



**Tuesday, September 2, 2025  
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](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

**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 June 3, 2025, Minutes

**3. Internal Audit (9:05-10:20)**

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A. Audit Recommendation Status Report

B. Internal Audit Report – FY2025 Computer Assisted Auditing

C. Internal Audit Report – Daily Valued Funds

D. Internal Audit Report – Public Markets Investment Compliance Monitoring

E. Fiscal Year 2025 Performance Measures

F. Fiscal Year 2025 Quality Assurance Reporting

G. Audit Plan Quarterly Status Report - Fiscal Year 2026

**4. Management (10:20-10:25)**

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A. Quarterly Investment Referral Report

**5. Other Items (10:25-10:30)**

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**6. Executive Session (10:30-10:55)**

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A. Cybersecurity Update

**7. Adjourn (10:55a)**

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**WASHINGTON STATE INVESTMENT BOARD  
Audit Committee Meeting Minutes  
September 2, 2025**

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: 247 412 367 230 1, Passcode: a3GJ2gc3; Dial-In Number 1-564-999-2000; Phone Conference ID: 249 043 041#.

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

Committee Members Absent: Senator June Robinson

Other Members Present: Kathryn Leathers

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  
Susan Iselin, Internal Auditor  
Michael Christopher, Director of IT Operations and Security  
Lisa Devlin, Management Analyst  
  
Tor Jernudd, Attorney General's Office

**CALL TO ORDER**

Chair Ketelsen called the meeting to order at 9:06 a.m. and took roll call. All Committee members listed as present were able to fully participate in the meeting.

**ADOPTION OF THE JUNE 3, 2025, MINUTES**

**Chair Ketelsen moved to adopt the June 3, 2025, meeting minutes.  
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 five prior audit recommendations, four of which were completed and verified by Internal Audit over the quarter. There is one outstanding recommendation for the Information Technology (IT) Security Audit, and IT Operations staff reported that Washington Technology Solutions is completing the work required with an anticipated completion date of September 30, 2025. Internal Audit will report on the status of the open recommendation at the Committee's December meeting.

**Internal Audit Report – Fiscal Year 2025 Computer Assisted Auditing**

**Presenter: Susan Iselin, Internal Auditor**

Susan Iselin presented the results of the Fiscal Year (FY) 2025 Computer Assisted Auditing (CAA) engagement. The audit consisted of quarterly reviews of vendor payments and payroll transactions, in addition to quarterly reviews of revenues and systems access. Reports were received from the Office of Financial Management (OFM) which included data from the statewide accounting system, Agency Financial Reporting System (AFRS), and the statewide

human resources and payroll systems. The engagement also included a review of travel reimbursement to three selected staff members across a one-year period to determine if submitted documentation supported reimbursement requests. This was a new testing area for FY2025 and will be included in future engagements. The audit concluded that selected vendor payments and payroll transactions were supported, valid, and in compliance with state regulations and policies, and access to AFRS was appropriate and adequately separated to ensure WSIB assets are safeguarded.

Discussion ensued regarding the transaction populations and test selection process, the testing attributes for compliance and internal controls, the inclusion of Board members as part of the travel testing, the documentation of the audit work, and the use of technology to assist in the auditing process. In addition, the frequency and purpose of the CAA was discussed.

**Internal Audit Report – Daily Valued Funds****Presenter: Susan Iselin, Internal Auditor**

Susan Iselin presented the results of the Daily Valued Funds internal audit engagement. The audit covered the process and controls relating to activities of the valuation, unitization, and pricing of the three daily valued funds managed by the WSIB. The audit concluded that the WSIB has processes and controls in place to ensure the daily valued funds are valued and priced in an accurate and complete manner and to ensure timely reporting to stakeholders. The WSIB complied with applicable policies. There were no audit recommendations.

Discussion ensued regarding the potential risks associated with daily valued funds activities. Susan Iselin reiterated that staff are following the protocols in place to ensure the safeguarding of the WSIB's assets.

**Internal Audit Report – Public Markets Investment Compliance Monitoring****Presenter: Marie Steffen, Audit Director**

Marie Steffen presented the results of the Public Markets Investment Compliance Monitoring internal audit engagement. The audit covered the processes and controls over the public markets investment compliance monitoring program to include rules within the compliance system, compliance alert monitoring and follow up, quarterly reporting and oversight, and operational continuity. Overall, the audit concluded that processes and controls are in place to ensure the activities are sufficient and effective. There was one audit recommendation that would serve to strengthen processes and controls. Management agreed with the recommendation and has taken action. Internal Audit staff verified the actions taken and reported that the recommendation was complete.

