The Office of the Inspector General (OIG) serves as the Smithsonian’s Contracting Officer’s Technical Representative for the oversight of the Smithsonian’s annual financial statement audits performed by the independent public accounting firm of KPMG LLP (KPMG). KPMG audited the Smithsonian Institution’s fiscal year (FY) 2013 Federal Closing Package (federal appropriations reporting) and the Smithsonian’s FY 2013 entity-wide Financial Statements (combined federal and trust reporting).

KPMG is currently auditing the Smithsonian’s FY 2013 federal awards, performed in accordance with U.S. Office of Management and Budget Circular A-133. KPMG will complete this audit no later than June 30, 2014.

This letter summarizes the KPMG audit reports, its Management Letter Comments, and our statement of KPMG’s adherence to auditing standards.

**KPMG’s Financial Audit Reports of the Smithsonian**

KPMG issued the following reports in accordance with contract requirements:

*Special-Purpose Financial Statements* – On December 17, 2013, KPMG issued an unqualified opinion on the FY 2013 federal special-purpose financial statements, also known as the federal closing package.
*Entity-Wide Financial Statements* – On February 18, 2014, KPMG issued an unqualified opinion on the Smithsonian's FY 2013 entity-wide financial statements. KPMG audited the statement of financial position as of September 30, 2013, and the related statements of financial activity and cash flows for the fiscal year. KPMG concluded these financial statements present fairly, in all material respects, the financial position of the Smithsonian Institution as of September 30, 2013, and its changes in net assets and its cash flows for the fiscal year, in conformity with U.S. generally accepted accounting principles.

**Management Letter Comments**

KPMG reported no material weaknesses or significant deficiencies in their FY 2013 management letter; however, KPMG made the following comments:

- **Unit or Departmental Level Accounting:** A Smithsonian department made an error in recording exchange revenue as contra expenses (netted against expenses).

- **Year End Accruals:** The Smithsonian did not properly accrue several vendor invoices resulting in the under-statement of accrued liabilities, operating expenses, and fixed assets for the year. In addition the Smithsonian improperly recognized 2012 fixed asset purchases, expenses, and revenues, in 2013.

- **Information Technology:** Consistent with prior years, the Smithsonian did not effectively review network and data center access lists to identify separated users and to determine whether access was commensurate with job responsibilities.

- **Revenue Recognition-Contributions versus Exchange Transaction Evaluation:** Smithsonian provided support for the accounting conclusions on the revenue recognition and net asset classification of the donor agreements. However, the original documentation did not include management's consideration of the accounting guidance on the indicators used to distinguish contributions from exchange transactions, which could impact the timing of revenue recognition or the rationale for allocating between net asset categories.

Management has taken, or plans to take, corrective actions to address these comments.
KPMG’s Adherence to Audit Standards

In connection with our oversight, we reviewed KPMG’s reports and audit documentation and interviewed its representatives. Our review of KPMG’s FY 2013 audit work disclosed no instances where KPMG did not comply, in all material respects, with the American Institute of Certified Public Accountants’ generally accepted auditing standards and the U.S. Government Accountability Office’s Government Auditing Standards.

Our oversight of KPMG’s audit was not intended to enable us to express, and we do not express, an opinion the Smithsonian’s financial statements, internal control, or compliance with laws and regulations. KPMG is responsible for their audit reports and the conclusions therein.

If you have any questions, please do not hesitate to call me or Joan Mockeridge, Acting Assistant Inspector General for Audits at 202.633.7050.