



**Tuesday, June 6, 2023  
Audit Committee Meeting**

**9:00 A.M.**

**Virtual Meeting**

The link to view the meeting virtually can be found at [www.sib.wa.gov/meetings.html](http://www.sib.wa.gov/meetings.html)

**OR**

Members of the public may view the virtual meeting in person at the Washington State Investment Board Olympia Office located at 2100 Evergreen Park Drive SW, Olympia, WA 98502

**Main Governing Board**

**1. Call to Order/Roll Call (9:00a)**

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**2. Adoption of Minutes (9:00-9:05)**

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A. Adoption of the March 9, 2023, Minutes

**3. External Audit (9:05-9:10)**

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A. Fiscal Year 2023 Financial Statement Audit Planning Letters

**4. Internal Audit (9:10-10:00)**

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A. Audit Recommendation Status Report

B. Internal Audit Report – Private Markets Capital Calls and Distributions

C. Audit Plan Quarterly Status Report - Fiscal Year 2023

D. Fiscal Year 2024 Audit Plan

**5. Management (10:00-10:05)**

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A. Quarterly Investment Referral Report

**6. Other Items (10:05-10:10)**

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**7. Adjourn (10:10a)**

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**WASHINGTON STATE INVESTMENT BOARD  
Audit Committee Meeting Minutes  
June 6, 2023**

The Audit Committee met in open public session via Teams video conferencing available to participants and members of the public at <https://www.microsoft.com/en-us/microsoft-teams/join-a-meeting?rtc=1>, Meeting ID: 220 854 181 215, Passcode: bhynSD; Dial-In Number 1-360-726-3322; Phone Conference ID: 698 887 482#.

Committee Members Present: Treasurer Mike Pellicciotti, Chair  
Tracy Guerin  
Joel Sacks  
Sara Ketelsen  
Liz Lewis  
Bill Longbrake  
George Zinn

Committee Members Absent: None

Also Present: Allyson Tucker, Chief Executive Officer  
Chris Hanak, Chief Investment Officer  
Kristina Taylor, Chief Financial Officer  
Marie Steffen, Audit Director  
Susan Iselin, Internal Auditor  
Stacy Conway, Executive Assistant  
Lisa Devlin, Administrative Assistant  
  
Tor Jernudd, Attorney General's Office

**CALL TO ORDER**

Chair Pellicciotti called the meeting to order at 9:03 a.m. and took roll call. All Committee members listed as present were able to fully participate in the meeting.

**ADOPTION OF THE MARCH 9, 2023, MINUTES**

**Chair Pellicciotti moved to adopt the March 9, 2023, meeting minutes.**

**Mr. Sacks seconded, and the motion carried unanimously.**

**EXTERNAL AUDIT**

**Fiscal Year 2023 Financial Statement Audit Planning Letters**

Ms. Steffen reviewed the required audit engagement communication received by the Board's independent financial statement auditor, Eide Bailly. The communication included an engagement letter to management and a planning letter to the Audit Committee summarizing the responsibilities of the auditor and management, identifying the expectations for the audit,

and outlining the planned scope and timing of the Fiscal Year (FY) 2023 audits. Ms. Steffen noted that there were no significant changes in the engagement letters from the previous year.

## **INTERNAL AUDIT**

### **Audit Recommendation Status Report**

Ms. Steffen reported on two audit recommendations relating to the Personal Investments and Trading System audit and noted that both recommendations were completed over the quarter. Internal Audit verified the actions taken relating to updates made to the Personal Trading Procedures Manual and the implementation of a periodic reminder process in the event a broker does not provide a direct feed to the WSIB's personal trading system. The recommendations are closed.

Discussion ensued regarding the Audit Committee's responsibilities related to the audit recommendation follow-up process, the timeliness of staff's actions related to audit recommendations, and Internal Audit's periodic engagement to review of prior audit recommendations.

### **Internal Audit Report – Private Markets Capital Calls and Distributions**

Ms. Iselin presented the results of the Private Markets Capital Calls and Distributions internal audit engagement. Ms. Iselin discussed the importance of controls over the wire instructions and reviewed the current controls in place. Ms. Iselin noted the audit focused on wire instructions, capital calls and distributions, regular reconciliations, and system access. Overall, the audit concluded that processes and controls are in place to ensure capital calls and distributions are valid, processed accurately and timely, and are functioning to ensure the WSIB's assets are properly safeguarded. There were no reportable audit recommendations.

When asked what would be considered a high-level audit recommendation, Ms. Iselin discussed unauthorized wire transfers and reiterated that the WSIB has strong controls in place over this process. Discussion ensued related to the scope of the audit and if it coincided with the failure of Silicon Valley Bank. Ms. Steffen reviewed that the focus of the audit engagement was to verify that wire instructions were valid and entry into the WSIB was accurate; the audit did not analyze which banks were in use. Ms. Tucker recognized the change in the WSIB's processes during that period and the analysis and assessment of specific transactions to ensure the funds processed to that bank were safeguarded.