**Fiscal Year 2025 Performance Measures****Presenter: Marie Steffen, Audit Director**

Marie Steffen reviewed the Internal Audit unit's performance using the five performance measures approved by the Board. The performance measures focus on quality, efficiency, and output and are required as part of the Internal Audit Charter and revised Global Internal Audit Standards (the Standards). In FY2025 the Internal Audit unit met four out of five measures. The measure of completing at least 80 percent of scheduled audits was not attained due to internal audit staff availability and audits and projects that took longer than anticipated. The status of the Audit Plan completion was communicated to the Audit Committee throughout FY2025, and audits that were not completed as part of the FY2025 Audit Plan were moved to the FY2026 plan. Marie Steffen provided a summary of the unit's accomplishments, audit recommendations, time spent on core functions, and the focus areas of Internal Audit staff's continuing professional education.

Discussion ensued regarding the details of the audit recommendation related to compliance with procedures, policies, and laws, and the Internal Audit unit's strength in communicating with the Committee.

**Fiscal Year 2025 Quality Assurance Reporting****Presenter: Marie Steffen, Audit Director**

Marie Steffen presented an overview of the Internal Audit unit's FY2025 quality assurance and improvement program (QAIP) and internal assessment results. The QAIP is a requirement of the Standards and the Internal Audit Charter and is designed to support conformance with the Standards and promote continuous improvement. Program activities include ongoing monitoring, a periodic self-assessment, and an external assessment, which were discussed in detail throughout the presentation. The presentation also discussed the QAIP framework and highlighted the quality built into internal audit activity as it relates to governance, professional practice, and communication. Marie Steffen communicated that the five enhancement recommendations from the 2024 external assessment were completed, and the results of the FY2025 internal assessment were that the Internal Audit function continues to "generally conform" with the Standards and the Internal Audit Charter.

Discussion ensued regarding the regular communication and collaboration between the Audit Director and the Director of IT Operations, how Internal Audit incorporates IT-related topics into audits of key third-party vendors, the testing of business continuity related operations, and finding the best expertise for IT security audits. Marie Steffen noted that her discussions with the 2024 IT auditors were related to higher-risk IT areas pertaining to the WSIB and incorporated into the annual risk assessment process. In addition, some IT topics are included in the audits conducted by Internal Audit.

**Audit Plan Quarterly Status Report – FY2026****Presenter: Marie Steffen, Audit Director**

Marie Steffen reported on the status of the FY2026 Audit Plan and external audit activity over the quarter. Internal Audit worked with unit managers to establish timing for FY2026 audit engagements and the reporting to the Audit Committee. With regard to external audits, the audits of the Board-prepared financial statements are underway, and results will be reported at the Committee's December meeting. In addition, the State Auditor's Office notified the WSIB that they are considering conducting a 1-year accountability audit in FY2026 to realign with a 2-year audit cycle. Internal Audit is working with internal staff to determine if there are operational issues that need to be considered in planning for a FY2026 audit.

**MANAGEMENT****Investment Referral Quarterly Report****Presenter: Sara Ketelsen, Audit Committee Chair**

In accordance with Investment Referral Process Policy 2.05.800, staff prepare a quarterly report that reflects investment referrals from Board members to the investment team, as well as status updates for each referral. There were no outstanding investment referrals to report for the quarter.

**OTHER ITEMS**

There was no further business to come before the Committee.

**EXECUTIVE SESSION**

Chair Ketelsen 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, and to discuss the performance of a public employee. The executive session was expected to last until approximately 10:38 a.m., at which time the Committee would reconvene in open session.

**Cybersecurity Update Presentation****Presenters: Curt Gavigan, COO****Michael Christopher, Director of IT Operations and Security**

[The executive session was extended to 10:43 a.m. Notice was provided to those waiting to rejoin the meeting.]

**Staffing Update**

**Presenter: Marie Steffen, Audit Director**

[The Committee reconvened in open session at 10:48 a.m.]

**ADJOURNMENT**

There was no further business to come before the Committee, and the meeting adjourned at 10:48 a.m.

