

## MINUTES OF THE JANUARY 19, 2021, 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 19, 2021. Participating were Committee Chair Dr. Risa J. Lavizzo-Mourey and Committee members 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, Interim Director of the Office of Finance and Accounting Vince DeVito, 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, Chief Financial Officer Janice Lambert, General Counsel Judith Leonard, Under Secretary for Administration Mike McCarthy, Assistant Inspector General for Audits Joan Mockeridge, Manager of General Accounting and Reporting Martha Newton, Deputy Secretary and Chief Operating Officer Meroë Park, and Chief of Staff to the Regents Porter Wilkinson.

Also in attendance were Erik Causey, Rosemary Meyer, 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 13, 2020, COMMITTEE MEETING MINUTES

Upon motion duly made and seconded, the draft minutes of the July 13, 2020, meeting were approved without modification.

### COMMITTEE CHARTER REVIEW

The Committee performed a provision-by-provision review of its Charter per its mandate to annually review and assess the Charter and evaluate its performance with respect to the requirements of the Charter. During routine review of the Committee Charter, amendments were proposed to include updates to language that would ensure consistency between the Committee Charter and the Inspector General Act and reflect current practices. Dr. Lavizzo-Mourey noted that the proposed modifications would not change the dynamic of the relationship between the Inspector General and the Committee.

Upon motion duly made and seconded, the Committee approved the following motion:

**VOTED** that the Audit and Review Committee recommends approval by the Governance and Nominating Committee of the proposed amendments to the Audit and Review Committee Charter.

## **INTRODUCTION OF CHIEF FINANCIAL OFFICER**

Under Secretary for Administration Mike McCarthy introduced the Smithsonian's new Chief Financial Officer Janice Lambert and welcomed her to her first Committee meeting. Ms. Lambert joined the Smithsonian on January 4. She will oversee the Office of Planning, Management and Budget; the Office of Finance and Accounting; the Office of Contracting and Personal Property Management; and the Office of Sponsored Projects.

## **UPDATE ON IMPACT OF COVID-19 (CORONAVIRUS)**

Next, the Committee received an update on the Smithsonian's ongoing response to the COVID-19 (Coronavirus) pandemic. Eight Smithsonian facilities in the Washington, D.C., region, including the National Zoo, reclosed to the public on November 23. The Committee discussed the Institution's reopening status, the Smithsonian's COVID-19 vaccine deployment, and the financial impact of the pandemic. Mr. McCarthy reminded the Committee that a reopening date has not been announced, and that even once Smithsonian facilities begin to reopen, the Institution will continue to monitor capacity carefully and enforce health and safety best practices. These measures are expected to impact the peak visitor season and anticipated revenues for fiscal year 2021. The Smithsonian Institution received \$7.5 million through the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") for COVID-19 related purposes, of which \$4.5 million was expensed by September 30, 2020. Mr. McCarthy informed the Committee that all funding from the CARES Act has now been obligated for managing COVID-related expenditures, including deep cleaning, security, information technology, and expenses required to address the Smithsonian's COVID-19 response and reopening.

## **AUDIT RESULTS FISCAL YEAR 2020 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 2020. 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. Ms. Meyer also 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 2020. Ms. Meyer reminded the Committee that Government Auditing Standards require audit organizations to undergo external peer reviews by independent reviewers every three years. Firms can receive a rating of pass, pass with deficiency(ies), or fail. As required, KPMG received its most recent peer review report dated November 17, 2020, which indicated a rating of pass.

Ms. Meyer then briefed the Committee on the increased detail to the significant financial statement disclosures, which were newly required and provided in the fiscal year 2020 audit. This included areas impacted by COVID-19 and related supplemental information throughout the financial statements for Federal and Trust disclosures, as well as the debt transaction that financed the purchase of the Capital Gallery Building, reflected in the audit as an asset

acquisition. The Committee reviewed the audited financial statements, KPMG's required communications, and the draft letter to management. Ms. Meyer noted that an unmodified opinion is expected to be issued, and KPMG found no instances of noncompliance and no material weaknesses in internal control over financial reporting. A significant deficiency was reported with respect to accounting for construction in progress and the Committee along with the Board will work closely with Smithsonian management, KPMG, and the Inspector General to address the deficiency. Ms. Meyer also informed the Committee that the significant deficiency reported in the fiscal year 2019 audit was remediated with respect to enhanced process and review over external financial statements, and commended the Smithsonian on its efforts to address the significant deficiency, despite the current remote work environment and the financial statement impacts of COVID-19.

