

## MINUTES OF THE JANUARY 26, 2017, AUDIT AND REVIEW COMMITTEE MEETING

The Audit and Review Committee (“Committee”) of the Board of Regents (“Board”) of the Smithsonian Institution (“Smithsonian”) held a meeting on January 26, 2017, at the Smithsonian Castle in Washington, DC. Participating were Committee Chair Ambassador Barbara Barrett and Committee members Representative Sam Johnson,\* Board Vice Chair Dr. Shirley Ann Jackson,\* Robert P. Kogod,\* and Dr. Risa J. Lavizzo-Mourey.\* Committee member Senator David Perdue was unable to attend the meeting.

Also present by invitation of the Committee were Secretary David Skorton; Chief of Staff to the Secretary Greg Bettwy; Counsel to the Inspector General Epin Christensen; Office of the Regents Senior Researcher & Writer Jennifer Ehlinger (recorder); Director of Finance and Accounting Jean Garvin; Inspector General Cathy Helm; Under Secretary for Finance & Administration/Chief Financial Officer Albert Horvath; General Counsel Judith Leonard; Assistant Inspector General for Audits Joan Mockeridge; and Chief of Staff to the Regents Porter Wilkinson.

Also in attendance were Wendy Lewis and Rosemary Meyer who represented the Smithsonian’s external auditors, KPMG, LLP (“KPMG”).

### CALL TO ORDER

Committee Chair Ambassador Barrett called the meeting to order at 11:00 a.m.

### APPROVAL OF THE JULY 20, 2016, COMMITTEE MEETING MINUTES

Upon motion duly made and seconded, the draft minutes of the July 20, 2016, meeting were approved without modification.

### APPROVAL OF KPMG PERFORMING NON-AUDIT SERVICES RELATED TO FORM 990 & 990-T

Next Ambassador Barrett explained that the Committee’s charter requires pre-approval of any non-audit services provided by the external auditor. Based on these requirements, the Committee needs to provide pre-approval for the Smithsonian’s external auditor, KPMG, to prepare and submit the Smithsonian’s 2015 Form 990 and 990-T to the Internal Revenue Service. KPMG has performed non-audit services related to the Form 990 and 990-T since 2013.

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

**VOTED** that the Audit and Review Committee approves KPMG’s performing non-audit services related to the preparation and submission of the Smithsonian Institution’s Form 990 and 990-T to the Internal Revenue Service.

### AUDIT RESULTS FISCAL YEAR 2016 FINANCIAL STATEMENTS AND FEDERAL CLOSING PACKAGE

*\*Participated by telephone*

KMPG Partner Rosemary Meyer presented KPMG's preliminary audit results of the Smithsonian's financial statements for fiscal year 2016, which ended on September 30, 2016. Ms. Meyer reported that the audit of Smithsonian-wide financial statements (Federal and Trust) is still in progress; however, an unmodified opinion is expected to be issued\*\* once the audit is finalized. The audit will be completed in accordance with Department of Treasury and Office of Management and Budget requirements. The audited financial statements, KPMG's required communications, and the draft management letter were included in the meeting materials for the Committee's review.

The Smithsonian submitted its federal financial reporting package to the Department of Treasury on November 16, 2016, in accordance with the mandated filing date. Ms. Meyer explained that the audit, once completed, will be in accordance with KPMG's plan, which was proposed to the Committee in July 2016, and that there have been no significant difficulties or disagreements. There have been no corrected audit adjustments made to the financial statements; no material weaknesses in internal control over financial reporting; and there have been no differences nor significant deficiencies reported.

#### **FISCAL YEAR 2016 FINANCIAL REVIEW**

Mr. Horvath and Director of Finance and Accounting Jean Garvin reviewed the fiscal year 2016 financial results with the Committee. Total assets in fiscal year 2016 increased \$196.7 million since 2015, totaling a little over \$4.7 billion. Total cash decreased \$98.8 million in fiscal year 2016, primarily due to financing and opening of the National Museum of African American History and Culture.

Investments decreased \$39.1 million; Property, Plant, and Equipment increased \$105.5 million; Receivables and Advances increased \$15.7 million; and Other Assets increased \$5.8 million. Liabilities increased \$4.4 million in fiscal year 2016. Net operating revenues increased \$128.6 million in fiscal year 2016, and total expenses in fiscal year 2016 increased by \$90.1 million.

#### **INSPECTOR GENERAL UPDATE**

Inspector General Cathy Helm updated the Committee on the activities of the Office of the Inspector General ("OIG") and presented the fiscal year 2017 audit plan, which seeks to improve the efficiency and effectiveness of the Smithsonian's operations using independent and objective audits. The audit plan for fiscal year 2017 will include six ongoing audits, three mandatory planned audits, and nine discretionary planned audits. Ms. Helm then reported on the OIG's independent audit of the fiscal year 2016 federal closing package and financial statements.

Ms. Helm reported on the OIG's recent audit of the Smithsonian's procurement process and recommendations from the audit related to the monitoring and oversight of the purchase order process. She then reviewed the results of the fiscal year 2015 independent evaluation of the

*\*\*Unmodified opinion issued on January 27, 2017*

Smithsonian's information security program, which was performed by an independent contractor. The evaluation found that Smithsonian management generally maintained effective oversight of its information security program; however, certain areas may require additional strengthening. Such areas include identity management and user access, incident response monitoring, risk management, contractor systems oversight, and role-based security training. The Committee agreed that information security is vital to the Smithsonian and management should continue work that will ensure standards are clear, operate effectively, and are applied broadly across the Smithsonian. Ms. Helm next discussed the results of the audit of the Regents' travel expense reimbursements for fiscal year 2015. OIG determined that Regents' travel expenses generally complied with the Regents' travel reimbursement policy for meeting expenses.

Ms. Helm informed the Committee that there are seven audits in progress: (1) Employee Background Investigations; (2) Smithsonian Astrophysical Observatory's Grants and Contract Management Program; (3) Emergency Preparedness Program; (4) Web Application Security Process; (5) Financial Statement Audits, Fiscal Year 2016; (6) Federal Information Security Management Act Audit, Fiscal Year 2016; and (7) Travel Expenses of the Board of Regents, Fiscal Year 2016. Ms. Helm noted that as of January 19, 2017, there were 26 open recommendations; 18 of which were related to the area of information security.

## **REVIEW OF COMMITTEE PROCESSES AND ACTIVITIES**

Next, Mr. Horvath presented a tracking report of the Committee's processes and activities to date. At each Committee meeting, Smithsonian management presents this report to assist the Committee in focusing on the responsibilities assigned to it by the full Board; streamline the information being presented; and report on the progress for key substantive and performance metrics. The current report illustrated that all processes and activities under the purview of the Committee, based on the charter mandates, have been successfully completed or are on-track for completion in-line with the approved audit timeline. The Committee will receive an update on the Integrated Risk Management program at its next scheduled meeting in July 2017.

## **EXECUTIVE SESSION**

The Committee adjourned its open session at approximately 11:53 a.m. to conduct executive sessions with KPMG, the Inspector General, the General Counsel, the Chief Financial Officer, and the Secretary, followed by a member-only session.

## **ADJOURNMENT**

There being no further business to discuss, the meeting was adjourned at approximately 12:24 p.m.

Respectfully submitted,

Ambassador Barbara Barrett, Chair