



**Tuesday, December 3, 2024  
Audit Committee**

**Call to Order - 9:00 A.M.**

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**In-Person Attendance: Washington State Investment Board  
2100 Evergreen Park Drive SW, Olympia, WA 98502**

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**The link to join online can be found at [www.sib.wa.gov/meetings.html](http://www.sib.wa.gov/meetings.html)**

**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 September 3, 2024, Minutes

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

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A. Fiscal Year 2024 Independent Financial Auditor's Reports and WSIB Annual Report

**4. Executive Session (9:30-10:00)**

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A. Discussion with Financial Statement Auditors

B. Staffing Update

**5. Internal Audit (10:00-10:40)**

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A. Audit Recommendation Status Report

B. Internal Audit Report – Sustainability Report

C. Revised Internal Audit Standards and Charter Updates

D. Audit Plan Quarterly Status Report - Fiscal Year 2025

**6. Management (10:40-11:25)**

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A. Quarterly Investment Referral Report

B. Enterprise Risk Management Annual Report

**7. Other Items (11:25-11:30)**

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**8. Adjourn (11:30a)**

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**WASHINGTON STATE INVESTMENT BOARD  
Audit Committee Meeting Minutes  
December 3, 2024**

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: 223 915 590 355, Passcode: 7ZB6DV6g; Dial-In Number 1-360-726-3322; Phone Conference ID: 662 175 309#.

Committee Members Present: Sara Ketelsen, Chair  
Joel Sacks  
Yona Makowski  
Liz Lewis  
Heather Redman  
George Zinn

Committee Members Absent: Tracy Guerin

Other Members Present:

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  
Megan Dietz, Assistant Chief Financial Officer  
Susan Iselin, Internal Auditor  
Liz Smith, Enterprise Risk Management Committee Co-Chair

Lisa Devlin, Administrative Assistant

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

**CALL TO ORDER**

Chair Ketelsen called the meeting to order at 9:02 a.m. and took roll call. All Committee members listed as present were able to fully participate in the meeting.

**ADOPTION OF THE SEPTEMBER 3, 2024, MINUTES**

**Chair Ketelsen moved to adopt the September 3, 2024, meeting minutes. Yona Makowski seconded, and the motion carried unanimously.**

**EXTERNAL AUDIT**

**Fiscal Year (FY) 2024 Independent Financial Auditor's Reports and Washington State Investment Board (WSIB) Annual Report**

**Presenters: Marie Steffen, Audit Director**

**Megan Dietz, Assistant Chief Financial Officer**

**Brad Berls and Abbie Belthoff, Eide Bailly LLP**

Marie Steffen introduced Megan Dietz to present an overview of the WSIB's Annual Report and financial statements for FY2024 and Brad Berls and Abbie Belthoff of Eide Bailly to present the

results of the WSIB's FY2024 Independent Auditor's Reports. The WSIB's Annual Report will be available on the WSIB website after the Board's approval.

The presentation of the WSIB's Annual Report and financial statements for FY2024 included a review of the composition of the annual report and the significant role the WSIB's audited financial statements have to agency stakeholders. The financial statement for the Long Term Services and Supports Trust Account (WA Cares) was highlighted, as this was the first year a statement had been compiled, and a significant amount of time was spent on its compilation. In addition, the Management Discussion and Analysis included in each statement was emphasized as a significant section that encompasses market commentary and the economic events that may have impacted investment balances and income during the year.

The presentation of the results of the Independent Financial Auditor's Reports contained a review of the audit's processes and resources and outlined the eight sets of audited financial statements managed by the WSIB. It was noted that the WA Cares financial statement underwent the same degree of testing as the other funds. Overall, unmodified/clean opinions were issued for each financial statement and there were no reportable findings, material weaknesses, or significant deficiencies. The presentation described alternative investments as an audit area of emphasis due to significant estimations in the market value of these assets. The presentation also reviewed an accounting policy that may impact the WSIB in 2025.

When asked about best practices at the WSIB, the auditor recognized the level of detail in the Management Discussion and Analysis in each financial statement, the independent pricing of securities, the monitoring and regular evaluation of the alternative asset valuations, and an independent internal audit function.

**EXECUTIVE SESSION**

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 9:45 a.m., at which time the Committee would reconvene in open session.

[The Committee went into executive session at 9:25 a.m.]

