

MINUTES OF THE JANUARY 19, 2011, AUDIT AND REVIEW COMMITTEE MEETING

On January 19, 2012, the Regents' Audit and Review Committee ("the Committee") met in the Regents' Room of the Smithsonian Castle. Participating were Committee Chair John McCarter* and Committee members Shirley Ann Jackson* and Robert Kogod; Senator Jack Reed and Representative Sam Johnson were unable to participate. Also participating was Committee Advisor Herb Schulken.

Participating staff included Secretary Wayne Clough; Chief of Staff to the Secretary Patricia Bartlett; Smithsonian Enterprises Chief Financial Officer Greg Bokman; Inspector General (IG) Scott Dahl; Under Secretary for Finance and Administration and Chief Financial Officer Al Horvath; Chief of Staff to the Regents John K. Lapiana; General Counsel Judith Leonard; Smithsonian Enterprises (SE) President Tom Ott; Director of Government Relations Nell Payne; Office of the Inspector General (OIG) Investigator Michael Picket; Deputy Comptroller Stephen G. Wills; and Comptroller Andrew Zino. Also in attendance were Joanna Friedman, Ellen Harrison, and Wendy Lewis, who represented the Institution's external auditors, KPMG LLP ("KPMG").

Committee Chair John McCarter called the meeting to order at 3:00 p.m.

APPROVAL OF THE SEPTEMBER 14, 2011, COMMITTEE MINUTES

The Committee approved the draft minutes of the September 14, 2011, meeting without modification.

STATUS OF THE KPMG FISCAL YEAR 2010 FINANCIAL STATEMENT AUDIT

KPMG Senior Partner Ellen Harrison noted that KPMG traditionally presents the results of the "closing package" special-purpose financial statements audit (for Federal funding) at the Committee's January meeting. She said that the audit was completed in accordance with Department of Treasury and Office of Management and Budget ("OMB") requirements and on time. KPMG issued an unqualified opinion that accompanied the audit.

The audit of the Smithsonian-wide financial statements (Federal and Trust) is continuing. Ms. Harrison said that KPMG began on the project immediately following the submission of the Federal funds statement and is on schedule to complete the audit by February 24, 2012.

Ms. Lewis then summarized the required Committee communications on the audit of the Federal closing package and directed members to the detailed meeting materials. He characterized the management's cooperation as "great" and commended Mr. Zino and his team on their diligence in collecting and supporting the financial data provided for the audit. She noted two "immaterial uncorrected adjustments." The first was the use of certain non-GAAP policies in two areas. The second concerned the cut-off date for expenses, which

* participated by teleconference

resulted one period where too many expenses were recorded and in another in which too few expenses were recorded. She said management is continuing to refine the process of applying consistent cut-off dates.

With regard to the ongoing Trust financial audit, Ms. Lewis said that no material weakness or significant deficiencies had been identified to date. Mr. Schulken asked if information on the Endowment was represented to KPMG on schedule, in contrast to last year. Mr. Zino said that the information was collected and provided to KPMG later than planned but that the delay should not impact issuance of the final audit in late-February 2012. Ms. Harrison agreed.

Mr. Horvath added that additional staff will be hired to create reporting depth in the Treasurer's office and that improved reporting processes will be implemented. . Dr. Clough expressed optimism that the Smithsonian will also be able to handle the additional demands on reporting that may be imposed by national campaign activities.

INSPECTOR GENERAL UPDATE

Mr. McCarter welcomed Mr. Dahl to his first meeting as Inspector General. Mr. Dahl noted that the OIG oversight letter that will accompany KPMG's audit will be completed by the end of March 2012. He also noted that the annual Federal Information Security Management Act draft audit report is currently under review by his office. Mr. Dahl finished his report with an overview of selected audits that will commence in the coming months.

SMITHSONIAN ENTERPRISES' RESPONSE TO THE SEPTEMBER 7, 2011, INSPECTOR GENERAL REPORT

Mr. Ott noted that SE has concurred with and already has closed or is in the process of closing eight of the nine recommendations contained in the IG report. He characterized the recommendations overall as "good and valuable" for SE managers.