# COMPUTER ASSISTED AUDITING VENDOR PAYMENTS, PAYROLL, SYSTEM ACCESS INTERNAL AUDIT REPORT #2025-01

SEPTEMBER 2, 2025

Susan Iselin, Internal Auditor



## BACKGROUND

### Regular monitoring of transactions

- Better practice

### Data sources

- Office of Financial Management (OFM)
  - Exception reports and queries
    - Agency Financial Reporting System (AFRS) – appropriated
    - Human Resources Management System (HRMS)
- Investment Accounting and Administration
  - Custody bank system
    - Non-appropriated

Previously used information provided by the State Auditor's Office





## EXPENDITURES (APPROPRIATED)

- Payments to vendors
- Payments to vendor with same address as employee
- Expenditure duplicate payments

## PAYROLL

- Gross pay greater than \$5,000 per pay period
- Relocation compensation payments
- Performance recognition payments

## EXPENDITURES (NON-APPROPRIATED)

- Payments to vendors

## REVENUES

- Summarized by major source

## AFRS SYSTEM ACCESS

- AFRS Security (access by user)

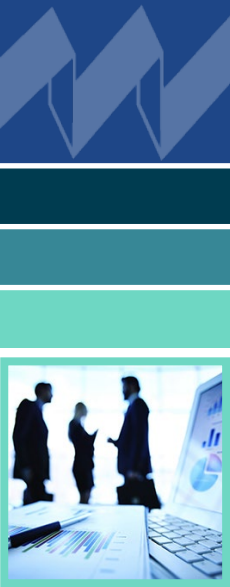
# AUDIT SUMMARY

## Audit Planning

- Discussion with key WSIB staff
  - Investment and Financial Services
  - Human Resources
- Review of state laws, regulations, and WSIB policies
- Review of prior internal audit working papers

## Audit Scope

- April 1, 2024, through March 31, 2025
- Quarterly reviews



## AUDIT SUMMARY – FIELDWORK

### Vendor Payments

- Transactions reviewed
  - 50 appropriated payments
  - 31 non-appropriated payments
- Valid, allowable, supported
- Compliance with state regulations and policy
- Travel reimbursements
  - 32 over 3 staff

### Payroll

- 31 transactions reviewed
  - Valid, allowable, supported
  - Compliance with state regulations and policy
- Reviewed all gross pay greater than \$5,000 pay per period
  - Pay within approved pay bands

## AUDIT SUMMARY – FIELDWORK (CONTINUED)

### AFRS System Access

- Reviewed by quarter
  - Separation of duties
  - Appropriateness/removal of access



## OVERALL AUDIT CONCLUSION

**Selected vendor payment and payroll transactions were supported, valid, allowable, and in compliance with state regulations and policy**

**Access to the state's accounting system was appropriate and adequately separated to ensure assets are safeguarded**

**There are no formal recommendations at this time**



# DAILY VALUED FUNDS INTERNAL AUDIT REPORT #2025-06

SEPTEMBER 2, 2025

Susan Iselin  
Internal Auditor





## BACKGROUND

### Daily valued funds

- Self-directed investment options
- Investment component of the Retirement Strategy Funds (RSF)



### Three funds

- Savings Pool
- Bond Fund
- U.S. Treasury Inflation Protected Securities (TIPS) Fund

### Washington State Investment Board's (WSIB) responsibilities

- Investment and management
- Investment Accounting and Administration (IAA) unit
  - Daily fund activities
    - Valuation
    - Unitization
    - Pricing (unit value)
      - Report to stakeholders

## BACKGROUND

### Investors

- Deferred Compensation Program
- Defined contribution retirement plans (Plan 3s)
- AllianceBernstein
  - Bond Fund and U.S. TIPS Fund
  - Investment component of the RSF
- Other funds, as approved



As of March 30, 2025

- Daily valued funds represented 1.9 percent of total assets under management

| Daily Valued Funds            | Market Value      |
|-------------------------------|-------------------|
| Savings Pool                  | \$898,150,660     |
| Bond Fund                     | \$2,649,610,976   |
| US TIPS Fund                  | \$516,020,623     |
| Total                         | \$4,063,782,259   |
| Total Assets Under Management | \$213,154,641,201 |



## AUDIT SUMMARY

### Audit areas

- Valuation, unitization, and pricing
  - Daily process and controls
  - Completeness and accuracy
  - Reporting to stakeholders
- Compliance with policies

### Scope

- Current processes and controls
- Activities related to the valuation, unitization, and pricing of the daily valued funds
  - July 1, 2024, through June 30, 2025



# AUDIT SUMMARY – FIELDWORK

## Testing

- **Daily process**
  - **20 days selected**
    - Processes and controls
    - Completeness and accuracy
    - Reported price per unit
- **Policy compliance**
  - Operational guidelines
  - Tolerance monitoring and reporting errors, if applicable





## OVERALL AUDIT CONCLUSION

The IAA unit has processes and controls in place to ensure the daily valued funds are valued, priced, and reported

