

MINUTES OF THE JULY 17, 2018, 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 17, 2018, at the Smithsonian Castle in Washington, D.C. Participating were Committee Chair John W. McCarter, Jr. and Committee member Ambassador Barbara M. Barrett.*

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 & Administration/Chief Operating Officer Albert Horvath, General Counsel Judith Leonard, Accountant for the Office of Finance and Accounting Shelley Mitek, Assistant Inspector General for Audits Joan Mockeridge, and Manager of Risk Management Katherine Tkac.

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 9:59 a.m. Due to a lack of quorum, the planned motions for the Committee’s approval were subsequently circulated via email ballot.

REVIEW OF COMMITTEE CHARTER

The Committee reviewed its Charter per its mandate to annually review and assess the Charter and evaluate its own performance with respect to its responsibilities. Nine modifications were proposed. The proposed Charter amendments include language revisions that are consistent with the charters of other Regent committees and amendments that are grammatical in nature.

RATIFICATION OF APPROVAL FOR ADDITIONAL AUDIT SERVICES

Next, Mr. McCarter explained that the Committee’s Charter requires approval for engaging the services of external, independent auditors. Based on these requirements, the Committee must provide approval for the Smithsonian’s external auditor, KPMG, to audit Smithsonian Enterprises’ annual certified sales at Ronald Reagan Washington National Airport, and the related notes to the annual statement. KPMG has audited Smithsonian Enterprises as part of the larger Smithsonian Institution financial statements. The firm’s knowledge of Smithsonian Enterprises provides the basis for its ability to audit the certified sales for the year ended December 31, 2017.

REVIEW OF FISCAL YEAR 2017 IRS FORMS 990/990-T

Director for Finance and Accounting Jean Garvin provided an overview of the fiscal year 2017 Internal Revenue Service (“IRS”) Forms 990 and 990-T, which must be filed on an annual basis. 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, 2017.

INTEGRATED RISK MANAGEMENT AND MITIGATION PROGRAM UPDATE AND DISCUSSION OF CYBERSECURITY UPDATE

Ms. Garvin then updated the Committee on the status of the Integrated Risk Management Program (“program”). The program identifies, assesses, tracks, and manages the top risks to the Institution in order to build a more risk-informed culture of decision-making. The Committee was briefed on the three-part plan that was developed to integrate risk management and mitigation into all operations and decision-making: (i) engage/integrate at the entity/unit level, (ii) create a risk aware culture through education, and (iii) monitor identified risks and evaluate potential risks. The risk committee, comprised of staff from all disciplines across the Smithsonian, is planning a deep-dive workshop with staff and Smithsonian leadership to develop and customize a risk framework for each unit, which will analyze and monitor the pan-Institutional risks that were previously identified as significant by the risk committee. Ms. Garvin noted that enterprise risk management is receiving increased attention in the commercial, not-for-profit, and government sectors, which has increased the availability of tools, guidance, and experience that the Smithsonian is able to leverage into the program.

Chief Information Officer Deron Burba briefed the Committee on the Smithsonian’s challenges in the realm of cybersecurity and current risk mitigation measures. Mr. Burba shared recent accomplishments that were put in place to prevent, detect, and resolve security vulnerabilities, in response to recommendations provided by the Inspector General following an independent evaluation of the Institution’s Information Security Program. Mr. Burba also reported that the Office of the Chief Information Officer (“OCIO”) has implemented a number of programs in order to mitigate risk, including (i) submission of the level two Attestation of Compliance, which declares the Smithsonian’s compliance with the Payment Card Industry Data Security Standard; (ii) completion of the Microsoft Office 365 security optimization assessment to enhance security and protect the Smithsonian’s overall Office 365 environment; (iii) further enhancement of the Security Assessment and Authorization process that aligns with Risk Management Framework and Smithsonian business needs; (iv) initiation of pilot testing for data loss prevention; and (v) implementation of a security incident management tool.

