

GOVERNANCE REPORT JANUARY 2022

The Smithsonian Institution (“Smithsonian”) was established in 1846 as a public trust by an act of Congress that also created a Board of Regents (“Board”) charged with the governance of the Smithsonian and overseeing its mission. For 175 years, the Regents have accepted the responsibility entrusted to them by the American people, Congress, and every presidential administration since President James K. Polk. The Board has guided the Smithsonian from a concept declared in 28 words in James Smithson’s will to the world’s largest museum, education, and research complex. Today, the Smithsonian Institution includes 21 museums that collectively host more than 20 million visitors annually, 21 libraries, nine research centers, the National Zoo, 155 million objects and specimens, and a workforce of 6,200 staff and 7,300 volunteers—all committed to the mission, “the increase and diffusion of knowledge.”

The Board is committed to maintaining the highest standards of integrity, accountability, and transparency in its governance of the Smithsonian. The following report summarizes the actions of the Board in 2018-2021, which have enhanced governance practices; prioritized the safety of staff, visitors, and the national collections; and underscored the resiliency and vibrancy of the Smithsonian.

SMITHSONIAN LEADERSHIP

SECRETARY OF THE SMITHSONIAN | The Board of Regents executed its statutory responsibility to recruit hire, install, and onboard the 14th Secretary of the Smithsonian—Secretary Lonnie G. Bunch III. When Secretary David J. Skorton announced his intention to retire in December 2018, the Board swiftly formed a search committee to assist the Regents in identifying, evaluating, and recommending candidates to serve as the next chief executive officer of the Smithsonian Institution. The Board elected Lonnie G. Bunch III, founding director of the National Museum of African American History and Culture, as the 14th Secretary of the Smithsonian, effective June 16, 2019. Secretary Bunch is the first African American to lead the Smithsonian, the first historian elected Secretary, and the first museum director to ascend to Secretary in 74 years. The Regents have forged a dynamic partnership with Secretary Bunch and his team. Together, they have worked collaboratively to articulate and prioritize the Smithsonian’s strategic priorities in a manner that reinforces and affirms the Institution’s core mission and culture, while striving to be nimble and bold in thought and operations.

MODIFIED ORGANIZATIONAL STRUCTURE | With endorsement from the Board and approval by Congress, Secretary Bunch implemented a new organizational structure to optimize productivity, streamline decision-making, manage risk more effectively, and improve flexibility. This new structure also provides focused leadership in four areas of strategic importance—digital transformation, education, science and research, and diversity and inclusion. These organizational changes included the creation of four Under Secretary positions: Under Secretary for Administration, Under Secretary for Education, Under Secretary for Museums and Culture, and Under Secretary for Science and Research. The restructuring also included the addition of the Deputy Secretary and Chief Operating Officer role and reestablishing the Chief Financial Officer as an independent position. Finally, the Smithsonian is adding

a Head of Digital Transformation and a Head of Diversity and Inclusion. These changes will ensure the Smithsonian has the leadership and capacity to facilitate overall efficiency and effectiveness at the unit, central administration, and pan-Institutional levels.

REGENT MEMBERS | Board composition is critical to fulfilling the Board of Regents' essential governance and oversight duties. During this period, the Board welcomed two Congressional Regents and two citizen Regents, and reappointed one citizen Regent. The Speaker of the U.S. House of Representatives appointed Representative Lucille Roybal-Allard (D-CA) and Representative John Shimkus (R-IL) to the Board in January 2019 and April 2019, respectively. The Board nominated two new citizen Regents to fill vacancies created by departing Regents. Franklin D. Raines of the District of Columbia was nominated to replace John W. McCarter, Jr., at the expiration of his term. Mr. Raines was appointed for a statutory term of six years by a joint resolution of the Congress, which was signed into law by the President in October 2020.

Denise M. O'Leary of Colorado was appointed as a citizen Regent for a statutory term of six years, to succeed Barbara M. Barrett. Ambassador Barrett, resigned on October 17, 2019, following her appointment as the 25th Secretary of the Air Force. At the time of her resignation, Regent Barrett had more than five years remaining in her second term. Following the Board's nomination and pursuant to a joint resolution of the Congress, Ms. O'Leary's appointment was signed into law by the President in April 2020.