- Complete, accurate, and timely manner

Calculations for the daily valued fund valuation, pricing, and unitization are:

- Accurate
- Complete
- Supported

The WSIB complies with policies regarding the pricing and oversight of the daily valued funds

There are no audit recommendations



# PUBLIC MARKETS INVESTMENT COMPLIANCE INTERNAL AUDIT REPORT #2025-05

SEPTEMBER 2, 2025

Marie Steffen, CPA, CIA  
Audit Director





## BACKGROUND

### Investment compliance program

- Internal governance structure
- Rules and guidelines
  - Washington State Investment Board (WSIB) policy
  - Investment manager contracts

### Investment Compliance team

- Daily monitoring program
  - Use of custody bank compliance system
    - Post-trade monitoring
  - Review and research
- Reporting
  - Quarterly
  - Annual

## Calendar year 2024

**Approximately 190,000 tests performed across WSIB accounts**

- **980 alerts review by Investment Compliance**
- **31 investment guideline/WSIB policy breaches identified**

## State Street Bank Compliance Alert Totals

| Investment Area    | Q1 | Q2 | Q3 | Q4 | Total |
|--------------------|----|----|----|----|-------|
| Asset Allocation*  | 0  | 0  | 1  | 0  | 1     |
| Public Equity      | 1  | 2  | 3  | 2  | 8     |
| Fixed Income       | 1  | 0  | 0  | 0  | 1     |
| Cash Overlay       | 1  | 2  | 0  | 1  | 4     |
| Securities Lending | 6  | 1  | 8  | 2  | 17    |



# AUDIT SUMMARY

## Audit areas

- Compliance system rules
- Compliance alert monitoring and follow up
- Quarterly reporting and oversight
- Operational continuity

## Scope

- Current processes and controls
- Transactions and activities
  - January 1, 2024, to December 31, 2024



# AUDIT SUMMARY – FIELDWORK

## Testing

- **Compliance system rules**
  - Policies and investment manager agreement guidelines
  - System coding
- **Compliance alert monitoring**
  - **Daily activities**
    - Research
    - Communication
    - Documentation
- **Quarterly reporting**
  - Accuracy
  - Review/oversight
- **Operational continuity**
  - Procedures and activities





## OVERALL AUDIT CONCLUSION

The WSIB has processes and controls in place that ensure public markets investment compliance monitoring activities are:

- Sufficient
- Effective

There is one audit recommendation:

- Strengthen processes and controls

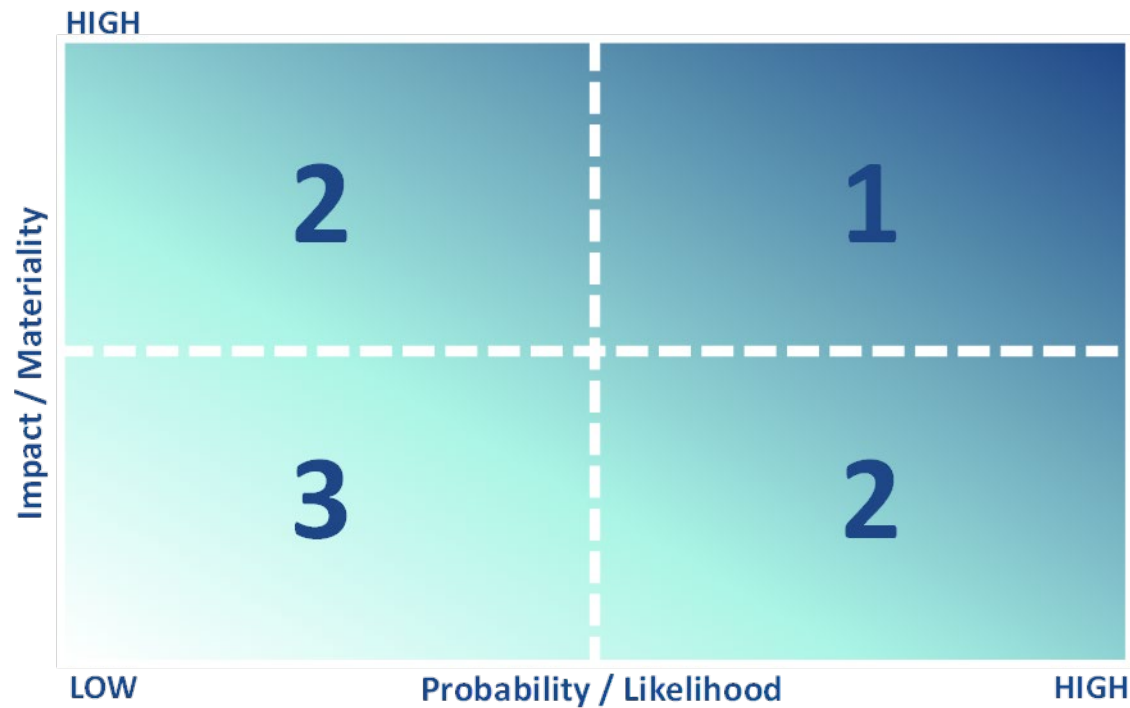


# AUDIT RECOMMENDATION LEGEND

Internal audit recommendations are ranked by importance as follows:

