Regents considered two requests for Congressional support to authorize the process of planning, designing, and constructing facilities. The first, a request to begin the process of securing replacement greenhouse facilities, was proposed in response to the pending closure of a 55,000-square-foot greenhouse complex currently leased for the Institution's horticultural operations. The facility supports the National Orchid Collection, as well as all of the horticultural activities that cannot be contracted out. Accordingly, the following motion was approved:

*VOTED that the Board of Regents requests its Congressional Regents to introduce and support legislation to provide for the planning, design, and construction of a 55,000-square-foot greenhouse facility at the Institution's Suitland, Maryland, site.*

The Regents then discussed the Institution's need for a replacement building on the Gamboa site of the Smithsonian Tropical Research Institute. The new facility would replace a termite-ridden building that, if renovated, would surpass the cost of constructing an entirely new building. Accordingly, the following motion was approved:

*VOTED that the Board of Regents requests its Congressional members to introduce and support legislation to provide for replacement construction of the Smithsonian Tropical Research Center's schoolhouse building in Gamboa, Panama, for the purpose of supporting the Center's terrestrial research program and other investigative initiatives.*

## **REPORT OF THE GENERAL COUNSEL**

The General Counsel is working with the Office of the Secretary to update ethics guidelines for the Institution's 39 advisory boards. The revised guidelines are modeled on the Regents' Ethics Guidelines.

## **GOVERNMENT ACCOUNTABILITY OFFICE REVIEW OF SMITHSONIAN REAL PROPERTY MANAGEMENT AND SECURITY**

The Regents received a positive status report on the General Accounting Office's review of the Institution's real property management. Although the review process was projected to conclude by March 2007, it is now anticipated that the reporting timeframe will be extended to allow the GAO to properly process the quantity of information provided by the Institution.

## **PROPOSED LAND ACQUISITION FOR THE SMITHSONIAN ENVIRONMENTAL RESEARCH CENTER: CONTEE FARM**

The Regents reviewed a proposal to use outside funding sources to acquire Contee Farm, a strategically located property that is integral to the overall land management of for the Smithsonian Environmental Research Center (SERC) in Edgewater, Maryland. The Smithsonian has had covenants on Contee Farm for over 30 years and has been offered the right of first refusal on its sale. Outside funding sources have been identified that will enable the Smithsonian to take title of the property without the use of any Federal monies or Smithsonian Trust funds. Accordingly, the following motion was approved:

*VOTED that the Board of Regents approves the purchase of the 587-acre Contee Farm in Edgewater, Maryland, for the purpose of enhancing the research, education, and public outreach programs of the Smithsonian Environmental Research Center.*

## **PROPOSED USE OF PROCEEDS FROM THE SALE OF DEACCESSIONED REVENUE STAMPS**

The Regents' 2004 decision to support the auction of revenue stamps from the collection of the National Postal Museum was based in part on advice that the proceeds from such an auction only could fund the Museum's acquisition program. Since that time, two successful auctions were held, a third has been scheduled, and the auditor, KPMG, has revised its opinion regarding the use of revenues from the second and any subsequent auctions, determining that the proceeds may fund the direct care and management of the National Philatelic Collection, as well as support acquisitions. The Regents were asked to support the revised rules that govern the use of proceeds from the Museum's revenue stamp auctions.

*VOTED that the Board of Regents approves the National Postal Museum's request to apply the proceeds from the second and any subsequent sale of deaccessioned revenue stamps to the acquisition of new objects and/or the direct care and management of the National Philatelic Collections.*

## **ENDOWMENTS, DONOR RECOGNITION, CORPORATE SUPPORT, AND GIFT POLICY**

The Regents adopted the following resolutions for donor recognition and corporate support opportunities, as well as actions to create endowments and gift administration policies, which had been proposed in accordance with the fund-raising principles, policies, and procedures approved by the Board of Regents and applicable Smithsonian directives.

