

MINUTES OF THE JANUARY 14, 2022, AUDIT AND REVIEW COMMITTEE MEETING

The Audit and Review Committee (“Committee”) of the Board of Regents (“Board”) of the Smithsonian Institution (“Smithsonian”) conducted a videoconference meeting on January 14, 2022. Participating were Committee Chair Dr. Risa J. Lavizzo-Mourey and Committee members Senator Catherine Cortez Masto; Representative Lucille Roybal-Allard; Ambassador Barbara M. Barrett; Roger W. Ferguson, Jr.; and Denise M. O’Leary.

Also present by invitation of the Committee were Chief of Staff to the Secretary Greg Bettwy; Chief Information Officer Deron Burba; Controller Jennifer Case; Liaison to Representative Roybal-Allard, Victor Castillo; Program Manager for Enterprise Risk Management Catherine Chatfield; Under Secretary for Administration Ronald Cortez; Liaison to Senator Cortez Masto, Trevor Dean; Associate General Counsel Farleigh Earhart; Deputy Chief of Staff to the Regents Kate Forester; Special Assistant to the Regents Mallory Gianola (recorder); Acting Deputy Under Secretary for Administration Doug Hall; Inspector General Cathy Helm; Chief Financial Officer Janice Lambert; General Counsel Judith Leonard; Assistant Inspector General for Audits Joan Mockeridge; Manager of General Accounting and Reporting Martha Newton; Deputy Secretary and Chief Operating Officer Meroë Park; Manager of Risk Management Katherine Tkac; Chief of Staff to the Regents Porter Wilkinson; and Liaison to Senator Cortez Masto, Josh Yearsley.

Also in attendance were Rosemary Meyer, Drew Rosen, and Brandon White, who represented the Smithsonian’s external auditors, KPMG, LLP (“KPMG”).

CALL TO ORDER

Committee Chair Dr. Risa J. Lavizzo-Mourey called the meeting to order at 12:00 p.m. and reviewed the agenda.

APPROVAL OF THE JULY 19, 2021, COMMITTEE MEETING MINUTES

Upon motion duly made and seconded, the draft minutes of the July 19, 2021, meeting were approved without modification.

COMMITTEE CHARTER REVIEW

The Committee then performed a provision-by-provision review of its Charter per its mandate to annually review and assess the Charter and evaluate its own performance with respect to the Charter. No modifications to the Charter were proposed.

AUDIT RESULTS FISCAL YEAR 2021 FINANCIAL STATEMENTS

KPMG Partner Rosemary Meyer led the Committee’s discussion and review of the preliminary results of the Smithsonian’s annual financial statements audit, required communications, and related deliverables for fiscal year 2021. Ms. Meyer informed the Committee that the audit of Smithsonian-wide financial statements (Federal and Trust) was substantially complete, and an unmodified opinion is expected to be issued with supplemental information related to the

Smithsonian's adoption of new accounting guidance Accounting Standards Update 2016-02 Leases. Ms. Meyer noted that the audit was completed in accordance with professional standards and there were no significant changes to the planned risk assessment or audit strategy as it was originally presented to the Committee in July 2021. Ms. Meyer also noted the Smithsonian and KPMG were responsive to the enhanced telework environment and the financial statement impacts of COVID-19.

The Committee reviewed the audited financial statements, KPMG's required communications, and the draft letter to management. Ms. Meyer noted that KPMG found no instances of noncompliance and no material weaknesses in internal control over financial reporting. A significant risk was reported related to management override of controls. However, Ms. Meyer reminded the Committee that this risk was not specific to the Smithsonian and is present at all entities. The Institution has worked closely with KPMG to mitigate the risk through a series of evaluations and tests throughout the audit process. Ms. Meyer also reviewed the status of prior year recommendations and informed the Committee that the significant deficiency reported in the fiscal year 2020 audit was remediated with respect to accounting for construction in progress and commended the Smithsonian on its efforts to address the significant deficiency.

The Committee then reviewed key information related to federal activities. Federal appropriations and expenses were found to be reasonable as were the assumptions used to determine employee benefit obligations. No instances of non-compliance with regard to applicable laws and regulations were reported as of September 30, 2021.

FISCAL YEAR 2021 FINANCIAL REVIEW AND UPDATE

Controller Jennifer Case briefed the Committee on the Institution's financial results from fiscal year 2021, which ended on September 30, 2021. Ms. Case informed the Committee that total net assets grew by \$859 million in fiscal year 2021, a \$556 million increase over fiscal year 2020. The increase was primarily due to favorable investment returns and the donation of \$200 million to the National Air and Space Museum made by Jeff Bezos. Ms. Case also noted that net operating loss was (\$20 million), a \$78 million improvement over fiscal year 2020.