- Level 1 – High
- Level 2 – Medium
- Level 3 – Low

## Audit Recommendation Assessment



## Policy Revision

Level: 3 (Low)

Category: Process Improvement

### Implement a process to

- Review and evaluate WSIB policy
  - New or revised
- Communicate to State Street
  - Update in compliance system

## Management's Response and Action

- Agree
- Investment Compliance staff review of policies with rules
- Internal notification of policy approval

## Anticipated Completion Date

Completed

# FISCAL YEAR 2025 INTERNAL AUDIT PERFORMANCE MEASURES

SEPTEMBER 2, 2025

Marie Steffen, CPA, CIA  
Audit Director



# AGENDA

- **Global Internal Audit Standards**
- **Performance measures**
- **Fiscal Year (FY) 2025 actual performance**
- **5-year review**



# GLOBAL INTERNAL AUDIT STANDARDS

## Standard 12.2 Performance Measurement

- Objectives to evaluate
- Consider input
  - Board and senior management
- Assess progress
- Promote continuous improvement

## Implementation

- Considerations
  - Principles of the Global Internal Audit Standards
  - Internal Audit Charter
  - Internal Audit unit's long-term priorities
- Standard 8.3 Quality
  - Board approval



# INTERNAL AUDIT PERFORMANCE MEASURES

## Five Measures

- Adopted in FY2010
- Recommendation from the 2009 external quality assessment
  - Reviewed annually
  - Consideration of other measures
- Outcomes reported after completion of plan cycle

## FY2025

- Identified as part of annual Internal Audit Plan
- Approved by the Board in June 2024



# INTERNAL AUDIT PLAN

## Target Performance

Develop the FY2026 Internal Audit Plan and obtain approval by June 30, 2025



## Actual Performance

The FY2026 Internal Audit Plan was approved by the Board on June 20, 2025

## Target Performance

Complete 80 percent of scheduled audits for FY2025



## Actual Performance

6 of the 8 scheduled internal audits for FY2025 were completed (75 percent)

# COMPLETION OF AUDITS AND OTHER PROJECTS

FY2025

## Approved Audits

- Daily Valued Funds
- Real Estate – Commingled Trust Fund Portfolio
- Payroll
- Compliance Monitoring – Public Markets
- Proxy Voting
- Computer Assisted Auditing – Quarterly Reviews
- Moved to FY2026 Internal Audit Plan
  - Public Market Trade Processing and Settlement
  - Inventoriable Assets
  - Advisory: Labor and Industries, Real Estate

## Advisory and Other Projects

- FY2026 Internal Audit Plan
- Global Internal Audit Standards assessment and updates
- Informal fact-finding review
- Regular meetings with management
- Board and Committee meetings
- Internal Committees
  - Enterprise Risk Management, Project and Collaboration, Investment Risk Steering
- External Audit Activities
  - FY2024 Financial Statement Audit
    - Annual Report review
    - Liaison activities
  - State Auditor's Office
    - FY2022 – FY2024 Accountability and Compliance
    - Liaison activities

# SUMMARY OF INTERNAL AUDIT RECOMMENDATIONS

There were five internal audit reports issued between July 1, 2024, and June 30, 2025

- Two reports did not contain recommendations

| Recommendation Category                  | Number | Action taken or will be taken | Description  |
|--|--------|-------------------------------|--|
| Compliance with Procedures/Policies/Laws | 1      | 1                             | Adherence to current procedures, policies, and laws                  |
| Process Improvement                      | 2      | 2                             | Documentation, approvals, review, verification, monitoring, training |
| Compliance and Process Improvement       | 5      | 5                             | Recommendation covered both elements                                 |
| Total Recommendations                    | 8      | 8                             |  |

