

MINUTES OF THE OCTOBER 1, 2014, AUDIT AND REVIEW COMMITTEE MEETING

The Audit and Review Committee (“the Committee”) of the Board of Regents of the Smithsonian Institution met on October 1, 2014. Participating were Committee Chair Robert Kogod and Committee members Ambassador Barbara Barrett* and Representative Sam Johnson*; Special Advisor to the Committee Herb Schulken* also participated. Committee members Senator Jack Reed and Shirley Ann Jackson 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; General Counsel Judith Leonard; Deputy Chief of Staff to the Regents Rachel Parker; and Chief of Staff to the Regents Porter N. Wilkinson. Also in attendance were Ellen Harrison, Rennie Henry, and Wendy Lewis, who represented the Smithsonian’s external auditors, KPMG, LLP (“KPMG”).

CALL TO ORDER

Committee Chair Robert Kogod called the meeting to order at 2:00 p.m.

KPMG REVIEW OF FISCAL YEAR 2014 AUDIT PLAN AND FISCAL YEAR 2013 A-133 AUDIT RESULTS

Fiscal Year 2014 Audit Plan

KPMG representatives Ellen Harrison, Rennie Henry, and Wendy Lewis reviewed the fiscal year 2014 audit plan. The scope of the audit will include Smithsonian-wide financial statements for the fiscal year ending September 30, 2014; the Smithsonian’s Federal funds closing package; and Federal awards compliance. KPMG will use generally accepted account principles (GAAP) for the audit framework and apply auditing standards issued by the Auditing Standards Board of the American Institute of Certified Public Accountants (including OMB Circular A-133, Government Auditing Standards, and OMB Bulletin No. 14-02). The objective of the audit is to allow KPMG to provide reasonable (although not absolute) assurance that the Smithsonian’s overall financial statements are free from material misstatement and in accordance with GAAP. Materiality was discussed, as well as KPMG’s and Smithsonian management’s respective responsibilities in the audit.

The audit of the Federal closing package and Smithsonian-wide financial statements will emphasize recurring transactions, non-routine transactions, and key accounting estimates and judgments made by management. The audit of non-routine transactions will include a review of the Smithsonian’s November 2013 bond offering. The audit of key estimates will include a review of the Smithsonian’s non-marketable investments, contributions receivable, and asset

* *participated by telephone*

retirement obligations. Management was advised that the Financial Accounting Standards Board is developing a not-for-profit financial reporting project that will change some aspects of accounting by organizations such as the Smithsonian.

KPMG will communicate and coordinate with the Office of the Inspector General (OIG) over the course of the audit. Coordination with the Government Accountability Office (GAO) will be facilitated by the OIG. The proposed audit timeline, which is consistent with prior audit timelines, was reviewed. The report on the Federal closing package is due November 14, 2014, and the draft management letter will be submitted on or prior to January 15, 2015. KPMG's planned communications with the Audit and Review Committee also were discussed.

Fiscal Year 2013 A-133 Audit Results

KPMG Audit Partner Wendy Lewis reviewed the results of the fiscal year 2013 A-133 audit. Both KPMG and the Defense Contract Audit Agency, or DCAA, issued unmodified opinions. KPMG will work with management to analyze and memorialize certain leave benefit practices in the Research and Development program.

UNDER SECRETARY FOR FINANCE AND ADMINISTRATION AND CHIEF FINANCIAL OFFICER'S UPDATE

Under Secretary for Finance and Administration and Chief Financial Officer Albert Horvath reported on the Integrated Risk Management initiative. Since the Committee's last meeting, "deep-dive" analyses of two of the top 10 identified issues — financial management and emergency planning — are nearly complete. Analysis has begun on two other issues: collections management and the Federal budget and appropriations process. Chief Information Officer Deron Burba will brief the Committee on the Smithsonian's computer security systems at its next meeting.

Mr. Horvath reported that KPMG likely will be asked to prepare a special-purpose report on Smithsonian Enterprises (SE) operations results in calendar year 2014, adding that SE summaries will be included in future audit reports. The reports will not include in audit opinions but will provide calculations of SE's net gain, the primary driver of the SE incentive compensation plan. The Committee discussed the terms of engagement for the report, which is similar to special financial statement reports previously provided to the Committee. Mr. Kogod will review a formal request for the non-audit service after terms of engagement with KPMG are finalized.

APPROVAL OF THE MINUTES OF THE JULY 28, 2014, COMMITTEE MEETING

The minutes of the July 28, 2014, Committee meeting were presented for approval. Mr. Schulken proposed minor edits to clarify both the sign-off process for the Smithsonian's fiscal year 2013 IRS Form 990 and the value of KPMG's contributions to the draft 990-T. Upon motion duly made and seconded, the draft minutes were approved subject to these revisions.

INSPECTOR GENERAL UPDATE

Inspector General Cathy Helm reported that the OIG released a clean audit report on the travel expenses of the Board of Regents during fiscal year 2013. Mr. Schulken suggested that future audits include reviews of travel expenses incurred by non-Regent members of Board committees. In addition to three ongoing audits noted in the meeting materials, the OIG recently announced two additional audits: the fiscal year 2014 Federal Information Security Management Act, with which the Smithsonian voluntarily complies, and the Institution's deferred maintenance program. Proposed audits for fiscal year 2015 include SE's IT security and cash management operations, as well as Smithsonian purchase orders. An audit of Smithsonian grant activities, including grant management and controls, also is proposed.

EXECUTIVE SESSION

The Committee adjourned its open session at 2:46 p.m. to conduct executive sessions with KPMG, the Inspector General, the Secretary, and the Chief Financial Officer. The meeting was adjourned at approximately 3:15 p.m.

Respectfully submitted,

Robert Kogod
Chair