

BOARD OF REGENTS
SMITHSONIAN INSTITUTION
CHARTER OF THE AUDIT AND REVIEW COMMITTEE
JANUARY 2016

I. Establishment

- A. The Bylaws of the Board of Regents establish an Audit and Review Committee.
- B. Section 4.01 of the Bylaws of the Board of Regents provides:

. . . The audit and review committee shall do all things necessary to assure the Board that the Institution's accounting systems and internal financial controls are in good order and to facilitate communication between the Board of Regents and the Institution's internal auditors, its independent auditors, and those of the [Government Accountability Office]. . . The audit and review committee shall review the Institution's operations for compliance with approved programs and policies and shall perform related functions as directed by the Board of Regents

II. Statement of Purpose

- A. The purpose of the Audit and Review Committee is to assist the Board of Regents in overseeing (a) the accounting, timely reporting, and financial practices of the Smithsonian Institution, including the integrity of the Institution's financial statements; (b) the internal control environment in which the Institution operates; and (c) the qualifications, independence, and performance of both the Institution's independent auditor and the Institution's internal audit function.

III. Appointment, Membership, and Length of Service

A. Appointment

- 1. Section 4.02 of the Bylaws of the Board of Regents provides:

With the approval of the Board of Regents, the Chancellor shall appoint an audit and review committee including no fewer than three members of the Board of Regents

- 2. The nomination process shall be as follows:

- a. Sitting committee chairs recommend to the Governance and Nominating Committee (every November) for their respective committees the preferred membership and chairmanship for the ensuing calendar year.

- b. The Governance and Nominating Committee proposes for Regents' consideration (at the first Regents' meeting of the new year) a motion including recommended memberships and chairmanships for all committees.

B. Membership

1. The Board of Regents provided on January 6, 2003, that a sitting Regent majority be maintained on all committees and that non-Regent committee members be well chosen for their expertise.
2. The members of the Audit and Review Committee shall be financially literate with experience in reading financial reports.
3. Each member shall be free of any relationship that, in the opinion of the Board, would interfere with his or her individual exercise of independent judgment.
4. An individual who is, or in the past five (5) years has been, affiliated with or employed by a present or former auditor of the Smithsonian Institution may not serve as a member of the Audit and Review Committee until five (5) years after the end of either the affiliation or the auditing relationship.
5. The Committee may, in its discretion, request that the Governance and Nominating Committee recommend to the Board the appointment of an Advisor with expertise in subject matter areas of relevance to the Committee. The Chair may invite the Advisor to participate in Committee deliberations, but not vote on pending Committee actions or count toward quorum.
6. Non-Regent members of, and any Advisors to, of the Audit and Review Committee shall be subject to the same Ethics Guidelines as apply to the Regents.

C. Length of Service.

1. With the approval of the Board of Regents, a Regent may serve up to twelve (12) years as a Regent member of the Audit and Review Committee. With the approval of the Board of Regents, a non-Regent may serve up to six (6) years as a non-Regent member of the Audit and Review Committee.
2. The Board of Regents, in accepting the Report of the Governance and Nominating Committee on January 6, 2003, provided that a Regent may be appointed as a Regent Emeritus and encouraged to continue his or her service to the Smithsonian by serving as many as but no more than three (3) years on selected committees following his or her active service as a Regent. The Governance and Nominating Committee will review the effectiveness of any Audit and Review Committee member serving as a Regent Emeritus along with that of all of the Regents in its annual nominations.

IV. Rules for the Conduct of Meetings of the Audit and Review Committee

A. Audit and Review Committee Policies and Procedures.

1. The Audit and Review Committee shall have power to adopt rules for the conduct of its business with respect to all matters not provided for in the Bylaws or as provided by the Board of Regents.

B. Chair.

1. The Committee chair shall be appointed by the Chancellor, with the approval of the Board of Regents. See Bylaw 4.11. Only sitting Regents are eligible to be Chair of the Audit and Review Committee.
2. If the Committee chair is unable to attend a meeting, the members will be polled prior to that meeting and a substitute chair, for the purposes of that meeting only, will be identified among those members who have indicated that they will be present.

