

MINUTES OF THE SEPTEMBER 16, 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 September 16, 2024. Participating were Committee Chair Denise M. O’Leary and Committee members Barbara M. Barrett, Toni Bush, John Fahey, and Roger W. Ferguson, Jr.

Also present by invitation of the Committee were Inspector General Nicole Angarella; Liaison to Representative Graves, Maggie Ayrea; Chief of Staff to the Secretary Greg Bettwy; Chief Information Officer Deron Burba; Enterprise Risk Program Manager Catherine Chatfield; Under Secretary for Finance and Administration and Chief Financial Officer Ron Cortez; Director of the Office of Contracting and Personal Property Management; Principal Deputy General Counsel Farleigh Earhart; Deputy Chief of Staff to the Regents Kate Forester; Special Assistant to the Regents Mallory Gianola (recorder); President of Smithsonian Enterprises Carol LeBlanc; Chief Legal Officer Jennifer McIntyre; Assistant Inspector General for Audits Joan Mockeridge; Assistant Controller Kelli Polon; Manager of Risk Management Katherine Tkac; Counselor and Chief of Staff to the Regents Porter Wilkinson; and Liaison to Senator Cortez Masto, Josh Yearsley.

Also in attendance were Cathy Baumann 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. Ms. O’Leary noted recent personnel changes in the Office of the Under Secretary for Finance and Administration. She acknowledged the final meeting for Chief Information Officer Deron Burba, who will be retiring effective September 30, 2024. She also informed the Committee that Carmen Iannacone will serve as the interim CIO.

APPROVAL OF THE MARCH AND JULY 2024 COMMITTEE MEETING MINUTES

Upon motion duly made and seconded, the draft minutes of the March 4, 2024, and July 26, 2024, meetings were approved.

COMMITTEE CHARTER REVIEW

The Committee reviewed its Charter per its mandate to annually review and assess the Charter and evaluate the Committee’s performance with respect to its requirements. No modifications to the Charter were proposed.

REVIEW OF KPMG FISCAL YEAR 2024 AUDIT PLAN

KPMG partner Cathy Baumann reviewed KPMG’s audit plan and strategy for fiscal year 2024. The Committee was briefed on the fiscal year 2024 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 single audit in fiscal year 2024 will include the research and development cluster and the United States Postal Service in relation to the National Postal Museum as significant accounts for risk assessment. KPMG reported that timing will be substantially consistent with fiscal year 2023, with expected reporting on the financial statement audit, single audit, and Smithsonian Enterprises Statement of Net Gain Review in January 2025.

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

Next, 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 tax year informational returns (Forms 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, 2024, 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.

INSPECTOR GENERAL UPDATE

Inspector General Nicole Angarella updated the Committee on the activities of the Office of the Inspector General (“OIG”). Ms. Angarella informed the committee that between the March and September meetings, the OIG issued three reports, including the Semiannual Report to Congress for the period ending March 31, 2024. The Office of the Inspector General has nine audits in progress and no priority recommendations identified at this time. Ms. Angarella also reviewed the Fiscal Year 2025 Annual Audit Plan, a summary of the audit work in progress, and the status of OIG recommendations for the period ending September 6, 2024.

PROGRESS ON IDENTIFIED AUDIT AND INTERNAL CONTROL DEFICIENCIES

Next, the Committee reviewed efforts to address recommendations made by the OIG in conducting audits and recommendations and deficiencies reported by KPMG as part of the financial statement audits. The Office of the Under Secretary for Finance and Administration and CFO closed 19 recommendations in fiscal year 2024 and submitted an additional three for closure. There were 16 open recommendations as of September 10.

UPDATE ON INTERNAL CONTROLS PROGRAM

Mr. Cortez then updated the Committee on the Internal Controls Program, 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. The Smithsonian established an Internal Control Analyst position within the Office of Finance and Accounting in April 2024 and selected Rafael Cotto to serve in this critical role beginning October 21. The Institution also engaged the consulting firm Deloitte to assess internal controls and business processes and establish an Internal Controls Playbook. The project is slated to last 12 weeks with a close-out date of October 15, 2024.

990-T UBIT SE REVENUE LINES APPROACH

The Committee discussed the Smithsonian Enterprises 990-T Unrelated Business Income Tax (“UBIT”) revenue lines approach. Mr. Cortez noted that Smithsonian Enterprises works closely with the Office of the General Counsel to evaluate whether revenue generating activities are related or unrelated. The Committee reviewed the seven business line categories and examples and related business considerations for each line item.

ANNUAL CONFLICT OF INTEREST REPORTING

Chief Legal Officer Jennifer McIntyre provided the Committee with the Report of Annual Financial Disclosure and Conflict of Interest Review prepared by the Office of General Counsel (“OGC”) for calendar year 2023 through the 2024 filing season. This year, in addition to 100% compliance with the Form 1085s, the Smithsonian achieved the highest level of compliance with COI Declarations ever with 98.1% of employees completing their declarations. Based upon a review of the information contained in the filings, OGC assessed that any potential or actual conflicts have been or can be managed through recusal or other mitigations.

CHIEF INFORMATION OFFICER UPDATE

The Committee was updated on the IT security and privacy program. Chief Information Officer Deron Burba reported that the Smithsonian achieved a NIST Cyber Security Framework score at Level 4, Managed and Measurable, out of the five-level maturity model. The score included three metrics rated at a Level 5, Optimized, for the first time since implementation of the NIST

model in 2017. The Committee also reviewed the status of open recommendations from the fiscal year 2022 privacy program audit and the fiscal year 2023 IT security program audit.

The CIO also informed the Committee that a standard contractual clause has been drafted to be included in all contracts involving the acquisition of IT goods and/or services that requires vendors to provide Cyber Liability Insurance.

INSURANCE PROGRAMS AND PLANS

The Committee reviewed the status of insurance coverages carried by the Smithsonian, which are designed to mitigate or protect the Institution from financial loss, including 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.

ENTERPRISE RISK MANAGEMENT

Enterprise Risk Program Manager Catherine Chatfield briefed the Committee on the Smithsonian's Enterprise Risk Management ("ERM") program and framework. The Committee reviewed the fiscal year 2024 accomplishments and projects in progress, including updates to the ERM governance structure and the Council of the Inspectors General on Integrity and Efficiency ("CIGIE"), which was completed in May 2024. The Smithsonian is also continuing to develop risk management training.

COMMITTEE MEETING SCHEDULE

Ms. O'Leary then led a discussion on the proposed meeting cadence for 2025. Since 2016, the Committee has met two times per year: in January and July. For 2025, it was determined that Audit and Review Committee would meet in January, May, July, and September to accommodate required filing deadlines and more frequent touchpoints with the Committee.

The Committee also had an opportunity to ask questions related to the background information provided on OIG audit work and recommendation history for fiscal year 2024, as well as the updated dashboard supporting the ERM program.

EXECUTIVE SESSION

The Committee adjourned its open session at approximately 11:42 a.m. to conduct executive sessions with select staff, KPMG, the Inspector General, the Chief Legal Officer, and the Under Secretary for Finance and Administration/CFO, followed by a member-only executive session.

ADJOURNMENT

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

Respectfully submitted,

Denise M. O'Leary, Chair