

MINUTES OF THE JANUARY 19, 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 January 19, 2024. Participating were Committee Chair Denise M. O’Leary and Committee members Senator Catherine Cortez Masto, 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 Ronald Cortez; Acting General Counsel Farleigh Earhart; Deputy Chief of Staff to the Regents Kate Forester; Special Assistant to the Regents Mallory Gianola (recorder); Head of Digital Transformation Becky Kobberod; 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; Chief of Staff to the Regents Porter Wilkinson; Senior Advisor to the Chief Financial Officer Mike Witbeck; 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 10:00 a.m. and reviewed the agenda.

APPROVAL OF THE AUGUST 7, 2023, COMMITTEE MEETING MINUTES

Upon motion duly made and seconded, the draft minutes of the August 7, 2023, meeting were approved.

AUDIT RESULTS FISCAL YEAR 2023 FINANCIAL STATEMENTS

KPMG Partner Cathy Baumann led the Committee’s discussion and review of the preliminary results of the Smithsonian’s annual financial statements audit, required communications, and related deliverables for fiscal year 2023. Ms. Baumann informed the Committee that the audit of Smithsonian-wide financial statements (Federal and Trust) was substantially complete, and an unmodified opinion with no material weaknesses or significant deficiencies reported is expected to be issued by January 22, 2024, with supplemental information related to the presentation of Federal and Trust activity and balances. Ms. Baumann noted that the audit was completed in accordance with professional standards and there were no significant changes to the planned risk assessment or audit strategy as it was originally presented to the Committee in August 2023.

The Committee reviewed the audited financial statements, KPMG’s required communications, and the draft letter to management. Ms. Baumann noted that KPMG found no instances of noncompliance and no material weaknesses in internal control over financial reporting. Ms. Baumann also reviewed two uncorrected audit misstatements related to the classification of net assets and timing of revenue recognition. She informed the Committee that the misstatements could potentially cause future-period financial statements to be materially misstated, even if the uncorrected misstatements are immaterial to the financial statements under audit.

The Committee discussed expanding the use of audit technology, specifically using artificial intelligence (“AI”) to enhance trust in financial reporting and the capital markets. Ms. Baumann noted that KPMG has formed alliances with major tech companies to develop innovative AI solutions to embed AI capabilities throughout its business to transform the audit. To ensure ethical use of AI, a system of quality control that combines human engagement and powerful AI models will be implemented.

The Committee then reviewed key information related to federal activities. Federal appropriations and expenses were found to be reasonable as were the assumptions used to determine employee benefit obligations. No instances of non-compliance regarding applicable laws and regulations were reported as of September 30, 2023.

INSPECTOR GENERAL UPDATE

Acting Inspector General Joan Mockeridge updated the Committee on the activities of the Office of the Inspector General (“OIG”). Between the August 2023 and January 2024 Committee meetings two reports were issued from the OIG including the Semiannual Report to Congress for the period ending September 30, 2023, and the Audit Plan for Fiscal Year 2024.

Ms. Mockeridge presented the audit plan for fiscal year 2024, which includes ongoing audits, mandatory audits, and discretionary audits. She reported that there are nine audits currently in progress and noted that the audit plan may be adjusted to ensure the OIG directs available resources to the areas with the highest risks and impacts.

Ms. Mockeridge also reviewed the status of OIG recommendations and noted that there were 10 open OIG recommendations as of January 8, 2024. In October 2022, the OIG assigned priority status to three open recommendations. These open recommendations were identified to have the most significant benefit or impact to the Institution’s mission, operations, programs, or funds. Ms. Mockeridge reported that the three priority recommendations had been completed and as of January 5, 2024, there were no open priority recommendations.

PROGRESS ON IDENTIFIED AUDIT AND INTERNAL CONTROL DEFICIENCIES

Under Secretary for Administration Ron Cortez updated the Committee on the Smithsonian’s efforts to address the recommendations issued by the Office of the Inspector General, as well as recommendations made by KPMG in the fiscal year 2022 financial statements audit.

Since the Committee's last update in August 2023, four recommendations from the OIG were closed and the Smithsonian closed a total of 17 OIG recommendations in fiscal year 2023. The Committee also reviewed the status of the observations that were provided in KPMG's letter to management after as part of the fiscal year 2022 financial statements audit.

FISCAL YEAR 2023 FINANCIAL STATEMENTS HIGHLIGHTS

The Smithsonian's Deputy Chief Financial Officer and Controller John Lynskey briefed the Committee on the Institution's financial results from fiscal year 2023, which ended on September 30, 2023. Mr. Lynskey informed the Committee that total net assets increased by \$280 million in fiscal year 2023, a five percent increase over fiscal year 2022. Operating revenue increased by eight percent and net operating income rose to \$1.4 million from a previous annual period loss of (\$63.0 million) in fiscal year 2022. Mr. Lynskey noted that the positive financial results are primarily the result of enhanced cash management policies, increased visitor traffic in the museums, increased Smithsonian Travel and Tours, and increased e-commerce activity.

IT SECURITY AND PRIVACY UPDATE

Chief Information Officer Deron Burba shared the Smithsonian's fiscal year 2023 IT security and privacy accomplishments and fiscal year 2024 goals. Fiscal year 2023 highlights included team additions; updated policies, procedures, plans, and documents; security operations; supply chain risk management; and enhancements to risk management.

Mr. Burba also briefed the Committee on two, recent IT security incidents. Both incidents involved a file-transfer software program application called MOVEit, which is used by Delta Dental and TIAA's vendor, Pension Benefit Information, LLC. The Committee reviewed the Smithsonian's Privacy Breach Policy, as well as the privacy breach reporting and response process. Mr. Burba also reminded the Committee that the Smithsonian established a Privacy Council to manage and coordinate the Smithsonian's response to a breach affecting members of the Smithsonian community.

SALESFORCE IMPLEMENTATION UPDATE

Head of Digital Transformation Becky Kobberod updated the Committee on the implementation of Salesforce, a foundational pan-institutional CRM platform that the Smithsonian will use to build a cohesive, unified approach to the SI audience experience. The project scope will include visitor services, advancement, and foundational platform activities. A phased implementation approach is being proposed to pilot new functionality, iterate work based on pilot findings, and review long-term impacts and costs before scaling Institution-wide. Ms. Kobberod highlighted opportunities to streamline operations, as well as retire duplicated and aging/outdated systems.

SMITHSONIAN ENTERPRISE RISK MANAGEMENT

Program Manager Catherine Chatfield provided an update on the Smithsonian’s Enterprise Risk Management (“ERM”) program. Since the August 2023 Committee meeting, 11 ERM Listening Sessions have been completed with non-Central locations and will be presented to the Executive Risk Council in February to determine if changes should be made to the ERM Risk Profile. ERM goals for 2024 include finalizing the vision, building out reporting capability, and advancing the communications plan.

BACKGROUND INFORMATION

The Committee had an opportunity to ask questions related to the read-ahead information provided on the Smithsonian’s risk awareness training, Internal Review Group, and reference materials for audit recommendations.

EXECUTIVE SESSION

The Committee adjourned its open session at approximately 11:43 a.m. to conduct executive 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.

ADJOURNMENT

There being no further business to discuss, the meeting was adjourned at approximately 12:04 p.m.

Respectfully submitted,
Denise M. O’Leary, Chair