

MINUTES OF THE JANUARY 18, 2023, AUDIT AND REVIEW COMMITTEE MEETING

The Audit and Review Committee (“Committee”) of the Board of Regents (“Board”) of the Smithsonian Institution (“Smithsonian”) conducted a meeting on January 18, 2023. Participating were Committee Chair Dr. Risa J. Lavizzo-Mourey and Committee members 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; Enterprise Risk Program Manager 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); Inspector General Cathy Helm; General Accounting and Reporting Manager Leon Hutton; General Counsel Judith Leonard; Assistant Inspector General for Audits Joan Mockeridge; and Deputy Secretary and Chief Operating Officer Meroë Park.

Also in attendance were Cathy Baumann 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. Dr. Lavizzo-Mourey informed the Committee of organizational changes within the Office of Finance and Accounting, including the departure of Chief Financial Officer Janice Lambert.

APPROVAL OF THE JULY 21, 2022, COMMITTEE MEETING MINUTES

Upon motion duly made and seconded, the draft minutes of the July 21, 2022, meeting were approved.

AUDIT RESULTS FISCAL YEAR 2022 FINANCIAL STATEMENTS

KPMG Partner Cathy Baumann 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 2022. Ms. Baumann informed the Committee that the audit of Smithsonian-wide financial statements (Federal and Trust) was substantially complete, and an unmodified opinion with no significant deficiencies reported is expected to be issued with supplemental information related to the Smithsonian’s adoption of two new accounting guidance standards: Accounting Standards Update 2020-07, Contributed Nonfinancial Assets, and Accounting Standards Update 2018-15, Intangibles. Ms. Baumann 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 2022.

The Committee reviewed the audited financial statements, KPMG's required communications, and the draft letter to management. Ms. Baumann noted that KPMG found no instances of noncompliance and no material weaknesses in internal control over financial reporting. Ms. Baumann also reviewed the status of prior year recommendations and informed the Committee that progress was made on the fiscal year 2021 internal control recommendations and any fiscal year 2022 recommendations would be presented to management separately.

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, 2022.

FISCAL YEAR 2022 FINANCIAL STATEMENT REVIEW AND UPDATE

Controller Jennifer Case briefed the Committee on the Institution's financial results from fiscal year 2022, which ended on September 30, 2022. Ms. Case informed the Committee that total net assets decreased by \$85.8 million in fiscal year 2022, a two percent decrease over fiscal year 2021. The decrease was primarily due to market volatility and investment fluctuations related to the downturn in markets. Ms. Case also noted that net operating loss was \$63 million, a \$42.9 million increase in operating loss over fiscal year 2021.

INSPECTOR GENERAL UPDATE

Inspector General Cathy Helm updated the Committee on the activities of the Office of the Inspector General ("OIG"). Between the July 2022 and January 2023 Committee meetings four reports were issued from the OIG including: (1) Acquisition Management for Purchase Card Use; (2) the Fiscal Year 2022 Independent Evaluation of the Smithsonian's Information Security Program; (3) the Fiscal Year 2023 Audit Plan; and (4) the Semiannual Report to Congress for the period ending September 30, 2022.

Ms. Helm presented the audit plan for fiscal year 2023, which includes ongoing audits, mandatory audits, and discretionary audits. She reported that there are eight audits currently in progress and noted that the audit plan may be adjusted to ensure the OIG directs available resources to the areas with the highest risks and impacts.

Ms. Helm also reviewed the status of OIG recommendations and noted that there were 26 open OIG recommendations as of January 18, 2023. In October 2022, the OIG assigned priority status to three open recommendations. These open recommendations were identified to have the most significant benefit or impact to the Institution's mission, operations, programs, or funds. Ms. Helm reported the target completion date for the three priority recommendations is January 31, 2024. The Committee was also briefed on seven recommendations made by the OIG to strengthen the Purchase Card Program.

PROGRESS ON IDENTIFIED AUDIT AND INTERNAL CONTROL DEFICIENCIES

The Committee received an update on the Smithsonian's efforts to address the significant audit deficiencies reported by the independent auditor on the Smithsonian's fiscal year 2021 financial statements. KPMG observed five deficiencies in the fiscal year 2021 audit, with one recommendation remediated and four recommendations ongoing. Mr. Cortez reviewed the status of each recommendation in the fiscal year 2021 management letter comments, including evaluating the Office of Finance and Accounting organizational structure, enhancing communication controls between units, formalized training for accounting and financial reporting personnel, reviewing environmental remediation obligations, and improving the process for preparation and review of the quarterly financial statements.

The Committee also reviewed the status of the Internal Review Group, which was created to evaluate and report on internal control issues. Mr. Cortez noted that the scope of work and initial framework for the group would be presented to the Committee for review in July 2023.

IT SECURITY UPDATE

Chief Information Officer Deron Burba shared the Smithsonian's fiscal year 2022 IT security and privacy accomplishments and fiscal year 2023 goals and reviewed open OIG recommendations from the Audit of the Effectiveness of the Smithsonian Privacy Program and Practices. Of note in fiscal year 2022, the Office of the Chief Information Officer ("OCIO") implemented Microsoft's Data Loss Prevention ("DLP") functionality and developed a major cyber-attack contingency plan in coordination with various Smithsonian stakeholder units. Mr. Burba also briefed the Committee on two IT security incidents that took place between the January and July Committee meetings, including a DNS Distributed Denial of Service ("DDOS") Attack and an Ability Commerce Ransomware Attack, a vendor that provides ecommerce services for Smithsonian Enterprises.

SMITHSONIAN ENTERPRISE RISK MANAGEMENT

Program Manager Catherine Chatfield provided an update on the Smithsonian's Enterprise Risk Management ("ERM") program. Since the July 2022 Committee meeting, ERM was launched as one of the Smithsonian's strategic initiatives, and the team established the Risk Register leveraging the strategic initiatives to track risk response plans where feasible. The Smithsonian also implemented ERM governance and developed the 2023 work plan.

EXECUTIVE SESSION

The Committee adjourned its open session at approximately 1:36 p.m. to conduct executive sessions with KPMG, the Inspector General, the General Counsel, the Deputy Secretary and Chief Operating Officer, and the Under Secretary for Administration, followed by a member-only session.

ADJOURNMENT

There being no further business to discuss, the meeting was adjourned at approximately 2:00 p.m.

Respectfully submitted,
Risa J. Lavizzo-Mourey, Chair