**Discussion with Financial Statement Auditors  
Presenter: Sara Ketelsen, Audit Committee Chair**

**Staffing Update  
Presenter: Marie Steffen, Audit Director**

[The executive session was extended to 10:00 a.m. Notice was provided to those waiting to rejoin the meeting.]

[The Committee reconvened in open session at 10:00 a.m.]

**Chair Ketelsen moved that the Audit Committee recommend the Board accept the Fiscal Year 2024 Independent Auditor's Reports and approve the Fiscal Year 2024 WSIB Annual Report. Yona Makowski seconded, and the motion carried unanimously.**

Chair Ketelsen noted that the Committee received an update from the Audit Director on staffing-related items. The Audit Director will follow up and continue to report back to the Committee as appropriate.

**INTERNAL AUDIT  
Audit Recommendation Status Report  
Presenter: Susan Iselin, Internal Auditor**

Susan Iselin reported on the status of three prior audit recommendations. The estimated completion date for the Budget Development and Management audit recommendation may be adjusted as a new staff member has joined the WSIB. Internal Audit staff will verify the action taken to address the Records Management audit recommendation and report at the Audit Committee's March 2025 meeting. Lastly, actions are being taken to address the recommendations from the IT Security Audit recommendation, and the estimated completion date has not changed.

**Internal Audit Report – Sustainability Report****Presenter: Marie Steffen, Audit Director**

Marie Steffen presented the results of the Sustainability Report internal audit engagement. The audit focused on the validity, completeness, and accuracy of the 2023 Sustainability Report and the processes and controls over the report preparation and publication. Overall, the audit concluded that the 2023 Sustainability Report is valid, complete, and accurate, and the WSIB has processes and controls in place to ensure the completeness and accuracy of the report. There was one audit recommendation that would serve to enhance processes and controls and support operational continuity.

Discussion ensued regarding the scope of the audit, the verification of selected information and data, and maintenance of the information presented in the Sustainability Report.

**Revised Internal Audit Standards and Charter Updates****Presenter: Marie Steffen, Audit Director**

Marie Steffen presented an overview of the new Global Internal Audit Standards (GIAS) and the results of the Internal Audit unit's self-assessment regarding the WSIB's conformance with the new GIAS, including areas where the WSIB excels and areas where conformance can be improved. Overall, the WSIB's internal audit function continues to generally conform with the GIAS. The new GIAS framework includes essential conditions that serve as expectations for the Board and senior management to enable the internal audit function's success.

The Internal Audit unit has a strong foundation in place, which includes a comprehensive Internal Audit Manual, templates, and procedures to ensure consistency and operational continuity. In addition, the unit has a quality assurance and improvement program (QAIP) in place, and professional development is valued within the agency. The self-assessment identified some areas where internal documents need to be updated, including the Internal Audit Manual. One area identified by the external quality assessment team that is a new requirement to the GIAS is the preparation of an Internal Audit Strategic Plan. Internal Audit staff have met to develop the function's vision, mission, and values, and the Audit Director will present a strategic plan at the Audit Committee's June meeting.

The new GIAS emphasizes that the Board must "champion the internal audit function." The Board and Audit Committee show this support through organizational independence of the Internal Audit function, identification of the regular reporting to the Audit Committee, and involvement in personnel matters relating to the Audit Director. The new GIAS requires that the Audit Director educate the Board on the necessary qualifications and competencies of the chief audit executive to manage the internal audit function, provide information and examples of common core competencies, and maintain and enhance those qualifications and competencies. To address this new standard, the Audit Director will present an education session at the March 2025 Audit Committee meeting to cover these items and gather input from the Committee on the topic. At that time, the Audit Director will present a potential hiring plan for the Audit Director position for succession planning purposes.

The new GIAS also state that senior management must "champion the internal audit function." This is shown through support of the function's organizational independence, senior management's promotion of the internal audit function, and regular communication between the CEO, Board, and Audit Committee relating to internal audit matters. To enhance

conformance with GIAS, the CEO should engage in the March 2025 discussion relating to the qualifications and competencies of the Audit Director.

Lastly, revisions to the Internal Audit Charter and Audit Committee Charter were proposed to align with the requirements and terminology in the GIAS and to codify current practices. The proposed revisions include the expected communication from the Audit Director related to internal audit engagements that are added or deferred, as requested by the Audit Committee at the September 3, 2024, meeting.