*VOTED that the Board of Regents recognizes the generosity and dedication of Peter Buck to the National Museum of Natural History, and gratefully approves the creation of a \$5 million endowment in 2008, the proceeds of which will be used to support Human Origins Initiative scholarly activities, which may include staffing support and research programs, as well as the efforts of a new chair in human origins. The Board also approves the recognition of the Peter Buck family for its overall support of the Human Origins Initiative with a plaque at the entrance of the Human Origins Hall. The plaque will be displayed for at least 25 years or until the next major renovation of the space, whichever occurs later. In addition, the Board approves recognizing Dr. Buck by naming a new chair The Peter Buck Chair in Human Origins.*

*VOTED that the Board of Regents recognizes the generosity of the Lily Auchincloss Foundation and its principals, Alexandra A. Herzan and Paul K. Herzan, to Cooper-Hewitt, National Design Museum and gratefully approves the creation and naming of the Lily Auchincloss Design Education Endowment, an endowment to support design education programs at the Museum.*

*VOTED that the Board of Regents recognizes the generosity of Michael A. Mennello and his late wife, Marilyn Logsdon Mennello, to the Smithsonian American Art Museum and gratefully approves the creation and naming of The Michael A. and The Honorable Marilyn Logsdon Mennello Endowment, an endowment to benefit the Museum's programmatic initiatives, as determined by the director.*

*VOTED that the Board of Regents recognizes the generosity of Agnes M. Brown to the National Air and Space Museum and gratefully approves the creation and naming of the Colonel and Mrs. James J. Brown Restoration Fund, an endowment for the benefit of restoration work at the National Air and Space Museum.*

*VOTED that the Board of Regents approves the creation of a quasi-endowment for the benefit of the National Science Resources Center, the payout of which will be used for expenditures associated with a project the Center is conducting in North Carolina to establish a comprehensive and challenging K–12 science program in all school districts. To fund the endowment, the Board authorizes the transfer of a \$1 million gift to the Center from the Burroughs Wellcome Fund. As stated in the August 2006 gift agreement between the Burroughs Wellcome Fund and the Center, the payout of the quasi-endowment will fund the Center's North Carolina project for 10 years and, upon completion of the project, the Center may direct the quasi-endowment to support other efforts, at the Center's discretion.*

*VOTED that the Board of Regents, consistent with the Demetrions' request and in grateful recognition of James Demetrion's past service to the Hirshhorn Museum and Sculpture Garden and James and Barbara Demetrions' ongoing generous support of the Museum, rename the endowment established and named in their honor on January 22, 2002. The endowment will be named the Friends of Jim and Barbara Demetrion Endowment Fund.*

*VOTED that the Board of Regents recognizes the generosity of EMC Corporation to the Smithsonian and its Office of the Chief Information Officer and accepts the terms of this corporate sponsorship agreement.*

*VOTED that the Board of Regents recognizes the generosity of the Marcel Dassault Trading Corporation to the National Air and Space Museum and to Phase Two construction of the Steven F. Udvar-Hazy Center and, consistent with the company's wish to honor its founder, Marcel Dassault, and his son, Serge Dassault, and their contributions to the aerospace industry, approves placing in the Boeing Aviation Hangar of the Steven F. Udvar-Hazy Center a plaque reading "The National Air and Space Museum recognizes the generosity of Marcel and Serge Dassault in support of the Steven F. Udvar-Hazy Center."*

*VOTED that the Board of Regents recognizes the generosity and dedication of Elihu Rose to the National Museum of American History and gratefully approves naming a planned temporary exhibition gallery in the west wing of the Museum the Susan and Elihu Rose Gallery. The name will be associated with the gallery for 20 years from the date that the gallery opens to the public until, after that period, the gallery's next significant renovation.*

*VOTED that the Smithsonian Board of Regents approves the application of a 5% fee to realized unrestricted, undesignated bequests received by the Smithsonian and the use of this fee to supplement the budget supporting the Smithsonian's Planned Giving program to expand marketing and programmatic components. The 5% administrative fee will be capped so that the maximum amount of funding for this purpose will not exceed \$700,000, cumulatively, for the current and next two fiscal years, adjusted upward every year by the CPI.*

## **REPORT OF THE FINANCE AND INVESTMENT COMMITTEE**

The Finance and Investment Committee discussed three topics during its meeting on January 23: the activities of the Smithsonian Investment Committee, the fiscal year 2006 budget, and the fiscal year 2008 Federal budget request.