**Audit Plan Quarterly Status Report – Fiscal Year 2023**

Ms. Steffen reported on the status of the FY2023 Audit Plan. She noted one change to the reporting date of the Tangible Assets audit stating that the audit will be completed in June and reported to the Audit Committee in September.

In addition, she informed the Committee that the Internal Auditing Standards (Standards) are under review by the issuing board. She and Ms. Iselin reviewed the proposed draft Standards over the quarter and submitted feedback for the issuing board’s consideration. Under the current timeline, the final Standards will be issued at the end of 2023 with an implementation deadline of 2024. After the final Standards are released, Ms. Steffen will advise the Committee of relevant updates, to include impacts to the WSIB and the Audit Committee, and changes in internal audit operations to ensure conformance with the Standards.

Lastly, Ms. Steffen reviewed the accomplishments of the unit over the year, highlighting that the majority of audits were completed, to include an additional unplanned audit, and the unit is on track to complete the remaining audits as outlined in the FY2023 Audit Plan.

[Mr. Markley joined the meeting at 9:28 a.m.]

**Fiscal Year 2024 Audit Plan**

Ms. Steffen presented the FY2024 Audit Plan, which is risk-based and developed in alignment with the agency’s priorities and goals. She summarized the value internal audit brings to an organization as an independent source of objective assurance and advice. Ms. Steffen discussed the importance of organizational independence related to internal audit and reviewed the lines of reporting for the WSIB’s internal audit function.

Ms. Steffen reviewed the Audit Plan development process which this year included an analysis of prior audit engagements to identify audit areas that received partial coverage as part of another audit engagement. In addition, she outlined the risk assessment process which included meetings with unit managers, executive management, and Audit Committee members, as well as input from all staff in the form of an anonymous survey. The cumulative input was taken into consideration as the evaluation and prioritization of audits was established. She reviewed how the assessment of staff resources, both within the Internal Audit unit and agency, and impact to the audit frequency and timing.

Discussion ensued regarding the development process of the FY2024 audit plan, and Ms. Steffen noted that this year’s Audit Plan includes a forecast for the FY2025 audits.

The FY2024 Audit Plan consists of seven proposed audits. Ms. Steffen highlighted the Environmental, Social, and Governance (ESG) Reporting engagement, noting that the audit will review the agency's ESG Report, to include the preparation and review process, and supporting documentation. She also noted that the IT Security Audit, which will include the 3-year Office of the Chief Information Officer policy review, will be outsourced and will occur in FY2024.

In addition to the proposed audits, Ms. Steffen informed the Committee of Internal Audit's other projects and activities for FY2024. Other items include additional advisory services related to the Labor & Industries Real Estate Program, collaboration with Legal, Risk, and Compliance on an Assurance Mapping project, the 5-year External Quality Assessment of the Internal Audit Function, and liaison work related to the State Auditor's Office 2-year accountability and compliance audit of the WSIB.

Ms. Steffen outlined the resources of the Internal Audit unit and other professional accounting resources available through the Department of Enterprise Services master contracts. In addition, she provided an analysis of the forecasted resource allocation for both the Audit Director and Internal Auditor with regard to how staff anticipates spending their time. She proposed the addition of another Internal Auditor position to assist with ensuring continued audit coverage, while recognizing the potential administrative changes requiring additional resources from the Audit Director, and the overall complexity and growth of the agency. The request would be under Board consideration as part of the 2025-2027 budget proposal, and Ms. Steffen stated that Ms. Tucker was supportive of the request. Discussion ensued related to the addition of an Internal Auditor position; the Committee was supportive of the proposal.

Ms. Steffen discussed the correlation between the WSIB's 2023 Strategic Plan theme, "Challenging Our Assumptions," and a core audit concept of "professional skepticism." She explained that "skepticism" can hold a negative connotation; however, auditors view it as a reflection of their independent and inquisitive mindset. She asserted that high self-esteem is a key trait of auditors, in order to ask challenging questions, gather and analyze large amounts of data, and identify areas for improvement. She concluded her remarks by addressing the strong culture of governance and commitment to improvement within the WSIB which allows the Internal Audit unit to add value to the agency.

**Ms. Lewis moved that the Audit Committee recommend the Board approve the Fiscal Year 2024 Audit Plan as currently proposed. Ms. Guerin seconded the motion.**

**Treasurer Pellicciotti moved to amend the Audit Plan to move up the date of the audit of the proxy voting system from 2025 to the 2024 Audit Plan.**

**Ms. Lewis seconded the motion.**

Discussion ensued regarding the rationale for conducting the Proxy Voting audit as part of the FY2024 plan or the FY2025 plan.

