



**Tuesday, December 5, 2023
Audit Committee**

9:00 A.M.

Virtual Meeting

The link to view the meeting virtually can be found at 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

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

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

A. Adoption of the September 5, 2023, Minutes

3. External Audit (9:05-9:30)

A. Fiscal Year 2023 Independent Financial Auditor's Reports and WSIB Annual Report

4. Executive Session (9:30-9:40)

A. Discussion with Financial Statement Auditors

5. Internal Audit (9:40-10:30)

A. Audit Recommendation Status Report

B. Internal Audit Report – Private Equity Investments

C. Internal Audit Report – Tax Reclaims

D. Internal Audit External Quality Assessment – Assessor Appointment and Statement of Work

E. Audit Plan Quarterly Status Report - Fiscal Year 2024

6. Management (10:30-11:15)

A. Quarterly Investment Referral Report

B. Enterprise Risk Management Annual Report

7. Other Items (11:15-11:20)

8. Adjourn (11:20a)

**WASHINGTON STATE INVESTMENT BOARD
Audit Committee Meeting Minutes
December 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: 266 770 583 798, Passcode: pMNFkP; Dial-In Number 1-360-726-3322; Phone Conference ID: 223 202 584#.

Committee Members Present: Sara Ketelsen, Chair
Tracy Guerin
Joel Sacks
Yona Makowski
Bill Longbrake

Committee Members Absent: George Zinn
Liz Lewis

Other Members Present: Greg Markley

Also Present: Allyson Tucker, Chief Executive Officer (CEO)
Chris Hanak, Chief Investment Officer (CIO)
Kristina Taylor, Chief Financial Officer (CFO)
Curt Gavigan, Chief Operating Officer (COO)
Marie Steffen, Audit Director
Cala Risse, Investment Accounting and Administration
Director
Susan Iselin, Internal Auditor
Liz Smith, Enterprise Risk Management Committee Co-Chair
Fred Gjerstad, Enterprise Risk Management Committee Co-Chair

Lisa Devlin, Administrative Assistant

Brad Berls, Eide Bailly LLP
Tor Jernudd, Attorney General's Office

CALL TO ORDER

Chair Ketelsen called the meeting to order at 9:04 a.m. and took roll call. All Committee members listed as present were able to fully participate in the meeting.

ADOPTION OF THE SEPTEMBER 5, 2023, MINUTES

Chair Ketelsen moved to adopt the September 5, 2023, meeting minutes. Tracy Guerin seconded, and the motion carried unanimously.

[Yona Makowski joined the meeting at 9:06 a.m.]

EXTERNAL AUDIT

Fiscal Year (FY) 2023 Independent Financial Auditor’s Reports and Washington State Investment Board (WSIB) Annual Report

**Presenters: Marie Steffen, Audit Director
Cala Risse, Investment Accounting and Administration Director
Brad Berls and Abbie Belthoff, Eide Bailly LLP**

Marie Steffen introduced Cala Risse to present an overview of the WSIB’s Annual Report and financial statements for FY2023 and Brad Berls of Eide Bailly to present the results of the WSIB’s FY2023 Independent Auditor’s Reports.

The presentation of the WSIB’s Annual Report and financial statements for FY2023 reviewed the importance the WSIB’s audited financial statements have to agency stakeholders and outlined the composition of the annual report. The Management Discussion and Analysis section of each statement was highlighted as a significant section that contains market commentary on items that may impact investment balances and income during the year and notes significant market changes that occurred during the year.

The presentation of the results of the Independent Financial Auditor’s Reports reviewed the audit’s processes and resources and described the seven sets of audited financial statements managed by the WSIB. Overall, there were unmodified/clean opinions on each of the seven statements and there were no reportable findings. The presentation noted alternative assets as an audit area of emphasis due to there being significant estimates in market value. The presentation also provided an overview of accounting policies that may impact the WSIB in 2024.

Discussion ensued regarding the overall frequency of an unmodified/clean audit among peers, best practices that peers can adopt from the WSIB, and the independent financial auditor’s testing methodology of alternative assets.

EXECUTIVE SESSION – EXTERNAL AUDIT

Chair Ketelsen announced that the Committee would go into executive session to discuss the performance of public employees. The executive session was expected to last until approximately 9:39 a.m., at which time the Committee would reconvene in open session.

[The Committee went into executive session at 9:29 a.m.]

Discussion with Financial Statement Auditors

[The Committee reconvened in open session at 9:39 a.m.]

Chair Ketelsen moved that the Audit Committee recommend the Board accept the Fiscal Year 2023 Independent Auditor’s Reports and approve the Fiscal Year 2023 WSIB Annual Report. Yona Makowski seconded, and the motion carried unanimously.

INTERNAL AUDIT

Audit Recommendation Status Report

Presenter: Susan Iselin, Internal Auditor

Susan Iselin reported on the status of seven prior audit recommendations. The report stated that two of the recommendations have been completed and verified by internal audit over the quarter. The remaining recommendations are anticipated to be completed by December 31, 2023, and action taken will be reported at the Audit Committee’s March 2024 meeting.

Discussion ensued regarding how the completed and open recommendations aim to enhance process controls; the anticipated completion date of the remaining open recommendations; and how past audit recommendations are considered as part of future audit planning, as well as being part of a 5-year look back engagement.

Internal Audit Report – Private Equity Investments

Presenter: Susan Iselin, Internal Auditor

Susan Iselin presented the results of the Private Equity Investments internal audit engagement. The audit focused on investment due diligence, ongoing monitoring activities, and transition risk. Overall, the audit concluded that the WSIB has processes and controls in place to address transition risk and to ensure private equity investments are thoroughly researched, properly approved and executed, and adequately monitored. There was one audit recommendation that would serve to enhance due diligence and monitoring documentation and assist in mitigating transition risk.

