Washington State Investment Board

June 2, 2026

Audit Committee Meeting

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 (9:00 am)**

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

   A. Adoption of the March 3, 2026, Meeting Minutes

3. **External Audit (9:05-9:25)**

   A. State Auditor's Office – Fiscal Year 2025 Accountability Audit – Exit Conference

   B. Fiscal Year 2026 Financial Statement Audit Planning Letters

4. **Internal Audit (9:25-10:30)**

   A. Audit Recommendation Status Report

   B. Internal Audit Report – Cash Overlay

   C. Internal Audit Report – Ethics Program

   D. Audit Plan Quarterly Status Report - Fiscal Year 2026

   E. Fiscal Year 2027 Audit Plan

5. **Management (10:30-10:40)**

   A. 2027 Audit Committee Meeting Schedule (5 min)

   B. Quarterly Investment Referral Report (5 min)

6. **Other Items (10:40-10:45)**

7. **Adjourn (10:45 am)**

APPROVED

WASHINGTON STATE INVESTMENT BOARD
Audit Committee Meeting Minutes
June 2, 2026

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: 259 165 070 518 149, Passcode: ft2HY2S9; Dial-In Number 1-564-999-2000; Phone Conference ID: 418 607 736#.

Committee Members Present:	Liz Lewis, Chair Sara Ketelsen Yona Makowski Senator June Robinson Heather Redman
Committee Members Absent:	Joel Sacks George Zinn
Other Members Present:	Tracy Stanley Kathryn Leathers Representative Mia Gregerson
Also Present:	Allyson Tucker, Chief Executive Officer Chris Hanak, Chief Investment Officer Kristina Taylor, Chief Financial Officer Curt Gavigan, Chief Operating Officer Marie Steffen, Audit Director Susan Iselin, Internal Auditor Carissa Palmer, Internal Auditor Lisa Devlin, Management Analyst Carol Gross, State Auditor's Office Nicholas Henrick, State Auditor's Office Na Gao, State Auditor's Office Stacia Sowerby, Attorney General's Office

CALL TO ORDER
Chair Lewis called the meeting to order at 9:00 a.m. and took roll call. All Committee members listed as present were able to fully participate in the meeting.

ADOPTION OF THE MARCH 3, 2026, MINUTES

> **Chair Lewis moved to approve the March 3, 2026, meeting minutes. Yona Makowski seconded, and the motion carried unanimously.**

[Representative Gregerson joined the meeting at 9:05 a.m.]

EXTERNAL AUDIT
State Auditor's Office (SAO) – Fiscal Year (FY) 2025 Accountability Audit – Exit Conference
Presenters: Marie Steffen, Audit Director
Carol Gross, State Auditor's Office
Nicholas Henrick, State Auditor's Office

Na Gao, State Auditor's Office

Marie Steffen introduced staff from the SAO to present the results of the FY2025 Accountability Audit. The audit areas included: Custodian Bank – investment accounting reconciliations and compliance alert monitoring; Accounts Payable – travel expenditure and employee reimbursements; Payroll – leave balances and accruals, leave cash outs, and relocation payments; Private Equity – external manager due diligence and monitoring; and Innovation Portfolio – compliance with WSIB policy 2.10.800. SAO staff discussed the purpose of the accountability audit and reported that the Washington State Investment Board (WSIB) complied with applicable state laws, regulations, and internal policies, and provided adequate controls over the safeguarding of public resources. Staff noted that the audit costs were aligned with original estimates and that the WSIB's next accountability audit would be performed in 2028.

When asked about the evaluation of the Private Equity - external manager due diligence and monitoring audit area, SAO staff discussed their review of the Private Equity team's investment due diligence and ongoing monitoring processes and identified and tested key controls to confirm they were in place and operating as intended. Allyson Tucker noted the WSIB's Private Equity Investment Program policy outlines standard due diligence procedures and Nicholas Henrick confirmed the policy was used to in SAO's review.

Discussion ensued regarding the factors and requirements that are used to determine the timing of accountability audits, the frequency of clean audit results among state agencies, and how the quality of WSIB controls compare to other agencies of similar size.

