

MINUTES OF THE AUGUST 7, 2023, 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 August 7, 2023. Participating were Committee Chair Denise M. O’Leary and Committee members Senator Catherine Cortez Masto, Representative Garret Graves, Barbara M. Barrett, 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 Ron 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, Assistant Inspector General for Audits Joan Mockeridge; Deputy Secretary and Chief Operating Officer Meroë Park; and Liaison to Senator Cortez Masto, Josh Yearsley.

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 12:00 p.m. and reviewed the agenda. Ms. O’Leary noted recent personnel changes in the Office of the Under Secretary for Administration, and introduced John Lynskey, Deputy Chief Financial Officer and Controller and Kelli Polon, Assistant Controller. Ms. O’Leary also informed the Committee that Inspector General Cathy Helm announced her retirement, effective September 1, 2023.

APPROVAL OF THE JANUARY 18, 2023, COMMITTEE MEETING MINUTES

Upon motion duly made and seconded, the draft minutes of the January 18, 2023, meeting were approved.

COMMITTEE CHARTER REVIEW

The Committee performed a provision-by-provision review of its Charter per its mandate to annually review and assess the Charter and evaluate its performance with respect to the requirements of the Charter. During routine review of the Committee Charter, amendments were proposed to include updates to language that would ensure consistency between the Charter, the Bylaws of the Board of Regents, and the Inspector General Act.

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

VOTED that the Audit and Review Committee recommends approval by the Governance and Nominating Committee of the proposed amendments to the Audit and Review Committee Charter.

REVIEW AND ACKNOWLEDGEMENT OF FISCAL YEAR 2022 IRS FORMS 990 AND 990-T

Under Secretary for Administration Ron Cortez then led the Committee’s review and acknowledgment of the fiscal year 2022 Internal Revenue Service (“IRS”) Form 990 (Return of Organization Exempt from Income Tax) and Form 990-T (Exempt Organization Business Income Tax Return), which are filed on an annual basis. The required disclosures include compliance and financial information, compensation data for senior management, financial results for activities determined to generate unrelated business income, and information of specific interest to the IRS. Mr. Cortez reviewed the process for completing and filing the forms, and summarized changes between the fiscal year 2021 and 2022 submissions. 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, 2022. Both forms were prepared by staff and subject to reviews by the Board of Regents, the Under Secretary for Administration, the Office of General Counsel, and the Smithsonian’s external auditor, KPMG. The final 990 and 990-T will be filed with the IRS prior to the filing deadline on August 15, 2023. The Form 990 is a public document that is posted on the Smithsonian’s website once it is filed with the IRS.

Upon motion duly made and seconded, the Committee approved a motion to affirm the submission of the Form 990 and 990-T for fiscal year 2022:

VOTED that the Audit and Review Committee affirms the Smithsonian’s proposed submission of its fiscal year 2022 Form 990 and 990-T (calendar year 2021) to the Internal Revenue Service.

APPROVAL OF AUDIT AND NON-AUDIT SERVICES BY SMITHSONIAN’S EXTERNAL AUDITOR

Ms. O’Leary reminded the Committee that the Charter mandates the Committee’s pre-approval of audit and non-audit services to be provided by the Smithsonian’s external auditor. Based on these requirements, the Committee provides pre-approval for the Smithsonian’s external auditor, KPMG, to prepare and submit the Smithsonian’s 2022 tax year informational returns (Form 990 and 990-T) to the Internal Revenue Service. Additionally, the Committee approves 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, 2023, and the required notes to the annual statement.

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

VOTED that the Audit and Review Committee approves KPMG performing audit services related to the certification of Smithsonian Enterprise’s annual sales report for the Smithsonian Museum Store at Ronald Reagan Washington National Airport, and non-audit services related to the preparation and submission of the Smithsonian Institution’s Forms 990 and 990-T to the Internal Revenue Service.

REVIEW OF KPMG FISCAL YEAR 2023 AUDIT PLAN

KPMG partner Cathy Baumann reviewed KPMG’s audit plan and strategy for fiscal year 2023. The Committee was briefed on the fiscal year 2023 audit plan, timeline, and procedures, including the scope of work, financial reporting framework, auditing standards and compliance regulations, new accounting standards, key audit areas, and required communications. Ms. Baumann noted that the audit in fiscal year 2023 will include the collections management program as a significant account for risk assessment. KPMG reported that timing will be substantially consistent with fiscal year 2022, with expected reporting on the financial statement audit in January 2024 and the Single Audit in March 2024.

INSPECTOR GENERAL UPDATE

Assistant Inspector General for Audits Joan Mockeridge updated the Committee on the activities of the Office of the Inspector General (“OIG”). Ms. Mockeridge informed the committee that between the January 2023 and July 2023 meetings, the OIG issued five reports, including the Semiannual Report to Congress for the period ending March 31, 2023, and has nine audits in progress. Ms. Mockeridge also reviewed the status of open OIG recommendations. As of August 1, 2023, there were 19 open recommendations scheduled to be completed in the areas of acquisition management, collections management, human resources management, and information security. The Committee discussed the status of two priority recommendations from the OIG, which have a scheduled completion date of December 2023 and January 2024.