C. Meetings.

1. The Committee will hold not less than two (2) meetings each year and such additional meetings, as the Committee chair may deem necessary or appropriate.
2. The Committee chair or any three members of the Audit and Review Committee may call special meetings of the Audit and Review Committee.
3. Notice of the meetings of the Audit and Review Committee may be given by hand delivery, by deposit in the U.S. Mail, by overnight mail or delivery, or by electronic mail.
4. Members of the Audit and Review Committee will be provided an agenda in advance of each meeting.
5. The meetings of the Audit and Review Committee may be conducted in person, by videoconference, or by telephone conference call.
6. The Audit and Review Committee may conduct business by majority ballot whether paper or electronic format without a meeting if agreed to by all the members of the Committee. The vote of a majority of ballots submitted shall constitute the action of the Committee.

D. Quorum.

1. Section 4.10 of the Bylaws of the Board of Regents provides:

. . . [A] majority of the members of all standing committees . . . shall constitute a quorum.

2. In the absence of a quorum, a lesser number may adjourn the meeting.

V. Responsibilities and Duties of the Audit and Review Committee

- A. Relationship with the Smithsonian Institution's Inspector General, Auditors, and Auditor Independence.
 1. The Audit and Review Committee is responsible for engaging and terminating the services of external, independent auditors employed by the Smithsonian Institution. The Committee will review all contracts for audit services, which will require Board of Regents approval prior to taking effect. On behalf of the Board of Regents, the Committee will select the Smithsonian Institution's Inspector General.
 2. The external auditor will report to the Board of Regents through the Committee. The Inspector General shall report to the Board of Regents through the Committee and directly as the IG deems appropriate.
 3. The Committee will assure the independence of both the external auditors providing audit services to the Institution and the Inspector General. With respect to the external auditors, the Committee shall:
 - a. Establish an appropriate rotation of the lead audit partner.
 - b. Review any relationships between the external auditor and the Smithsonian Institution that may adversely affect the independence of the external auditor.
 - c. Pre-approve non-audit services to be provided by the external auditor. The Committee may delegate to the Committee chair the authority to pre-approve audit and non-audit services, provided decisions to grant pre-approvals shall be presented to the full committee at its next scheduled meeting.
 4. The Committee will review, at least annually, a report describing the external auditor's internal quality control procedures, any material issues raised by the most recent internal quality-control review, and any steps taken to address such issues.
 5. On behalf of the Board of Regents, the Committee will discuss with both the independent auditors and the Inspector General the overall scope and plans for their respective audits.
 6. The Audit and Review Committee will meet separately in executive session as often as desired, but no less than once a year, exclusively with the Institution's Inspector General, the Institution's independent auditors, and at the Committee's discretion,

exclusively as a committee to discuss any matters that the Committee or either of these groups believes should be discussed.

B. Risk Assessment and Control Environment.

1. The Committee will periodically review and discuss the nature of the activities in which the Smithsonian Institution is engaged and the risk to those activities posed by potential changes in the internal or external environment in which the Institution operates.
2. The Committee will review annually any issues concerning accounting policies and financial statement presentations, including any significant changes in the Institution's application of accounting principles.
3. The Committee will review the Institution's Inspector General semi-annual report to Congress on the scope, progress, and results of the internal audit program, including a discussion of any fraud or other irregularities that involve management or employees who have a significant role in the Institution's internal control environment. In accordance with the Inspector General Act [5 U.S.C. App. 3 §5(b)], the chair of the Committee, on behalf of the Board of Regents, shall transmit the semi-annual report, along with a Board of Regents' report, to the appropriate congressional committees.
4. In consultation with management, the independent auditors, and Institution's Inspector General, the Committee will periodically consider the integrity and effectiveness of the Institution's internal controls, including any significant deficiencies or changes in internal controls. The Committee will review recommendations made by the independent auditors in their "management letter," including the status of previous recommendations, together with management's responses.
5. The Committee will meet annually in executive session with the General Counsel to examine the confidential statements of financial interests filed by the Institution's senior officers. In addition, the Committee will review, with the assistance of the General Counsel, the system for filing financial interest statements by Smithsonian administrators.
6. The Committee's approval will be required for the hiring by the Institution of any individual who has worked for the firm providing audit services to the Institution during the last three (3) years.

