

MINUTES OF THE JULY 28, 2014, AUDIT AND REVIEW COMMITTEE MEETING

The Audit and Review Committee (“the Committee”) of the Board of Regents of the Smithsonian Institution met on July 28, 2014. Participating were Committee Chair Robert Kogod and Committee members Barbara Barrett* and Shirley Ann Jackson*; Special Advisor to the Committee Herb Schulken* also participated. Committee members Senator Jack Reed Representative Sam Johnson were unable to participate.

Participating staff included Secretary G. Wayne Clough; Chief of Staff to the Secretary Patricia Bartlett; Office of the Regents Senior Writer-Editor Barbara Feininger (recorder); Director of Finance and Accounting Jean Garvin; Assistant to Representative Johnson Dave Heil*; Inspector General Cathy Helm; Under Secretary for Finance and Administration and Chief Financial Officer Albert Horvath; Assistant to Senator Reed Moira Lenehan-Razzuri*; General Counsel Judith Leonard; Office of Finance and Accounting Tax Accountant Shelley Mitek; Deputy General Counsel Marsha Shaines; and Chief of Staff to the Regents Porter N. Wilkinson.

CALL TO ORDER

Committee Chair Robert Kogod called the meeting to order at 1:33 p.m.

FISCAL YEAR 2013 IRS FORMS 990 AND 990-T

Under Secretary for Finance and Administration and Chief Financial Officer Albert Horvath discussed the development of the Smithsonian’s fiscal year 2013 IRS Forms 990 and 990-T. The IRS Form 990 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 filed with the IRS.

Form 990

The draft fiscal year 2013 IRS Form 990 was prepared by Office of Finance and Accounting (OFA) Tax Accountant Shelley Mitek, CPA. Special Advisor to the Committee Herb Schulken; Director of Finance and Accounting Jean Garvin; Deputy General Counsel Marsha Shaines; and Mr. Horvath reviewed the draft 990. Beginning this year, the 990 will be signed by the Smithsonian’s external auditors, KPMG, as preparer. KPMG also has reviewed the form for its accuracy.

The draft Form 990 was made available for the Regents’ review for four weeks, and no comments or recommended changes were made. The fiscal year 2013 Form 990 must be filed by August 15, 2014. Mr. Horvath will sign the return on behalf of the Smithsonian. Mr. Horvath reported that all financial information in the draft Form 990 had been reconciled to the Smithsonian’s audited financial statements for the period of October 1, 2012, to

* *participated by telephone*

September 30, 2013. The Form 990 includes all Federal and Trust revenues, expenses, assets, and liabilities. Fiscal year 2013 filing requirements are consistent with those in prior years, and no major changes were made to the required disclosures made by the IRS. Director of Finance and Accounting Jean Garvin reported that data presented in the draft Form 990 is consistent with that of prior years.

Ms. Garvin discussed the 990 Part VII, which includes information on highest-compensated employees, and noted that compensation data is for the period of calendar year 2012. The Office of Finance and Accounting, Office of Human Resources, and Office of General Counsel provided information for this section. Part IX, Statement of Functional Expenses, includes program service expenses, management expenses, and fundraising expenses. Ms. Garvin commented on line 25 in Part X, Balance Sheet (other liabilities). The Smithsonian reported a \$69.15 million liability for unfunded environmental remediation obligations. One gift was noted in Schedule B, Schedule of Contributors, as it exceeded the fiscal year 2013 threshold, which is 2 percent of total contributions.

The Smithsonian's 990 Schedule F, Statement of Activities Outside the United States, included academic appointment stipends information and was prepared in conjunction with the Office of Fellowships. Funding for program services at the Smithsonian Tropical Research Institute was noted in Schedule F. Program service expenses now include travel-related expenditures for research and conferences. The Office of Investments provided information about foreign investments, which also was included in Schedule F.

Form 990-T

Mr. Horvath reviewed the draft Form 990-T, which reported the Smithsonian's taxable activities. Income from activities not substantially related to the Smithsonian's mission was included in the unrelated business income reported in the 990-T. The Form 990-T must be filed in conjunction with the Form 990 and, like the 990, will be reviewed and signed by KPMG.

The Smithsonian's taxable, non-mission-related activities were primarily related to Smithsonian Enterprises, and included advertising revenue from Smithsonian magazines, certain gift shop merchandise and theatre revenues, and online media advertising activities. Investment income generated from alternative investments also was included. The Smithsonian reported \$17.9 million in unrelated business revenues in fiscal year 2013. A net loss of \$2.2 million on these activities also was reported, resulting in no tax liability.

In response to a question from Mr. Schulken, Mr. Horvath reported that KPMG's reviews of the draft 990 and draft 990-T did not generate any significant recommendations or revisions. He added that KPMG's input on the 990-T helped ensure that the Smithsonian was following best practices, and recommended the engagement of KPMG for future reviews.

There being no further questions or comments, 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 2013 Form 990 and Form 990-T to the Internal Revenue Service.

ANNUAL FINANCIAL DISCLOSURE AND CONFLICT OF INTEREST REVIEW

General Counsel Judith Leonard reported on the annual financial disclosure and conflict of interest review conducted by the Office of the General Counsel (OGC). Some 700 annual financial disclosure forms and 600 conflict of interest statements were received from members of the Board of Regents and senior executives.

OGC did not identify any significant issues. Ms. Leonard stated that two senior executives serve on outside boards, and therefore noted potential conflicts of interest or circumstances that could create the appearance of conflicts of interest. In both cases, management plans have been adopted and no additional action is necessary at this time. Three Regents disclosed previously known financial interests with potential conflicts of interest but no action is required at this time.

APPROVAL OF THE MINUTES OF THE MAY 20, 2014, COMMITTEE MEETING

Upon motion duly made and seconded, the draft minutes of the May 20, 2014, Committee meeting were approved without modification.

INSPECTOR GENERAL UPDATE

Inspector General Cathy Helm reported that the Office of the Inspector General (OIG) released two reports since the last meeting of the Committee. The review of the Smithsonian's management of leased space resulted in a recommendation that the Smithsonian complete a cost-benefit analysis of the benefits of purchased versus leased space. The review of the Smithsonian's information security program resulted in recommendations related to the strengthening procedures for remote access, improving system backup processes, and ensuring that staff are appropriately trained in the areas of incident reporting and security. The IT recommendations, noted Ms. Helm, are fairly standard. Ongoing audits include reviews of pan-institutional initiatives to address collections care, fiscal year 2013 Regents' travel expenses, National Zoological Park animal care and safety, and unliquidated obligations. The Smithsonian continues to close OIG recommendations in a timely manner, Ms. Helm stated.

Ms. Helm reported that Government Auditing Standards require an annual internal review of quality assurance. An outside review of quality assurance for OIG occurs every three years. The Inspector General's staff at the Railroad Retirement Board conducted an external review of the Smithsonian's quality assurance this year and indicated that the Smithsonian will pass the review. The final report is expected soon.

The OIG is developing audit plans for fiscal year 2015 and will ask the Regents and management to submit fiscal year 2015 audit recommendations by mid-August 2014.

Mr. Kogod directed the Committee's attention to meeting materials on the Integrated Risk Management (IRM) program. The materials included lists on the 24 most frequently identified risk areas or issues, as well as 40 additional issues identified during risk assessment interviews. Mr. Horvath will present an updated IRM report at the next Committee meeting.

There being no further discussion or a request for an executive session, the meeting was adjourned at 2:00 p.m.

Respectfully submitted,

Robert Kogod
Chair