

MINUTES OF THE JULY 18, 2019, 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 July 18, 2019, at the Smithsonian Castle in Washington, D.C. Participating were Committee Chair Risa J. Lavizzo-Mourey and Committee members Representative Lucille Roybal-Allard;* Ambassador Barbara M. Barrett;* 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; Liaison to Representative Roybal-Allard Victor Castillo;* Assistant General Counsel Laura Damerville; Deputy Chief of Staff to the Regents Kate Forester; Director of Finance and Accounting Jean Garvin; Inspector General Cathy Helm; Liaison to Senator Perdue Stephanie Lightfoot;* General Counsel Judith Leonard; Acting Under Secretary for Finance and Administration/COO Mike McCarthy; Tax Specialist for the Office of Finance and Accounting Shelley Mitek; Assistant Inspector General for Audits Joan Mockeridge; Manager of Accounting Operations Martha Newton; Director for IT Security Juliette Sheppard; Manager of Risk Management Katherine Tkac; and Chief of Staff to the Regents Porter Wilkinson.*

Also in attendance were Erik Causey, 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 10:01 a.m. and reviewed the agenda.

REVIEW OF COMMITTEE CHARTER

The Committee performed a provision-by-provision review of its Charter per its mandate to annually review and assess the Charter and evaluate its own performance with respect to its responsibilities. No modifications to the Charter were proposed.

INTEGRATED RISK MANAGEMENT, INSURANCE PROGRAM REVIEW, AND IT SECURITY UPDATE

Director of Finance and Accounting Jean Garvin updated the Committee on the status of the Integrated Risk Management Program, which began in 2013 with the identification and prioritization of pan-Institutional risks. Since then risk mitigation plans have been developed, a Risk Management Team was formed and tasked with managing the program, and risk management was formally included in the Strategic Plan. Ms. Garvin shared the risk management goals and priorities for 2019 and 2020, which included recruiting a dedicated Risk Manager and refining the framework and objectives of the Risk Management Team. The

**Participated by telephone*

Committee also reviewed the current risk register and the proposed mitigation strategy to address risks with a high or medium likelihood or impact.

Manager of Risk Management Katherine Tkac reviewed the status of the insurance coverages that are carried by the Smithsonian, which are designed to mitigate or protect the Institution from financial loss. The Committee was updated on the Smithsonian's comprehensive insurance coverage and the policies' corresponding limits and premiums.

Director of IT Security Juliette Sheppard provided an update on the Smithsonian's cybersecurity program. Ms. Sheppard shared the status of recommendations issued by the Office of the Inspector General related to the security program, background investigations, and penetration testing. She reported that all recommendations have been successfully completed or are on-track for completion within the approved audit timeline. The Committee reviewed the remediation actions and the plan developed by the Office of the Chief Information Officer to further address identified deficiencies.

APPROVAL OF THE JANUARY 8, 2019, COMMITTEE MEETING MINUTES

Upon motion duly made and seconded, the draft minutes of the January 8, 2019, meeting were approved without modification.

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

Next, Dr. Lavizzo-Mourey 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 2019 Form 990 and 990-T to the Internal Revenue Service. Dr. Lavizzo-Mourey also noted that the Committee must 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, 2019.

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.

IMPACT OF NEW TAX ACT AND FISCAL YEAR 2018 IRS FORMS 990/990-T

Ms. Garvin then provided an overview of the tax reform impact on the Smithsonian resulting from the Tax Cuts and Jobs Act of 2017 ("the Act"), which became effective January 1,

2018. The Act made four changes that will impact the Smithsonian, including: (1) the inclusion of transportation fringe benefits in unrelated business income, (2) unrelated business income computed separately by lines of business, (3) the limitation of unrelated business income loss carryforwards to 80%, and (4) the elimination of the Alternative Minimum Tax (“AMT”) for corporations, but not for trusts.

Ms. Garvin informed the Committee that the Smithsonian would be correcting its fiscal year 2016 and 2017 Forms 990 and 990-T to include previously omitted details on two foreign entities; the omission is considered clerical in nature and has no impact on the Institution’s tax liability or future form filings. Ms. Garvin also briefed the Committee on the fiscal year 2018 Internal Revenue Service (“IRS”) Forms 990 and 990-T, which are filed on an annual basis. Ms. Garvin reported no significant changes in the preparation or review process for fiscal year 2018. The required disclosures include financial and compliance information, compensation data for senior management and other highly compensated employees, and information of specific interest to the IRS. Both forms were prepared by staff and subject to reviews by the Chief Operating Officer, who serves as the Institution’s Chief Financial Officer, and the Smithsonian’s external auditor, KPMG. The final 990 and 990-T will be filed with the IRS prior to the filing deadline and are available on the Smithsonian’s website. 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, 2018.