However, Mr. Ott said, SE management disagreed with the IG's recommendation for attestation letters on financial information specific to each SE division. SE is not permitted to alter its annual attestation letter, Mr. Ott explained, and so will ensure signatories attend the overview presented by the Comptroller on internal controls and the attestation process. He agreed that SE executives and unit leaders should be accountable for the same assurances made throughout the rest of the Smithsonian. He also noted that SE complies with Smithsonian Directive 310 (Internal Controls).

Mr. Kogod asked if further actions, either by SE or OIG, were contemplated because SE did not concur in the report's recommendation. Mr. Dahl said that he will meet with OIG staff and determine appropriate next steps or outreach to SE. Resolving these issues will be a top priority, Mr. Dahl said.

Mr. Ott then summarized for the Committee the findings in the OIG report that remain a source

of disagreement regarding: (1) collaboration between retail and corporate functions; (2) transparency of financial information provided to museums; and (3) allocation methodology for fair distribution of costs.

Mr. Dahl said that he would be guided by the principles of engagement promulgated by the President's Council on Integrity and Efficiency (a predecessor to the Council of the Inspectors General on Integrity and Efficiency) in 2004. Copies of the principles were distributed to members.

CHIEF FINANCIAL OFFICER'S ISSUES UPDATE

Mr. Horvath updated members on issues of continuing interest to the Committee:

Office of the Chief Financial Officer ("OCFO"): Mr. Horvath noted that following the merger of the Under Secretary for Finance and Administration and Chief Financial Officer positions, he has been examining the impact on staffing and resources of those units reporting to the Office of the Chief Financial Officer (OCFO), as well as the immediate OCFO office itself.

He said that recruitment for a new position—Deputy Under Secretary for Finance and Administration—will begin soon and that he also expects to appoint an Executive Officer—Finance, and a Deputy Director of the Office of Contracts and Personal Property Management in the near future.

Fiscal Year 2011 Financial Statement Audit: Mr. Horvath said he concurred with KPMG's presentation earlier in the meeting on the fiscal year 2011 financial statement audit. He underscored the expectation that the Smithsonian-wide audit will be completed on time.

OMB A-133 Audit: Mr. Horvath informed the Committee that the A-133 audit planning for fiscal year 2011 began and should be submitted on time in June 2012.

Internal Controls: Mr. Horvath said he was pleased with the steady progress on implementing internal controls in high risk areas. In the next year, he hopes that the internal controls efforts will transition from focusing on controls to more broad enterprise risk management frameworks that will enable staff to identify and manage risk in decision-making situations beyond finances.

Mr. Horvath said that a more detailed progress report on internal controls will be presented at the Committee's April 16, 2011, meeting.

Federal Appropriation Update: Mr. Horvath provided a brief status report on the fiscal year 2012 Federal appropriation and the fiscal year 2013 proposed Federal budget "pass-back" from OMB. Mr. McCarter congratulated Dr. Clough and his leadership team on the solid results of the continuing negotiations.

IRS Form 990: Mr. Horvath updated members on the preparation of the fiscal year 2011 IRS Form 990 and 990-T. A draft response of the IRS Form 990-T has been completed and the Smithsonian will likely not have to pay any Unrelated Business Income Taxes. Mr. Horvath assured the Committee that ample time will be afforded to the Board for review of a draft IRS Form 990 submission this summer.

Finally, Mr. Horvath noted that the Smithsonian is cooperating with the IRS on a routine audit of Calendar Year 2009 employment tax activity. He will update the Committee as the audit progresses.

Mr. McCarter had to sign off the call, and Mr. Kogod served as chair for the remainder of the meeting.

Senior Travel Review: Mr. Kogod called the quarterly senior travel audit results “satisfactory.” Mr. Schulken observed that compliance with travel procedures appears to be improving. Mr. Zino said full compliance might be achieved with better training of travel approving officials.

The meeting was adjourned at 3:36 p.m. with the Committee conducting an executive session.

Respectfully submitted,

John McCarter, Chair