

MINUTES OF THE JANUARY 22, 2018, 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 January 22, 2018, at the Smithsonian Castle in Washington, D.C. Participating were Committee Chair John W. McCarter, Jr.* and Committee members Ambassador Barbara M. Barrett*, Roger W. Ferguson, Jr.*, and Risa J. Lavizzo-Mourey*.

Also present by invitation of the Committee were Chief of Staff to the Secretary Greg Bettwy; Chief Information Officer Deron Burba; Deputy Chief of Staff to the Regents Kate Forester; Director of Finance and Accounting Jean Garvin; Lauren Hancock*, Office of the US Senator David Perdue; Inspector General Cathy Helm; Under Secretary for Finance & Administration/Chief Financial Officer Albert Horvath; General Counsel Judith Leonard; Manager of General Accounting and Reporting Martha Newton; and Chief of Staff to the Regents Porter Wilkinson.

Also in attendance were Erik Causey, Eric Forkner, 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 JULY 19, 2017, COMMITTEE MEETING MINUTES

Upon motion duly made and seconded, the draft minutes of the July 19, 2017, meeting were approved without modification.

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

Mr. McCarter reminded the Committee that the Committee’s Charter mandates pre-approval of non-audit services to be provided by the 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 2017 Form 990 and 990-T to the Internal Revenue Service.

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

VOTED that the Audit and Review Committee approves KPMG’s performing nonaudit 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 2017 FINANCIAL STATEMENTS AND FEDERAL CLOSING PACKAGE

KPMG Partner Rosemary Meyer presented the preliminary audit results of the Smithsonian's financial statements for the fiscal year ended September 30, 2017. Ms. Meyer informed the Committee that the audit of Smithsonian-wide financial statements (Federal and Trust) was complete, and an unmodified opinion would be issued following the Committee meeting. The audit was completed in accordance with Department of Treasury and Office of Management and Budget requirements. There were no uncorrected audit differences and two instances of corrected audit adjustments were made to the financial statements. KPMG found no material weaknesses in internal control over financial reporting; and there have been no significant deficiencies reported.

KPMG Partner Eric Forkner reviewed key areas of the independent auditors' report on the Federal closing package, which was issued on November 16, 2017. Federal appropriations and expenses were found to be reasonable as were the assumptions used to determine employee benefits and workers compensation obligations. No instances of non-compliance with regard to applicable laws and regulations were noted.

The Committee reviewed the independent accountants' review report of Smithsonian Enterprises which was issued on January 9, 2018. The report was issued without noteworthy reportable matters.

Next, Ms. Meyer reviewed the draft management letter with the Committee, noting that no material weaknesses or significant deficiencies in internal control were identified. Some suggested areas to improve control processes include (1) enhancements to the external reporting process; (2) formalizing implementation plans for four new accounting standards; and (3) information technology access and monitoring.

FISCAL YEAR 2017 FINANCIAL REVIEW

Director of Finance and Accounting Jean Garvin reviewed the fiscal year 2017 financial results with the Committee. Ms. Garvin noted two overarching items for the Committee's consideration in comparing fiscal year 2016 with fiscal year 2017: (1) the opening of the National Museum of African American History and Culture ("NMAAHC") in September 2016; and (2) the Smithsonian operated under a continuing resolution ("CR") until May 2017.

Total cash increased \$32.6 million and short-term investments increased \$42.5 million in fiscal year 2017. Total cash sources were consistent with fiscal year 2016, but programs and operations were impacted in 2017 by the delay in Federal appropriations. Spending in construction decreased \$65.5 million reflecting the completion of NMAAHC. Total assets in fiscal year 2017 increased \$176.9 million since 2016, totaling more than \$4.8 billion. Endowment and other long-term investments grew \$144.9 million. Receivables and Advances decreased \$55.4 million; and Other Assets remained approximately the same. Liabilities

increased \$23.7 million in fiscal year 2017, largely driven by an increase of \$21.2 million in unexpended Federal appropriations, as a result of operating under a CR through May 2017.

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 the OIG recently completed the peer review process, which is required every three years, and received a pass rating. The OIG is still in the process of seeking statutory law enforcement authority from the Attorney General, but has taken steps to expedite the process, including the implementation of an investigative case management system.

Between the July 2017 and January 2018, Committee meetings, six reports were issued from the OIG to include: (1) the Semiannual Report to Congress; (2) the Fiscal Year 2018 Annual Audit Plan; (3) the Independent Accountant’s Report on the Smithsonian Enterprises for Fiscal Year 2017 for Fiscal Year 2016; (4) the Independent Evaluation of the Smithsonian Institution’s Information Security Program; (5) the Independent Auditor’s Report of the Fiscal Year 2017 Closing Package; and (6) Information Security for Publicly accessible Websites.

Ms. Helm reported that there are ten audits currently in progress, which include: (1) Fiscal Year 2017 Financial Statement Audits; (2) Employee Background Investigations; (3) the Smithsonian Astrophysical Observatory’s Grants Management; (4) Emergency Preparedness Program; (5) Travel Expenses of the Board of Regents for Fiscal Year 2016; (6) Assessment of Security Incident Response Capabilities; (7) Fiscal Year 2017 Review of Smithsonian’s Information Security Program; (8) Management of Revenue Generating Contracts; (9) Carolina Biological Supply Company Revenue-Generating Contract; and (10) Sodexo Operations LLC Revenue-generating Contract. Ms. Helm noted that the OIG is also performing an external peer review of the National Science Foundation. As of January 16, 2018, there were 13 open recommendations. The Committee commended Smithsonian management’s responsive to OIG recommendations.

FISCAL YEAR 2017 IT SECURITY ACCOMPLISHMENTS AND FISCAL YEAR 2018 GOALS

Next, Chief Information Officer Deron Burba presented an overview of the Smithsonian’s IT security-related accomplishments and goals in the areas of security operations, assessment and risk management, general security, and security enhancements for the Office of the Chief Information Officer (“OCIO”). Mr. Burba highlighted several major accomplishments including the selection of a new firewall platform, migration to a new antivirus and malware protection program, and vulnerability remediation. Selection and implementation of an AppSpider replacement, migration of systems to Archer A&A process, implementation of Office365, and transition to PCI DSS Level 2 merchant are among the top goals for fiscal year 2018.

REVIEW OF COMMITTEE PROCESSES AND ACTIVITIES

Under Secretary for Finance & Administration/Chief Financial Officer Albert Horvath presented a tracking report of the Committee's processes and activities to date. At each Committee meeting, Smithsonian management reviews this report with the Committee to enable focus 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 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.

EXECUTIVE SESSION

The Committee adjourned its open session at approximately 11:12 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 11:41 a.m.

Respectfully submitted,

John W. McCarter, Jr., Chair