

MINUTES OF THE JULY 19, 2021, 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 19, 2021. Participating were Committee Chair Dr. Risa J. Lavizzo-Mourey and Committee members Representative Lucille Roybal-Allard; 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; Liaison to Representative Roybal-Allard, Victor Castillo; Risk Management Analyst Catherine Chatfield; 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); Acting Under Secretary for Administration Doug Hall; Inspector General Cathy Helm; Chief Financial Officer Janice Lambert; General Counsel Judith Leonard; Assistant Inspector General for Audits Joan Mockeridge; Manager of General Accounting and Reporting Martha Newton; Deputy Secretary and Chief Operating Officer Meroë Park; Tax Accountant Hope Spriggs; Manager of Risk Management Katherine Tkac; and Acting Deputy Under Secretary for Administration Allison Willcox.

Also in attendance were 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 12:00 p.m. and reviewed the agenda.

APPROVAL OF THE JANUARY 19, 2021, COMMITTEE MEETING MINUTES

Upon motion duly made and seconded, the draft minutes of the January 19, 2021, meeting were approved without modification.

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

Acting Under Secretary for Administration Doug Hall updated the Committee on the Institution’s ongoing response to the COVID-19 (Coronavirus) pandemic and reopening status. In May, the Smithsonian announced that museums would reopen on a staggered schedule from June through August, marking a full reopening since closing to the public in March 2020. Mr. Hall highlighted the museums currently open to the public and the pending reopenings, noting that the National Air and Space Museum and the Smithsonian Institution Building (“Castle”) will be the next Smithsonian facilities to reopen to the public, on July 30. He informed the Committee that beginning Tuesday, July 20, the Smithsonian will return to pre-COVID-19 capacity numbers at the museums and the National Zoo, and timed-entry passes will no longer

be required at most locations. The Smithsonian will continue to implement safety measures based on guidance from the Centers for Disease Control and Prevention (“CDC”) and assess the Institution’s policies and procedures as the pandemic and the public health response evolve.

INTRODUCTION OF THE CONTROLLER

Next, Chief Financial Officer Janice Lambert introduced Jennifer Case, the new Controller, to the Committee. The Controller will replace the role of the Director of Finance and Accounting. In her role as Controller, she will oversee the Office of Finance and Accounting (“OF&A”) and administer the daily financial and accounting operations of the Smithsonian. She will also prepare financial reports, including the annual audited financial statements and footnotes.

REVIEW AND ACKNOWLEDGEMENT OF FISCAL YEAR 2020 IRS FORMS 990 AND 990-T

Ms. Lambert then led the Committee’s review and acknowledgment of the fiscal year 2020 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. Ms. Lambert summarized changes between the fiscal year 2019 and 2020 submissions, including the financial impacts of COVID-19. 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, 2020. Both forms were prepared by staff and subject to reviews by the Board of Regents, the Acting 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, 2021. 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 2020:

VOTED that the Audit and Review Committee affirms the Smithsonian’s proposed submission of its fiscal year 2020 Form 990 and 990-T to the Internal Revenue Service.

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

Dr. Lavizzo-Mourey reminded the Committee that the Charter mandates the Committee’s 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 tax year informational returns (Form 990 and 990-T) to the Internal Revenue Service. Additionally, 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, 2021, 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 performing non-audit services related to the preparation and submission of the Smithsonian Institution's 2020 tax year informational returns 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.

ENTERPRISE RISK MANAGEMENT

Risk Management Analyst Catherine Chatfield briefed the Committee on the Smithsonian's Enterprise Risk Management ("ERM") program. In 2017, a risk committee conducted interviews with staff, Regents, and other stakeholders to identify potential risks to the Institution. The data was tabulated and analyzed based on perceived likelihood and impact, and 24 risks were identified as significant. Ms. Chatfield highlighted 15 of the risks that were identified in 2017, which have been updated qualitatively and will be refined further. The Committee also reviewed a heat map of the Smithsonian's 2021 risk profile based on the 15 identified risks. Ms. Chatfield shared next steps for the ERM program, which include soliciting feedback on current risks, developing the ERM Governance Model, initiating discussions on desired risk culture, developing definitions for risk areas, and identifying options for internal review collaboration within the Institution.

IT SECURITY UPDATE

Chief Information Officer Deron Burba provided an update on the Smithsonian's IT security program. The Smithsonian uses the NIST Cybersecurity Framework, which is a set of guidelines for mitigating organizational cybersecurity risks published by the US National Institute of Standards and Technology. Mr. Burba informed the Committee that for fiscal year 2022, a new Domain called "Supply Chain Risk Management" has been included. Mr. Burba reported on the Smithsonian's cyberscope scores by maturity level. The Committee then reviewed the status of fiscal year 2020 audit recommendations, the status of other open findings, and the top 10 IT security risks identified for fiscal year 2021.

