

**RESOLUTION ADOPTED BY THE AUDIT AND REVIEW COMMITTEE OF
THE BOARD OF REGENTS OF THE SMITHSONIAN INSTITUTION**

JULY 27, 2007

WHEREAS, the Audit and Review Committee (“Committee”) is charged with assisting the Board of Regents in overseeing the financial practices and internal control environment in which the Smithsonian operates and the Inspector General (“IG”) reports to the Board of Regents through the Committee;

WHEREAS, by letter dated July 19, 2007, the IG transmitted to the Committee the Independent Accountant’s Report on Applying Agreed-Upon Procedures to a review of expenses incurred by the Chief Executive Officer (“CEO”) of Smithsonian Business Ventures (“SBV”), along with the IG’s findings and recommendations regarding corrective action;

WHEREAS, the Committee has reviewed the IG’s report and recommendations, along with a letter submitted by the SBV CEO’s counsel and a memorandum submitted by the SBV CEO;

WHEREAS, the Committee accepts the IG’s findings that with respect to fiscal years 2001 – 2005, the SBV CEO used Smithsonian resources to incur expenses for which he failed to provide evidence of business purpose (“unsupported expenses”); expenses for which he failed to provide adequate substantiation (“inadequately supported expenses”), expenses which were unauthorized (“unauthorized expenses”); and expenses which were personal in nature, some of which were not repaid until recently (“personal expenses”);

WHEREAS, the Committee is satisfied that \$2,625 of parking expenses incurred by the SBV CEO in 2005 that are identified as inadequately supported in the IG report were properly reimbursed as non-taxable qualified parking benefits;

WHEREAS, the Committee accepts the IG’s findings with respect to the applicable tax reporting of the SBV CEO’s inadequately supported expenses for calendar years 2003-2005 (excluding the parking benefits described above) and notes that the SBV CEO will have an opportunity to assert the deductibility of any expenses for which he can provide substantiation in the context of his personal returns;

WHEREAS, the Committee accepts the IG’s findings that the SBV CEO failed to comply with Smithsonian policy concerning the use of the Smithsonian travel card;

WHEREAS, the Committee notes the need to take immediate steps to ensure that SBV maintains adequate internal controls over business expenses, follows proper recordkeeping practices, and follows written policies and procedures setting forth standards for reimbursement of travel and other business expenses;

WHEREAS, the Committee has received a report from the Acting Secretary regarding the actions he proposes to take in response to the IG report and concurs with the Acting Secretary’s proposed response;

WHEREAS, the Committee was advised of the consensus view of the Governance Committee that the Audit and Review Committee should consider all of the options and come to an expeditious conclusion on the change of leadership for SBV;

NOW THEREFORE, BE IT RESOLVED THAT

1. The Committee recommends that the Acting Secretary act immediately to appoint an Acting CEO of SBV to carry out continued execution and review of the SBV mandate and to strengthen the financial controls and record-keeping practices of SBV.
2. The Committee recommends that the Acting Secretary direct the SBV CEO to repay the Smithsonian for (1) \$26,155.36 in unsupported expenses, (2) any remaining unpaid personal expenses, and (3) \$3,542.78 in unauthorized expenses; these amounts shall be offset by \$990 to correct an error in calculating his base salary for fiscal year 2001. These amounts shall be subject to reduction if the SBV CEO, within 30 days and at his own expense, provides clear evidence of business purpose acceptable to the IG and/or demonstrates that certain apparent duplicate payments are in error. The Committee recommends that the Acting Secretary direct the Chief Financial Officer ("CFO") to report the CEO's unsupported expenses, unauthorized expenses and personal expenses as potential "excess benefits" to the SBV CEO on its IRS Form 990 in accordance with Internal Revenue Code Section 4958.
3. The Committee recommends that the Acting Secretary direct the CFO to issue amended W-2s to the SBV CEO reporting, as additional income, \$28,578.94 for calendar year 2003, \$14,248.13 for calendar year 2004, and \$19,782.65 for calendar year 2005, representing inadequately supported expenses (other than non-taxable qualified parking benefits).
4. The IG shall be asked to review the SBV CEO's expenses for fiscal 2006 and 2007 to present to determine whether there are any personal, unauthorized, unsupported or inadequately supported expenses.
5. The Committee recommends that the Acting Secretary direct the CFO and the SBV CFO to take immediate steps to strengthen the financial controls and to develop and implement appropriate recordkeeping policies and practices at SBV.
6. The Committee recommends that the Acting Secretary review and consider amending the Smithsonian Travel Policy to clarify the policy regarding the use of car service. In addition, the CFO will complete the review of the SBV Travel and Expense Reporting Guidelines adopted in June 2006, which is already underway in accordance with the Governance Committee Report adopted by the Board of Regents on June 18, 2007, to ensure that such guidelines are consistent with Smithsonian policies or that any deviations are necessary and appropriate.
7. The Committee recommends that the Acting Secretary instruct the SBV CEO to comply with the Smithsonian's policies governing the use of the Smithsonian travel card as well as the SBV Travel and Expense Reporting Guidelines, and direct the SBV CFO to review and approve all future business expense reports of the SBV CEO.

8. The Committee recommends that the Acting Secretary move expeditiously to announce publicly the formation of the task force to review the strategy of SBV and recommend improvements in the structure and management of SBV's activities.