

MINUTES OF THE JULY 13, 2020, AUDIT AND REVIEW COMMITTEE MEETING

The Audit and Review Committee (“Committee”) of the Board of Regents (“Board”) of the Smithsonian Institution (“Smithsonian”) held a videoconference meeting on July 13, 2020. Participating were Committee Chair Dr. Risa J. Lavizzo-Mourey and Committee members Representative Lucille Roybal-Allard; 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; Liaison to Representative Roybal-Allard Victor Castillo; Interim Director of the Office of Finance and Accounting Vince DeVito; Deputy Chief of Staff to the Regents Kate Forester; Special Assistant to the Regents Mallory Gianola (recorder); Inspector General Cathy Helm; General Counsel Judith Leonard; Liaison to Senator Perdue Stephanie Lightfoot; Under Secretary for Administration Mike McCarthy; Assistant Inspector General for Audits Joan Mockeridge; Manager of Accounting Operations Martha Newton; Deputy Secretary and Chief Operating Officer Meroë Park; Assistant Secretary for Advancement Rob Spiller; Tax Accountant Hope Spriggs; Manager of Risk Management Katherine Tkac; 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 Risa J. Lavizzo-Mourey called the meeting to order at 10:02 a.m. and reviewed the agenda.

APPROVAL OF THE JANUARY 8, 2020, COMMITTEE MEETING MINUTES

Upon motion duly made and seconded, the draft minutes of the January 8, 2020, meeting were approved without modification.

UPDATE ON IMPACT OF COVID-19 (CORONAVIRUS) ON THE SMITHSONIAN

Deputy Secretary and Chief Operating Officer Meroë Park updated the Committee on the impact of the COVID-19 pandemic. The Deputy Secretary reviewed the Smithsonian’s new organizational structure, which has been essential to the effective operations of the Institution during the pandemic. The new structure has fostered pan-Institutional research and supported national dialogue surrounding emerging infectious diseases of global significance, including zoonotic diseases. Deputy Secretary Park reported the National Zoo and the National Air and Space Museum’s Udvar-Hazy Center in Chantilly, Virginia, will be the first Smithsonian locations to reopen to the public, with new health and safety measures in place due to the COVID-19 pandemic. Trial runs at both locations are underway in preparation for the public reopening. The Committee was also briefed on the financial impacts including the loss of the Smithsonian’s peak revenue-generating season and recommendations for cost savings. The Committee

discussed public health guidelines and safety enforcement, possible reclosures, and training and messaging as the Smithsonian begins to re-open its facilities.

INTERIM DIRECTOR OF FINANCE AND ACCOUNTING AND CHIEF FINANCIAL OFFICER

Under Secretary for Administration Mike McCarthy introduced Vince DeVito, the new Interim Director of the Office of Finance and Accounting. The Committee welcomed Mr. DeVito to the Institution and his first Audit and Review Committee meeting. Mr. McCarthy also updated the Committee on the reestablishment of the Chief Financial Officer as a distinct position not combined with another role at the Smithsonian. A competitive search is currently underway.

REVIEW AND ACKNOWLEDGEMENT OF FISCAL YEAR 2019 IRS FORMS 990 AND 990-T

Interim Director of the Office of Finance and Accounting Vince DeVito provided an overview of the fiscal year 2019 Internal Revenue Service (“IRS”) Forms 990 and 990-T, which are filed on an annual basis. The required disclosures include compliance and financial information, compensation data for senior management, financial results for activities determined to generate unrelated business income, and information of specific interest to the IRS. Mr. DeVito summarized changes between the fiscal year 2018 and 2019 submissions resulting from the adoption of three new accounting standards issued by the Financial Accounting Standards Board. The Committee reviewed the draft of the required tax returns and discussed the planned submission of form 990 and 990-T to the IRS for the fiscal year ended on September 30, 2019. Both forms were prepared by staff and subject to reviews by the Board of Regents, the Under Secretary for Administration, and the Smithsonian’s external auditor, KPMG. The final 990 and 990-T will be filed with the IRS prior to the filing deadline on August 15, 2020. The Form 990 is a public document that is posted on the Smithsonian’s website once it is filed with the IRS.

Upon motion duly made and seconded, the Committee approved a motion to affirm the submission of the Form 990 and 990-T for fiscal year 2019:

VOTED that the Audit and Review Committee affirms the Smithsonian’s proposed submission of its fiscal year 2019 Form 990 and 990-T to the Internal Revenue Service.

APPROVAL OF NON-AUDIT SERVICES BY SMITHSONIAN’S EXTERNAL AUDITOR

Next, Dr. Lavizzo-Mourey reminded the Committee that the Charter mandates pre-approval of non-audit services to be provided by the Smithsonian’s external auditor. Based on these requirements, the Committee must provide pre-approval for the Smithsonian’s external auditor, KPMG, to prepare and submit the Smithsonian’s 2020 informational returns (Form 990 and 990-T) to the Internal Revenue Service. Dr. Lavizzo-Mourey also noted that the Committee must approve KPMG to certify Smithsonian Enterprises’ annual sales report for the Smithsonian

Museum Store at Ronald Reagan Washington National Airport for the year ended December 31, 2020, and the required notes to the annual statement.