C. Financial Reporting.

1. The Committee will review the annual Form 990 and Form 990T before their filing with the Internal Revenue Service.

2. The Committee will review the annual financial statements with the Inspector General, senior management and the external auditors, including significant audit adjustments and difficulties encountered during the audit. The review shall include a discussion of:
 - a. The external auditors views of the quality of the decisions made by the Institution in connection with the preparation of the financial statements. Significant audit adjustments.
 - b. Any difficulties encountered during the audit, including any restrictions on the scope of work or access to information.
 - c. Any other matters required to be communicated by the independent auditors in accordance with the Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended.
 2. The Committee will meet regularly with the General Counsel to discuss as appropriate any legal matters that may have a material impact on the financial statements.
 3. It is not the duty of the Audit and Review Committee to plan or conduct audits or to determine that the Institution's financial statements are complete and accurate or prepared in accordance with generally accepted accounting principles. Management is responsible for preparing the Institution's financial statements and the independent auditors are responsible for auditing those financial statements.
- D. Communications and Minutes.
1. Section 4.02 of the Bylaws of the Board of Regents provides:

. . . The audit and review committee shall provide a direct channel of communication between the Board of Regents and the Institution's independent auditors . . . The audit and review committee shall report its findings directly to the Board of Regents at appropriate intervals, but not less frequently than annually.
 2. The Committee chair (or any Committee member so designated for the purpose) will report orally to the Board of Regents on any issues concerning the quality and integrity of the financial statements, compliance with legal requirements, and the performance and independence of both the external auditor and the internal audit function.
 3. The Committee chair will report orally or in writing to the Board of Regents on other matters discussed at the most recent Committee meeting.
 4. Minutes of each meeting of the Audit and Review Committee will be prepared. Draft minutes will be provided to all members for their review and, upon approval, will be

made a part of the official record of the proceedings of the Board of Regents. If the committee has not formally approved the minutes prior to the next meeting of the Board of Regents, a draft of the minutes will be provided to the Regents. The Board of Regents will be informed subsequent to their meeting if any significant changes are made in the final version of the Audit and Review Committee minutes. The official record of the Board of Regents proceedings for any given Regents' meeting will incorporate the latest version of the Audit and Review Committee's minutes at the time the official record is published.

5. The Committee will assure that an adequate procedure exists for the oversight and reporting to the Committee of the receipt, retention, treatment, and closure of complaints to the Institution concerning:
 - a. Accounting, internal controls, or auditing matters; or
 - b. The confidential, anonymous submission by Institution employees regarding questionable accounting or auditing matters.

VI. Resources and Authority

A. Staff Support and the Retention of Outside Subject Matter Experts.

1. Section 4.02 of the Bylaws of the Board of Regents provides:

. . . [T]he Institution's independent auditors . . . shall be certified public accountants nominated by the committee and appointed by the Board of Regents . . . The [audit and review] committee may call upon the Institution's officers or staff for assistance as necessary and may employ outside professional assistance in performance of its duties if it deems this desirable.

2. The Committee may, without further action by the Board of Regents, retain any external advisors, attorneys, consultants, and accountants (collectively "Subject Matter Experts") it deems necessary to carry out the Committee's purposes. The Smithsonian Institution will adequately fund the costs and expenses of these Subject Matter Experts under arrangements that assure the independence of them and their loyalty to the Smithsonian, the Board of Regents, and the Committee.

B. Indemnification.

1. Section 2.12 of the Bylaws of the Board of Regents provides:

Members of . . . Regents' Committees . . . may be indemnified for any and all liabilities and reasonable expenses incurred in connection with any claim, action, suit, or proceeding arising from present or past service for the Smithsonian Institution, . . .

C. Expenses.

1. Section 4.11 of the Bylaws of the Board of Regents provides:

. . . Expenses of members in attending meetings of committees established by the Board of Regents, including travel expenses to and from the place of meeting, may be paid by the Institution

2. It is understood that expenses claimed shall be appropriate and reasonable, in keeping with the Institution's need to protect the public trust with which it has been entrusted.

VII. Periodic Review

A. Charter Review.

1. As part of its continuing commitment to the integrity of the financial reporting process, the Committee may propose changes to this Charter.
2. The Committee will review and annually assess the adequacy of the Audit and Review Committee Charter. The Committee will submit proposed revisions to the Board of Regents for its approval.

B. Committee Performance.

1. The Committee will at least annually evaluate its own performance with respect to the requirements of the Charter in such a manner, as the Committee deems appropriate.