The Committee also received an update on the Smithsonian's efforts to address the significant deficiency reported by the independent auditor on the Smithsonian's fiscal year 2020 financial statements. Ms. Case reviewed the status of each recommendation in the fiscal year 2020 management letter comments, including reviewing procedures over accounting and reporting Construction in Progress ("CIP"), enhancing the precision of key account reconciliations, developing and implementing a plan of accounting for leases related to the adoption of ASC 842, and offering enhanced training for accounting and financial reporting personnel.

The Committee also received an update on key staffing gaps and priority needs for the Office of Finance and Accounting, specifically related to treasury management and general accounting and reporting.

INSPECTOR GENERAL UPDATE

Inspector General Cathy Helm updated the Committee on the activities of the Office of the Inspector General (“OIG”). Between the July 2021 and January 2022, Committee meetings, five reports were issued from the OIG to include: (1) Testimony of Cathy L. Helm, Inspector General, Before the United States House of Representatives Committee on House Administration, December 16, 2021; (2) the Fiscal Year 2022 Audit Plan; (3) the Semiannual Report to Congress for the period ending September 30, 2021; (4) Information Security; and (5) Travel Expenses of the Board of Regents for Fiscal Years 2019 and 2020.

Ms. Helm also reported that there are six audits currently in progress, including: (1) Assessment of Detection and Response Capabilities for Information Security Incidents, 2021; (2) Collecting Units’ Cyclical Inventory Plans and Reports; (3) Evaluation of the Smithsonian’s Information Security Program for Fiscal Year 2021; (4) Financial Statements Audits for Fiscal Year 2021; (5) Purchase Card Program; and (6) Smithsonian Privacy Program and Practices.

Ms. Helm reviewed the status of OIG recommendations and noted that there were 10 open OIG recommendations as of January 7, 2022. The Committee was also briefed on Inspector General Cathy Helm’s testimony before the U.S. House of Representatives Committee on House Administration on December 16, 2021. The testimony focused on the Office of the Inspector General’s oversight of the Smithsonian’s long-standing challenges related to the management of its collections and facilities, as well as the challenges that the Smithsonian has identified as threats from climate change.

IT SECURITY UPDATE

Chief Information Officer Deron Burba shared the Smithsonian’s fiscal year 2021 IT security and privacy accomplishments and fiscal year 2022 goals. Of note in fiscal year 2021, the Office of the Chief Information Officer (“OCIO”) closed 29 findings from the Inspector General; created and tracked Key Performance Indicators (“KPIs”); remediated the vulnerability backlog, reducing vulnerability risk by more than 70 percent; and implemented Microsoft InTune. Highlights from the fiscal year 2022 IT security plan include refining and enhancing KPIs, developing a Ransomware Response Plan, and implementing the Threat Intelligence Plan. Mr. Burba concluded his update with an overview of the Incident Management Program and Framework.

SMITHSONIAN ENTERPRISE RISK MANAGEMENT

Program Manager Catherine Chatfield briefed the Committee on the Smithsonian’s Enterprise Risk Management (“ERM”) program. The Smithsonian is building its ERM risk profile and ranking challenges and opportunities to align with strategic plan implementation and metrics.

Ms. Chatfield highlighted six challenges and two opportunities based on the calculated value from the ERM Survey Results, and shared next steps for the ERM program, which include

developing the ERM Governance Model to support and track the progress of risk mitigations and opportunities.

SMITHSONIAN INTERNAL REVIEW GROUP

Chief Financial Officer Janice Lambert provided an overview of the establishment of a new internal review group within the Smithsonian, which would serve as a first line of defense to detect and prevent errors, mitigate financial operational risk, and proactively evaluate and detect financial operational risks as they emerge and before they fully materialize. The Committee agreed that internal review groups are recognized across public and private sectors as best practice, and noted this would be a proactive approach to financial risk management.

EXECUTIVE SESSION

The Committee adjourned its open session at approximately 1:24 p.m. to conduct executive sessions with KPMG, the Inspector General, the General Counsel, the Deputy Secretary and Chief Operating Officer, the Under Secretary for Administration, and the Chief Financial Officer, followed by a member-only session.

ADJOURNMENT

There being no further business to discuss, the meeting was adjourned at approximately 1:58 p.m.

Respectfully submitted,
Risa J. Lavizzo-Mourey, Chair

EMAIL BALLOT

By email ballot completed on November 24, 2021, the Audit and Review Committee voted to approve two action items for additional audit and non-audit work with KPMG, the Smithsonian's external auditor, which required approval prior to the next scheduled Committee meeting.

VOTED that the Audit and Review Committee approves the Smithsonian's external auditor KPMG performing the additional non-audit services of preparing the Smithsonian Institution's 990 and 990-T tax returns for fiscal year 2021.

VOTED that the Audit and Review Committee recommends that the Executive Committee, on behalf of the Board of Regents pursuant to Board Bylaw 3.01, approves KPMG performing audit services related to certain agreed upon procedures of the Smithsonian's June 30, 2021, True NAV investment report.