

MINUTES OF THE APRIL 8, 2011, AUDIT AND REVIEW COMMITTEE MEETING

On April 8, 2011, 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 Sam Johnson and Robert Kogod; member Shirley Jackson was unable to participate. Also participating were Assistant to Congressman Johnson David Heil and Committee Advisor Herb Schulken. Participating staff included Secretary G. Wayne Clough; Treasurer Sudeep Anand; Chief of Staff to the Secretary Patricia Bartlett; National Museum of Natural History Associate Director for Research and Collections Jonathan Coddington; National Air and Space Museum Director Jack Dailey; Acting Chief Financial Officer (CFO) Bruce Dauer; Assistant Inspector General for Audits Daniel Devlin; National Museum of American History Director Brent Glass; Under Secretary for History, Art, and Culture Richard Kurin; General Counsel Judith Leonard; Under Secretary for Finance and Administration Alison McNally; Deputy Under Secretary for Collections and Interdisciplinary Support Scott Miller; Director of Government Relations Nell Payne; Under Secretary for Science Eva Pell; Inspector General (IG) Sprightley Ryan; National Collections Coordinator William Tompkins; Deputy Comptroller Stephen Wills; and Comptroller Andrew Zino. Also in attendance were Candace Duncan, Ellen Harrison, and Wendy Lewis, who represented the Institution's external auditors, KPMG LLP. Minutes were taken by Special Assistant to the CFO Susan Block.

Committee Chair John McCarter called the meeting to order at 9:00 a.m. He stated that, although this is a Regents committee and the Regents are charged with governance, it is not the Audit and Review Committee's intent to infringe or intrude on managerial decisions except where an issue of governance arises. He stated that the Inspector General (IG) has done three audits on collections and that there is a disturbing pattern in the IG findings with regard to collections care, security, and management. Because collections are at the core of the Institution, the Committee is concerned that not enough focus has been put on protecting the collections.

Review of Findings of Audit Report "Stewardship of the Collections at National Museum of American History—Inventory Controls"

Inspector General Ryan echoed the Committee's concern and read for the record the portion of the Institution's strategic plan that deals with the importance of the collections. The strategic plan states:

Strengthening Collections—The Smithsonian's collections represent our rich national heritage, art from across the globe, and the immense diversity of the natural and cultural worlds. The collections are fundamental to our work and to that of countless scholars and many federal agencies; it is our responsibility to preserve them for future generations. To ensure they remain available, we will improve collections storage and management, substantially expand access to collections through digital technologies, and build public/private partnerships that strategically enhance collections care. We will also develop a pan-Institutional collections plan to support the Smithsonian's four grand challenges and Institution-wide initiatives.

She said that she read this paragraph to place in context why her office has focused on collections. She feels that her oversight can enhance the mission of the Smithsonian. She informed the Committee that the portion of the audit on the National Museum of American History that was published in February 2011 is the first part of the audit and it focused on inventory controls. The second part will cover security issues and preservation issues. She then turned the briefing over to Assistant Inspector General for Audits Dan Devlin.

Mr. Devlin reminded the Committee that the first study of the collections had been requested by then-Secretary Small in 2000 and was issued in April 2005 by the Office of Policy and Analysis. He cited areas from that report that became the focus of the current audit: declining resources; a need to do cyclical inventories; accountability within the museums for collections care; comprehensive long-term planning; information systems; and goals and metrics.

Mr. Devlin stated that an audit of National Museum of Natural History (NMNH) was done in 2006; an audit of National Air and Space Museum (NASM) was done in 2010; and most recently an audit was done of National Museum of American History (NMAH).

The NMNH audit focused on inadequate inventory policies, plans, control, and records. Accurate inventory records were not maintained and there is still a reliance on manual records. This was caused by staffing shortages, budget constraints, and a lack of performance plans for department chairs for inventory goals, including cyclical inventories. Management generally agreed with all of the recommendations and indicated progress is being made.