The Smithsonian Investment Committee continues to focus on restructuring the Endowment's investment portfolio in order to reduce the portfolio's volatility while enhancing its return. Strategic changes made to the Endowment portfolio have enabled the Institution to reduce the fixed-income portion from 18 percent to 14 percent, as well as increase the Endowment's value by \$103.5 million during the calendar year, to a total of \$894 million.

The report on the fiscal year 2006 budget was based on unaudited numbers, which prompted the Committee's serious discussion about the Institution's external auditor, KPMG. The Committee reported that the Institution had a very good year financially. Fund raising during fiscal year 2006 exceeded budget by \$49 million, external debt was reduced by nearly \$89 million (largely due to the sale of the Victor Building), and the unrestricted Trust budget achieved its third consecutive surplus by continuing its one-for-two hiring freeze. However, income from retail businesses' net income fell \$6 million below budget due primarily to a decline in museum visitation at the major venues where the Smithsonian Business Ventures (SBV) operates, as well as the poor performance of the SBV catalog division.

Federal support for the Institution continues to be a problem, particularly in the areas of facilities revitalization and maintenance. As the mandated pay raise for Federal employees was under-funded yet again, the Institution began the year with a Federal operations shortfall of \$13 million. In addition, facilities maintenance funding of \$46 million remains short of the minimum industry standard of \$94 million, and the fiscal year 2006 facilities capital appropriation was 31 percent less than the prior year, which was a major setback for the facilities program. The prospects for fiscal year 2007 are not better, as the Continuing Resolution through which the Smithsonian receives its Federal funding appears likely to continue, effectively freezing the fiscal year 2007 budget at this lower level. Facilities revitalization remains the Institution's most pressing financial challenge.

The Finance and Investment Committee also reviewed the Institution's fiscal year 2008 Federal budget request to be submitted to the Congress in early February. As the President's priorities remain the war on terrorism, homeland security, and the economy, most non-defense budget requests are being reduced. The Institution's negotiations with OMB, however, appear to have been constructive, as the fiscal year 2008 budget request to the Congress is 5.3 percent over the fiscal year 2007 budget request. Because the latter was never enacted, the fiscal year 2008 budget request represents about 10 percent more than the current funding level imposed by the budget freeze.

The OMB allowance for fiscal year 2008 includes \$517 million for Federal salaries and expenses, which will cover most of the known mandatory costs, as well as provide a funding increase of \$10 million for the National Museum of African American History and Culture. The Smithsonian also received an allowance of \$107 million for its facilities capital request, which includes funding for the new elephant area at the Zoo and important modifications of the Pod III storage facility in Suitland, Maryland. The OMB allowance for fiscal year 2008 will not, however, provide the critically needed funding to address facilities maintenance and collections care, which together remain the biggest challenge to the Institution's ability to fulfill its mission.

*VOTED that the Board of Regents authorizes the Secretary to submit to Congress a Federal budget for fiscal year 2008 as part of the President's budget in the amount negotiated with OMB and authorizes the Secretary to inform OMB and Congress fully about the implications of the President's budget for the mission and priorities of the Institution.*

## **REPORT OF THE NOMINATING COMMITTEE**

During its October 31, 2006, meeting, the Nominating Committee unanimously agreed to propose the renomination of three citizen Regents. Accordingly, the Regents approved the following motion:

*VOTED that the Board of Regents renominates Walter E. Massey, Roger W. Sant, and Patricia Q. Stonesifer for second terms as members of the Board. The Congressional members of the Board of Regents are asked to introduce and support legislative initiatives leading to their reappointment.*

The Committee also reviewed the Regents' committee memberships for calendar year 2007 and proposed the appointments of Hacker Caldwell to the Finance and Investment Committee and Phillip Frost to the Audit and Review Committee. Accordingly, the Regents approved the following motion:

