

MINUTES OF THE JULY 19, 2017, AUDIT AND REVIEW COMMITTEE TELECONFERENCE MEETING

The Audit and Review Committee (“Committee”) of the Board of Regents (“Board”) of the Smithsonian Institution (“Smithsonian”) held a meeting on July 19, 2017, at the Smithsonian Castle in Washington, D.C. Participating were Committee Chair John W. McCarter, Jr., and Committee members Representative Sam Johnson, Ambassador Barbara M. Barrett, and Dr. Risa J. Lavizzo-Mourey.

Also present by invitation of the Committee were Secretary David Skorton; Chief of Staff to the Secretary Greg Bettwy; Chief Information Officer Deron Burba; Counsel to the Inspector General Epin Christensen; Assistant General Counsel Laura Damerville; Office of the Regents Senior Officer for Programs & Operations Jennifer Ehlinger (recorder); Deputy Chief of Staff to the Regents Kate Forester; Director of Finance and Accounting Jean Garvin; Liaison to Senator Perdue Lauren Hancock; Inspector General Cathy Helm; Under Secretary for Finance & Administration/Chief Financial Officer Albert Horvath; General Counsel Judith Leonard; Accountant for the Office of Finance and Accounting Shelley Mitek; Supervisory Auditor for the Office of the Inspector General Joan Mockenridge; Office of finance & Accounting Risk Manager Katherine Tkac; 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 John W. McCarter, Jr., called the meeting to order at 10:00 a.m.

APPROVAL OF THE JANUARY 26, 2017, COMMITTEE MEETING MINUTES

Upon motion duly made and seconded, the draft minutes of the January 26, 2017, meeting were approved without modification.

REVIEW OF FISCAL YEAR 2016 IRS FORMS 990/990-T

Under Secretary for Finance & Administration/Chief Financial Officer Albert Horvath and Director for Finance and Accounting Jean Garvin provided an overview of the fiscal year 2016 Internal Revenue Service (“IRS”) Forms 990 and 990-T, which must be filed on an annual basis. The required disclosures include financial and organizational information and policies, compensation data for officers and highly compensated employees, and other information of specific interest to the IRS. Both forms were prepared by staff and subject to reviews by the Chief Financial Officer and the Smithsonian’s external auditor, KPMG. The Form 990 is a public document and is posted on the Smithsonian’s website once it is filed with the IRS. The final 990

and 990-T will be filed with the IRS prior to the filing deadline and are available on the Smithsonian's website.

The Committee discussed the draft and a motion to affirm the submission of the Form 990 and 990-T for fiscal year 2016 was duly made, seconded, and approved:

VOTED that the Audit and Review Committee affirms the Smithsonian's proposed submission of its fiscal year 2016 Form 990 and Form 990-T to the Internal Revenue Service.

INTEGRATED RISK MANAGEMENT & MITIGATION PROGRAM UPDATE/CYBERSECURITY UPDATE

Mr. Horvath updated the Committee on the status of the Integrated Risk Management Program ("program"). The program, which began in 2013, identifies and tracks the top risks to the Smithsonian in order to build a more risk-informed culture of decision-making. A risk committee, comprised of staff from all disciplines across the Smithsonian, was formed and tasked with managing the program. The risk committee conducted interviews with staff, Regents, and other stakeholders in order to identify potential risks. The data was tabulated and analyzed based on perceived likelihood and impact and of those considered, 24 risks were identified as significant. The risk committee is working with staff and Smithsonian leadership to develop specific plans for each significant risk in order to control the risk and identify any perceived barriers to achieving such mitigation.

Chief Information Officer Deron Burba briefed the Committee on the Smithsonian's challenges in the realm of cybersecurity and current risk mitigation measures. Mr. Burba reported that the Office of the Chief Information Officer ("OCIO") has implemented a number of programs in order to mitigate risk, which include a (1) revised and automated Security Assessment & Authorization process that aligns with Risk Management Framework and Smithsonian business needs; (2) an enhanced firewall rule-request process to improve risk analysis and documentation; (3) an automated workflow system for the Information Technology security risk acceptance process; and (4) an automated workflow for tracking plans of action and milestones for security weaknesses. The OCIO has also implemented periodic phishing tests to improve user awareness of phishing, implemented privacy awareness training across the Smithsonian, instituted standard privacy and security clauses to be included in procurements, and published a revised Smithsonian Directive 931.

INSURANCE COVERAGE ANNUAL REVIEW

The Committee reviewed the status of the insurance coverages that are carried by the Smithsonian. Office of Finance and Accounting Risk Manager Katherine Tkac provided the Committee with an overview of the Smithsonian's insurance coverage and the policies' corresponding premiums.

REVIEW OF KPMG FISCAL YEAR 2017 AUDIT PLAN & FISCAL YEAR 2016 A-133 AUDIT RESULTS

KPMG partners Wendy Lewis and Rosemary Meyer reviewed KPMG’s audit plan for fiscal year 2017, as well as the results from the recently completed A-133 audit for fiscal year 2016.

Ms. Meyer provided an overview of fiscal year 2017 audit plan, including an identification of potential risk areas and the manner in which those areas would be addressed. No significant changes from prior year audit plans were noted.

Ms. Lewis reported on the results from the fiscal year 2015 A-133 audit and had no reportable findings regarding internal control over compliance from its fiscal year 2016 A-133 audit of the Research and Development Program. The audit is required by the federal government for grantees receiving more than \$500,000 in federal grant funding.

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 between the January 2017 and July 2017 meetings, four reports were issued from the OIG to include: (1) the Semiannual Report to Congress; (2) the Independent Auditor's Report on the Fiscal Year 2016 Audit of Federal Awards; (3) the Independent Accountant's Review Report on the Smithsonian Enterprises; and (4) the Independent Auditor's Report on the Smithsonian Institution's Fiscal Year 2016 Financial Statements

Ms. Helm reported that there are seven audits currently in progress, which include: (1) the Web Application Security Process; (2) the Federal Information Security Management Act Audit for Fiscal Year 2016; (3) the Emergency Preparedness Program; (4) the Smithsonian Astrophysical Observatory’s Grants and Contract Management Program; (5) the Fiscal Year 2017 Financial Statement Audits; (6) the Background Investigation Process; and (7) Travel Expenses of the Board of Regents for Fiscal Year 2016. Ms. Helm noted that as of June 30, 2017, there were 16 open recommendations, 13 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.

EXECUTIVE SESSION

The Committee adjourned its open session at approximately 11:10 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 11:23 a.m.

EMAIL BALLOT

Subsequent to the Committee's July 19, 2017, meeting, and at the request of the Inspector General, the Committee voted to recommend that the Board or its Executive Committee approve a one-year contract extension with the Smithsonian's external auditor, KPMG. Via email ballot completed on August 24, 2017, the Committee voted to approve the following motion:

VOTED that the Audit and Review Committee recommends that the Board of Regents or its Executive Committee approve a one-year extension of the KPMG contract to cover fiscal year 2018 audit services.

Respectfully submitted,

John W. McCarter, Jr., Chair