MINUTES OF THE APRIL 16, 2008, AUDIT AND REVIEW COMMITTEE MEETING

On April 16, 2008, the Regents' Audit and Review Committee ("the Committee") met at 2:00 p.m. in the Regents' Room in the Smithsonian Castle. Committee member Robert Kogod attended in person. Chair Phillip Frost, Roger Sant, and Patricia Stonesifer participated by teleconference. Staff present at the meeting were Acting Secretary Cristián Samper; Acting Under Secretary for Finance and Administration Alison McNally; Chief Financial Officer (CFO) Alice Maroni; Treasurer Sudeep Anand; Associate Director of the Office of Human Resources Greg Bettwy; Director of the Office of Human Resources Jim Douglas; Director of the Office of Contracting and Personal Property Management Robert Fraga; Associate General Counsel Lauryn Guttenplan; General Counsel John Huerta; Chief of Staff to the Board of Regents John Lapiana; Director of Government Relations Nell Payne; Inspector General (IG) Sprightley Ryan; Chief Information Officer Ann Speyer; Deputy Comptroller Stella Whitsell; and Comptroller Andrew Zino. Minutes were taken by Susan Block, special assistant to the CFO.

Committee Chair Phillip Frost opened the meeting and asked everyone in the Regents' Room to introduce themselves so that those on the phone would know who was present. A motion was made and seconded and the January 2008 minutes were approved. Mr. Frost then turned the meeting over to CFO Alice Maroni. She reminded the Committee that they had asked for a status of the open audit comments from KPMG's management letter for the past two fiscal years. She then turned the meeting over to Comptroller Andy Zino.

Audit Corrective Action Plan

Comptroller Andrew Zino reminded the Committee of the issues identified for action by KPMG. He informed the Committee that an action plan had been prepared that notes each audit condition, the office responsible for the corrective action, the anticipated milestones associated with resolving each issue, a target date, and current progress status. He highlighted a number of areas for the Committee's review. First, with respect to hiring accountants, he noted that the completion date is forecast for the second quarter of fiscal year 2009, since funding for the last two Federal accountant positions is currently pending before Congress as part of the fiscal year 2009 budget request. He deferred discussion of the accountant staffing issue until later in the meeting. Second, with respect to developing a new process for tracking outstanding pledge commitments, Mr. Zino noted that the completion date is forecast for September 30, 2009, beyond the end of the current fiscal year because of the anticipated workload for the Office of External Affairs associated with the completion of this task. Third, with respect to the need for documentation of accounting policies and procedures, he noted a planned completion date of September 30, 2010, also beyond the end of the current fiscal year, reflecting the fact that he has engaged a contractor for this purpose and there are limited staff and funds available to accelerate the timetable for completion of this task.

Mr. Sant and Ms. Stonesifer stated that they had concerns about the Office of the Comptroller's inability to perform a "hard quarterly close" of the Institution's books. Ms. Maroni reminded the Committee that, through the efforts of the Comptroller, the Institution's books are now being closed by the second day of the month, compared to the previous practice of closing on the 10th day of the month. The current practice, however, is not a hard close, as many of the Smithsonian offices that provide financial information to the Comptroller continue to have difficulty providing data timely and accurately. In response to a question, Ms. Maroni said that this was not due to the ERP implementation schedule, but was due rather to staffing shortages and the workload in other Smithsonian offices. She reminded the Committee that, due to Congressional funding cuts, the schedule for the completion of the ERP financial system implementation slipped shortly after the system's initial deployment in fiscal year 2003. Although originally scheduled for completion in fiscal year 2005, the implementation of ERP will now conclude in fiscal year 2010. She reported that a critical *PeopleSoft* software upgrade is occurring this year, and that the last two system modules to be implemented in fiscal year 2009 and 2010 (pertaining to grants and contracts, as well as project accounting) will not affect core accounting timeliness or accuracy.

With respect to the plan to produce documentation of accounting policies and procedures, Ms. Stonesifer asked why it would take so long to complete, given the likely existence of some policies and procedures. Mr. Zino explained that the planned documentation is a substantial project that has been impacted by ongoing staffing issues and the fact that, although basic policies and procedures exist, they do not satisfy KPMG's recommendation. He added that a contractor has been hired to prepare the required documentation and that an outline for the procedures manual was completed in January 2008.

Mr. Zino then discussed the Institution's staff accountant recruitment issues. He reminded the Committee of the market conditions and the great difficulty Federal agencies are having in hiring and retaining accountants. He noted that the Federal Chief Financial Officers Council reports that 40 percent of Washington area accountant positions remain vacant year-to-year and that, according to a recent article in the *Washington Post*, there are 325,000 posted accountant positions nationwide. He noted that the private sector is offering recent accounting graduates starting salaries of $60,000–100,000, whereas the Federal sector offers $40,000–48,000. The Institution is at a further disadvantage because its audit accountant positions are not entry-level positions. He informed the Committee that he is not only trying to fill the new audit accountant positions, but also is addressing routine staff vacancies as well. At the end of March 2007, the Office of the Comptroller had 60 staff (a combination of 51 regular staff and 9 contractors) and five vacancies. The audit requirement added 10 more vacancies, three of which have been filled — the Office of Investments hired an accountant; the Deputy Comptroller has been hired; and one more individual recently was hired pending a background investigation. Mr. Zino then discussed the Institution's hiring process, which takes approximately 90 days to complete. Further, he outlined the actions that are being taken to improve the Institution's hiring and make these accountant positions more appealing.

The Committee was advised of the necessary application of Office of Personnel Management rules in the Federal hiring process. The Federal hiring process is structured to be fair with regard to minimum applicant qualifications that do not always meet those dictated by the job opening. For example, to qualify for a Federal accountant job, an individual does not need to have an accounting degree. As long as an applicant has 24 hours of accounting, he or she is considered minimally qualified for a Federal accountant position.

The Committee had a lengthy discussion on how to improve the hiring process, what additional incentives could be used, whether the critical accountant positions should be Trust-funded rather than Federally funded, and how the Committee could be of assistance. Specifically, the Committee discussed additional means of advertising, such as running continuous job announcements; creating better incentives such as career ladders; recruiting at colleges and job fairs; offering higher salaries; outsourcing; exploring the retiree pool; improving the marketing of "mission-ties"; and increasing the efficiency of current staff. Ms. Maroni requested time to assess the success of the hiring incentives that have recently been put in place. The Committee agreed, but asked to be kept informed and suggested that she not lower the hiring standards just to fill a vacant accountant position.

Ms. Maroni was asked if these were the only vacancies that she had in her entire organization. She informed the Committee that she has prepared a resource requirements analysis paper in response to Governance Recommendation #11, which details the needs of her entire organization. It was decided that this issue would be discussed in executive session with the Committee.

Governance Recommendation #23, Internal Controls

Due to time constraints, Ms. Maroni took questions regarding Governance Recommendation #23, which addresses internal controls, in lieu of presenting the material provided in the read-ahead materials provided to the Committee. In response to a question about delays in the project's schedule, she informed the Committee that she had taken on the responsibility of the project herself in the absence of staff to whom she can delegate responsibility. She will be assisted by a consultant that the Institution recently engaged for this purpose. Due to the workload associated with the preparation of the financial statements and the conduct of the financial statement audit, senior financial staff in the OC were not able to participate in this project until now. At the Committee's request, she agreed to provide the results of the control review as the results become available.

Executive Sessions

The Committee adjourned at 3:40 p.m., after which two executive sessions were conducted, one of which included CFO Maroni.