When asked how the new GIAS will affect the Internal Audit unit operations or the role or activities of the Audit Committee, Marie Steffen noted that the impact will be minimal. This is due to the solid governance and operational foundations in place.

**Chair Ketelsen moved that the Audit Committee recommend the Board approve the revisions to the Audit Committee Charter Policy 1.00.130 and Internal Audit Charter Policy 1.00.190, as proposed. Yona Makowski seconded, and the motion carried unanimously.**

### **Audit Plan Quarterly Status Report – FY2025**

**Presenter: Marie Steffen, Audit Director**

Marie Steffen reported on the status of the FY2025 Audit Plan and external audit activity over the quarter. The report included an update on internal audit projects underway, noting that the Computer Assisted Auditing engagement and Payroll audit are in process, and the Proxy Voting audit will be completed over the next quarter. The report discussed the postponement of two audits: Physical Inventory and Public Markets Trade Processing and Settlement. These two audit areas will be evaluated as part of the risk assessment for the FY2026 Audit Plan. In addition, the report highlighted staff's attendance at a professional education conference hosted by the Public Pension Financial Forum. The report outlined the State Auditor's Office (SAO) Accountability and Compliance Audit, which is scheduled to begin in January 2025. The audit will include 3 fiscal years, and the SAO is planning to present the audit areas at the March 2025 meeting.

### **MANAGEMENT**

#### **Investment Referral Quarterly Report**

**Presenter: Sara Ketelsen, Audit Committee Chair**

In accordance with policy 2.05.800 Investment Referral Process, staff prepared a quarterly investment referral report that shows referrals from Board members to the investment team, as well as status updates for each referral. The report is included for informational purposes.

#### **Enterprise Risk Management Annual Report**

**Presenter: Liz Smith, Enterprise Risk Management Committee Co-Chair**

Liz Smith presented the Enterprise Risk Management (ERM) Annual Report. The presentation included an overview of the WSIB's ERM program, ERM Committee activities in calendar year 2024, a review of the Board-adopted risk appetite statements and the 2024 risk dashboard, and expected ERM activities for 2025.

The report described the Audit Committee's role and responsibilities in risk management oversight and highlighted the WSIB's system of risk management and approach to fostering a risk-aware culture. ERM was described as an organizational-wide process to identify, evaluate, monitor, and communicate risk. The report noted that ERM is not expected to be the same across organizations, nor is it designed to eliminate all risks, remain static, or replace internal controls. ERM is also intended to inform and improve senior management decision-making and resource allocation.

The presentation outlined the WSIB's use of "The Three Lines Model" as a structured approach to risk management. It included an overview of the model that described the roles,

## **APPROVED**

responsibilities, and collaboration necessary for the WSIB to safeguard its value and achieve its strategic objectives. The ERM Committee interacts with other internal committees and working groups to facilitate open dialog and provide overlap in reporting.

The review of 2024 ERM Committee activities covered discussions on existing and emerging risks, including burnout, political risk, cybersecurity, and vendor risks. In addition, the ERM Committee conducted an all-staff survey as another way to engage staff in identifying risks throughout the agency. The ERM Committee also fully reviewed the Board's adopted risk appetite statements and rated risks.

Liz Smith reviewed the ERM Committee's changes to the dashboard in 2024. The report presented the Board's adopted risk appetite statements and the dashboard with the 2024 risk ratings, highlighting changes and risks that the ERM Committee rated higher than the Board's adopted risk appetite.

Discussion ensued regarding how risks are mitigated within the agency and whether it would be helpful to provide additional data on mitigation efforts for risks which are rated outside the risk appetite to the Audit Committee and Board. Liz Smith explained that mitigation is factored into the risk ratings, and many risks would be rated higher if mitigation tools were not in place through various practices and policies. Allyson Tucker highlighted the connection between the risk dashboard and the strategic planning process, explaining that additional mitigating actions are incorporated into the WSIB Strategic Plan for risks that fall outside the risk appetite of the Board.

The report continued with a review of expected activities for the ERM Committee in 2025, which included monitoring existing risks, discussing emerging risks, reviewing third-party risk management processes, and implementing an ERM Risk Control Self-Assessment process.

Additional discussion centered around the ERM Committee's all-staff survey, risks that will be addressed in the 2025 Strategic Plan, and risk dashboard rating updates, together with the rationale for the changes.

### **OTHER ITEMS**

There was no further business to come before the Committee.

The meeting adjourned at 11:12 a.m.