Discussion ensued regarding the number of general partner relationships per staff and how that metric is a crucial aspect in monitoring the Private Equity unit.

Internal Audit Report – Tax Reclaims

Presenter: Marie Steffen, Audit Director

Marie Steffen presented the results of the Tax Reclaims internal audit engagement. The audit reviewed the process and controls in the Investment Accounting and Administration (IAA) unit with regard to the oversight and monitoring of tax reclaims receivable. Overall, the IAA unit has processes and controls in place for the monitoring and oversight of tax reclaims to ensure timely collection or disposition of receivables. There were no formal audit recommendations.

Discussion ensued regarding the amount of tax reclaims that the WSIB collects each year, which was not a consideration in the audit. Staff will follow up to provide the dollar amount to the Committee.

Internal Audit External Quality Assessment – Assessor Appointment and Statement of Work

Presenter: Marie Steffen, Audit Director

Marie Steffen discussed the procurement process and statement of work of the external quality assessment (EQA) assessor. Per the Institute of Internal Auditors (IIA) *Standards*, an external review of the internal audit function is to be completed at least once every 5-years. The Internal Audit and Legal, Risk, and Compliance units were able to pursue the option of a direct-buy contract with the IIA Quality Services and noted that this was the firm that performed the EQA in 2019. The discussion reviewed the experience and independence of the lead external assessor and IIA Quality Services and stated that the engagement would be conducted virtually.

Marie Steffen proposed the Audit Committee select IIA Quality Services to conduct the full external assessment of the WSIB's internal audit function. The assessor will provide a written report that includes an evaluation of the internal audit function in carrying out its mission, as stated in the internal audit charter, and identify opportunities that could enhance the internal audit function's management and work processes. The lead assessor will present the results of the external assessment to the Audit Committee at the June 2024 meeting.

Discussion ensued regarding the effectiveness of a virtual engagement; how the IIA Quality Services can provide insights on the internal audit processes and controls of peers; the inclusion of audit framework, audit frequency, and audit cycle processes into the assessor's evaluation; and how IIA Quality Services can utilize the 2019 assessment and analysis as a benchmark.

Chair Ketelsen moved that the Audit Committee recommend the Board appoint the Institute of Internal Auditors Quality Services to perform a full external

quality assessment of the WSIB's internal audit function. Tracy Guerin seconded, and the motion carried unanimously.

Audit Plan Quarterly Status Report – FY2024

Presenter: Marie Steffen, Audit Director

Marie Steffen reported on the status of the FY2024 Audit Plan and external audit activity over the quarter. The report included an update on internal audit projects, discussed the competitive procurement for the Information Technology Security Audit, and provided an overview of an educational conference internal audit staff attended. In addition, it was reported that the State Auditor's Office Accountability and Compliance Audit was postponed to 2025 and the audit would review three fiscal years.

MANAGEMENT

Investment Referral Quarterly Report

Presenter: Allyson Tucker, Chief Executive Officer

Allyson Tucker provided an overview of the quarter's investment referral report and reviewed the purpose of the report, referring to the underlying policy.

Enterprise Risk Management Annual Report

**Presenters: Liz Smith, Enterprise Risk Management Committee Co-Chair
Fred Gjerstad, Enterprise Risk Management Committee Co-Chair**

Liz Smith presented the Enterprise Risk Management (ERM) Annual Report. The presentation included an overview of ERM at the WSIB, 2023 ERM committee activities, a review of the Board-adopted risk appetite statements and 2023 risk dashboard, and expected ERM activities for 2024. The report highlighted risk identification and management as integral to all aspects of the agency and integrated into agency culture.

The report described the agency's systems of risk management and the Audit Committee's role in the oversight to ensure effective processes are in place; how ERM operates as a system to identify, evaluate, monitor, and communicate risk; and that ERM is not designed to be identical across organizations, eliminate all risks, or be a replacement for internal controls.

The utilization of the "The Three Lines Model" at the WSIB was presented as a structured approach to risk management and an overview was provided describing the WSIB's internal oversight and risk management structure. The ERM Committee is designed to be integrated with other committees and working groups to provide overlap in reporting and the flow of information.

APPROVED

The review of the ERM Committee's 2023 activities covered discussion highlights that included: burnout, political, environmental, social, and governance (ESG), cybersecurity, and vendor risks. In addition, the ERM Committee reviewed and rated the risk dashboard.

Liz Smith reviewed the changes the ERM Committee made to the dashboard in 2023. The report presented these newly rated risks along with the Board's adopted risk appetite statements.

Discussion ensued regarding the strategies used to mitigate higher ratings, to include ERM's role in identifying and reporting information to the CEO; how risk identification and mitigation is embedded into the strategic planning process; and upcoming strategic initiatives driven by increased risk ratings.

Additional discussion centered around where reputational and ESG risks fit on the dashboard, emphasizing that reputational risks and material financial risks are embedded in many other risk categories and engrained in the WSIB's culture; the ERM committee's membership structure; and how varying membership can broaden discussions. Further, the Committee discussed the increased reporting frequency when risk ratings are outside of the risk appetite and ERM committee discussions related to emerging risks.

The report concluded with anticipated 2024 ERM activities.

When asked how risks related to strategic initiatives are communicated throughout the year the CEO noted the Board is given updates via the CEO report and in the strategic plan update presented mid-year.

OTHER ITEMS

The CEO and Committee members thanked member Bill Longbrake for his service on the Audit Committee and Board.

There was no further business, and the meeting adjourned at 11:09 a.m.