The Board also bid farewell to a member who served the Smithsonian with distinction for many years. Following the conclusion of her service as the 25th Secretary of the Air Force, Ambassador Barrett was renominated to succeed David M. Rubenstein as a citizen Regent on the Board of Regents and to serve the remainder of her second statutory term. Pursuant to a joint resolution of the Congress, Ambassador Barrett's reappointment was signed into law by the President in June 2021. The Regents will continue to prioritize board composition, diversity, and revitalization through term limits, maintaining a well-defined process for filling vacancies, and thoughtful succession planning, with consideration of future institutional needs and current board member competencies.

GOVERNING DURING THE COVID-19 (CORONAVIRUS) PANDEMIC

The Smithsonian has endured more closures to the public in the last three years than in any other time in the Institution's history. Through this tumultuous and uncertain period, the Board and Secretary Bunch capitalized on a strong partnership that was able to ensure the safety of employees, visitors, and collections. The following summarizes steps Secretary Bunch and the Board have taken to guide the Institution through this challenging period in our nation's history.

GOVERNMENT SHUTDOWN | The United States federal government shutdown of 2018–19 occurred from midnight EST on December 22, 2018, until January 25, 2019. Under the guidance of the Secretary and the Board, the Smithsonian navigated the lapse in appropriations and remained open to the public until January 2, 2019, when the Institution's available prior-year funding was exhausted. For the following three weeks, senior leadership continued to monitor legislative activity to enable a swift

return to normal operations as quickly as possible, while providing online engagement through Smithsonian websites, social media outlets, and other digital platforms.

PUBLIC CLOSURES | A little over a year after the government shutdown, the COVID-19 (Coronavirus) public health crisis locked down the Smithsonian along with the nation and much of the world. In March 2020, all Smithsonian museums in the Washington, D.C., metropolitan area and in New York City, including the National Zoo, closed to the public as a health precaution aimed at slowing the spread of COVID-19. After the initial public closures, the Smithsonian re-opened eight facilities between July and October 2020, before closing to the public again on November 23, 2020. The first Smithsonian museum to greet visitors following the November 2020 closure was the National Air and Space Museum’s Steven F. Udvar-Hazy Center in Chantilly, Virginia, which opened on May 5, 2021. Soon after, the National Museum of African American History and Culture, the Donald W. Reynolds Center for American Art and Portraiture, and the Renwick Gallery opened their doors on May 14. Followed by, the National Museum of American History, the National Museum of the American Indian in Washington, D.C., and the National Zoo which opened on May 21, 2021. The remaining ten museums in Washington, D.C., and New York City then opened to the public on a staggered schedule between June 10 and August 27, 2021, marking a full reopening of the Smithsonian since closing to the public in March 2020. Those included: the Cooper Hewitt, Smithsonian Design Museum in New York City; the National Museum of Natural History; the National Museum of the American Indian in New York City; the National Museum of African Art; the National Museum of Asian Art; the National Air and Space Museum; the Smithsonian Institution Building (the “Castle”); the Anacostia Community Museum; the Hirshhorn Museum; and the National Postal Museum.

OPERATIONAL ADJUSTMENTS | Navigating the operational disruptions caused by COVID-19 required thoughtfulness and agility to ensure that the Smithsonian remained focused on its mission and strategic priorities while putting into place flexible work practices responsive to current conditions. In March 2020, Smithsonian personnel began working under an enhanced telework model. Enhanced telework capability ensured the safety of Smithsonian personnel while enabling them to safeguard collections, continue mission-critical endeavors, and resume research underway at the start of the pandemic. COVID-19-related restrictions also required the Board and its nine standing committees to conduct virtual meetings. The Board and its committees adhered to their original meeting schedule over videoconference, ensuring that the Regents maintained open communications with the leadership team regarding developments impacting the Smithsonian’s mission and operations.