The NASM audit focused on physical security and inventory problems. NASM was able to locate all of the items drawn from the OIG's sample of randomly selected items from the NASM collections. This was largely due to the preparation work undertaken prior to the move of NASM collections from Garber to Udvar-Hazy in 2003 as well as to the work undertaken to check inventories after a theft was identified. NASM was not conducting documented inventories in accordance with Smithsonian Directive 600 nor was it submitting the results of the inventories to the Chief of Collections. Problems with the information in TMS, NASM's electronic collections information system, were identified and objects believed to be missing were not recorded as such. This was caused by a lack of staff in the collections division; poor oversight of the inventory process; and staff conducting selective inventories of specific areas and collections in lieu of required cyclical inventories.

The NMAH audit found that 10 percent of the sampled items could not be located and that 5 percent of highly sensitive items sampled could not be located. No cyclical inventories are being conducted and inventory records are incomplete and inaccurate. Only approximately 46 percent of collections items are recorded in the museum's electronic collections information system. Many factors contribute to the problem. Since 1992 there has been a 55 percent decline in collections staff, and 67 percent of the remaining collections staff is eligible to retire. No one has the internal authority to hold all NMAH collections divisions accountable for completing the required inventories; the collections information system is under used; and data quality is poor.

Mr. Devlin said that all three audits show that there are challenges with resources and an urgent need to do cyclical inventories, to improve accountability, to prioritize, and to enhance electronic collections information systems and metrics. He said that on all of the audits there was general agreement on most of the recommendations but some disagreement on whether, without additional resources, a museum can act on the two labor-intensive recommendations to conduct inventories and clean up data systems. Mr. Devlin indicated that the recommendations were made with a complete awareness of the limitation on resources. The OIG's recommendations are to develop a controlled approach to improving collections that will be conducted in phases over time and based upon the highest priorities. The OIG also recommended that NMAH develop a resource plan that will pull together all the resource needs and opportunities, along with a succession plan for the long-term management of its collections.

Mr. Devlin stated that there are three reasons that the management of the Smithsonian's collections—the heart of the Smithsonian—is important to the OIG. Research and education cannot be conducted without collections. The risk of theft increases without adequate collections inventory records. The digitization of the Smithsonian collections, a key component of the strategic plan's goal of broadening access, cannot be fully realized without first establishing the scope and condition of the collections.

IG Ryan told the Committee that the OIG started doing audits of the collections in the 1990s. She said that some of the same concerns that were discovered then are still areas of concern today. She informed the Committee that Part 2 of the NMAH audit and an audit on Cooper-Hewitt, National Design Museum would be released at the end of July 2011.

Strengthening Collections: Progress Report

Dr. Scott Miller, Deputy Under Secretary for Collections and Interdisciplinary Support, provided an overview of Smithsonian collections stewardship and recent progress in improving the care and accessibility of collections. Smithsonian collections currently total approximately 137 million objects and specimens, 1.9 million library volumes, and more than 100,000 cubic feet of archival material. The volume, characteristics, complexity, and age of Smithsonian collections, and the variety of discipline-specific standards that apply to their care, make their management as unprecedented, challenging, and complex as the collections themselves. He noted that collections stewardship is not a single process or procedure, but a series of components that are interwoven, interdependent, and ongoing. The Smithsonian carries out its stewardship responsibilities through the development and implementation of Smithsonian-wide and unit- or discipline-specific collections management policies, plans, and standards based on industry standards and best practices designed to maintain a dynamic balance between the goals of preservation and accessibility.

