

MINUTES OF THE JANUARY 8, 2019, 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 8, 2019, at the Smithsonian Castle in Washington, D.C. Participating were Committee Chair John W. McCarter, Jr.* and Committee members Ambassador Barbara M. Barrett*, and 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, Deputy Chief of Staff to the Regents Kate Forester, Director of Finance and Accounting Jean Garvin, Special Assistant to the Regents Mallory Gianola (recorder), Liaison to Senator Perdue Lauren Hancock,* Inspector General Cathy Helm, Under Secretary for Finance and Administration/Chief Operating Officer Albert Horvath, General Counsel Judith Leonard, and Deputy Under Secretary for Finance and Administration Mike McCarthy.

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 1:00 p.m.

AUDIT RESULTS FISCAL YEAR 2018 FINANCIAL STATEMENTS AND FEDERAL CLOSING PACKAGE

KPMG Partner Rosemary Meyer presented the preliminary audit results of the Smithsonian’s financial statements for fiscal year 2018, which ended on September 30, 2018. 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 the audit plan presented to the Committee in July 2018 and the requirements set forth by the Department of Treasury and Office of Management and Budget. Ms. Meyer highlighted significant audit areas and noted that KPMG found no material weaknesses in internal control over financial reporting; and there have been no significant deficiencies reported.

Ms. Meyer also reviewed key areas of the independent auditors’ report on the Federal closing package, which was issued on November 15, 2018. Federal appropriations and expenses were found to be reasonable and no instances of non-compliance regarding applicable laws and regulations were noted.

Ms. Meyer concluded her report with an overview of the independent accountants’ review report of Smithsonian Enterprises which would be issued following the Committee meeting. The report is expected to be issued without noteworthy reportable matters.

The audited financial statements, KPMG's required communications, and the draft management letter were included in the meeting materials for the Committee's review. Ms. Meyer called the Committee's attention to three new accounting standards that will impact the Smithsonian's external financial reporting for fiscal year 2019, most notably Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*.

APPROVAL OF THE JULY 17, 2018, COMMITTEE MEETING MINUTES

Upon motion duly made and seconded, the draft minutes of the July 17, 2018, meeting were approved without modification.

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

Next, Mr. McCarter explained 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 2018 Form 990 and 990-T to the Internal Revenue Service. Mr. McCarter noted that the Committee must also 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, 2018.

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.

FISCAL YEAR 2018 FINANCIAL REVIEW

Director of Finance and Accounting Jean Garvin reviewed the fiscal year 2018 financial results with the Committee. Ms. Garvin noted three overarching items for the Committee's consideration in comparing fiscal year 2018 data with fiscal year 2017: (1) increased capital funding for the Dulles Collections Storage Module 1 at the Udvar-Hazy Center, a key prerequisite of the National Air and Space Museum revitalization project; (2) the maturing of Series 2013B bonds in September 2018; and (3) the sale of interest in the SNI/SI Network LLC ("Channel") in November 2017.

Net assets increased \$177 million, resulting from the Series 2013B bond payment. Net operating revenue increased \$19.4 million, driven by increased federal appropriations and philanthropic contributions. Business activity revenue decreased \$18.7 million due primarily to

a decline in visitors at the National Museum of African American History and Culture, following the museum's unprecedented opening in September 2016. Expenses in fiscal year 2018 increased \$29.4 million, notably in program expenses largely driven by collection management as the Smithsonian prepared for artifact removal and storage related to the National Air and Space Museum revitalization. A savings of \$23.5 million was realized in administration and advancement operations due to open positions and the end of the capital campaign.

INSPECTOR GENERAL UPDATE

Inspector General Cathy Helm updated the Committee on the activities of the Office of the Inspector General ("OIG"). Between the July 2018 and January 2019, Committee meetings, seven reports were issued from the OIG to include: (1) the Semiannual Report to Congress; (2) the Audit Plan for Fiscal Year 2019; (3) Physical Security for the Office of Protection Services; (4) Personnel Security for the Background Investigation Process; (5) the Fiscal Year 21017 Independent Evaluation of the Smithsonian's Information Security Program; (6) Enhanced Protection of Sensitive Information; and (7) the Independent Auditor's Report of the Fiscal Year 2018 Closing Package.

Ms. Helm reported that there are seven audits and one review currently in progress, which include: (1) Detection and Response Capabilities for Information Security Incidents; (2) Management of Revenue Generating Contracts; (3) Hiring Practices for Trust Employees; (4) Inventory Controls for the National Museum of African American History and Culture Collection; (5) Financial Statements Audits for Fiscal Year 2018; (6) Governance of Information Technology; (7) Evaluation of the Smithsonian's Information Security Program for Fiscal Year 2018; and (8) Review of Smithsonian Enterprises' Statement of Net Gain for Fiscal Year 2018. Ms. Helm reviewed the status of OIG recommendations and noted that there were 23 open OIG recommendations as of December 17, 2018. The Committee was informed that Smithsonian management continues to be very responsive to addressing OIG recommendations in a timely manner.

FISCAL YEAR 2018 IT SECURITY ACCOMPLISHMENTS AND FISCAL YEAR 2019 GOALS

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, and general security enhancements for the Office of the Chief Information Officer ("OCIO"). Mr. Burba highlighted several major accomplishments including a revised IT security program plan, the closing of multiple OIG findings, an upgrade of Archer A&A systems, and enhanced phishing testing. Complete development of an enterprise security architecture and metrics, continued updating of security policies and procedures, expanded security awareness activities, and implementation of additional Archer components and enhancements are among the top goals for fiscal year 2019.

REVIEW OF COMMITTEE PROCESSES AND ACTIVITIES

Under Secretary for Finance and Administration/Chief Operating Officer Albert Horvath presented a dashboard 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 full Board, streamline the information being presented, and report on the progress for key substantive and performance metrics. The current report confirmed 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 1:38 p.m. to conduct executive sessions with KPMG, the Inspector General, the General Counsel, the Chief Operating Officer, and the Secretary, followed by a member-only session.

ADJOURNMENT

There being no further business to discuss, the meeting was adjourned at approximately 2:01 p.m.

Respectfully submitted,

John W. McCarter, Jr., Chair

EMAIL BALLOT

Subsequent to the Committee's January 8, 2019, meeting, and at the request of the Inspector General, the Committee voted to recommend that the Board appoints KPMG as the Smithsonian's external auditors for a one-year period beginning July 2019 with four one-year options. Via email ballot completed on May 21, 2019, the Committee voted to approve the following motion.

VOTED that the Audit and Review Committee recommends that the Board of Regents appoints KPMG, LLP as the Smithsonian Institution's external independent auditors for a one-year period beginning July 2019 with four one-year option periods.