Mr. Zinn observed that in previous discussions, the Internal Audit unit was utilizing its resources at full capacity, and if an audit was to be added to the FY2024 plan, removing a planned audit to help satisfy resource capacity should also be considered. He questioned the difference between the proxy voting report given by staff at the March Audit Committee meeting and the proposed proxy voting audit. In response, Treasurer Pellicciotti recognized that proxy voting has not previously been audited and the audit scope would be determined by Internal Audit. He acknowledged that the presentations given by the external consultants provide data regarding the percentages of voting alignment with those firms. However, he opined that the question of how much the votes align with the WSIB's beliefs is not clearly answered and an audit would answer that question. Treasurer Pellicciotti noted the Board's delegation of proxy voting to staff and the potential value to staff of audit results.

Ms. Guerin acknowledged the limited resources of the Internal Audit unit, the Audit Plan's risk assessment and processes of determining engagements included on the plan, and upcoming Board educational sessions related to proxy voting. She noted that the value of an audit would be better served after the education sessions and accompanying conversations at the full Board level.

Mr. Longbrake observed that other engagements, such as the Assurance Mapping project and additional analysis provided by proxy voting service providers Glass Lewis and Institutional Shareholder Services (ISS), could provide further insight on compliance coverage and how proxy votes align with Board policies. In addition, he asked what audit would be removed from the FY2024 Audit Plan to ensure resources would be available and if delaying a planned FY2024 audit would potentially create issues in other areas.

Ms. Steffen stated that she has not identified which audit(s) would be removed. She discussed the anticipated scope of the ESG Reporting audit and noted proxy voting would be partially covered as it is incorporated in the ESG report. In addition, she explained the process of determining the timing of audit engagements commenting that historically, in order to add the

most value, audits have been planned after staff changes have occurred or when management has implemented changes to processes. Institutional Relations has a new director, and there will be an Assistant Corporate Governance Officer joining the unit. She also reiterated that due to limited resources, outsourced services may be needed to support the engagement.

Ms. Tucker stated that she supports the FY2024 plan as presented. She addressed comments made by Mr. Longbrake at the March Audit Committee meeting with regard to the politicization of proxy voting while also emphasizing a need to ensure the WSIB is voting in line with policy guidelines. She outlined planned agency activities to address Board education needs and strategic updates to the Climate and Diversity, Equity, and Inclusion Blueprints, which will ultimately inform potential revisions to the proxy voting guidelines.

Ms. Steffen detailed the risk assessment process, consideration of changes in the agency, and how audits are selected and prioritized. She addressed the authority delegated to the Audit Director by the Board to select audit areas, bring forward those audits to the Board, and subsequently implement the Audit Plan. She noted that an amendment to the Audit Plan brought forward by the Audit Committee has not previously occurred and requested that the Audit Committee consider the precedent a change might set.

Mr. Sacks asked for clarification on the difference between performing the Proxy Voting audit in FY2024 rather than FY2025. Ms. Tucker reiterated that Ms. Steffen will set the scope of the audit, and Ms. Tucker outlined the anticipated actions over the next year with regard to Board education, policies and guidelines, and staff responses and policy implementations based on feedback provided by the Board.

Ms. Guerin acknowledged the governance comments made by Ms. Steffen. She reiterated her support of recommending approval by the Board of the FY2024 Audit Plan as presented.

When asked if the Committee has the authority to introduce a motion to amend the Audit Plan under the Audit Committee and Internal Audit Charters, Mr. Jernudd opined that as the Committee is responsible for recommending Board approval of the Audit Plan, it is implied that the Committee has the ability to not recommend Board approval of the Audit Plan. He noted that, in general, Board policies are intended to be flexible, cooperative, and solutions-based.

Discussion ensued regarding the Committee's responsibility for approving the annual risk assessment; prioritization of audits, including the proxy voting audit; potential proxy voting

aspects of the ESG reporting audit; and the FY2025 inclusive period of July 2024 through June 2025.

Treasurer Pellicciotti reiterated his desire to move the Proxy Voting audit to be completed during FY2024, stating that the Board has delegated the proxy voting to staff, and the Audit Committee has an obligation to ensure that proxy voting is in alignment with Board policy.

**Treasurer Pellicciotti called for a vote on the motion to amend the Audit Plan to move up the date of the audit of the proxy voting system from FY2025 to FY2024. The motion failed.**

**Treasurer Pellicciotti called for a vote on the original motion to approve the Fiscal Year 2024 Audit Plan as proposed. The motion carried.**

## **MANAGEMENT**

### **Investment Referral Quarterly Report**

Ms. Tucker provided the quarter's investment referral report, referring to the underlying policy.

## **OTHER ITEMS**

There was no further business to come before the Committee.

The meeting adjourned at 10:51 a.m.