

MINUTES OF THE JANUARY 13, 2025, 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 13, 2025. Participating were Committee Chair Denise M. O’Leary and Committee members Senator Catherine Cortez Masto, Toni Bush, John Fahey, and Roger W. Ferguson, Jr.

Also present by invitation of the Committee were Inspector General Nicole Angarella; Chief of Staff to the Secretary Greg Bettwy; Enterprise Risk Program Manager Catherine Chatfield; Under Secretary for Finance and Administration and Chief Financial Officer Ron Cortez; Internal Controls Program Manager Rafael Cotto; General Accounting and Reporting Manager James Edwards; Deputy General Counsel for Business Affairs Danielle Fisher; Deputy Chief of Staff to the Regents Kate Forester; Special Assistant to the Regents Mallory Gianola (recorder); Acting Chief Information Officer Carmen Iannacone; Deputy Chief Financial Officer and Controller John Lyskey; Deputy Secretary and Chief Operating Officer Meroë Park; 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 2:00 p.m. and reviewed the agenda.

APPROVAL OF THE SEPTEMBER 16, 2024, COMMITTEE MEETING MINUTES

Upon motion duly made and seconded, the draft minutes of the September 16, 2024, meeting were approved.

AUDIT RESULTS FISCAL YEAR 2024 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 2024. 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 14, 2025, 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 September 2024.

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 one uncorrected audit misstatement related to the reversal of the prior year's entry for the timing of revenue recognition for non-expenditure transfers from other federal entities. It was noted that the misstatement will reverse in the current year, due to the rollover impact of the prior year, so the financial statements will not include this item moving forward.

The Committee also reviewed the preliminary results of the single audit in fiscal year 2024, which included the research and development cluster and the United States Postal Service in relation to the National Postal Museum. Mr. White noted, based on the test work performed to date, that there were no reportable findings and no material weaknesses in internal control over compliance or significant deficiencies reported.

The Committee was then briefed on ways KPMG is deploying artificial intelligence ("AI"). Ms. Baumann informed the Committee that a Generative AI chatbot, KPMG – Audit Chat, was recently launched in KPMG's secure environment. The Committee discussed deployment opportunities, including analyzing year-over-year comparisons, providing industry insights, and providing insight to effective risk assessment.

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 September and January meetings, the OIG issued three reports and the Semiannual Report to Congress for the period ending September 30, 2024. It was noted the OIG has six audits in progress.

Ms. Angarella then reviewed the status of OIG recommendations and noted that there were 23 open OIG recommendations as of January 13, 2025, and OIG has no priority recommendations identified at this time.

To conclude, Ms. Angarella updated the Committee on efforts to enhance audit practices at the Smithsonian. OIG is training its existing auditors to perform yellow book audit work and blue book evaluations or inspections. The Yellow Book audit training is used by federal, state, and local auditors, as well as auditors of entities that receive government funding. The Blue Book audit training is used by Offices of Inspector General to assess the design, implementation, and results of various programs and policies. Following these trainings, OIG will launch an Inspections and Evaluations Pilot Project. OIG is also finalizing its internal manual, which will be used during peer reviews.

PROGRESS ON IDENTIFIED AUDIT AND INTERNAL CONTROL DEFICIENCIES

Under Secretary for Finance and Administration and Chief Financial Officer Ron Cortez reviewed efforts taken to address identified audit deficiencies and other internal control recommendations, and the status of recommendations issued by the Office of the Inspector General, the U.S Office of Personnel Management, and the U.S. Government Accountability Office. Since the September 16, 2024, Committee meeting there were nine (9) open recommendations, 19 recommendations have been submitted for closure, and two (2) recommendations were closed in 2025

FISCAL YEAR 2024 FINANCIAL STATEMENTS HIGHLIGHTS

The Smithsonian's Deputy Chief Financial Officer and Controller John Lynskey reviewed the Institution's financial results from fiscal year 2024, which ended on September 30, 2024. Mr. Lynskey informed the Committee that total net assets increased by \$444.1 million in fiscal year 2024, an eight percent increase over fiscal year 2023. Operating revenue increased by three percent, operating expenses increased by six percent, and net operating income decreased \$53.9 million for a net operating loss of \$52.5 million in fiscal year 2024. Mr. Lynskey noted that nonoperating activities were up \$218.5 million compared with the prior year, due largely to an increase in investment returns, leading to an improvement at the bottom line of \$164.6 million.

IT SECURITY AND PRIVACY UPDATE

Acting Chief Information Officer Carmen Iannacone shared the Smithsonian's fiscal year 2024 IT security and privacy accomplishments and reviewed the fiscal year 2025 goals. Fiscal year 2024 highlights included expanded security training and awareness; enhanced and automated Enterprise IT Security Architecture; updated policies, procedures, plans, and documents; implementation of threat intelligence tools; and the addition of a full-time Supply Chain Risk Management staff. Mr. Iannacone also cited fiscal year 2024 IT security incident trends.

The Committee also reviewed the audit metric results based on the Inspector General Federal Information Security Modernization Act. For FY 2024, the Smithsonian scored a Level 4 Maturity: Managed and Measurable, which is considered effective.

INSURANCE PROGRAM OVERVIEW

Manager of Risk Management Katherine Tkac reviewed the status of insurance coverages carried by the Smithsonian, which are designed to mitigate or protect the Institution from financial loss. The Committee was updated 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.

SMITHSONIAN ENTERPRISE RISK MANAGEMENT AND INTERNAL CONTROLS

Program Manager Catherine Chatfield provided an update on the Smithsonian's Enterprise Risk Management ("ERM") program. Ms. Chatfield reviewed the ERM accomplishments for fiscal year 2024, which included governance restructuring; identification and assessment of top risks; the completion of a Council of the Inspectors General on Integrity and Efficiency ("CIGIE") self-assessment updated risk register; and presentations on Tier 1 risks to the Executive Risk Council, Smithsonian Operations Team, and the Secretary for approval. The Committee reviewed the six Tier 1 risks identified for the fiscal year 2025 risk profile. Ms. Chatfield noted that Risk Response Plans for the Tier 1 risks are under development and will be shared with the Audit and Review Committee at its May meeting.

The Committee also received an update on the development and implementation of an Internal Controls Program, which is designed to ensure alignment with federal internal control best practices, mitigate systemic issues leading to recurring audit findings, improve reporting and operational efficiency, and foster trust and accountability. The Committee discussed its role in the Internal Controls Program, including promoting an environment conducive to strong internal controls and monitoring adherence to governance standards. Internal Controls Program Manager Rafael Cotto also outlined next steps and reviewed the program plan for fiscal year 2025.

EXECUTIVE SESSION

The Committee adjourned its open session at approximately 3:37 p.m. to conduct executive sessions with KPMG, the Inspector General, the Chief Legal Officer, 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 3:58 p.m.

Respectfully submitted,
Denise M. O'Leary, Chair