PROGRESS ON OIG AUDIT AND FINANCIAL STATEMENT RECOMMENDATIONS

Next, Mr. Cortez reviewed the progress on addressing OIG audit and financial statement recommendations. Since the January Committee meeting, the Office of the Under Secretary for Administration has developed a report to track the status, timeline, and necessary action items of all open OIG recommendations. The Committee reviewed sample tracking tools for four OIG audits, including Trust Hiring, Purchase Card, IT Security and Privacy Program, and Collections Management.

The Committee also received an update on the Smithsonian’s efforts to address the financial statement recommendations from the independent auditor on the Smithsonian’s fiscal year 2021 financial statements. Mr. Cortez reviewed the status of four recommendations from the fiscal year 2022 management letter comments, including evaluating the Office of Finance and Accounting organizational structure, formalized training for accounting and financial reporting personnel, improving the process for preparation and review of the quarterly financial statements, and reviewing environmental remediation obligations.

IT SECURITY AND PRIVACY PROGRAM UPDATE

Chief Information Officer Deron Burba provided an update on the Smithsonian’s IT security and privacy program. The Smithsonian uses the NIST Cybersecurity Framework, which is a set of guidelines for mitigating organizational cybersecurity risks published by the US National Institute of Standards and Technology. Mr. Burba informed the Committee that for fiscal year 2022, the Smithsonian scored a Level 4 Maturity: Managed and Measurable, which is considered effective. The Committee congratulated Mr. Burba for securing a Level 4 Maturity for the second consecutive year.

The Committee then reviewed open OIG recommendations from the fiscal year 2021 Federal Information Security Management Act (“FISMA”) Audit. Mr. Burba noted that the audit report was issued in June 2022 and the work to address seven out of nine recommendations was completed before the management response was submitted in May 2022; the OIG subsequently closed the seven recommendations.

INTERNAL REVIEW GROUP

The Committee also received an update on the internal review group within the Smithsonian, which serves as a first line of defense to detect and prevent errors, mitigate financial operational risk, and proactively evaluate and detect financial operational risks as they emerge and before they fully materialize. Mr. Cortez reminded the Committee that internal review group representation includes expertise in accounting, budget, contracting, facilities, human resources, and information technology. Mr. Cortez reviewed the four phases of the implementation plan and informed the Committee phase one has been initiated, which includes: reviewing Smithsonian Directive 310—which outlines financial reporting and risk management internal controls—for potential revisions and developing methodology for assessing the effectiveness of internal controls.

ENTERPRISE RISK MANAGEMENT

Enterprise Risk Program Manager Catherine Chatfield briefed the Committee on the Smithsonian’s Enterprise Risk Management (“ERM”) program. The Committee reviewed the progress of developing the framework using the strategic initiatives model. The Smithsonian is continuing to develop and implement the ERM governance model, processes, and communications and piloting a new process to onboard and offboard risks and subsequently update the Risk Profile. Ms. Chatfield noted that ERM listening sessions would be conducted to help determine what criteria will be used to identify an enterprise risk.

ANNUAL CONFLICT OF INTEREST REPORTING

Acting General Counsel Farleigh Earhart updated the Committee on the status of the Office of General Counsel’s annual internal review of the Financial Disclosure Reports and Conflict of Interest Declarations received for calendar year 2022 through the 2023 filing season. Based on

the information reported, the Office of General Counsel (“OGC”) concluded that identified and potential conflicts of interest were manageable through recusal or other means. Ms. Earhart noted that, this year, in addition to 100% compliance with the Form 1085s, the Smithsonian achieved the highest level of compliance with COI Declarations ever. Ms. Earhart also reported that OGC is in the final phase of automating ethics clearance request forms, which will result in a stand-alone ethics management system and data base.

INSURANCE PROGRAM

The Committee had an opportunity to ask questions related to the read-ahead information provided on the status of insurance coverages carried by the Smithsonian, which are designed to mitigate or protect the Institution from financial loss. The Committee received background information on the Smithsonian’s comprehensive insurance coverage and the policies’ corresponding limits and premiums, which include coverage under the Federal Tort Claims Act and additional coverage for assets, liabilities, property, and special purpose programs.

EXECUTIVE SESSION

The Committee adjourned its open session at approximately 1:07 p.m. to conduct executive sessions with select staff, KPMG, the Inspector General, the General Counsel, the Deputy Secretary and Chief Operating Officer, and the Under Secretary for Administration, followed by a member-only executive session.

ADJOURNMENT

There being no further business to discuss, the meeting was adjourned at approximately 1:35 p.m.

Respectfully submitted,

Denise M. O’Leary, Chair