*VOTED that the Board of Regents approves the list of committee memberships for calendar year 2007 or until further action of the Board.*

The last agenda item discussed by the Committee was the ongoing search for nominees to fill the Board vacancy that will occur upon the December 2007 conclusion of Anne d'Harnoncourt's final term on the Board of Regents. Statutory charter provisions dictate that citizen Regents cannot represent the same state. Consequently, the current search must be limited to persons who reside outside of the states of California, Florida, Illinois, Massachusetts, New York, and Washington, as well as the District of Columbia. It was agreed that the primary qualities that any Regent candidate must possess include a passion for and commitment to the Smithsonian, as well as a willingness to exercise both on behalf of the Institution. World-class experience with museums and their management also were identified as desirable attributes.

## **DESIGNATION OF RALPH REGULA AS REGENT EMERITUS**

*VOTED that the Board of Regents confers the title of Regent Emeritus on Representative Ralph Regula with heartfelt gratitude for the outstanding service he has provided to the Smithsonian Institution.*

## **STATUS OF THE ARTS AND INDUSTRIES BUILDING**

In January 2004 the Board of Regents voted to close the Arts and Industries Building because of safety concerns, particularly those regarding the structural integrity of its roof. The structure was vacated by the end of calendar year 2006.

As Federal funds are not available to address the decrepit condition of the building, the Institution has actively explored options to address its future use. Outside agencies have been consulted, including representatives from the Office of Management and Budget and the United States Congress. Discussions were held regarding the possible pursuit of private partnerships that might allow the use of private funding to renovate the building and allow its use by other parties. The Institution also conducted an assessment of the building and determined that it would cost approximately \$56 million to stabilize the building and bring it up to a code-compliant warm shell. This estimate includes repairing the building's infrastructure and roof, but not addressing the interior of the building.

The Regents were asked to allow the Institution to issue a Request for Proposal (RFP) to the private sector to determine the interest level of organizations that might want to enter into a partnership intended to provide the funding needed to preserve the historic structure while remaining appropriate for the building's use and historic status, consistent with the Institution's mission, and compatible with the building's prominent location on the National Mall. Both the RFP process and any subsequent partnership would be carried out under the oversight of the Regents, who have full authority over the building, and with appropriate communication with the Fine Arts Commission, the National Capital Planning Commission, the Office of Management and Budget, and Congress.

Congressional Regent Xavier Becerra reminded the Board that he had introduced legislation to create a commission to explore the idea of building a Museum of the American Latino. Although the proposed legislation has yet to be approved by the Senate and the Institution presently is incapable of funding such an initiative, Representative Becerra noted the Arts and Industries Building might be considered in the future as a potential home to the museum.

It was then proposed that the Board of Regents authorize the issuance of a Request for Proposal. With one Regent abstaining from the vote, the following motion was approved:

*VOTED that the Board of Regents authorize the issuance of a Request for Proposal regarding the possible renovation and long-term lease of the Smithsonian's Arts and Industries Building.*

## **SMITHSONIAN ON DEMAND**

An update on the status of the Smithsonian On Demand television initiative included a short video featuring a cross-section of the types of programming that likely will be shown on the network. Poised to launch this spring with 35 to 40 hours of programming, the initiative will ultimately provide up to 100 hours of programs that originate from the Institution or are based on its collections. All of the programs will be vetted by an internal review process to assure that they support the mission of the Institution and are consistent with the kinds of information and programming expected of the Institution, as well as to confirm that their content is factually correct. The initiative is 100% financed by the venture and the Smithsonian's sole investment is the contribution of intellectual content.

The Regents were also provided with a paper summarizing the results of the December 15, 2006, GAO review of the circumstances surrounding the negotiation, execution, and implementation of the Smithsonian On Demand contracts. The Institution found the GAO review to be fair and unbiased.