Dr. Miller reminded the Committee that his position had been created by the Secretary so that there would be a central point of contact for the collections. Since 2005, following the issuance of the internal collections study *Concern at the Core*, the Smithsonian has taken a pragmatic and strategic approach to improve the stewardship of collections, and has made significant

progress in raising the level of collections care and accessibility with improved collections care funding. He noted that a Smithsonian-wide Collections Assessment was conducted in 2010 to guide long-term strategic plans for collections care, identify where improvements are needed, establish priorities, and provide a practical framework for the allocation of collections resources; a Smithsonian-wide Digitization Strategic Plan was issued in 2010 to guide the digitization of collections; and a Smithsonian Collections Space Survey was conducted in 2011 to help develop a master plan for addressing current and future Smithsonian-wide collections space requirements. He said that numerous facility capital projects also have resulted in the provision of safer environments for millions of collections items. Several of the more recent projects include: the construction of Pod 5 and renovation of Pod 3 at the Museum Support Center in Suitland, Maryland; the leasing and development of the Pennsy Collections and Support Center in Landover, Maryland; the construction of Udvar-Hazy I and II in Chantilly, Virginia; the leasing of space and move of collections to Capital Gallery in Washington, D.C., and to an off-site facility in Newark, New Jersey; and numerous revitalization efforts at Mall museums and the Zoo. Dr. Miller also updated the Committee on progress being made in digitization of the collections. Currently the Institution has 19.5 million items digitized to industry standards.

Dr. Miller outlined the Smithsonian's efforts to seek federal and private funding for collections care. During fiscal years 2006 to 2012, federal requests to the Office of Management and Budget have continually included increases for collections care totaling \$45.3 million (including staff) to incrementally reverse the staff erosion and reduced funding that have impaired the Smithsonian's ability to sustainably support collections management. Increases to the Smithsonian's federal appropriation through fiscal year 2010 totaled \$9.9 million, allowing the Institution to make significant improvements in collections management, including addressing OIG audit recommendations regarding deficiencies in collections inventory. He also noted that the Smithsonian has been successful in obtaining private funding and grants for collections care and digitization.

Member Kogod asked how many of the 137 million objects are groups of objects or are individual objects; how many are in critical condition; and what must be accomplished to determine the scope and condition of Smithsonian collections. Dr. Miller noted that this is the purpose of the recent digitization survey, the results of which are not yet available. Dr. Miller was asked to inform the Committee when that information is available. National Collections Coordinator Bill Tompkins noted that he thought the baseline data would be available in September 2011.

Dr. Miller informed the Committee that all 11 recommendations from the September 2006 NMNH audit are closed; that 10 of the 15 recommendations from the NASM 2010 audit have are closed; and that seven of the 13 NMNH collections accessioning recommendations from the audit in 2010 are closed. All open recommendations have target closures by the end of 2011.

Dr. Miller reported that requests for additional collections care funding have been requested in the fiscal year 2012 budget process. He then introduced the presenters from NMNH, NASM, and NMAH.

Collections Assessment and Planning at the National Museum of Natural History

NMNH Associate Director for Research and Collections Jonathan Coddington informed the Committee that NMNH has 126 million specimens, which comprise 92 percent of total Smithsonian holdings. He described the collections assessment tool that is being pioneered at NMNH. The tool evaluates three important metrics: condition, information content, and importance, and is tremendously helpful in deciding where to focus limited resources. The condition metric uses three criteria, and scores the percentage of the collection on a scale ranked from one to five with one failing or substandard to five being state of the art. The information content metric uses four criteria to assess issues such as the quality of electronic record, which are also ranked from one to five, with one being no electronic record to five being “fully” enhanced or best standards. The importance metric uses four criteria to assess issues such as uniqueness, which likewise are ranked from one to five with one being “limited” with respect to comparable collections to five being unique. The tool has enabled NMNH to identify collections that are no longer needed, such as the approximately 1 million marine invertebrate specimens or the approximately 3,500 square feet of U.S. Geological Survey paleontological samples. High priority collections, on the other hand, are targeted for collections care funding.