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 Forms 990 and 990-T to the Internal Revenue Service and certification of Smithsonian Enterprises’ annual certified sales report for the Smithsonian Museum Store at Ronald Reagan Washington National Airport.

INSURANCE PROGRAM REVIEW AND IT SECURITY UPDATE

Manager of Risk Management Katherine Tkac reviewed the status of the insurance coverages that are carried by the Smithsonian, which are designed to mitigate or protect the Institution from financial loss. The Committee was updated on the Smithsonian’s comprehensive insurance coverage and the policies’ corresponding limits and premiums.

Chief Information Officer Deron Burba provided an update on the Smithsonian’s IT security program. Since March, the Office of the Chief Information Officer has been focused on implementing additional remote access options to accommodate an enhanced telework policy for the Smithsonian workforce. Preparations included remote access penetration testing, data loss prevention, and the implementation of cloud-based services for mobile device management. Mr. Burba also reviewed the status of open audit findings and progress of recommendations issued by the Office of the Inspector General. While work has continued on all recommendations, four findings were provided extensions to the end of the fiscal year, due to the COVID-19 pandemic. The Committee reviewed the remediation actions that were completed or in progress, as well as the plan developed by the Office of the Chief Information Officer to prepare for the next audit.

PROGRESS ON IDENTIFIED FY2019 AUDIT DEFICIENCY

In the single audit report of the Independent Auditor’s Report on the Smithsonian Institution’s Fiscal Year 2019 Financial Statements, KPMG expressed two unmodified opinions and identified no material weaknesses but one significant deficiency. Mr. DeVito gave an update on the Smithsonian’s efforts to address the significant deficiency, including establishing a standard accounting manual that will inform all employees of operating procedures and policies, and evaluating the processes to review external financial reporting and enhance the level of review and precision. Mr. DeVito also shared proactive steps taken by the Office of Finance and Accounting to prepare for the fiscal year 2020 audit.

REVIEW OF KPMG FISCAL YEAR 2020 AUDIT PLAN

KPMG partners Erik Causey, Rosemary Meyer, and Brandon White reviewed KPMG’s audit plan for fiscal year 2020. The Committee was briefed on the fiscal year 2020 audit plan, timeline, and procedures, including the scope of work, financial reporting framework, auditing standards and compliance regulations, new accounting standards, identification of potential risk areas necessitating special audit consideration, and required communications. Ms. Meyer reported that COVID-19 was a major consideration in the development of the fiscal year 2020 audit plan, and KPMG is focused on understanding the impact of COVID-19 to the Smithsonian and will be coordinating and adjusting the audit plan as appropriate, including moving the fiscal year 2020 audit to a remote environment. Ms. Meyer also highlighted two new accounting standards which must be adopted in fiscal year 2020: ASU 2016-15 and ASU 2016-18.

ANNUAL CONFLICT OF INTEREST REPORTING

General Counsel Judith Leonard updated the Committee on the status of the Office of General Counsel’s annual internal review of the Financial Disclosure Reports and Conflict of Interest Declarations received for calendar year 2019 through the 2020 filing season. Based on the information reported and reviewed to date, the OGC concluded that identified and potential conflicts of interest were manageable through recusal or other means, and the OGC has so counseled the individuals. Ms. Leonard noted that the final results from the Smithsonian’s annual review of financial disclosure and conflict of interest would be reported to the Committee upon completion in the coming weeks.

INSPECTOR GENERAL UPDATE

Inspector General Cathy Helm updated the Committee on the activities of the Office of the Inspector General (“OIG”). Ms. Helm informed the committee that three recommendations were closed during the period ending July 1, 2020. Between the January 2020 and July 2020 meetings, the OIG issued six reports: (1) the Semiannual Report to Congress; (2) Collections Management at the National Museum of African American History and Culture; (3) Audit of Federal Awards Performed in Accordance with Title 2 U.S. Code of Federal Regulations Part 200; (4) Report on Violations of Smithsonian Standards of Conduct by Smithsonian Director; (5) the Independent Accountant’s Report on Smithsonian Enterprises net gain for fiscal year 2019; and (6) the Independent Auditor’s Report on the Smithsonian Institution’s fiscal year 2019 financial statements. Ms. Helm also reported that the OIG has five audits, one review, and the development of the annual audit plan in progress. As of July 1, 2020, there were 21 open recommendations scheduled to be completed prior to the end of the next reporting period.

REVIEW OF COMMITTEE PROCESSES AND ACTIVITIES

Under Secretary for Administration Mike McCarthy led a review 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 Board

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 or recommendation milestones.

EXECUTIVE SESSION

The Committee adjourned its open session at approximately 11:51 a.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 executive session.

ADJOURNMENT

There being no further business to discuss, the meeting was adjourned at approximately 12:01 p.m.

Respectfully submitted,

Risa J. Lavizzo-Mourey, Chair