During the pandemic, the Secretary and the Board closely monitored the actual and projected budgetary effects of COVID-19 on the Smithsonian and implemented mitigation strategies to offset the expected financial impact resulting from the closures. Immediate actions taken by the Institution included a mandatory 10 percent one-year reduction in Senior Level Trust pay, elimination of Senior Level Trust pay increases and cash awards, central discretionary cost reductions, and implementation of a hiring freeze for certain Trust positions. The Board’s overall efforts enabled the Smithsonian to allocate its funds and resources most effectively.

MODERN GOVERNANCE

WORKPLACE CULTURE | The Smithsonian endeavors to be a leader in creating a workplace free from discrimination and harassment. In this, the Board has taken a proactive role in fostering an inclusive and respectful environment at the Smithsonian. In 2019, the Regents engaged an outside law firm to review the Smithsonian’s policies, procedures, and training related to workplace parity and sexual harassment, and to provide recommendations on minimizing the risks associated with sexual harassment in the workplace. As a result of the review, the Board instituted additional reporting requirements related to sexual harassment and workplace culture. The Board charged its Compensation and Human Resources Committee with receiving the reports in the first instance and approved an amendment to the Committee’s charter to clarify the additional responsibilities. The Committee now receives an annual report on harassment at the Smithsonian and real-time reports of certain sexual-harassment complaints involving high-ranking officials, repeat offenders, minors, or other complaints that present a significant risk to the Institution. The Smithsonian also implemented enhanced harassment and workplace violence-related resources, policies, and procedures. A new Anti-Harassment and Workplace Violence Prevention Coordinator (“SI Civil Coordinator”) was hired in February 2020 and a new institution-wide civil program was launched. This program will be a resource for Smithsonian employees and affiliated persons to communicate workplace concerns and facilitate resolutions as efficiently as possible. Through these actions, the Smithsonian is working to ensure that internal practices and policies reduce barriers to equity and reflect the same principles of inclusion that the Smithsonian seeks to disseminate through its external programs and scholarship.

COMPENSATION AND HUMAN RESOURCES | The Board is committed to maintaining trust in its operations and aspires to be a leader in executive compensation governance practices, including transparency in executive compensation at the Smithsonian. Since January 2008, Smithsonian Trust executives have been paid according to two compensation categories, market-based or Federal-equivalent. In 2018, the Compensation and Human Resources Committee worked with Pearl Meyer, the Board’s independent compensation consultant, to develop an updated compensation approach that created a new Augmented (“hybrid”) compensation category for Trust executive positions that exist in the Federal sector, but are differentiated on the basis of diverse, highly specialized complex roles, and responsibilities at the Smithsonian. The Compensation and Human Resources Committee worked with Pearl Meyer and the Office of Human Resources to conduct a pay-equity analysis to further refine the specific framework for market-based positions to allow for a consistent and balanced approach to setting pay while ensuring internal equity is considered. The compensation policy modification and pay-equity analysis have helped to ensure alignment between the Smithsonian’s compensation programs, the Board’s leadership strategy, and the Institution’s strategic priorities, specifically for those positions requiring approval of compensation by the Board.

In addition, at the request of the Regents’ Investment Committee, the Board engaged the human resources consulting firm Mercer to assist with the assessment and review of the Smithsonian’s investment incentive compensation plan. The Investment Committee met several times to review Mercer’s analysis of the investment incentive plan, seek feedback from the Investment Committee on recommendations from Mercer and Smithsonian management, and discuss potential changes to the investment incentive compensation plan. In addition to removing the 80% salary cap, the Board

recommended changes to base salaries and incentive compensation based on this analysis, which included adjusting the salaries of the five (5) Investment employees and approving an exception to policy to permit an out-of-cycle pay increase for these individuals. Changes were adopted to the Incentive Plan Program, effective the beginning of the 2021-2022 performance year (July 1, 2021). The new incentive plan was also applied retroactively to the 2020-2021 performance year, using the salaries that were in place as of the end of the qualitative performance period (June 30, 2021).

