

## MINUTES OF THE OCTOBER 10, 2013, AUDIT AND REVIEW COMMITTEE MEETING

The Audit and Review Committee (“the Committee”) of the Board of Regents conducted a teleconference meeting on October 10, 2013. Participating were Committee Chair John McCarter and Committee members Barbara Barrett, Representative Sam Johnson, and Robert Kogod, as well as Special Advisor to the Committee Herb Schulken. Committee member Shirley Ann Jackson and Senator Jack Reed were unable to participate.

Participating staff included Chief of Staff to the Secretary Patricia Bartlett; Inspector General Scott Dahl; Assistant to Representative Johnson David Heil; Under Secretary for Finance and Administration and Chief Financial Officer Albert Horvath; Deputy Under Secretary for Finance and Administration John K. Lapiana; Assistant to Senator Reed Moira Lenehan-Razzuri; General Counsel Judith Leonard; and Office of Government Relations Director Nell Payne. Also in attendance were Ellen Harrison, Audit Partner, Wendy Lewis, Audit Partner, and Rennie Henry, Audit Senior Manager, who represented the Smithsonian’s external auditors, KPMG, LLP (“KPMG”).

### CALL TO ORDER

Mr. McCarter called the meeting to order at approximately 2:00 p.m.

### REVIEW OF KPMG’S FISCAL YEAR 2013 AUDIT PLAN AND FISCAL YEAR 2012 A-133 AUDIT RESULTS

***Fiscal Year 2013 Audit Plan.*** KPMG Audit Partner Ellen Harrison discussed KPMG’s fiscal year 2013 audit plan and the results of the Smithsonian’s fiscal year 2012 A-133 audit, which was completed in June 2013. With the exception of Mr. Henry, who is joining as a lead manager for the fiscal year 2013 audit, the proposed KPMG engagement team will remain the same as the team that conducted the fiscal year 2012 audit.

In addition to the A-133 audit, KPMG will conduct the annual audit of Smithsonian Enterprises (SE) and the investment portfolio. The scope of the fiscal year 2013 audit will be consistent with audits conducted in prior years. It will include the audit of the consolidated financial statements, the audit of the special purpose closing package (audit of Federal appropriations and activities), and the compliance audit of Federal awards. Applicable auditing standards will be used, including those issued by the Auditing Standards Board of the American Institute of Certified Public Accountants, OMB Circular A-133, government auditing standards, and OMB Bulletin No. 07-04.

Ms. Harrison discussed communications related to all of the audits; the objective of the audit; the concept of materiality and the different levels of materiality applied to each of the three audits; and the division of responsibilities between KPMG and Smithsonian management. Matters of audit emphasis in the Federal closing package and Smithsonian-wide financial statements will include recurring transactions, non-routine transactions, and key accounting estimates, which includes other matters that will help KPMG better understand management’s

assumptions. The 2013 audit also will consider the July 1, 2013, change in investment portfolio trustees and the impact of management's adoption of accounting policies that resulted from prior audit differences.

KPMG Audit Senior Manager Rennie Henry reviewed KPMG's responsibilities with regard to fraud risk include evaluating incentives or pressures, understanding management attitudes, assessing fraud opportunities, and establishing knowledge of suspected fraud. KPMG also will communicate and coordinate with the Office of the Inspector General (OIG) and, through OIG, the Government Accountability Office, over the course of the audits. The proposed audit timeline also was reviewed. Because of the shutdown, it is anticipated that the Office of Management and Budget (OMB) will make changes to the Federal closing package deadlines. Mr. McCarter asked that the schedule of Audit and Review Committee meetings in 2014 coordinate with any deadline changes made by OMB.

In accordance with auditing standards, KPMG will again provide required communications and management letter recommendations to the Audit and Review Committee. Other significant matters will be provided as appropriate.