National Air and Space Museum Move from the Paul E. Garber Facility to the Steven F. Udvar-Hazy Center

National Air and Space Museum Director Jack Dailey informed the Committee that current Garber Facility storage conditions are both substandard and dangerous. He reminded them that Building 21 collapsed in February 2010 from excessive snow, and that subsequent structural analysis of the remaining NASM storage buildings at Garber showed them also to be at risk of collapse. The new portion of Udvar-Hazy will open to the public on April 9, 2011. The new facility will hold about two-thirds (by number) of the 60,000 total artifacts in the collection, not including the large aircraft; the new archives space at Udvar-Hazy will allow the entire archive collection to be in one place for the first time.

NASM curators are currently assessing their respective collections to ensure that the most significant and valuable artifacts will be moved to the new high-quality storage at Udvar-Hazy. The first artifact collection to move to the new facility will be the spacesuit collection. The NASM art collection that had been in the collapsed Garber building will be moved soon thereafter. Basic inventory accounting, condition assessment, improved documentation, and proper housing are all being accomplished as a result of the move. Smithsonian Collections Care and Preservation Fund (CCPF) grants have been instrumental in achieving these goals. With CCPF support, 12,000 objects in the NASM small artifact collections have been surveyed and addressed. By the end of 2011, 25 percent (15,000 objects) of the entire NASM collection will have been surveyed in preparation for the move. Another aspect of CCPF-supported collections care work is barcoding the collection as it moves to Udvar-Hazy. This tracking system is integrated with TMS, the museum’s electronic collections information system, and enables location changes to be uploaded directly into the database, eliminating the need for manual data entry as artifacts arrive at Udvar-Hazy.

Sound curation of collections involves not just building the collection through acquisition, but careful deaccessioning of material based on a thoughtfully developed collections plan, as well as collection rationales. Reviewed and revised every five years, these documents provide the intellectual framework and institutional direction for curating and managing the collections. During the last five years, NASM has deaccessioned 150 three-dimensional artifacts, including 10 aircraft.

General Dailey also noted that the Udvar-Hazy Center features modern, state-of-the-art fire alert and suppression systems. A system of keycard and personal code access, other forms of electronic security, and strict staff access procedures ensures security for the collections.

Armed Forces History: A Collections Re-Housing Project at the National Museum of American History

National Museum of American History Director Brent Glass informed the Committee of the progress being made in the armed forces history collections care project. The collections care core principles are to prioritize the significance of the collection; to categorize the historical significance of objects; to apply triage techniques to collections at risk; and to employ cost-effective strategies to care for collections. With regard to collections care methodology, NMAH uses a collaborative and project-dedicated team; employs a collections information system that the staff has confidence in; and integrates standards and best practices for achieving traditional stewardship outcomes. The project also will integrate new standards and best practices for responsible stewardship and digital access. Dr. Glass noted that accountability cannot be the project's only goal and that access is also very important. He informed the Committee that 11,700 objects have been inventoried and accountability established; 15,000 object records have been linked to 908 acquisition records; 14,600 images have been brought up to standards and linked to collections records; and over 200 objects have been identified for deaccessioning. He informed the Committee that, of the 33 items cited in the OIG's report as missing, 26 have been located and stated that he is confident the other seven will be located.

The Chair noted that there seems to be a disconnect between what the OIG audit found and the presentations of the museums. Inspector General Ryan stated that she did not think they are necessarily inconsistent as large collection assessments can reveal both problems and progress. For example, the OIG made specific recommendations to NASM that have been successfully implemented. Secretary Clough agreed that the Inspector General identified real problems and that the Institution has responded quickly with corrections. Under Secretary for History, Art, and Culture Kurin told the Committee that the Institution has taken the OIG audits seriously and has worked to close the open recommendations. He said that it is impossible in some instances to count every single item in the collections. The triage approach that has been taken by NMAH has concentrated on certain parts of its collections. Secretary Clough stated that the process of digitization is going to help support the care of the collections. Good records will note where things are, what their condition is, and provide access to collections through digital records and images. Inspector General Ryan said that her office is not advocating that the museums cease other activities in order to count each object in their collections.