# TIME SPENT ON ASSURANCE, CONSULTING, AND ADVISORY ACTIVITIES

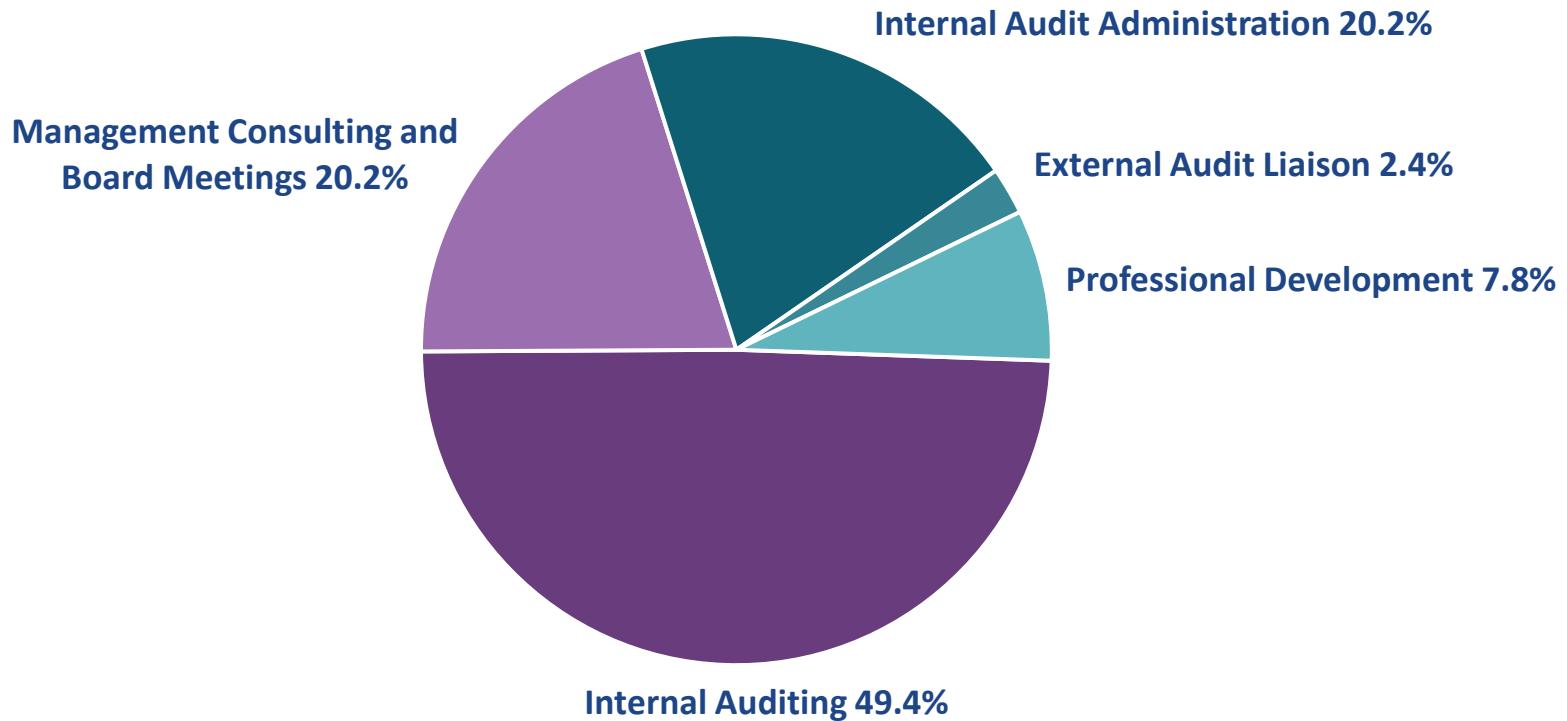
## Target Performance

Spend a minimum of 60 percent of planned total unit hours on direct assurance, consulting, and advisory activities



## Actual Performance

Direct audit, consulting, and advisory services comprised 69.6 percent of the total available hours for FY2025