In response to a question from Mr. Schulken, Ms. Harrison confirmed that the approach and scope of the audit will not change because of the Institution's reorganization of its financial areas. KPMG will communicate to the Committee about any delays in the audit schedule because of either the shutdown or the reorganization. Prior to the shutdown, noted Mr. Horvath, the development of draft financial statements was on an accelerated schedule.

***Fiscal Year 2012 A-133 Audit Results.*** The fiscal year 2012 A-133 audit resulted in unqualified, or unmodified, opinions. Research and Development and the United States Postal Service were audited as major programs in the current year.

## **INSPECTOR GENERAL UPDATE AND FISCAL YEAR 2014 AUDIT PLAN**

Inspector General Scott Dahl presented the OIG audit plan for fiscal year 2014. Surveys of senior management and other stakeholders, as well as a risk analysis, aided in the identification and prioritization of the audit projects. It is anticipated that three ongoing audits will be closed in the next few months. Audit closings have been impacted by the shutdown.

Meeting materials included a summary report with findings and recommendations on budget and funding issues related to the construction of the National Museum of African American History and Culture. Mr. Dahl noted that management concurred with the recommendations, and has proceeded to address the identified issues.

Upon return from the shutdown, audit staff will provide management with a draft of the top management challenges in 2013. Budget instability, commented Mr. Dahl, is the top management challenge across most Federal government agencies.

Referring to the list of fiscal year 2014 discretionary audits, which includes the facilities

maintenance program, Mr. Kogod noted that the rate of deferred maintenance of Smithsonian facilities increases by approximately \$152 million each year. Fiscal year 2012 Federal appropriations for Smithsonian facilities, maintenance, and operations, however, totaled \$72 million. The goal of this OIG audit, said Mr. Horvath, is to ensure that funding is applied to highest priority activities in the portfolio of Smithsonian properties.

#### **CHIEF FINANCIAL OFFICER'S UPDATE**

Mr. Horvath reported that the Office of the Comptroller and the Office of the Treasurer were merged in summer 2013 into a single office, the Office of Finance and Accounting. The change is intended to simplify and realign functions, as well as reallocate resources in order to address higher priority activities, such as the Integrated Risk Management (IRM) program, the Smithsonian's enterprise risk management program. A search is under way to fill the newly established position of Director of Finance and Accounting.

The structure of the IRM program is under development. Interviews with select senior management and Regents will help identify, prioritize, mitigate, and monitor risks. The monitoring process will include regular reports to the Committee. One IRM priority is to create a more risk-aware culture at the Smithsonian. The Committee will receive a substantive update on the program at its April 2014 meeting.

Mr. Horvath provided a progress report on the cash handling and operations recommendations made by Booz Allen Hamilton. COTR training for revenue-generating contracts is complete. Audits of significant third-party vendors is in progress but somewhat delayed. The revised completion date is November 27, 2013. The Committee will be updated on the audit results at its next meeting.

The transition of the Udvar-Hazy Center parking operation from an outside third party to Smithsonian Enterprises (SE) was completed in April 2013; the program is running smoothly. Discussions are under way to transition National Zoological Park parking operation responsibilities to SE.

Mr. Kogod asked if Udvar-Hazy parking revenues have increased significantly since the transition. Mr. Horvath responded that comparative data will be available at the end of the fiscal year, and that results will be shared with the Committee.

Mr. Horvath directed the Committee's attention to the report "Travel Review of Smithsonian Senior Executives: 1st and 2nd Quarters FY13." There was nothing material to report, he noted, and the findings were consistent with those in prior reporting periods.

#### **APPROVAL OF THE MINUTES OF THE AUGUST 1, 2013, COMMITTEE MEETING**

Mr. McCarter directed the participants' attention to the minutes of the August 1, 2013, Committee meeting. The minutes were approved without comment or revision.

## **EXECUTIVE SESSION**

The Committee adjourned its open session at approximately 2:35 p.m. to conduct executive sessions with KPMG, the Chief Financial Officer, and the Inspector General, followed by a member-only session. The meeting was adjourned at approximately 3:15 p.m.

Respectfully submitted,  
John McCarter, Chair