The Chair noted that it did not appear that there is a plan to audit other smaller museums after the Cooper-Hewitt audit. He asked how the directors of the Institution's smaller museums will be informed of and benefit from the findings of the collections management audit of the larger museums. Under Secretary Kurin responded that these issues are discussed among all directors at staff meetings. He said that what all museums struggle with is how to make their collection available to the public and researchers while still protect these critical assets.

Dr. Miller informed the Committee that the Smithsonian's strategic collections assessment is setting new standards in the national and international museum communities. The Institution is a leader in the Federal Interagency Working Group on Scientific Collections. Recommendations from this working group are now in federal policy and federal law, and the Smithsonian is now working with the White House to implement these recommendations across the federal government. He noted that collections care problems exist throughout the federal government, in private museums, and in museums throughout the world.

Member Kogod said that he is uncomfortable with a report that states both that the Smithsonian doesn't know what it owns and that 10 percent of a collection is missing, but that the Institution is setting the standard in collections care. He noted that the findings appear to contradict each other and expressed concern that, without better documentation, the report's findings could be misunderstood or misrepresented. Inspector General Ryan reported that the report has been on the OIG website since February 2011 and that no inquiries have been made about it.

Mr. Kogod stated, and the Chair agreed, that a more comprehensive review is needed. The Chair also agreed with the Secretary's view that there is a systems problem. He said that he was surprised to read that many of curatorial performance plans lack collections management responsibilities and that the curatorial staff characterize this work as "menial." He asked if there was a position description issue. Dr. Coddington responded that all NMNH curatorial performance plans include collections care and Dr. Glass responded that this requirement varies from department to department at NMAH.

Secretary Clough agreed that the stories conflict. He said that Dr. Miller will write a comprehensive review that will state what the consistent collections problems are across the Institution; what is being done about them; and how long it will likely take to get them resolved. The report will explain what the intended solutions are and what is planned for the future. Under Secretary for Science Pell stated that she concurred with the members' concern and that a prioritization strategy needs to be developed. She added that the Smithsonian's collections care initiative is solid. Under Secretary Kurin agreed that, in order to answer questions from the Regents or members of Congress, the Smithsonian must develop a better overview of its efforts to address collections care issues.

The Chair told the Secretary that collections should be an agenda item on either the June or September 2011 meeting of the Board of Regents.

The meeting adjourned at 10:55 a.m. for a 10-minute break.

The Chair reconvened the meeting at 11:05 a.m. Mr. Kogod had not returned so the approval of the January 2011 minutes was postponed until a quorum was present.

Review of the Fiscal Year 2010 Financial Statement Audit

Comptroller Andrew Zino informed the Committee that the fiscal year 2010 financial statement audit ended the year with an increase of \$41.7 million in cash and balances with the U.S. Treasury. This was principally due to the timing of the purchase and redemption of investment securities, the expenditures of federal funds, and the desire to maintain higher cash balances and short-term investments. Net investment in property and equipment increased by \$91.5 million principally due to increased construction activities across the Institution. No unusual liabilities were reported. Net assets increased by \$202.6 million. The major increase was due to an increase in the change in net assets from operational accounts. The most significant change was the movement in the non-operating account activities from a net loss of \$57.5 million in fiscal year 2009 to a net gain of \$44.4 million in fiscal year 2010, which was due to changes in the valuation of Endowment accounts. Contributions increased by \$40 million in fiscal year 2010.

Total operating expenses increased by \$38.2 million compared to fiscal year 2009. Total expenses were up by \$16.1 million in fiscal year 2010 compared to fiscal year 2009. The principal difference in the non-operating activities was the change in non-operating investment returns from net losses of \$49.7 million in fiscal year 2009 to a profit of \$53.1 million in fiscal year 2010. There was nothing extraordinary in the statement of cash flow from fiscal year 2009. There were a number of significant changes in the notes to the financial statements in fiscal year 2010, especially with regard to Note 2—Summary of Significant Accounting Policies; Note 6—Investments and Fair Value Measurements; Note 10—Long-Term Debt; and Note 16—Subsequent Events.