## **REPORT OF THE EXTERNAL REVIEW COMMITTEE FOR SMITHSONIAN ARTS**

The morning meeting of the Committee of the Whole was devoted primarily to the presentation of the Report of the External Review Committee for Smithsonian Arts ("the Committee"). Under Secretary for Art Ned Rifkin and two Committee members, Dr. Glenn D. Lowry, the director of The Museum of Modern Art in New York, and Dr. John Walsh, director emeritus of the J. Paul Getty Museum, presented an overview of the Committee's assignment, findings, and general recommendations.

The Committee noted that the Smithsonian's arts organizations have extraordinary potential, including the ability to achieve the Secretary's goals for the Institution: increase public impact; strengthen research, scholarship, and collections; promote organizational and management excellence; and achieve greater financial strength. To realize these goals, the Committee said that the Smithsonian's arts organizations must address four areas: excellence, collaboration, administration, and financial support.

The Committee endorsed the restructuring of the art museums under the umbrella of Smithsonian Arts and the direction of the Office of the Under Secretary for Art. The report noted the real and potential benefits offered by the reorganization, citing the benefits of intellectual and artistic cross-pollination, as well as collaborative efforts to identify, attract, and utilize funding and other resources. The critical need for more funding for Smithsonian Arts was noted as an overarching concern.

The leadership role of the Under Secretary for Art was examined, including the need for increased support for the position. The Committee praised initiatives to promote communication and cooperation among Smithsonian Arts organizations, such as the new Contemporary Art Forum.

The Committee stated that the Smithsonian Arts possess an implicit mandate as national role models. The report concluded that the opportunity to play a vital role in sustaining an educated, curious, creative public has never been more essential to the future of the nation, and that the investment of public funds in the arts has never been more important.

During the afternoon meeting of the Board of Regents, the tremendous work and vision of the External Review Committee for Smithsonian Arts was recognized. The Regents, in an expression of appreciation, accordingly approved the following motion:

*VOTED that the Board of Regents accepts with deep gratitude the report of the External Review Committee for Smithsonian Arts. The Board expresses its total support for the Committee's work and shares in the consensus reached, endorses the vision and direction embodied in the Report, and asks the Secretary to report regularly on progress in the exciting and needed implementation of the Committee's findings.*

## ***BUTTERFLIES AND PLANTS: PARTNERS IN EVOLUTION AT THE NATIONAL MUSEUM OF NATURAL HISTORY***

An exciting new exhibition, *Butterflies and Plants: Partners in Evolution*, is scheduled to open at the National Museum of Natural History in November 2007. The exhibition will include both a long-term exhibition focusing on the co-evolution of plants and animals through time and a special Butterfly Pavilion featuring live plants and butterflies. It will be unique in its strong focus on science.

The investment for the new exhibition and its Butterfly Pavilion is fully funded. The annual operations of the Pavilion, including the ongoing replenishment of butterflies and plants, will require an admission charge based on estimated annual operating costs, related expenses, and the projected number of visitors. All income generated from admissions will be used to support the operation of the Butterfly Pavilion, the Insect Zoo, and related activities. Although the Smithsonian previously has charged fees for certain programs, such as IMAX films and visits to the National Air and Space Museum's Planetarium, this would be the first time admission would be charged for a special highlight in a permanent exhibition.

The Museum is taking four specific steps to ensure that *Butterflies and Plants: Partners in Evolution* and its educational message will be accessible to all visitors. Access to the larger, long-term exhibition around the Butterfly Pavilion will be free-of-charge to all visitors during regular Museum hours. Admission fees to the Pavilion are proposed to be waived one day each week, and reduced or waived fees to the Pavilion will be offered to school groups through special arrangements. In addition, free educational resources will be available via the web for both formal and informal educational use.