# CONTINUING PROFESSIONAL EDUCATION (CPE) AND REPORTING ON OUTCOMES

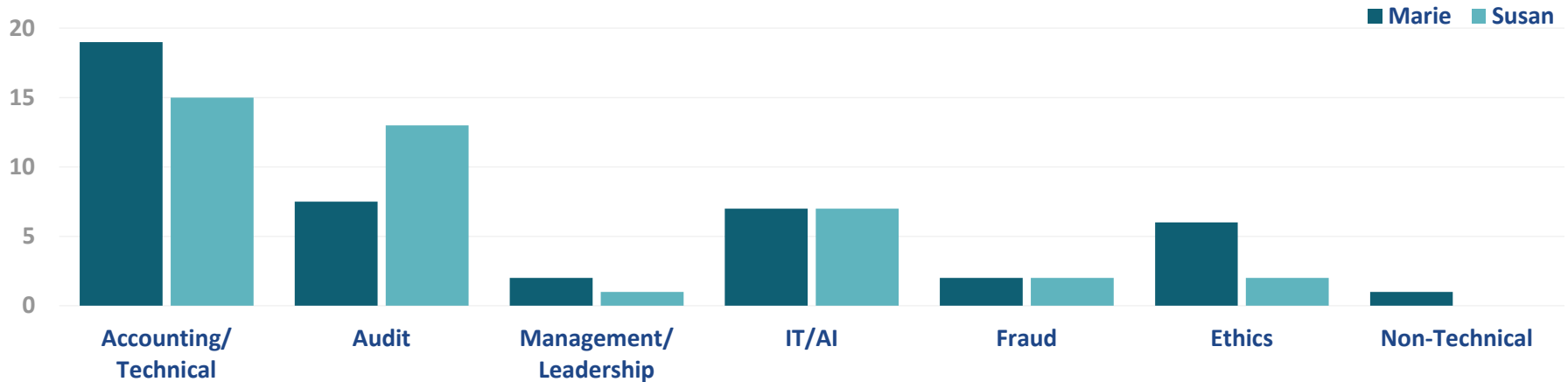
## Target Performance

Obtain at least 40 hours of CPE each year for each auditor



## Actual Performance

Both auditors received at least 40 hours of CPE during FY2025



## Target Performance

Report on the outcomes of the FY2025 performance measures at the first Audit Committee meeting after June 30, 2025



## Actual Performance

The outcomes for FY2025 performance measures will be reported to the Audit Committee on September 2, 2025

| Performance Measure   | Actual Performance |                 |                 |                |               |
|---|--------------------|-----------------|-----------------|----------------|---------------|
|   | FY2021             | FY2022          | FY2023          | FY2024         | FY2025        |
| Internal Audit Plan Approval  | ✓                  | ✓               | ✓               | ✓              | ✓             |
| Completion of Audits (80%)  | 6 of 7<br>85.7%    | 5 of 8<br>62.5% | 7 of 8<br>87.5% | 8 of 8<br>100% | 6 of 8<br>75% |
| Time Spent on Assurance, Consulting,<br>and Advisory Activities (60%) | 73%                | 69%             | 75%             | 70%            | 70%           |
| Continuing Professional Education                                     | ✓                  | ✓               | ✓               | ✓              | ✓             |
| Reporting on Outcomes   | ✓                  | ✓               | ✓               | ✓              | ✓             |

# FISCAL YEAR 2025 QUALITY ASSURANCE REPORTING

SEPTEMBER 2, 2025

Marie Steffen, CPA, CIA  
Audit Director





# AGENDA

## Quality Assurance and Improvement Program

- Requirement

### Activities

- Ongoing monitoring
- Periodic self-assessment
- External assessment
  - At least once every 5 years

### Fiscal Year 2025 assessment



# QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

## Requirement

- Global Internal Audit Standards
  - Standard 8.3 Quality
  - Standard 8.4 External Quality Assessment
  - Standard 12.1 Internal Quality Assessment
- State policy
- Internal Audit Charter

## Purpose

- Evaluate and promote conformance with the Global Internal Audit Standards
- Assess efficiency and effectiveness
- Identify opportunities for improvement



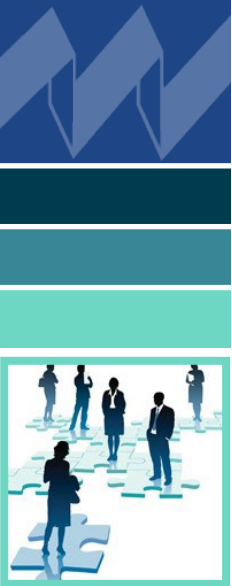
# QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

