

MINUTES OF THE JULY 28, 2015, AUDIT AND REVIEW COMMITTEE MEETING

The Audit and Review Committee (“Committee”) of the Board of Regents of the Smithsonian Institution (“Smithsonian”) met on July 28, 2015, in the Smithsonian Castle in Washington, D.C. Participating were Committee Chair Ambassador Barbara Barrett*, and Committee members Representative Sam Johnson*, Dr. Shirley Ann Jackson*, Robert P. Kogod*, and Special Advisor to the Committee Herb Schulken. Committee Member Senator David Perdue was unable to participate in the meeting.

Also present by invitation of the Committee were Secretary David Skorton; Acting Chief of Staff to the Secretary Greg Bettwy; Office of the Regents Senior Researcher and Writer Jennifer Ehlinger (recorder); Director of Finance and Accounting Jean Garvin; Assistant to Congressman Johnson Dave Heil*; Inspector General Cathy Helm; Under Secretary for Finance and Administration and Chief Financial Officer Albert Horvath; Deputy Under Secretary for Finance and Administration John K. Lapiana; General Counsel Judith Leonard; Deputy Chief of Staff to the Regents Rachel Parker; Director of Government Relations Nell Payne; Chief of Staff to the Regents Porter Wilkinson*; and Assistant Inspector General for Audits Tom Yatsco. Also in attendance were Rosemary Meyer, Wendy Lewis, and Erik Causey, who represented the Smithsonian’s external auditors, KPMG, LLP (“KPMG”).

CALL TO ORDER

Ambassador Barrett called the meeting to order at 3:31 p.m.

Ambassador Barrett began the meeting by noting that it would be Special Advisor to the Committee Herb Schulken’s last meeting. Mr. Schulken had served as the Committee’s external advisor since 2008. Ambassador Barrett thanked him on behalf of the Committee, the Board of Regents, and the Smithsonian for all of his thoughtful guidance and advice through the years. Ambassador Barrett also welcomed the Smithsonian’s new Secretary David Skorton.

APPROVAL OF THE MINUTES OF THE MARCH 10, 2015, COMMITTEE MEETING

Upon motion duly made and seconded, the draft minutes of the March 10, 2015, Committee meeting were approved without modification.

FISCAL YEAR 2014 IRS FORMS 990/990-T

Under Secretary for Finance and Administration and Chief Financial Officer Albert Horvath provided an overview of the fiscal year 2014 Internal Revenue Service (“IRS”) Forms 990 and 990-T, which must be filed on an annual basis. The required disclosures include financial and organizational information and policies, compensation data for officers and highly compensated employees, and other information of specific interest to the IRS. The Form 990 is a public document and is posted on the Smithsonian’s website once it is filed with the IRS.

**participated by telephone*

The Committee discussed the draft and a motion to affirm the submission of the Form 990 and 990-T was duly made, seconded, and approved:

VOTED that the Audit and Review Committee affirms the Smithsonian’s proposed submission of its fiscal year 2014 Form 990 and Form 990-T to the Internal Revenue Service.

KPMG FISCAL YEAR 2015 AUDIT PLAN AND REVIEW OF FY14 A-133 AUDIT RESULTS

Ambassador Barrett introduced the Smithsonian’s new audit engagement partner Rosemary Meyer of KPMG to the Committee. Ms. Meyer proceeded to review KPMG’s audit plan for fiscal year 2015, as well as the results from the recently completed A-133 audit for fiscal year 2014.

Another member of the KPMG team, Wendy Lewis, reviewed details of the audit timeline and procedures. She reported that the KPMG team has been communicating regularly with Smithsonian management and the Office of the Inspector General through weekly update meetings.

FINANCIAL DISCLOSURE AND CONFLICT OF INTEREST REVIEW

General Counsel Judith Leonard reviewed the annual financial disclosure and conflict of interest review conducted by the Office of the General Counsel (“OGC”). Ms. Leonard reported that conflicts of interest, or circumstances creating the appearance of conflicts of interest, are manageable through recusal or other means, and that the identified individuals have been advised to that effect.

COMMITTEE CHARTER REVIEW

At its previous meeting, the Committee agreed that it would be beneficial to perform a review of the Committee’s charter. Deputy Under Secretary for Finance and Administration John Lapiana presented his findings from the review of the Committee charter. Mr. Lapiana highlighted the following suggested revisions to the charter for consideration by the Committee: (1) revise language in the Committee’s documents to ensure consistency; (2) formalize the role of the external advisor to the Committee by referencing the position in the charter; (3) add provisions to the Charter that would clarify the services provided by the outside auditors; (4) amend the language regarding the practice of the annual self-performance review to include a review of the charter; and (5) clarify the Regents’ role of review in submitting reports and forms to the IRS.

The Committee agreed on the proposed revisions and asked Mr. Lapiana to amend the charter and present for approval at the Committee’s next meeting scheduled for September 29, 2015.

INSPECTOR GENERAL REPORT

Inspector General Cathy Helm updated the Committee on the activities of the Office of the Inspector General (“OIG”). Ms. Helm first introduced the Committee to the new Assistant Inspector General for Audits Tom Yatsco. She then presented the Committee with new metrics for monitoring open audit recommendations. Ms. Helm reported that as of June 30, 2015, the Smithsonian’s three most important open recommendations all related to information security.

Mr. Horvath provided his evaluation of the information security challenges that are currently facing the Smithsonian.

INTEGRATED RISK MANAGEMENT AND MITIGATION

Mr. Horvath then updated the Committee on the status of the Integrated Risk Management initiative. He announced that by the end of fiscal year 2015, each of the top 25 risks will be fully vetted and reviewed. Secretary Skorton commented on his observations regarding the Smithsonian’s approach to risk management, commending the work that has already been done and recognizing the steps that still need to be taken.

EXECUTIVE SESSION

The Committee adjourned its open session at 4:34 p.m. to conduct executive sessions with the Inspector General, the General Counsel, the Chief Financial Officer, and the Secretary, followed by a member-only session. The meeting was adjourned at approximately 4:55 p.m.

Respectfully submitted,

Barbara Barrett, Chair