



# Smithsonian Institution

Memo

Office of the Inspector General

Date: November 17, 2016

To: John W. McCarter, Jr., Chair, Board of Regents  
Ambassador Barbara M. Barrett, Chair, Audit and Review Committee,  
Board of Regents  
Dr. David J. Skorton, Secretary

Cc: Albert G. Horvath, Under Secretary for Finance and Administration and  
Chief Financial Officer

John Benton, Acting Deputy Under Secretary for Finance and  
Administration and Chief Financial Officer

Jean Garvin, Director, Office of Finance and Accounting

From:   
Cathy L. Helm, Inspector General

Subject: Independent Audit Report on the Fiscal Year 2016 Audit of the Smithsonian  
Institution's Federal Closing Package Financial Statements (OIG-A-17-01)

This memorandum transmits the first of three component reports of the fiscal year 2016 financial statement audits of the Smithsonian Institution (Smithsonian) performed by the independent public accounting firm of KPMG LLP (KPMG).<sup>1</sup> On November 16, 2016, KPMG issued its report on the Smithsonian's federal closing package financial statements. KPMG expressed an unmodified opinion that concluded the Smithsonian's financial statements were presented fairly, in all material respects, in accordance with the applicable financial reporting standards.

As part of our oversight activities, we reviewed KPMG's audit reports and documentation and interviewed its representatives. Our review of KPMG's fiscal year 2016 audit procedures disclosed no instances where KPMG did not comply, in all material respects, with the American Institute of Certified Public Accountants' generally accepted auditing standards and the U.S. Government Accountability Office's *Government Auditing Standards*.

Our oversight of KPMG's audit was not intended to enable us to express, and we do not express, an opinion about the Smithsonian's financial statements, internal controls over financial reporting, or compliance with laws and regulations. KPMG is responsible for its audit reports and the conclusions therein.

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<sup>1</sup> The Office of the Inspector General is the Smithsonian's Contracting Officer's Technical Representative for the oversight of KPMG's audits.

If you have any questions, please do not hesitate to contact me or Joan T. Mockeridge, Assistant Inspector General for Audits, at (202) 633-7050.

Attachment



KPMG LLP  
1676 International Drive  
McLean, VA 22102

## Independent Auditors' Report

The Office of the Inspector General, Audit and Review Committee of the Board of Regents, and Secretary Skorton  
Smithsonian Institution:

### Report on the Closing Package Financial Statements

We have audited the accompanying Closing Package Financial Statement Report of the Smithsonian Institution Federal Appropriated Funds (the Smithsonian Federal Funds), which comprise the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) Reconciliation Report – Reclassified Balance Sheet as of September 30, 2016, and the related GTAS Reconciliation Reports – Reclassified Statement of Net Cost and Reclassified Statement of Changes in Net Position for the year then ended, and the related notes to the financial statements (hereinafter referred to as the “closing package financial statements”). The notes to the financial statements comprise the following:

- GTAS Closing Package Lines Loaded Report,
- Financial Report (FR) Notes Report (except for the information entitled “2015 - September”, “Prior Year”, “PY”, “Previously Reported”, “Line Item Changes”, and “Threshold”, and the information as of and for the year ended September 30, 2015 in the “Text Data”), and
- Additional Note No. 30 (except for the information as of and for the year ended September 30, 2015).

### *Management's Responsibility for the Closing Package Financial Statements*

Management is responsible for the preparation and fair presentation of these closing package financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the closing package financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these closing package financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the closing package financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the closing package financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the closing package financial statements, whether



due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the closing package financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the closing package financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion on the Closing Package Financial Statements***

In our opinion, the closing package financial statements referred to above present fairly, in all material respects, the financial position of the Smithsonian Institution Federal Appropriated Funds as of September 30, 2016, and its net cost and changes in net position for the year then ended in accordance with U.S. generally accepted accounting principles.

