

MINUTES OF THE MAY 8, 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 May 8, 2025. 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; 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; Deputy Chief of Staff to the Regents Kate Forester; Special Assistant to the Regents Mallory Gianola (recorder); Acting Chief Information Officer Carmen Iannaccone; Deputy Chief Financial Officer and Controller John Lynskey; Chief Legal Officer Jennifer McIntyre; Deputy Secretary and Chief Operating Officer Meroë Park; Assistant Controller Kelli Polon; and Counselor and Chief of Staff to the Regents Porter Wilkinson.

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 12:00 p.m. and reviewed the agenda.

Under Secretary for Finance and Administration and Chief Financial Officer Ron Cortez briefly reviewed a summary of the action items from the Committee meeting in January and previewed the five to be discussed at the meeting on May 8, 2025.

APPROVAL OF THE JANUARY 13, 2025, COMMITTEE MEETING MINUTES

Upon motion duly made and seconded, the draft minutes of the January 13, 2025, meeting were approved.

AUDIT RESULTS SINGLE AUDIT AND MANAGEMENT LETTER

KPMG Partner Cathy Baumann led the Committee’s discussion and review of the results of the single audit and recommendations discussed with management as part of the Smithsonian’s financial statement audit for the year ended September 30, 2024. KPMG identified the Research and Development Cluster (“R&D”) and the United States Postal Service in relation to the National Postal Museum as the major programs for the single audit, in accordance with Uniform Guidance based upon preliminary risk assessments and draft Schedule of Expenditures of Federal Awards (“SEFA”) data. Ms. Baumann informed the Committee that an unmodified opinion was issued with no reportable matters related to R&D, and one reportable finding related to internal controls for the USPS audit because of late reporting, which has been addressed through a management action plan. The report was issued on April 1, 2025, and all required communications have been filed with the Federal Audit Clearinghouse.

INSPECTOR GENERAL UPDATE

Inspector General Nicole Angarella updated the Committee on the activities of the Office of the Inspector General (“OIG”). Since the January Committee meeting, the OIG issued three audits, including the Regents’ Reimbursed Expenses for Fiscal Years 2023 and 2024. The OIG also issued the Semiannual Report to Congress to management for the period ending March 31, 2025. Ms. Angarella also reported that the Office of the Inspector General has eight audits in progress. From October 1, 2024, to March 31, 2025, the OIG closed 27 recommendations and issued six. It was noted there were nine open OIG recommendations at the end of the period, and no priority recommendations identified at this time. The Committee also discussed the new audit reporting format developed by the Office of Audits, Inspections, and Evaluations and staff transitions in the Office of the Inspector General.

PROGRESS ON IDENTIFIED AUDIT AND INTERNAL CONTROL DEFICIENCIES

Next, Mr. 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. There are currently nine open recommendations, and 27 recommendations have been closed in 2025.

MANAGEMENT LETTER RECOMMENDATIONS

Deputy Chief Financial Officer and Controller John Lynskey and Acting Chief Information Officer Carmen Iannacone updated the Committee on the corrective action plan put in place to address two recommendations provided by KPMG in the management letter and required communications from the fiscal year 2024 audit. The management letter recommendations include enhancing policies and procedures over (1) the review of key account reconciliations and (2) IT system user access. Mr. Lynskey noted that there were no material weaknesses or significant deficiencies reported in the financial statements audit and all updates and implementation of the policies and procedures related to the two recommendations are either completed or in process.

ARTIFICIAL INTELLIGENCE AND FINANCIAL REPORTING

The Committee then discussed ways KPMG is deploying artificial intelligence (“AI”) in its financial reporting. Ms. Baumann reminded the Committee that the AI tools used by KPMG are administrative in nature, behind KPMG firewalls, and not publicly available. These internal AI tools include AuditChat, which aids in research on technical matters and reviews financial statements to compare disclosures to required checklists and relevant accounting standards. To ensure ethical use of AI, KPMG’s internal framework outlines a system of quality control that combines human engagement and powerful AI models. It was noted that the Smithsonian’s Office of Finance and Accounting (“OFA”) does not currently employ any AI related to preparing financial statements and reports.

CASH AND INVESTMENT SUMMARY

Next, Mr. Lynskey reviewed the cash and investment summary and the working capital portfolio distribution. As of March 31, 2025, the Smithsonian has \$415 million in operating cash and money market funds; \$219 million in the short-term investment fund; \$163 million in the mid-term investment fund; and \$75 million in the quasi-endowment.

IT SECURITY AND PRIVACY PROGRAM UPDATE

Acting Chief Information Officer Carmen Iannacone led the Committee's discussion on the Federal Information Security Modernization Act ("FISMA") audit scoring framework. The fiscal year 2024 score included three metrics rated at a Level 5, Optimized, for the first time since implementation of the NIST Cybersecurity Framework model in 2017. Mr. Iannacone noted there are some metrics where the Smithsonian is already operating at Level 5 or could reasonably obtain that assessment without significant investment or process change, so the Office of the Chief Information Officer ("OCIO") is targeting its assessment justification for Level 5 on those metrics.

The Committee also discussed recent security incidents, including the procedures for responding to breaches of personally identifiable information ("PII"). Smithsonian Directive 119 ("SD119") documents the procedures for responding to breaches of PII and applies to both breaches that occur at the Smithsonian and those that occur at third parties with whom the Smithsonian does business. The Committee then reviewed the age, function, and operational status of the top ten critical central IT systems and the status of seven open OCIO recommendations from three audits.

FRAUDULENT WEBSITE ACTIVITY

The Committee was briefed on fraud incidents that occurred between January and March 2025, specifically fraud incidents involving excessive card testing transactions. The Committee discussed the impact, response, and mitigation efforts.

SMITHSONIAN ENTERPRISE RISK MANAGEMENT AND INTERNAL CONTROLS PROGRAM

Enterprise Risk Program Manager Catherine Chatfield provided an update on the Smithsonian's Enterprise Risk Management program. The Committee discussed the role of risk champions, the ERM program process, and reviewed the Tier 1 Risks.

Internal Controls Program Manager Rafael Cotto also provided an update on improving maturity of the Internal Controls program, specifically related to audit insights and reviewing audit recommendations for fiscal years 2023 and 2024. Mr. Cotto is working with internal stakeholders to compile insights into the program scope. To date, progress highlights include: (1) a completed review of existing internal control policies and authoritative guidance to ensure the program aligns with federal best practices, (2) developing a list of operating units and

identifying corresponding Internal Control points of contact, (3) performing an inventory of key processes, and (4) updating the project plan to include gathered insights.

BACKGROUND INFORMATION

The Committee had an opportunity to ask questions related to the read-ahead information provided on identified audit deficiencies and other non-OIG audits in progress, fraudulent website activity, Enterprise Risk Management, and Internal Controls.

EXECUTIVE SESSION

The Committee entered into an executive session at approximately 1:43 p.m. to conduct 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 2:00 p.m.

Respectfully submitted,
Denise M. O’Leary, Chair