



Tuesday, September 5, 2023
Audit Committee

Virtual meeting

Meeting start time: 9:00 A.M.

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

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

A. Adoption of June 6, 2023, Minutes

3. Internal Audit (9:05-10:35)

A. Internal Audit Report - FY2023 Computer Assisted Auditing

B. Internal Audit Report - Human Resource Management

C. Internal Audit Report - Tangible Assets Investments

D. Fiscal Year 2023 Performance Measures

E. Fiscal Year 2023 Quality Assurance Reporting

F. Audit Plan Quarterly Status Report - Fiscal Year 2024

G. 2024 External Quality Assessment Planning

4. Break (10:35-10:40)

5. Management (10:40-11:05)

A. 2024 Meeting Schedule

B. Quarterly Investment Referral Report

C. Board Policy Compliance Review

6. Other Items (11:05-11:10)

7. Executive Session (11:10-11:40)

A. Cybersecurity Update

B. Audit Director Compensation

8. Adjourn (11:40a)

**WASHINGTON STATE INVESTMENT BOARD
Audit Committee Meeting Minutes
September 5, 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: 236 052 895 101, Passcode: uAdz6p; Dial-In Number 1-360-726-3322; Phone Conference ID: 391 184 324#.

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

Committee Members Absent: Sara Ketelsen
Liz Lewis

Other Members Present: None

Also Present: Allyson Tucker, Chief Executive Officer
Chris Hanak, Chief Investment Officer
Kristina Taylor, Chief Financial Officer
Curt Gavigan, Chief Operating Officer
Bobby Humes, Human Resource Director
Marie Steffen, Audit Director
Susan Iselin, Internal Auditor
Liz Smith, Legal, Risk, and Compliance Director
Michael Christopher, Director of IT Operations and Security
Stacy Conway, Executive Assistant
Lisa Devlin, Administrative Assistant

Tor Jernudd, Attorney General's Office
Callie Barrett, Attorney General's Office

CALL TO ORDER

Chair Pellicciotti called the meeting to order at 9:05 a.m. and took roll call. All Committee members listed as present were able to fully participate in the meeting during the time they were in attendance.

[Ms. Guerin joined the meeting at 9:06 a.m.]

INTERNAL AUDIT

Internal Audit Report – Fiscal Year 2023 Computer Assisted Auditing

Ms. Iselin presented the results of the Fiscal Year (FY) 2023 Computer Assisted Auditing (CAA) engagement. The audit focused on a review of selected appropriated and non-appropriated expenditures, payroll transactions, revenues, and system access to the statewide accounting system known as the Agency Financial Reporting System (AFRS). Overall, the audit concluded that vendor payments and payroll transactions were supported, valid, allowable and in compliance with state regulations and policies, and access to AFRS was adequately separated and administered appropriately. The audit contained one recommendation that would serve to improve internal processes. Management agreed with the recommendation and action related to the recommendation was taken and will be verified by Internal Audit over the next quarter.

Internal Audit Report – Human Resource Management

Ms. Iselin presented the results of the Human Resource Management internal audit engagement. The audit reviewed the processes and procedures in place for new hires, ongoing employment, and separations, as well as a review of human resource (HR) policies, state laws, and regulations. In addition, staff reviewed the HR unit’s leave adjustment procedures to determine if actions from past audit recommendations were in practice. Overall, the audit concluded that the HR unit complied with applicable state laws, regulations, and policies, and processes and controls were in place to assist the agency with ensuring ongoing compliance.

There were four audit recommendations that would serve to assist with ensuring compliance and enhancing processes and controls. Management agreed with the recommendations and identified a timeline for completion. Action relating to one recommendation was taken and verified by Internal Audit. Internal Audit will review the remaining recommendations based on the timeline provided by management.

When asked if the audit cadence would change for the HR and CAA based on the audit results, Ms. Steffen stated that staff will continue to perform the CAA on an annual basis and continue to evaluate the audit universe as part of the annual risk assessment and adjust risk ratings as applicable.

Internal Audit Report – Tangible Assets Investments

Ms. Steffen presented the results of the Tangible Assets Investments internal audit engagement. The audited areas included investment due diligence, approval, and reporting; ongoing investment monitoring activities; and management of key person risk. Overall, there were processes and controls in place over investment due diligence and ongoing monitoring activities to ensure investments were researched, approved and executed, and monitored. In

addition, there were processes and controls in place to mitigate key person risks and the audited areas complied with the WSIB's Board and Investment policies. There were two audit recommendations that would serve to strengthen internal controls and improve documentation. Management agreed with the recommendations and identified a timeline for completion. Internal Audit will review the action taken to address the recommendations based on the timeline provided by management.

Discussion ensued regarding the comparison between the types of investments in the Tangible Assets and the Private Equity portfolios and the policies in place that govern each asset class.

When asked if the audit included review the timeliness of the valuations received for the assets, Ms. Steffen noted that it did not, and investment valuations are covered in a separate audit.

FY2023 Performance Measures

Ms. Steffen reviewed the FY 2023 performance of the Internal Audit unit using the five established performance measures approved by the Board. The measures focus on quality, efficiency, and output to evaluate the unit's goals and performance. In FY 2023 the Internal Audit unit met all five measures. She highlighted that the unit spent over 75 percent of its time on internal audits and consulting activities and noted that staff turnover impacted performance results in years that goals were not met.

When ask if impromptu audits are included in performance measures, Ms. Steffen stated that audits added during the year are included in the results and noted as an adjustment to the Audit Plan.

