

## MINUTES OF THE JANUARY 21, 2016, AUDIT AND REVIEW COMMITTEE MEETING

The Audit and Review Committee (“Committee”) of the Board of Regents of the Smithsonian Institution (“Smithsonian”) held a meeting on January 21, 2016, at the Smithsonian Castle in Washington, DC. Participating were Committee Chair Ambassador Barbara Barrett and Committee members Senator David Perdue\*, Representative Sam Johnson\*, and Robert P. Kogod\*. Committee member Dr. Shirley Ann Jackson was unable to attend the meeting.

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

### CALL TO ORDER

Ambassador Barrett called the meeting to order at 2:03 p.m.

### APPROVAL OF THE SEPTEMBER 29, 2015, COMMITTEE MEETING MINUTES

Upon duly made and seconded, the draft minutes of the September 29, 2015, Committee meeting were approved without modification.

### APPROVAL OF NON-AUDIT SERVICES BY KPMG’S EXTERNAL AUDITOR

Ambassador Barrett explained that the Committee’s Charter requires pre-approval of any non-audit services provided by the external auditor. Based on these requirements, the Committee needs to provide pre-approval for the Smithsonian’s external auditor, KPMG, to prepare and submit the Smithsonian’s 2015 Form 990 and 990-T to the Internal Revenue Service.

Upon duly made and seconded, the following motion was approved:

**VOTED** that the Audit and Review Committee approves KPMG’s performing non-audit services related to the preparation and submission of the Smithsonian Institution’s Form 990 and 990-T to the Internal Revenue Service.

### INTEGRATED RISK MANAGEMENT AND MITIGATION PROGRAM

Under Secretary for Finance & Administration/Chief Financial Officer Albert Horvath updated the Committee on the status of the Integrated Risk Management Program. The program was enacted to identify and track the top 25 risks to the Smithsonian. An outside consulting firm has been engaged to assess the effectiveness of the program. The firm began its assessment in

*\*Participated by telephone*

November 2015 and is in the process of finalizing a report on their findings. The Committee will review the report at their next scheduled meeting.

### **FISCAL YEAR 2015 FINANCIAL REVIEW**

Mr. Horvath and Director of Finance and Accounting Jean Garvin reviewed the fiscal year 2015 financial results with the Committee. Total assets in fiscal year 2015 increased \$117 million since 2014, totaling a little over \$4.5 billion. Total cash decreased \$14.3 million in fiscal year 2015, primarily due to financing of the National Museum of African American History and Culture. Investments decreased \$39.1 million; Property, Plant, and Equipment increased \$176.1 million; Receivables and Advances remained approximately the same; and Other Assets increased \$4.7 million.

Liabilities increased \$66.4 million in fiscal year 2015. Net operating revenues decreased \$76.5 million in fiscal year 2015, primarily due to the \$102.3 million decrease in federal appropriations. Revenue from business operations increased eight percent, growing from \$165.8 million in fiscal year 2014 to \$178.6 million in fiscal year 2015. Ms. Garvin also noted that almost all of the expense categories increased in fiscal year 2015 and total expenses increased \$49.7 million.

### **AUDIT RESULTS FISCAL YEAR 2015 FINANCIAL STATEMENTS & FEDERAL CLOSING PACKAGE**

KPMG Partner Rosemary Meyer presented KPMG's audit results. The audit of Smithsonian-wide financial statements (Federal and Trust) is still in progress and an unmodified opinion is expected to be issued\*\* once the audit is finalized. The audit will be completed in accordance with Department of Treasury and Office of Management and Budget requirements. The audited financial statements, KPMG's required communications, and the draft management letter were included in the meeting materials for the Committee's review.

Ms. Meyer explained that the audit, once completed, will be in accordance with KPMG's plan, which was proposed to the Committee in July 2015, and that there have been no significant difficulties or disagreements. There have been no corrected audit adjustments made to the financial statements; no material weaknesses in internal control over financial reporting; and although KPMG does not do an audit of internal control, there have been no differences nor significant deficiencies reported.

KPMG Partner Wendy Lewis reviewed key areas of the federal closing package. Federal appropriations and expenses were found to be reasonable as were the assumptions used in determining employee benefit and workers compensation obligations relative to the financial statements as a whole. No instances of non-compliance with regard to applicable laws and regulations were noted.

*\*\*Unmodified opinion issued on January 22, 2016*

Ms. Meyer reviewed the draft management letter with the Committee, noting that no material weaknesses or significant deficiencies in internal control were identified. Some suggested areas to improve control processes include (1) information technology access and monitoring; (2) documentation for key estimates and assumptions including valuations and key reserves; and (3) documentation for accumulated net asset classifications, particularly those that are temporarily restricted.

Smithsonian Institution management concurred with the recommendations and reported to the Committee on some of the steps that have already been taken to improve control processes in light of the recommendations.

## **INSPECTOR GENERAL REPORT**

Inspector General Cathy Helm updated the Committee on the activities of the Office of the Inspector General (“OIG”). Ms. Helm reported on the OIG’s independent audit of the fiscal year 2015 federal closing package and financial statements. She then reviewed the results of the fiscal year 2014 independent evaluation of the Smithsonian’s information security program, which was performed by an independent contractor. The evaluation found that the Smithsonian has continued to make progress on improving controls over information technology (“IT”) resources; however, IT needs to do additional work to ensure that the standards are clear, operate effectively, and are applied broadly across the Smithsonian. The Committee agreed that information security is vital to the Smithsonian and should be a top priority.

Ms. Helm informed the Committee that there are ten audits in progress: (1) Deferred Maintenance Program; (2) National Zoological Park Animal Care Safety; (3) Effectiveness of the Smithsonian’s Privacy Program and Practices; (4) Controls Over Purchase Orders; (5) Smithsonian Enterprises’ Information Security Program; (6) Financial Statement Audits, Fiscal Year 2015; (7) Federal Information Security Management Act Audit, Fiscal Year 2015; (8) Travel Expenses of the Board of Regents, Fiscal Year 2015; (9) Employee Background Reviews; and (10) Smithsonian Astrophysical Observatory’s Grants Management.

Ms. Helm noted that at the beginning of the first quarter for fiscal year 2016 the Smithsonian had 10 open recommendations. As of January 6, 2016, there were 14 open recommendations; 12 of which were related to information security.

## **REVIEW OF COMMITTEE PROCESSES AND ACTIVITIES**

Next, Mr. Horvath presented a tracking report of the Committee’s processes and activities to-date. At each Committee meeting, Smithsonian management presents this report to assist the Committee in focusing on the responsibilities assigned to it by the full Board of Regents; streamline the information being presented; and report on the progress for key substantive and performance metrics. The current report highlighted only one item for the Committee to note: Smithsonian management is working with KPMG to increase the scope of its A-133 audit work to include an additional Smithsonian unit in order to ensure that the submission deadline is met.

## **EXECUTIVE SESSION**

The Committee adjourned its open session at approximately 2:51 p.m. to conduct executive sessions with KPMG, Inspector General, the General Counsel, the Chief Financial Officer, and the Secretary, followed by a member-only session.

## **ADJOURNMENT**

There being no further business to discuss, the meeting was adjourned at approximately 3:08 p.m.

Respectfully submitted,

Barbara Barrett, Chair