ENTERPRISE RISK MANAGEMENT | The Board is committed to supporting the Smithsonian's mission, image, and operations while ensuring a risk-informed culture and encouraging decisions based on a full consideration of potential risks. In 2014, the Institution established an Integrated Risk Management and Mitigation program. In consultation with the Office of the Inspector General, the Office of the Chief Information Officer, and the Regents' Audit and Review Committee, the Smithsonian continues to refine its approach and address the Smithsonian's most immediate needs such as facilities management, collections care, human capital management, and IT Security. At the core of the Board's work has also been integrating risk management and mitigation into all Smithsonian operations and decision making as part of its governance framework and practices.

For example, in 2019, the Regents' Advancement Committee lead a review of the Smithsonian's gift acceptance policies and procedures to assess risks associated with gifts that may create or have the appearance of conflict of interest; are inconsistent with or may appear to be inconsistent with the Smithsonian brand; or are likely to attract significant public attention. While no formal changes to the policy were made, three recommendations were implemented, including reporting of any gifts that have been elevated for consultation, enhancing Smithsonian staff awareness of the gift acceptance policy, and developing procedures and guidelines for managing challenges that arise after a gift has been accepted. These recommendations have assisted the Board in managing risks associated with philanthropic giving and protecting the reputation, mission, values, and programs of the Smithsonian.

ADVISORY BOARDS | The Board of Regents remains committed to enhancing the role of the Smithsonian's advisory boards. Today, there are more than 500 members of the Smithsonian's advisory boards that are well-positioned to advocate, represent, and generate support for the Smithsonian. The Regents have worked diligently to structure the advisory boards to add value, improve communication and stakeholder relationships, and streamline processes for management and oversight at the unit level. Spurred in part by restrictions associated with the COVID-19 pandemic, the Chair of the Board established a series of quarterly calls with the chairs of the advisory boards that have facilitated two-way communication between the Smithsonian's governing body and the advisory boards on topics of pan-institutional interest. Additionally, the Board hosted the Smithsonian Advisory Board Symposium in November 2018 and a virtual symposium in November 2020, which provided an opportunity to discuss the Smithsonian's strategic priorities and address ongoing work in areas of diversity, equity, accessibility, and inclusion, among other things.

The Board of Regents oversaw the development and implementation of a set of recommended guidelines for advisory board management and operations to ensure alignment with current best practices. The guidelines focus on key areas of oversight, including recruitment and onboarding, philanthropy and fundraising, member engagement, advisory board operations and bylaws, and engagement with alumni and emeritus members. Additionally, the Regents reviewed and reissued

reputational risk guidance for advisory board members to assist the units in promoting good governance, ethics, and internal oversight of the advisory boards and commissions. The Risk Management Guidance for Smithsonian Advisory Boards and Commissions issued in February 2021 standardizes the vetting practices for members and candidates for advisory boards and clarifies the consultation process when there is a risk of reputational harm to the Smithsonian. In consultation with the Inspector General, the Board of Regents and Smithsonian leadership also developed a process to ensure that advisory board members with relationships to the Smithsonian's external auditors KPMG do not engage in activities at the Smithsonian that would impair KPMG's independence. With these guiding principles, the advisory boards are poised to build a diverse and valued membership base that has opportunities for cross-Smithsonian experiences and will excel in a new normal environment serving global audiences.

BOARD OF REGENTS' POLICIES AND PROCEDURES | As responsible stewards of a public trust, the Regents are committed to transparency in operations and remaining accessible to key stakeholders, including Smithsonian staff, the Congress, and the public. To that end, the Board conducts an annual public forum, maintains a Regents' website that contains detailed and up-to-date information about Board activities, and regularly communicates with Congress. The Board has remained committed to holding its annual public forum in order to provide an opportunity for direct public input to the Board. In 2020, due to health precautions related to the pandemic, the Board of Regents held its first annual public forum as a live webcast. This interactive virtual public forum gave the national audience easier access to the Board and allowed the Smithsonian to reach a broader audience beyond the Beltway, receiving participation of 726 total views in eight countries and 19 states.