Ms. Meyer then reviewed key areas of the independent auditors' report on the federal closing package and reporting requirements. As a quasi-federal organization, the Smithsonian is required to comply with certain compliance requirements and laws common to most federal agencies. 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, 2020.

KPMG Partner Erik Causey concluded KPMG's report with an overview of the independent accountants' report of Smithsonian Enterprises. Mr. Causey noted that adverse consequences of the pandemic included declines in retail operations and business activities revenue. The report is expected to be issued following the Committee meeting without any material modifications or noteworthy reportable matters in fiscal year 2020.

## **FISCAL YEAR 2020 FINANCIAL REVIEW**

Interim Director of the Office of Finance and Accounting Vince DeVito briefed the Committee on the Institution's financial results from fiscal year 2020, which ended on September 30, 2020. The Committee first received an update on the Smithsonian's efforts to address the significant deficiency reported by the independent auditor on the Smithsonian's fiscal year 2019 financial statements. Mr. DeVito reviewed the status of each recommendation in the fiscal year 2019 management letter comments, including establishing a standard accounting manual, evaluating the processes to review external financial reporting, enhancing the level of review and precision, and strengthening audit preparedness.

Mr. DeVito also shared improvements and changes to financial statements for the fiscal year 2020 audit report. Changes and improvements include a breakout of all Federal and Trust statements, showing comparative statements, changes to the statement of financial activities, and the inclusion of a COVID-19 disclosure to footnotes. The Committee then reviewed the impact of reporting changes in comparing fiscal year 2020 data with fiscal year 2019, focusing on: the purchase of the Capital Gallery Building, the impact of COVID-19 on the financial statements, construction in process ("CIP"), and environmental remediation obligation.

## **INSPECTOR GENERAL UPDATE**

Inspector General Cathy Helm updated the Committee on the activities of the Office of the Inspector General (“OIG”). Between the July 2020 and January 2021, Committee meetings, four reports were issued from the OIG to include: (1) the Semiannual Report to Congress; (2) the Fiscal Year 2021 Audit Plan; (3) Human Resource Management: Strengthening Procedures for Hiring Trust Employees; and (4) the Fiscal Year 2019 Independent Evaluation of the Smithsonian Institution’s Information Security Program.

Ms. Helm also reported that there are five audits currently in progress, including: (1) Assessment of Detection and Response Capabilities for Information Security Incidents; (2) Evaluation of the Smithsonian’s Information Security Program for Fiscal Year 2020; (3) Financial Statements Audits for Fiscal Year 2020; and (4) Purchase Card Program; and (5) Collecting Units’ Cyclical Inventory Plans and Reports. Ms. Helm reviewed the status of OIG recommendations and noted that there were 21 open OIG recommendations as of January 11, 2021. The Committee was informed that OIG auditors are evaluating the Smithsonian's capabilities to prevent, detect, and respond to information security incidents, and Smithsonian management would be following up with the Committee to share more details as the audit progresses given the current global cyber threat environment.

## **UPDATE ON BLACKBAUD DATA BREACH**

Chief Information Officer Deron Burba provided an update regarding a data security incident at Blackbaud, a third-party service provider, which has impacted the Smithsonian among other educational institutions and nonprofit organizations. On July 16, 2020, Blackbaud Inc. notified the Smithsonian Institution of a ransomware attack on its systems in May 2020. The Office of the Chief Information Officer (“OCIO”) has been working with Blackbaud, as well as the Smithsonian’s Privacy Office and the Office of Advancement, to assess and monitor the impact on Blackbaud applications utilized by the Institution and effected Smithsonian data. Mr. Burba reviewed OCIO’s data breach response activities and highlighted lessons learned from the cybersecurity incident, which will guide Smithsonian processes and procedures moving forward.

## **EXECUTIVE SESSION**

The Committee adjourned its open session at approximately 1:50 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 2:05 p.m.

Respectfully submitted,  
Risa J. Lavizzo-Mourey, Chair