Approval of Minutes

A motion was made and seconded, and the minutes of the Committee's January 19, 2011, meeting were approved.

Review of the Audit Results and Management Letter

KPMG LLP Senior Partner Ellen Harrison introduced KPMG managing partner Candace Duncan and Wendy Lewis of KPMG's Washington, D.C., office. Ms. Duncan and Ms. Lewis were added after John Keenan rotated off of the account in 2010.

The audit was completed on March 4, 2011, and a clean unqualified opinion was issued on the fiscal year 2010 Smithsonian-wide financial statements. The audit approach remained as reported to the Committee in January 2011. She then turned the presentation over to Ms. Lewis.

Ms. Lewis fulfilled the required communications to the Committee on the fiscal year 2010 audit of the Institution. She explained that designing efficient and effective audit procedures includes reviewing internal controls and reporting any internal control findings in the management letter. There were no fraudulent or illegal acts discovered in the Institution's fiscal year 2010 audit. Changes in accounting policies are described in footnote 2 of the financial statements; the changes were not characterized as significant. There were additional disclosures under the new Fair Value Standards. KPMG evaluated the key factors and assumptions used by management in making accounting estimates and judgments significant to the financial statements, and concluded that each appeared reasonable.

Ms. Harrison discussed the audit adjustments and uncorrected audit differences which were corrected by management. There was an error in the general ledger and financial statements, which was a reclassification of \$13 million that was recorded in other revenues but should have been recorded in investment returns. Another set of adjustments had to be made by management because amounts recorded in the general ledger were inconsistent with the draft financial statements. One adjustment corrected net assets on the statement of financial position by \$50 million. Suggested adjustments to the statement of cash flows were made by management. Uncorrected audit differences are items discovered during an audit. Some of the uncorrected audit differences found by KPMG were recurring adjustments that management and KPMG have determined to be immaterial to the overall financial statements.

Ms. Lewis reported to the Committee that, to the best of KPMG's knowledge, its opinion or any reference to its opinion on the financial statements has not been incorporated in other documents. Subject to professional disclosure requirements, she also stated that KPMG is unaware of any other consultation with other independent accountants. KPMG has consulted with management regarding the application of certain accounting principles and auditing standards. There were no disagreements with management. Management was very cooperative throughout the course of the audit.

With regard to the Management Letter, no material weaknesses were identified. A significant deficiency in the control environment surrounding year-end financial reporting was identified. The discrepancies and errors identified in the preparation of the financial statements and related disclosures were primarily the result of a lack of proper training and failure to follow documented procedures. It is recommended that management enhance controls related to the year-end financial reporting process.

Comptroller Zino told the Committee that his office will reemphasize adherence to existing policy on the accumulation of relevant supporting documentation utilized in the preparation of the financial statements and all related disclosures. Additional training and coordination meetings will be held in preparation for future audits.

Ms. Harrison then discussed KPMG's other observations. Observations about contribution accounting and sponsored projects accounting repeat comments from the fiscal year 2009

audit. Discrepancies were noted in the accounting and record keeping for contributions. Manual processing of contributions is partially to blame for these errors. KPMG recommends that the review procedures over manually prepared schedules be strengthened. In addition, KPMG recommends that the Smithsonian strengthen contemporaneous documentation of all significant communications with donors such that communications that have accounting implications (e.g., timing of payments) can be provided promptly.

Comptroller Zino informed the Committee that the Institution has a plan in place to correct the deficiencies noted before the interim audit process starts in July 2011. In addition, an annual review of the collectability of all outstanding pledge donations will soon commence for fiscal year 2011.

Ms. Harrison informed the Committee that the Office of Sponsored Projects (OSP) is responsible for the financial management of grants and contracts. Errors in the accounting and record keeping for grants are caused by manual processing and inconsistent application of accounting policies and procedures. There was a lack of review and regular reconciliation of reports to the general ledger, which resulted in the need to make post-closing entries in order to accurately reflect the year-end accrual balances.