## Assessors

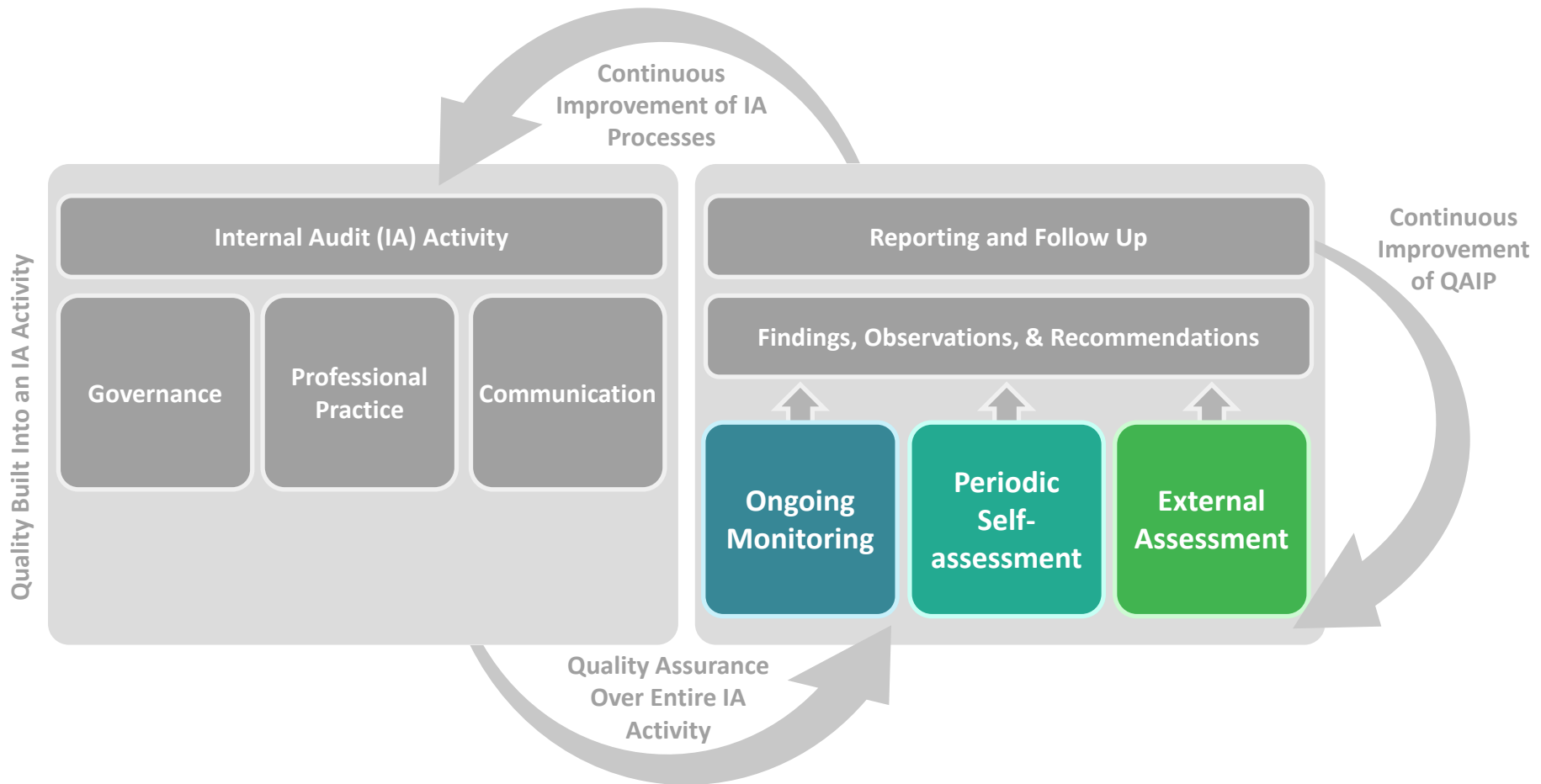
- Audit Director
- Internal Auditor
- Internal Audit administrative support
- External assessor and/or assessment team (5-year)

## Annual communication of results

- Degree of conformance
- Compliance with laws and or regulations
- If applicable, action plans
  - Enhancements
  - Deficiencies



## Quality Assurance and Improvement Program (QAIP) Framework





## Ongoing Monitoring

- Delivering quality on each engagement
- Opportunities for improvement

## Periodic Self-assessment

- Internal audit activities
  - Holistic and comprehensive review
    - Consider conformance with every standard
  - Internal Audit Charter

## External Assessment

- Independent review and validation
  - Conformance with the Global Internal Audit Standards
  - Effectiveness and efficiency of the function

## Quality Assurance and Improvement Program results

- Recommendations from the 2024 External Quality Assessment
  - Action identified has been completed
- Performed in November 2024
  - Global Internal Audit Standards, effective January 9, 2025
    - Action identified has been completed
      - Updates to the audit-related Charters, Internal Audit Manual, work practices and procedures
      - Audit Director qualifications and competencies, hiring plan
      - Internal Audit long-term priorities



Overall, the WSIB's internal audit function "generally conforms" with the Global Internal Audit Standards and the Internal Audit Charter