INSURANCE PROGRAM REVIEW

Manager of Risk Management Katherine Tkac reviewed the status of insurance coverages carried by the Smithsonian, which are designed to mitigate or protect the Institution from financial loss. Ms. Tkac noted that overall premium increases were minimal, but insurance premiums are expected to increase for fiscal year 2022. The Committee was updated on the Smithsonian's comprehensive insurance coverage and the policies' corresponding limits and premiums.

PROGRESS ON IDENTIFIED AUDIT DEFICIENCIES

The Committee reviewed the progress of recommendations to address the significant deficiencies reported by KPMG in the single audit report of the Smithsonian's financial statements for fiscal years 2019 and 2020. Ms. Lambert briefed the Committee on the status of each recommendation and financial reporting improvement actions that were implemented for fiscal year 2021. KPMG deemed the significant deficiency for fiscal year 2019 as substantially complete on June 29, 2021. Four recommendations were issued for the fiscal year 2020 significant audit deficiency—two recommendations were deemed complete or substantially complete—and progress has been made on the remaining two recommendations.

REVIEW OF KPMG FISCAL YEAR 2021 AUDIT PLAN

KPMG partners Rosemary Meyer and Brandon White reviewed KPMG's audit plan and strategy for fiscal year 2021. The Committee was briefed on the fiscal year 2021 audit plan, timeline, and procedures, including the scope of work, financial reporting framework, auditing standards and compliance regulations, new accounting standards, key audit areas, and required communications. Ms. Meyer reported that the Single Audit in fiscal year 2021 will likely include two major programs, the U.S. Postal Service ("National Postal Museum") and Research and Development. Ms. Meyer also informed the Committee that the Smithsonian will adopt two new accounting standards in fiscal year 2021: Accounting Standards Update ("ASU") 2016-02 – Leases and anticipated compliance supplement changes for the scope of the Single Audit. KPMG reported that timing will be substantially consistent with fiscal year 2020, with expected reporting on the financial statement audit in January 2022 and the Single Audit in March 2022.

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 2020 through the 2021 filing season. Based on the information reported, the Office of General Counsel ("OGC") concluded that identified and potential conflicts of interest were manageable through recusal or other means. The OGC has so counseled the individuals and no additional action was necessary. Ms. Leonard also updated the Committee on the status of automation and digitization efforts for annual disclosures and conflict of interest declarations, which is expected to be completed in 2022.

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 seven recommendations were closed during the period ending July 7, 2021. Between the January 2021 and July 2021 meetings, the OIG issued five reports: (1) the Fiscal Year 2020 Independent Evaluation of the Smithsonian Institution's Information Security Program; (2) the Semiannual Report to Congress; (3) Audit of Federal Awards Performed in Accordance with Title 2 U.S. Code of Federal

Regulations Part 200; (4) the Independent Auditor’s Report on the Smithsonian Institution’s Fiscal Year 2020 Financial Statements; and (5) the Independent Accountant’s Report on the Smithsonian Enterprises Net Gain for Fiscal Year 2020. Ms. Helm also reported that the OIG has five audits in progress. As of July 1, 2021, there were 21 open recommendations scheduled to be completed prior to the end of the next reporting period.

REVIEW OF COMMITTEE PROCESSES AND ACTIVITIES

To conclude the open session, Ms. Lambert led a review of the Committee dashboard, which outlines the Committee’s processes and activities to date, assists the Committee in focusing on the responsibilities assigned to it by the Board, and reports 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 within the approved audit timeline or recommendation milestones. Ms. Lambert pointed out that the advancement of the Enterprise Risk Management (“ERM”) initiative was delayed due to Covid-19, but the Committee is on track to receive biannual updates on the ERM initiative moving forward.

EXECUTIVE SESSION

The Committee adjourned its open session at approximately 1:43 p.m. to receive an update on the Auditor Independence Rules as it relates to Smithsonian advisory boards and conduct executive sessions with KPMG, the Inspector General, the General Counsel, the Deputy Secretary and Chief Operating Officer, and the Acting 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 1:53 p.m.

Respectfully submitted,

Risa J. Lavizzo-Mourey, Chair

EMAIL BALLOT

By email ballot completed on April 20, 2021, the Audit and Review Committee voted to approve the following motion, which required approval prior to the next scheduled Committee meeting.

VOTED that the Audit and Review Committee approves a second one-year extension for lead audit engagement partner, Rosemary Meyer, with the Smithsonian’s external auditor KPMG.