Comptroller Zino responded that OSP has enhanced its reconciliation procedures to ensure that exchange revenues and expenditures reported in the billing and receivables module are consistent with amounts reported in the general ledger.

Ms. Harrison informed the Committee that several control deficiencies were identified within the Office of the Treasurer (OT). For several months of the year, certain key accounting and reporting functions generally performed by OT were unable to be performed as a result of reliance on one individual for whom there was no back-up or cross-training. A year-end accumulated balance of approximately \$13 million in endowment funds were not invested in the pooled Endowment on a timely basis. The cash that was not invested was inappropriately classified in the Statement of Financial Activities, which led to significant reclassifications within the financial statements and footnote disclosures.

Comptroller Zino informed the Committee that OT has hired an additional accountant to supplement the current staff within OT. The new staff member will be cross-trained to ensure that there is a back-up position.

Ms. Harrison informed the Committee that communication between the Office of Human Resources and the Office of the Chief Financial Officer (OCFO) should be strengthened to ensure system access for terminated employees is revoked in a timely manner and that any exceptions are documented.

Comptroller Zino informed the Committee that both the OCFO and the Office of the Chief Information Officer agree with the recommendation.

Ms. Harrison informed the Committee that prior year comments on restricted net assets were substantially resolved.

Inspector General Review of Quality Assurance Report

Mr. Devlin reminded the Committee that the OIG is the Contract Technical Representative (COTR) for the audit. He noted that there has been a shift in tone between the fiscal years 2009 and 2010 audits and that the emergence of a significant deficiency in fiscal year 2010 was troubling.

The OIG acknowledges that fiscal year 2010 was very different from fiscal year 2009 and that the fiscal year 2010 audit was challenged by the vacant CFO position. Nevertheless, the reorganization effort, and especially the elevation of the new CFO position and the work being done by the Redesign Teams, demonstrates a clear understanding of the concerns moving forward and that solutions are being implemented.

Update on Insurance Coverage

Treasurer Sudeep Anand updated the Committee on insurance coverage. He stated that the federal government is self-insured and the Institution has the same protections. The Smithsonian's insurance is focused on Trust-funded properties and activities. Property that is purchased with federal appropriations is self-insured but the Institution would have to seek a supplemental appropriation in case of a major loss. He informed the Committee that the Federal Tort Claims Act provides legal defense and funding for many legal liabilities. There are three types of insurance: property policies that cover real and personal property against physical loss or damage; liability policies that cover the Smithsonian, Regents, employees, and volunteers for legal liabilities; and special-purpose policies that are used for special events and situations. He reminded the Committee of the Garber Building 21 roof collapse in February 2010 and reported that a settlement of \$1,900,000 was reached with two insurance companies.

Update on Internal Control Improvement Progress

Acting CFO Dauer reminded the Committee that at the last meeting he had reported that two of the high-risk areas had slipped, and reported that the two items are now back on track. The Use of Funds Handbook was issued as scheduled in the second quarter of fiscal year 2011. Procurement, Contracting, and Leasing and Purchase Card Use is back on track. Three of the seven procedures manuals are done. The other four manuals have been written, of which three are out to the primary stakeholders for comment and the fourth is close to being distributed. They are all on track to be published by the end of summer 2011, which will move this item to green. He informed the Committee that there should only be one "red risk" item at the beginning of fiscal year 2012. Capital Projects and Use of Funds will both transition to "green" in fiscal year 2011 and Procurement will transition ahead of schedule to "yellow" in fiscal year 2011.

Comptroller Zino informed the Committee that he and Advisor Schulken will be meeting at the

end of April 2011 to start the preliminary review of IRS Form 990. The Chair thanked Mr. Schulken for his expanded involvement in the process.

The meeting was adjourned at 12:05 p.m. The Committee then conducted separate executive sessions with KPMG, the Inspector General, and the Acting Chief Financial Officer, after which it met alone.

Respectfully submitted,
John McCarter, Chair