Being a leader in nonprofit governance also requires regularly assessing the effectiveness of the Board's own practices and procedures. Advancing the best interests of the Smithsonian at times requires the Board to conduct a portion of its meeting in executive session. In 2019, the Governance and Nominating Committee led a review of the Board's use of executive sessions at Regent committee and Board meetings to ensure consistency with best practices. After assuring itself that the Board's practices met or exceeded best practices in non-profit governance, the Regents codified the Board's existing practices into written guidelines.

Further, the Board conducts an annual self-assessment to certify that Regents are fulfilling their duties and responsibilities and that appropriate processes are in place to ensure the Board is giving due diligence to planning and oversight over the Smithsonian. The fiscal year 2020 self-assessment was updated to an online format, providing for greater Regent participation, and more efficient collection and analysis of quantitative and qualitative data.

FINANCIAL OVERSIGHT | The Audit and Review Committee is one of the major operating committees of the Smithsonian's Board of Regents that provides oversight of the financial reporting process, the audit process, the Institution's system of internal controls, and compliance with laws and regulations. For fiscal year 2019, the Smithsonian's independent auditor KPMG reported a significant deficiency in management's review of certain financial statement disclosures. To address the significant deficiency, KPMG recommended that the Smithsonian establish a standard accounting manual that would inform all employees of operating procedures and policies. KPMG also recommended that the Smithsonian

evaluate its process to review external financial reporting and enhance the level of review and precision. The Audit and Review Committee worked closely with Smithsonian management, KPMG, and the Inspector General to address the deficiency and implement KPMG’s recommendations. KPMG deemed the FY 2019 significant audit deficiency substantially complete on June 29, 2021, and significant deficiency from 2019 was remediated with respect to enhanced process and review over external financial statements. Further, for fiscal year 2020, KPMG reported a significant deficiency in control over reconciliation and review of construction in progress (“CIP”), including cutoff and retention accruals. The Audit and Review Committee is working closely with Smithsonian management, KPMG, and the Inspector General to address the deficiency and implement KPMG’s recommendations. The internal controls and improved actions for financial reporting will ensure the Board maintains the Smithsonian’s overall integrity, financial credibility, and long-term viability.

SMITHSONIAN ENDOWMENT | We are grateful for the robust support that the Smithsonian receives from the American people, Congress, and the Administration. In addition to vital federal support, the Smithsonian also relies on its endowment, made possible by philanthropic gifts, to fund Trust priorities. Under the leadership of the Regents’ Investment Committee, the Smithsonian’s Office of Investments has driven top-tier returns that have funded current priorities and enabled the success of new initiatives. The endowment has outperformed all benchmarks and has increased by approximately \$600 million over the past two years.

Following the success of the Smithsonian’s first comprehensive capital campaign, the largest ever undertaken by a cultural organization, the Smithsonian has built a model fundraising organization. Through its Advancement Committee, the Board provides oversight of fundraising plans and policies, and reviews and approves certain gift terms and recognition, sponsorships, and naming opportunities. In July 2021, the Regents approved a \$200 million donation from Jeff Bezos, founder and executive chair of Amazon, and founder of aerospace and space flight company Blue Origin. The donation is the largest gift to the Smithsonian since the Institution’s founding gift from James Smithson in 1846. A \$70 million portion of the donation will support the renovation of the National Air and Space Museum and \$130 million will launch a new education center at the museum. This gift will make a significant impact on the future of the Smithsonian and offers exciting opportunities for the successful launch of a future campaign.

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The Regents are committed to transforming a historical Institution into an agile Smithsonian that maximizes the use of technology to serve 21st-century audiences, brings people together to share big ideas and conflicting perspectives, proffers solutions to problems of national and global import, and strengthens the Smithsonian’s relevance to all audiences. The Board is confident that this great Institution can build on its impressive legacy of scholarship, collections preservation expertise, innovative exhibitions, and education in the fields of history, the arts, culture, and the sciences to be even more relevant for generations to come.