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

VOTED that the Audit and Review Committee affirms the Smithsonian’s proposed submission of its fiscal year 2018 Form 990 and 990-T to the Internal Revenue Service.

FISCAL YEAR 2019 ACCOUNTING AND REPORTING UPDATE

Ms. Garvin gave an update on three new accounting standards issued by the Financial Accounting Standards Board. During fiscal year 2019, the Smithsonian will implement Lease Accounting (ASU 2016-02/Topic 842) and Revenue Recognition (ASU 2014-09/Topic 606). In fiscal year 2020, the Smithsonian will implement Financial Statement Presentation (ASU 2016-14). Ms. Garvin outlined the goals of each new standard and its respective impact on the Smithsonian’s financial statements and reporting requirements

REVIEW OF KPMG FISCAL YEAR 2019 AUDIT PLAN & FISCAL YEAR 2018 A-133 AUDIT RESULTS

KPMG consultants Erik Causey, Rosemary Meyer, and Brandon White reviewed KPMG’s audit plan for fiscal year 2019, as well as the results from the completed A-133 audit for fiscal year 2018.

Ms. Meyer provided an overview of the fiscal year 2019 audit plan, timeline, and procedures, including the financial reporting framework, audit reports, auditing standards and compliance

regulations, identification of potential risk areas necessitating special audit consideration, and required communications. No significant changes from prior year audit plans were noted.

Mr. Causey reported on the results from the fiscal year 2018 A-133 audit, as set forth in the Single Audit Act, and noted an unmodified opinion on major federal programs and no reportable findings regarding internal control over compliance. The audit, which is required by the federal government for certain federally funded programs, was issued on May 9, 2019.

ANNUAL CONFLICT OF INTEREST REPORTING

General Counsel Judith Leonard reported that the Office of General Counsel (“OGC”) had completed its annual internal review of the Financial Disclosure Reports and Conflict of Interest Declarations received for calendar year 2018 through the 2019 filing season. Based on the information reported, the OGC concluded that identified and potential conflicts of interest were manageable through recusal and no additional action was necessary.

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 2019 and July 2019 meetings, the OIG issued five reports: (1) the Semiannual Report to Congress; (2) the Strategic Plan; (3) Smithsonian Time and Attendance Policy; (4) Audit of Federal Awards Performed in Accordance with Title 2 U.S. Code of Federal Regulations Part 200; and (5) Information Security. The Committee was briefed on the report issued on information security and the OIG’s recommendations for enhanced protection of sensitive information.

Ms. Helm reported that there are eight audits currently in progress, which include: (1) evaluation of the Smithsonian’s Information Security Program; (2) management of revenue-generating contracts; (3) inventory controls for the National Museum of African American History and Culture collection; (4) hiring practices for Trust employees; (5) travel expenses of the Board of Regents for fiscal years 2017 and 2018; (6) governance of IT; (7) evaluation of the Smithsonian’s Information Security Program for fiscal year 2019; and (8) the fiscal year 2019 annual financial statement audits. Ms. Helm noted that as of July 10, 2019, there were 19 open recommendations scheduled to be completed prior to the end of the next reporting period.

REVIEW OF COMMITTEE PROCESSES AND ACTIVITIES

Acting Under Secretary for Finance and Administration/COO Mike McCarthy led a review of the Committee’s dashboard. Smithsonian management presents this report to assist the Committee in focusing on the responsibilities assigned to it by the full Board, including financial review, strengthening of internal controls, and oversight of operations. 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 in-line with the approved audit timeline.

EXECUTIVE SESSION

The Committee adjourned its open session at approximately 11:35 p.m. to conduct executive sessions with KPMG, the Inspector General, the General Counsel, and the Acting Chief Operating Officer, followed by a member-only session.

ADJOURNMENT

There being no further business to discuss and with no request for an executive session, the meeting was adjourned at approximately 11:50 a.m.

Respectfully submitted,

Risa J. Lavizzo-Mourey, Chair