INSURANCE COVERAGE ANNUAL REVIEW

The Committee reviewed the status of the insurance coverages that are carried by the Smithsonian. Office of Finance and Accounting Risk Manager Katherine Tkac provided the Committee with an overview of the Smithsonian's insurance coverage and the policies' corresponding premiums.

REVIEW OF KPMG FISCAL YEAR 2018 AUDIT PLAN & FISCAL YEAR 2016 A-133 AUDIT RESULTS

KPMG partners Rosemary Meyer and Eric Forkner reviewed KPMG's audit plan for fiscal year 2018, as well as the results from the recently completed A-133 audit for fiscal year 2017.

Ms. Meyer provided an overview of the fiscal year 2018 audit plan, timeline, and procedures, including an identification of potential risk areas and the manner in which those areas would be addressed. No significant changes from prior year audit plans were noted. Ms. Meyer then briefed the Committee on new accounting standard changes and the anticipated impact on the Smithsonian's financial statements and reporting requirements in fiscal years 2019 and 2020.

Mr. Forkner reported on the results from the fiscal year 2017 A-133 audit and noted no reportable findings regarding internal control over compliance from its audit of the Research and Development Program. The audit is required by the federal government for grantees receiving more than \$500,000 in federal grant funding.

ANNUAL CONFLICT OF INTEREST REPORTING

General Counsel Judith Leonard presented the Office of General Counsel's ("OGC") annual internal review of the Financial Disclosure Reports and Conflict of Interest Declarations. Based on the information reported for calendar year 2017 through the 2018 filing season, the OGC concluded that identified 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 2018 and July 2018 meetings, the OIG issued four reports: (i) the Semiannual Report to Congress; (ii) the Independent Auditor's Report on Compliance for the Major Federal Program; (iii) the Independent Accountant's Review of the Smithsonian Astrophysical Observatory's Grants and Contract Management Program; and (iv) the Independent Auditor's Report on Travel Expenses of the Board of Regents for Fiscal Year 2016.

Ms. Helm reported that there are nine audits currently in progress, which include: (i) the Background Investigation Process; (ii) the Emergency Preparedness Program; (iii) the Smithsonian's information security program for fiscal year 2017; (iv) assessment of the

Smithsonian's capabilities to prevent, detect, and respond to information security incidents; (v) review of the Smithsonian's information security program for fiscal year 2018; (vi) management of revenue-generating contracts; (vii) audit of revenue-generating contract with Carolina Biological Supply; (viii) audit of revenue-generating contract with Sodexo Operations LLC; and (ix) fiscal year 2018 annual financial statement audits. Ms. Helm noted that as of July 9, 2018, there were 14 open recommendations. Four of the open recommendations are new since the Committee's meeting in January, and all open recommendations are scheduled to be completed prior to the next Committee meeting.

REVIEW OF COMMITTEE PROCESSES AND ACTIVITIES

Under Secretary for Finance & Administration/Chief Operating Officer Albert Horvath presented a tracking report 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 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 11:07 a.m. to conduct executive sessions with KPMG, the Inspector General, the General Counsel, the Chief Financial Officer, and the Secretary, followed by a member-only session.

ADJOURNMENT

There being no further business to discuss, the meeting was adjourned at approximately 11:14 a.m.

EMAIL BALLOT: MOTIONS FROM THE JULY 17, 2018 COMMITTEE MEETING

The Committee conducted business via email ballot completed on July 27, 2018. Upon motion duly made and seconded, the following motions were approved by the Committee:

VOTED that the Audit and Review Committee approves the minutes from their meeting of January 22, 2018.

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

VOTED that the Audit and Review Committee ratifies KPMG's additional audit services related to Smithsonian Enterprises' annual certified sales at Ronald Reagan Washington National Airport for the year ended December 31, 2017.

Respectfully submitted,

John W. McCarter, Jr., Chair