

## MINUTES OF THE JANUARY 8, 2020, AUDIT AND REVIEW COMMITTEE MEETING

The Audit and Review Committee (“Committee”) of the Board of Regents (“Board”) of the Smithsonian Institution (“Smithsonian”) held a meeting on January 8, 2020, at the Smithsonian Castle in Washington, D.C. Participating were Committee Chair Risa J. Lavizzo-Mourey\* and Committee members Representative Lucille Roybal-Allard;\* Roger W. Ferguson, Jr.;\* and John W. McCarter, Jr.\*

Also present by invitation of the Committee were Secretary Lonnie Bunch, Chief of Staff to the Secretary Greg Bettwy, Chief Information Officer Deron Burba, Deputy Chief of Staff to the Regents Kate Forester, Special Assistant to the Regents Mallory Gianola (recorder), Inspector General Cathy Helm, General Counsel Judith Leonard, Acting Under Secretary for Finance and Administration and COO Mike McCarthy, Manager of Accounting Operations Martha Newton, and Chief of Staff to the Regents Porter Wilkinson.

Also in attendance were Eric Forkner, 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 12:04 p.m. and reviewed the agenda.

### APPROVAL OF THE JULY 18, 2019, COMMITTEE MEETING MINUTES

Upon motion duly made and seconded, the draft minutes of the July 18, 2019, meeting were approved without modification.

### AUDIT RESULTS FISCAL YEAR 2019 FINANCIAL STATEMENTS

KPMG Partner Rosemary Meyer presented the preliminary results of the Smithsonian’s annual financial statements audit for fiscal year 2019, which includes the Smithsonian’s consolidated financial statements, the compliance audit of federal awards, and the statement of net gain for Smithsonian Enterprises. Ms. Meyer informed the Committee that the audit of Smithsonian-wide financial statements (Federal and Trust) was completed in accordance with professional standards and the audit plan presented to the Committee in July 2019, and an unmodified opinion is expected to be issued.

Ms. Meyer reminded the Committee of the three new Accounting Standards Updates (“ASU”) adopted in fiscal year 2019, which impacted the Smithsonian’s financial statement disclosures: ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*; ASU 2014-09, *Revenue from Contracts with Customers*; and ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The Committee reviewed the audited financial statements, KPMG’s required communications, and the draft

letter to management. Ms. Meyer noted that KPMG expressed two unmodified opinions, found no instances of noncompliance, and no material weaknesses in internal control over financial reporting. A significant deficiency was reported and the Committee along with the Board will work closely with Smithsonian management, KPMG, and the Inspector General to address the deficiency.

KPMG Partner Eric Forkner then reviewed key areas of the independent auditors' report on the Federal closing package. The audit is in process and the expected filing deadline is June 30, 2020. Federal appropriations and expenses were found to be reasonable as were the assumptions used to determine employee benefit obligations. No instances of non-compliance with regard to applicable laws and regulations were noted.

Mr. Forkner concluded his report with an overview of the independent accountants' review report of Smithsonian Enterprises. The report is expected to be issued following the Committee meeting without any material modifications or noteworthy reportable matters.

## **FISCAL YEAR 2019 FINANCIAL REVIEW**

Acting Under Secretary for Finance and Administration and COO Mike McCarthy briefed the Committee on the Institution's financial results from fiscal year 2019, which ended on September 30, 2019. Mr. McCarthy reviewed the impact of reporting changes in comparing fiscal year 2019 data with fiscal year 2018, focusing on the presentation of donor restrictions, liquidity split between Federal and Trust funding, operating measures, net asset composition, expense detail, and a supplemental schedule to identify federal activities.

Overall net assets increased \$173 million, primarily due to philanthropic contributions and increased federal appropriations and delays resulting from the January 2019 government shutdown. An increase of \$94 million in property and equipment assets was recorded as a result of the Dulles Collections Storage Module 1 at the Udvar-Hazy Center, a key prerequisite for artifact removal and storage related to the National Air and Space Museum revitalization. Business activities revenue and expenses were affected by major capital projects, specifically resulting in low retail activities and restaurant closures. Mr. McCarthy also highlighted the continued strong performance of the Institution's endowment.

## **INSPECTOR GENERAL UPDATE**

Inspector General Cathy Helm updated the Committee on the activities of the Office of the Inspector General ("OIG"). Between the July 2019 and January 2020, Committee meetings, five reports were issued from the OIG to include: (1) the Semiannual Report to Congress; (2) the Fiscal Year 2018 Independent Evaluation of the Smithsonian's Information Security Program; (3) Travel Expenses of the Board of Regents for fiscal years 2017 and 2018; (4) Contract Management for Revenue Generating Contracts; and (5) the Fiscal Year 2020 Audit Plan.

Ms. Helm reported that there are four audits currently in progress, which include: (1) Hiring Practices for Trust Employees; (2) Inventory Controls for the National Museum of African American History and Culture Collection; (3) Financial Statements Audits for Fiscal Year 2019;

and (4) Evaluation of the Smithsonian's Information Security Program for Fiscal Year 2019. Ms. Helm reviewed the status of OIG recommendations and noted that there were 19 open OIG recommendations as of January 2, 2020. The Committee was informed that Smithsonian management continues to cooperate with audit and investigative activities, and is very responsive to addressing OIG recommendations in a timely manner.

#### **FISCAL YEAR 2019 IT SECURITY AND PRIVACY ACCOMPLISHMENTS AND FISCAL YEAR 2020 GOALS**

Chief Information Officer Deron Burba presented an overview of the Smithsonian's fiscal year 2019 IT security and privacy-related accomplishments and goals for fiscal year 2020 in the areas of risk management, security operations, and general security enhancements. In fiscal year 2019 the Office of the Chief Information Officer ("OCIO") closed 13 audit findings and completed more than 2,000 assessments for IT systems and security controls. Mr. Burba highlighted major accomplishments including completed development of an Enterprise Security Architecture and Business Impact Assessment, enhanced comprehensive computer security awareness training, and additional Information Security Continuous Monitoring. Implementing Enterprise Security Architecture roadmap items, background checks for granting network accounts, and closure of the OIG privacy assessment of IT and paper systems are among the top goals for fiscal year 2020. Mr. Burba informed the Committee that the Smithsonian is ranked at Maturity Level 2: Defined for fiscal year 2019. The maturity level is based on the metric scores from the National Institute of Standards and Framework's Cybersecurity Framework annual audit. The fiscal year 2020 goal is to achieve a Maturity Level 4: Managed and Measurable.

#### **REVIEW OF COMMITTEE PROCESSES AND ACTIVITIES**

Mr. McCarthy performed a dashboard review of the Committee's processes and activities to date and confirmed that all duties and responsibilities under the purview of the Committee, based on the charter mandates, are on track for completion in-line with approved timelines.

#### **EXECUTIVE SESSION**

The Committee adjourned its open session at approximately 1:14 p.m. to conduct executive sessions with KPMG, the Inspector General, the General Counsel, the Acting Under Secretary for Finance and Administration, and the Secretary, followed by a member-only session.

#### **ADJOURNMENT**

There being no further business to discuss, the meeting was adjourned at approximately 1:58 p.m.

Respectfully submitted,

Risa J. Lavizzo-Mourey, Chair