

MINUTES OF THE MARCH 4, 2024, AUDIT AND REVIEW COMMITTEE MEETING

The Audit and Review Committee (“Committee”) of the Board of Regents (“Board”) of the Smithsonian Institution (“Smithsonian”) conducted a meeting on March 4, 2024. Participating were Committee Chair Denise M. O’Leary and Committee members Barbara M. Barrett, Toni Bush, John Fahey, and Roger W. Ferguson, Jr.

Also present by invitation of the Committee were Chief of Staff to the Secretary Greg Bettwy; Chief Information Officer Deron Burba; Enterprise Risk Program Manager Catherine Chatfield; Under Secretary for Administration Ronald Cortez; Acting General Counsel Farleigh Earhart; Deputy Chief of Staff to the Regents Kate Forester; Special Assistant to the Regents Mallory Gianola (recorder); Deputy Chief Financial Officer and Controller John Lynskey; Acting Inspector General Joan Mockeridge; Deputy Secretary and Chief Operating Officer Meroë Park; Assistant Controller Kelli Polon; Manager of Risk Management Katherine Tkac; and Counselor 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 Denise M. O’Leary called the meeting to order at 3:00 p.m. and reviewed the agenda.

APPROVAL OF THE JANUARY 19, 2024, COMMITTEE MEETING MINUTES

Upon motion duly made and seconded, the draft minutes of the January 19, 2024, meeting were approved.

AUDIT RESULTS SINGLE AUDIT AND MANAGEMENT LETTER

KPMG Partner Cathy Baumann led the Committee’s discussion and review of the results of the single audit performed by KPMG as part of the Smithsonian’s financial statement audit for the year ended September 30, 2023. The Research and Development Cluster (“R&D”) was identified as the major program in accordance with Uniform Guidance based upon preliminary risk assessments and draft Schedule of Expenditures of Federal Awards (“SEFA”) data. Ms. Baumann informed the Committee that no reportable findings were identified and an unmodified opinion with no material weaknesses or significant deficiencies reported will be issued. KPMG issued the single audit report on February 20, 2024, and plans to file the Data Collection Form with the Federal Audit Clearinghouse in February or March 2024 ahead of the June 30, 2024, deadline. Ms. Baumann also noted that KPMG’s most recent peer review report was accepted by the American Institute of CPAs (“AICPA”) National Peer Review Committee (“NPRC”) on December 7, 2023. The peer review report had a rating of pass, which is the highest rating.

INSPECTOR GENERAL UPDATE

Acting Inspector General Joan Mockeridge updated the Committee on the activities of the Office of the Inspector General (“OIG”). Since the January 19, 2024, Audit and Review Committee meeting, the OIG has issued three reports, including the Evaluation of the Smithsonian Institution’s Information Security Program, the Audit of Federal Awards, and The Smithsonian’s Use and Reporting of CARES Act Funding. Ms. Mockeridge also reminded the Committee that in October 2022, the Council of Inspector Generals for Integrity and Efficiency established an initiative for OIGs to assign priority status to up to 3 open recommendations. A priority recommendation is one that the OIG believes will have the most significant benefit or impact to the agency’s mission, operations, programs, or funds. The Acting Inspector General reported that the Office of the Inspector General has eight audits in progress and no priority recommendations identified at this time.

PROGRESS ON IDENTIFIED AUDIT AND INTERNAL CONTROL DEFICIENCIES

Under Secretary for Administration Ron Cortez updated the Committee on the Smithsonian’s efforts to address identified audit deficiencies and other internal control recommendations, specifically, the status of recommendations issued by the Office of the Inspector General. Since the last Committee meeting, three recommendations were submitted for closure and nine recommendations have been closed in fiscal year 2024. There are currently seven open recommendations, with closure required for one recommendation due by June 30, 2024, and the remaining six due after.

MANAGEMENT LETTER RECOMMENDATIONS

Deputy Chief Financial Officer and Controller John Lynskey updated the Committee on the corrective action plan put in place to address three recommendations provided by KPMG in the management letter and required communications from the fiscal year 2023 audit. The recommendations include: (1) enhancing policies and procedures over key account reconciliations; (2) enhancing risk assessment and formalizing accounting policies for material, nonrecurring financial transactions; and (3) enhancing policies and procedures related to IT system user access. Mr. Lynskey noted that there were no material weaknesses or significant deficiencies reported in the financial statements audit and all updates and implementation of the policies and procedures related to the three recommendations would be completed by June 28, 2024.

CASH AND INVESTMENT SUMMARY

Mr. Lynskey also provided an update on cash and investment and reviewed the working capital portfolio distribution. As of December 31, 2023, the Smithsonian has \$151 million in operating cash; \$94 million in the short-term investment fund; \$88 million in the mid-term investment fund; \$75 million in the quasi-endowment; and \$319 million in money market funds.

CYBER SECURITY TRAINING AND AWARENESS PROGRAM

Chief Information Officer Deron Burba briefed the Committee on the Smithsonian’s Computer Security Awareness Training (“CSAT”). The Committee reviewed features of the online course training, which includes acceptance of Smithsonian acceptable use policies. Mr. Burba noted that annual enrollment in CSAT for Smithsonian employees begins at each new fiscal year and must be completed by June 30; any new Smithsonian employees are automatically enrolled in CSAT upon network account creation, which must be completed within 30 days. The Committee discussed additional OCIO security awareness activities, including a monthly IT Security Awareness Newsletter about new threats and best practices. Mr. Burba also informed the Committee that OCIO added a dedicated security training and awareness position in FY 2023.

SMITHSONIAN ENTERPRISE RISK MANAGEMENT

Program Manager Catherine Chatfield provided an update on the Smithsonian’s Enterprise Risk Management (“ERM”) program. The Committee reviewed the ERM Risk Profile, to include the ranking of challenges and opportunities, as well as alignment with strategic initiatives. Ms. Chatfield also briefed the Committee on the risk management structure and deliverables for 2024 including developing and formalizing an initial risk appetite statement; documenting the ERM vision, roles, and responsibilities; and drafting a Smithsonian Directive on ERM.

BACKGROUND INFORMATION

The Committee had an opportunity to ask questions related to the read-ahead information provided on the Smithsonian’s Internal Review Group and status of audit recommendations related to the Office of the Chief Information Officer and Office of Contracting and Personal Property Management.

EXECUTIVE SESSION: FORMS 990 AND 990-T FOR SMITHSONIAN INSTITUTION

The Committee entered into an executive session at approximately 4:07 p.m. to discuss the FY2023 Smithsonian Form 990 and Form 990-T, which will be reviewed by the Committee ahead of the August 15, 2024, filing deadline.

EXECUTIVE SESSION

The Committee continued in executive session to conduct sessions with KPMG, the Acting Inspector General, the Acting General Counsel, the Deputy Secretary and Chief Operating Officer, and the Under Secretary for Administration and Chief Financial Officer, followed by a member-only session.

During the executive session with the Acting Inspector General, the Committee discussed the procurement of independent, financial audit services for the Smithsonian Institution.

ADJOURNMENT

There being no further business to discuss, the meeting was adjourned at approximately 5:04 p.m.

Respectfully submitted,
Denise M. O'Leary, Chair