### ***Emphasis of Matter***

We draw attention to Additional Note No. 30 to the closing package financial statements, which describes that the accompanying closing package financial statements were prepared to comply with requirements of the U.S. Department of the Treasury's *Treasury Financial Manual* (TFM) Volume I, Part 2, Chapter 4700 (TFM Chapter 4700) and U.S. Department of the Treasury's *Supplemental Guidance to TFM Chapter 4700* dated October 17, 2016 (Supplemental Guidance) for the purpose of providing financial information to the U.S. Department of the Treasury and the U.S. Government Accountability Office (GAO) to use in preparing and auditing the *Financial Report of the U.S. Government*, and are not intended to be a complete presentation of the consolidated balance sheet of the Smithsonian Federal Funds as of September 30, 2016, and the related statements of net cost and changes in net position, and combined statement of budgetary resources, or the statement of financial position of the Smithsonian Institution as of September 30, 2016, and the related statement of activities for the year then ended. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

U.S. generally accepted accounting principles require that the information, except for such information entitled "2015 - September", "Prior Year", "PY", "Previously Reported", "Line Item Changes", and "Threshold", and the information as of and for the year ended September 30, 2015 in the "Other Text Data", included in Other Data Report No. 9 be presented to supplement the basic closing package financial statements.

Such information, although not a part of the basic closing package financial statements, is required by the Federal Accounting Standards Advisory Board (FASAB) who considers it to be an essential part of financial reporting for placing the basic closing package financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic closing package financial statements, and other knowledge we obtained during our audit of the basic closing package financial statements. Although our opinion on the basic closing package financial statements is not affected, Other Data Report No. 9 contains material departures from the prescribed guidelines because the information included in this Other Data Report presents the required information for the *Financial Report*



of the U.S. Government and not the required information for the Smithsonian Federal Funds' financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Combining Statement of Budgetary Resources and Management's Discussion and Analysis that U.S. generally accepted accounting principles require to be presented to supplement the basic closing package financial statements. Such missing information, although not a part of the basic closing package financial statements, is required by the FASAB who considers it to be an essential part of financial reporting for placing the basic closing package financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic closing package financial statements is not affected by this missing information.

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the closing package financial statements as a whole. The information other than that described in the first paragraph and the first paragraph of the subsection labeled *Required Supplementary Information* are presented for purposes of additional analysis in accordance with TFM Chapter 4700 and the Supplemental Guidance and are not a required part of the closing package financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the closing package financial statements as of and for the year ended September 30, 2016, and accordingly, we do not express an opinion or provide any assurance on it.

#### ***Restriction on Use of the Report on the Closing Package Financial Statements***

This report is intended solely for the information and use of the management of the Smithsonian, Smithsonian's Office of the Inspector General, Audit and Review Committee of the Board of Regents, U.S. Department of the Treasury, OMB, and GAO in connection with the preparation and audit of the *Financial Report of the U.S. Government* and is not intended to be and should not be used by anyone other than these specified parties.

#### **Other Reporting Required by Government Auditing Standards**

##### ***Internal Control Over Financial Reporting Specific to the Closing Package Financial Statements***

In planning and performing our audit of the closing package financial statements, we also considered the Smithsonian Federal Funds' internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the closing package financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Smithsonian Federal Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of the Smithsonian Federal Funds' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control specific to the closing package financial statements was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



***Compliance and Other Matters Specific to the Closing Package Financial Statements***

As part of obtaining reasonable assurance about whether the Smithsonian Federal Funds' closing package financial statements are free from material misstatement, we also performed tests of its compliance with certain provisions of TFM Chapter 4700 and the Supplemental Guidance, noncompliance with which could have a direct and material effect on the determination of the closing package financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit of the closing package financial statements, and accordingly, we do not express such an opinion. The results of our tests of compliance with TFM Chapter 4700 and the Supplemental Guidance disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 15-02.

***Purpose of the Other Reporting Required by Government Auditing Standards***

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Smithsonian Federal Funds' internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

**KPMG LLP**

McLean, Virginia  
November 16, 2016