The Regents were enthusiastic about the proposed exhibition. Following a review of the proposed measures to ensure the Pavilion's accessibility to all visitors, the Regents also expressed their support for a proposed admission fee to support the annual operating costs of the Butterfly Pavilion. With one Regent abstaining from the vote, the following motion was approved:

*VOTED that the Board of Regents approves the proposed plan to charge admission to the Butterfly Pavilion in the forthcoming exhibition Butterflies and Plants: Partners in Evolution.*

## **STATUS OF SMITHSONIAN INSTITUTION FISCAL YEAR 2006 GOALS**

The Regents reviewed the Institution's fiscal year 2006 accomplishments during the morning meeting of the Committee of the Whole. The status report cited progress on a number of scheduled initiatives, including major facilities capital and exhibitions projects (such as the opening of the Donald W. Reynolds Center for American Art and Portraiture and the National Zoo's Asia Trail I), major information technology and financial projects, and private fund-raising efforts, as well as those to secure increases in Federal appropriations. The Institution exceeded its fund-raising goals, produced a Trust surplus for the third consecutive year, met or exceeded diversity goals for employees and major suppliers, and achieved a green status rating on four of five of the areas measured in the 2006 year-end President's Management Agenda. However, the Institution experienced a slight drop in physical visits (although virtual visits rose by 32%), Smithsonian Business Ventures' net gain did not reach its fiscal year goal, and media and government relations were temporarily affected by Congressional misgivings related to the Smithsonian On Demand video initiative.

## **EXECUTIVE SESSION**

The plenary meeting of the Board of Regents concluded at 3:15 p.m., after which the Regents met in executive session to consider a special report from the Audit and Review Committee, as well as the recommendations of the Committee on Compensation and Human Resources. Acting Inspector General A. Sprightley Ryan joined the Regents for a discussion of the Audit and Review Committee's examination of the Secretary's expenses.

In June 2006 the Secretary and the Audit and Review Committee asked the Chief Financial Officer, with help from an independent auditor, to undertake a review of the Secretary's expenses during fiscal years 2000 through 2005 (he began his tenure in January 2000) and to determine if travel and other reimbursable expenditures incurred by the Secretary were reasonable in the context of a business expense related to the Smithsonian's mission and

consistent with his employment agreement. By August 2006, the Institution entered into a contract with Cotton & Company to conduct this review, and the Smithsonian's Inspector General was assigned to serve as the Institution's technical representative with respect to that contract.

According to the Cotton & Company December 22, 2006, report and the Inspector General's January 16, 2007, letter to the Audit and Review Committee, the six-year review of 1,040 transactions disclosed "no evidence of fraud or abuse associated with the expense transactions reviewed." At its meeting on January 22, 2007, the Audit and Review Committee met with the Inspector General in executive session to discuss her observations. The Committee also examined the supporting documentation and found both that the documentation was adequate to support the expenses and that the expenses were incurred for demonstrable business purposes, no personal benefit for the Secretary, and in furtherance of the mission of the Institution.

Moreover, the Inspector General expressly found "no evidence that the expenses reviewed were solely for personal benefit." The Inspector General further noted that 96% of these transactions were fully documented. Of the 3% found to be inadequately supported, most of those transactions were deemed to be inadequately supported because only partial documentation, not the original invoices or receipts, could be found. These transactions also occurred primarily in 2000 and 2001, and the Inspector General noted that gaps in records could be attributed to the lapse of time, relocation of the Office of the Comptroller, and staff turnover. The remaining transactions, which represented only 1% (worth \$7,108.89) of all reviewed expenses, were deemed to be unsupported. The Office of the Secretary and the Chief Financial Officer provided the Audit and Review Committee with supplemental documentation establishing the legitimate business purposes for the 4% of transactions deemed in the report to have been unsupported or improperly supported.

The Inspector General specifically questioned two transactions: (1) a \$14,509.40 round-trip charter flight in May 2001, when the Secretary attended the opening of an affiliate museum and, at the request of one of the Institution's largest donors, a function held by a major potential donor and then needed to return to Washington for a Board of Regents' meeting; and (2) a \$5,764 reimbursement for the three-day Cambodia portion of the Smithsonian National Board's 2004 China/Cambodia trip for the Secretary's wife, who had agreed to represent him and the Smithsonian for the last portion of the trip so that he could return to commitments in Washington. After reviewing the relevant supplemental documentation for each of these transactions, as well as the articulated business purpose for each expense, the Audit and Review Committee found that the transactions were consistent with the Smithsonian's mission and would have been authorized by the Regents as proper business expenses if presented to the Regents for advance approval. Similarly, the Committee recognized that a \$4,811.50 cash award in June 2000 for a long-service employee, while technically unauthorized, was justified in the same manner and would have met with the Regents' approval.