Discussion ensued regarding the unit's capacity to add internal audits and internal audit resources. Ms. Steffen explained that the unit performs monthly analyses to review the time available in consideration with the engagements on the Audit Plan. She added that the number of audits performed each year can fluctuate since some audits take more time than others. In addition, she expanded that the Audit Director's time spent on various unit activities would change with additional staff; however, more audits could be completed.

When asked if there were any highlights of the Internal Audit's consulting activities for FY2023, Ms. Steffen noted her participation on the WSIB's Vision, Mission, Values project and regular meetings with executive management.

FY2023 Quality Assurance Reporting

Ms. Steffen presented an overview of the Internal Audit Unit’s FY2023 Quality Assurance and Improvement Program (QAIP) and the results of the FY2023 internal assessment. She outlined the requirements and focus of the QAIP stating that it is an evaluation and improvement tool to assist with ensuring quality is delivered within every engagement. She shared the results of the self-assessment and noted that Internal Audit activity continues to “generally conform” with the Institute of Internal Auditing (IIA) Standards. There were no recommendations from the internal self-assessment.

Audit Plan Quarterly Status Report – FY 2024

Ms. Steffen reported on the status of the FY 2024 Audit Plan. Over the quarter Internal Audit established a timeline for FY 2024 audit engagements that takes into consideration the time constraints of the units involved. She also noted that due to time needed to wrap up the FY 2023 audits, the Tax Reclaims audit was moved to the FY 2024 Audit Plan and is underway. In addition, she noted the external financial statement audit results will be presented to the Audit Committee at the December meeting and the State Auditor’s Office 2-year accountability audit is anticipated to start at the beginning of calendar year 2024.

2024 External Quality Assessment Planning

Ms. Steffen discussed the upcoming 2024 External Quality Assessment (EQA). She described the requirements outlined in Revised Code of Washington (RCW), policies, and the IIA Standards and reviewed the four prior EQAs and the acceptable assessment approaches. The assessment can be done via a full independent review or a self-assessment with independent validation. She noted that the Washington State Investment Board (WSIB) has historically opted for a full independent review that provides a more in-depth and comprehensive scope and a report issued by an external assessor. The IIA Standards require the assessor team be qualified and independent. Ms. Steffen recommended the Board hire an independent consultant to perform a full external assessment and the Committee was supportive of this approach. She discussed the time frame for the procurement, the assessment, and reporting.

When asked if the assessors would evaluate and assess the population of the WSIB’s audit areas, Ms. Steffen noted the external quality assessment includes an evaluation of the function’s conformance with the Standards, but wouldn’t necessarily cover the adequacy of the audit areas list.

ADOPTION OF THE JUNE 6, 2023, MINUTES

**Chair Pellicciotti moved to adopt the June 6, 2023, meeting minutes.
Mr. Sacks seconded, and the motion carried unanimously.**

[The Committee recessed at 10:20 a.m. and reconvened at 10:25 a.m.]

MANAGEMENT

2024 Meeting Schedule

Treasurer Pellicciotti presented the proposed 2023 Audit Committee meeting dates for consideration: March 12, June 4, September 3, and December 3.

He noted that the proposed March meeting date is moved one week to the second Tuesday of the month to allow Committee members to attend the Council of Institutional Investors Winter Conference.

**Treasurer Pellicciotti moved that the Audit Committee adopt the proposed
2024 Audit Committee meeting dates as presented. Mr. Sacks seconded, and
the motion carried unanimously.**

Quarterly Investment Referral Report

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

Board Policy Compliance Review

Ms. Smith presented the results of the biennial review of Board governance policies. The review served to demonstrate the WSIB's strong internal governance structure, improve policy oversight and Board governance processes, and refine overlap in policies and procedures. The scope of the review was July 2021 through June 2023 and staff reviewed 350 testable items. The review identified three compliance observations. Ms. Smith presented staff's response to each item which included possible ways to improve compliance. Ms. Smith concluded that the Board has a very high degree of compliance with WSIB governance policies, and the adopted governance structure is being followed.

Discussion ensued regarding the timing of Board member ethics training and how the detailed review of Board governance policies can be used to inform and evaluate policies upon their formal review period.

Ms. Tucker recognized the diligent work performed by Ms. Smith and the entire Legal, Risk, and Compliance (LRC) unit throughout the Board Policy Compliance Review and other policy

review procedures. She noted that the LRC unit identified several possible inconsistencies between the RCW and WSIB policy language and staff will be revising policies as needed to align with state laws.

OTHER ITEMS

There was no further business to come before the Committee in open session.

EXECUTIVE SESSION

Chair Pellicciotti announced that the Committee would go into executive session to review information regarding the infrastructure and security of computer networks, security and service recovery plans, security risk assessments and security test results that, if made public, may increase the risk to the confidentiality, integrity, or availability of agency security or to information technology infrastructure or assets and, in addition, to review the performance of a public employee. The executive session was expected to last until approximately 11:08 a.m., at which time the Committee would reconvene in open session.

[The Committee went into executive session at 10:38 a.m.]

Cybersecurity Update Presentation

Audit Director Compensation

[The executive session was extended at 11:20 for an additional 5 minutes. Those waiting in the main meeting were notified of the extension.]

[The Committee reconvened in open session at 11:28]

Treasurer Pellicciotti moved that the Audit Committee take the action discussed in Executive Session for a salary increase of 5 percent for the Audit Director. Ms. Guerin seconded, and the motion carried unanimously.

The meeting adjourned at 11:30 a.m.