

## **MINUTES OF THE JULY 21, 2022, 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 21, 2022. Participating were Committee Chair Dr. Risa J. Lavizzo-Mourey and Committee members Representative Lucille Roybal-Allard, Ambassador Barbara M. Barrett, 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; Enterprise Risk Program Manager Catherine Chatfield; Under Secretary for Administration Ron Cortez; Deputy Chief of Staff to the Regents Kate Forester; Special Assistant to the Regents Mallory Gianola (recorder); Senior Advisor to the Deputy Secretary and Chief Operating Officer Doug Hall; Inspector General Cathy Helm; Chief Financial Officer Janice Lambert; General Counsel Judith Leonard; Assistant Inspector General for Audits Joan Mockeridge; Deputy Secretary and Chief Operating Officer Meroë Park; Manager of Risk Management Katherine Tkac; and Chief of Staff to the Regents Porter Wilkinson.

Also in attendance were Cathy Baumann, Drew Rosen, 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 10:00 a.m. and reviewed the agenda. Dr. Lavizzo-Mourey noted that the Charter mandates the Committee to establish an appropriate rotation of the lead audit partner, and introduced Cathy Baumann, the Smithsonian’s new KPMG lead audit partner.

### **APPROVAL OF THE JANUARY 19, 2021, COMMITTEE MEETING MINUTES**

Upon motion duly made and seconded, the draft minutes of the January 14, 2022, meeting were approved.

### **REVIEW AND ACKNOWLEDGEMENT OF FISCAL YEAR 2021 IRS FORMS 990 AND 990-T**

Controller Jennifer Case then led the Committee’s review and acknowledgment of the fiscal year 2021 Internal Revenue Service (“IRS”) Form 990 (Return of Organization Exempt from Income Tax) and Form 990-T (Exempt Organization Business Income Tax Return), 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. Case reviewed the process for completing and filing the forms, and summarized changes between the fiscal year 2020 and 2021 submissions. Ms. Case noted that the fiscal year 2021 Form 990 would include the disclosure of the \$200 million donation from Jeff Bezos. 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, 2021. Both forms were prepared by staff and subject to reviews by the Board of Regents, the Chief Financial Officer, the Office of General Counsel, 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, 2022. 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 2021:

**VOTED** that the Audit and Review Committee affirms the Smithsonian's proposed submission of its fiscal year 2021 Form 990 and 990-T (calendar year 2020) to the Internal Revenue Service.

#### **APPROVAL OF AUDIT AND NON-AUDIT SERVICES BY SMITHSONIAN'S EXTERNAL AUDITOR**

Dr. Lavizzo-Mourey reminded the Committee that the Charter mandates the Committee's pre-approval of audit and non-audit services to be provided by the Smithsonian's external auditor. Based on these requirements, the Committee provides pre-approval for the Smithsonian's external auditor, KPMG, to prepare and submit the Smithsonian's 2021 tax year informational returns (Form 990 and 990-T) to the Internal Revenue Service. Additionally, the Committee approves 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, 2022, 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 audit and non-audit services related to the certification of Smithsonian Enterprises' annual certified sales report for the Smithsonian Museum Store at Ronald Reagan Washington National Airport (audit), and the preparation and submission of Smithsonian Institution's Forms 990 and 990-T to the Internal Revenue Service (non-audit).

#### **REVIEW OF KPMG FISCAL YEAR 2022 AUDIT PLAN**

KPMG partners Cathy Baumann, Drew Rosen, and Brandon White reviewed KPMG's audit plan and strategy for fiscal year 2022. The Committee was briefed on the fiscal year 2022 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. Baumann reported that the Single Audit in fiscal year 2022 will include the major program Research and Development. Ms. Baumann also informed the Committee that the Smithsonian will adopt three new accounting standards (ASU 2020-07, ASU 2020-08, and ASU 2020-10) effective for September 30, 2022, year-end. Additionally, KPMG will adopt a new auditor reporting standard — *No. 134, Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements* — effective for audits

of financial statements for periods ending on or after December 15, 2021. The new standard is designed to enhance the relevance and transparency of the auditor's report. KPMG reported that timing will be substantially consistent with fiscal year 2021, with expected reporting on the financial statement audit in January 2023 and the Single Audit in March 2023.

## **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 2022 and July 2022 meetings, the OIG issued five reports: (1) the Fiscal Year 2021 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) Collections Management; and (5) the Independent Auditor's Report on the Smithsonian Institution's Fiscal Year 2021 Financial Statements. Ms. Helm also reported that the OIG has five audits in progress. As of July 13, 2022, there were 17 open recommendations scheduled to be completed.

## **PROGRESS ON IDENTIFIED AUDIT DEFICIENCIES**

The Committee reviewed the progress of recommendations to address the significant deficiencies reported by KPMG in the Smithsonian's fiscal year 2020 and fiscal year 2021 financial statements. Two KPMG recommendations were ongoing for the fiscal year 2020 identified deficiency. Three recommendations were ongoing for the fiscal year 2021 identified deficiency, and work has yet to be started on the remaining recommendation. The Office of Finance and Accounting is working with relevant Smithsonian units to ensure all recommendations are addressed.

## **ENTERPRISE RISK MANAGEMENT**

Enterprise Risk Program Manager Catherine Chatfield briefed the Committee on the Smithsonian's Enterprise Risk Management ("ERM") program and framework. The Committee reviewed the alignment of challenges and opportunities with strategic initiatives and risk champions as of June 21, 2022, the proposed Smithsonian enterprise risk governance structure, and corresponding roles and responsibilities.

## **IT SECURITY UPDATE**

Chief Information Officer Deron Burba first informed the Committee that on July 11, the digital marketing platform WordFly notified the Institution of a ransomware attack. Names and email addresses connected with the National Zoo and Conservation Biology Institute were impacted by the incident. WordFly and the forensic experts assisting with the incident worked with the attackers and believe the exported information was deleted. Although not considered personally identifiable information ("PII") the Smithsonian posted a notice to its website about the incident and notified affected individuals.

Mr. Burba also 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 2021, the Smithsonian scored a Level 4 Maturity: Managed and Measurable, which is considered effective. The Inspector General and the Committee congratulated Mr. Burba on the progress made over the last five years to reach Level 4 Maturity. The Committee then reviewed the status of recommendations from the fiscal year 2021 audit. Mr. Burba also noted that increasing cyber security threats continue to pose a risk of occurrence and cost to the Institution.

### **INSURANCE PROGRAM REVIEW**

Chief Financial Officer Janice Lambert reviewed the status of insurance coverages carried by the Smithsonian, which are designed to mitigate or protect the Institution from financial loss. Ms. Lambert noted that insurance premiums are expected to continue to increase for the fiscal year 2023 renewal. The Committee was updated on the Smithsonian's comprehensive insurance coverage and the policies' corresponding limits and premiums, which include coverage under the Federal Tort Claims Act and additional coverage for assets, liabilities, property, and special purpose programs.

### **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 2021 through the 2022 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 Committee also received an update on the status of the continuing automation efforts for the annual filing of financial disclosures and conflict of interest declarations.

### **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. Ms. Lambert noted minor edits to the Committee dashboard. 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.

### **EXECUTIVE SESSION**

The Committee adjourned its open session at approximately 11:48 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 12:00 p.m.

Respectfully submitted,

Risa J. Lavizzo-Mourey, Chair