The Inspector General noted that approximately 200 transactions (representing 8% of the cost of all transactions) for gifts and meals for donors and staff were not authorized in some years due to inconsistent policy guidance. According to the Inspector General, most of these transactions were undertaken for legitimate business purposes, none were solely for the Secretary's personal

benefit, and all would have been permissible if the policy had been clear. The Committee agreed with the conclusion of the Inspector General with respect to these expenses, and understood that such policies are already being clarified.

In addition, the Inspector General noted that certain meals and gifts provided to staff appeared to be lavish. The Committee reviewed all such expenditures, and while it understands that the Institution must ensure that the expenses incurred in carrying out its mission must be reasonable, none of the reviewed expenses were found to be unreasonable.

Finally, the Inspector General recommended that “the Board of Regents consider amending the Secretary’s employment agreement to specify what level of travel service the Secretary is entitled to... and to make the [Secretary’s] housing allowance a single yearly payment with no documentation of expenses or minimum amount required to qualify for the allowance....” In the Audit and Review Committee’s opinion, making these terms unambiguous through simple modifications will clarify the intent of the agreement and make the accounting for his compensation more straightforward.

Following discussion of the Audit and Review Committee’s report, the Regents approved the following motion:

*VOTED that the Board of Regents acknowledges the Inspector General’s diligent management of the review of the Secretary’s expenses and accepts the Audit and Review Committee’s conclusions that the expenses were incurred for demonstrable business purposes in furtherance of the mission of the Institution, none of the expenditures were solely for the Secretary’s personal benefit, and there was no evidence of fraud or abuse in any transactions in this review. The Regents authorize the following modifications to The Secretary’s employment agreement of September 28, 1999:*

*Modify Paragraph #7 to provide, in its entirety, “The Secretary shall make his personal residence available for official Smithsonian hospitality and will receive an annual housing allowance of \$193,022 for 2007, payable bi-weekly, and adjusted annually by the Board of Regents.”*

*Modify Paragraph #8 to provide, in its entirety, “To carry out his role as chief spokesman and fundraiser for the Smithsonian, the Secretary is authorized by the Board of Regents to travel at the first-class level for all transportation, including the use of car services for transportation to official functions (not to include daily commuting between home and office), and quality hotel accommodations and meals such as those provided by Marriott, Hilton, and other brands targeted at business travelers. The Secretary’s spouse is authorized to travel at the Smithsonian’s expense when there are business reasons for her to do so.”*

The Regents next discussed the Report of the Committee on Compensation and Human Resources, which had met on December 4, 2006, to conduct its annual review of the Institution’s compensation philosophy and procedures, as well as to consider recommendations for compensation adjustments for Smithsonian management. Following discussion of the Committee’s report, the Regents approved the following motion:

*VOTED that the Board of Regents approves the compensation adjustments for Smithsonian management for calendar year 2007 as presented by its Committee on Compensation and Human Resources. These adjustments shall be effective January 7, 2007.*

## **REGENTS' DINNER AND MONDAY MORNING EVENTS**

On Sunday, January 28, Regents and guests gathered for a buffet dinner in the Commons Room in the Smithsonian Castle. On Monday morning, January 29, the Committee of the Whole met in the Regents' Room of the Castle. The two-part meeting was devoted to the report of the External Review Committee (ERC) on Smithsonian Arts and the Smithsonian's fiscal year 2006 accomplishments, after which an executive session followed. Members of senior staff then joined the Regents for lunch in the Castle Library, during which Merry Foresta, director of the Smithsonian Photography Initiative, presented an illustrated lecture, "Click! Photography Changes Everything." Following her remarks, a dynamic video clip effectively demonstrated the enterprising work that had been praised in the External Review Committee's report on Smithsonian Arts.