> **Chair Lewis moved that the Audit Committee recommend the Board accept the State Auditor's Office Accountability Audit Report of the Washington State Investment Board for Fiscal Year 2025. Senator Robinson seconded, and the motion carried unanimously.**

FY2026 Financial Statement Audit Planning Letters

Presenters: Marie Steffen, Audit Director

Marie Steffen reviewed the required audit engagement communications for the FY2026 financial statement audit, which will be conducted by Eide Bailly, the Board's independent Certified Public Accountant firm. The communications included a Statement of Work to management and a planning letter to the Audit Committee that identified the expectations of the auditors and management, the planned audit scope, and audit timing.

Discussion ensued regarding the rotation of auditors performing the WSIB's financial statement audit and Marie Steffen discussed the audit partner rotation with the firm, recent changes with the current audit team, the Audit Committee's interest in audit partner rotation that will be incorporated in future procurement processes.

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

Susan Iselin reported on the status of four prior audit recommendations, three of which were completed and verified by Internal Audit over the quarter. Staff explained that the recommendation related to Trade Processing Activity Procedures marked as "partially complete" was able to be fully verified and the recommendation will not carry forward to the next quarter. In addition, the anticipated completion date for the Ongoing Investment Monitoring Activities recommendation was extended to provide additional time for a full review cycle prior to verification of completion. Internal Audit will report on the status of the open recommendations at the Committee's September meeting.

Internal Audit Report – Cash Overlay
Presenters: Susan Iselin, Internal Auditor
Carissa Palmer, Internal Auditor
Susan Iselin and Carissa Palmer presented the results of the Cash Overlay internal audit engagement. The audit focused on activities related to the Risk Management and Asset Allocation (RMAA) unit's processes and controls over the cash overlay program, and the unit's oversight and ongoing monitoring activities of Russell Investment Group (Russell). In addition, the audit included a review of Russell's cash overlay portfolio management and operations that support operational continuity and ensure compliance with contract terms and investment mandates. Overall, RMAA has processes and controls in place over the cash overlay activities that ensure compliance with WSIB policy and provide operational continuity, and Russell has processes and controls in place to ensure compliance with the contract and investment mandates, and to support operational continuity. There were three audit recommendations that would strengthen processes, further support operational continuity, and ensure compliance with the contract.

Discussion ensued regarding the tenure of Russell as the cash overlay service provider.

Internal Audit Report – Ethics Program
Presenter: Marie Steffen, Audit Director
Marie Steffen presented the results of the Ethics Program internal audit engagement. The audit focused on critical components of the WSIB's ethics program which included the Legal, Risk, and Compliance unit's ethics advisory activities that support integrity, professionalism, principled behavior, and compliance with state laws and rules. The audit also covered compliance with policy requirements related to gifts, training, and written certifications by both Board members and employees, as well as comparing key elements of the ethics program's framework against better practices. The audit concluded that the ethics program is highly effective and processes and controls were in place over the program to support a strong ethical culture and to ensure compliance with state laws and rules, and agency policy. There were no audit recommendations.

Audit Plan Quarterly Status Report – FY2026
Presenter: Marie Steffen, Audit Director
Marie Steffen reported on the status of the FY2026 Audit Plan. There was one change addressed related to the split reporting of the Ethics Program and Conflict of Interest engagement noting that the Conflict of Interest portion will be reported on at the Committee's September meeting. In addition, staff are working on the 2026 computer assisted auditing engagement, and noted that a full recap of the FY2026 Audit Plan as part of the unit's

performance measures presentation, both of which will be presented at the September meeting.

FY2027 Audit Plan
Presenter: Marie Steffen, Audit Director
Marie Steffen presented the FY2027 Audit Plan, which is risk-based and designed to utilize the Internal Audit unit's resources in an efficient and effective manner. The presentation confirmed the organizational independence of the internal audit function as being free from interference or impairments in determining the scope of work, performing the work, and communicating the results to management and the Audit Committee. The presentation emphasized internal audit's value proposition with the goal of being an independent, trusted advisor to support the WSIB and provided an overview of the audit plan development process.

Discussion ensued regarding the development process' risk assessment stage as it relates to the anonymous staff survey and discussions with unit and executive managers. Marie Steffen described the staff survey as an opportunity for staff to share risk-related information and feedback. Overall, 46 percent of the agency staff and all Audit Committee members provided input as part of the Audit Plan development process.

There are eight planned internal audits on the FY2027 Audit Plan: Private Markets Capital Calls and Distributions, Public Equity – External Manager Selection and Monitoring, Tangible Assets – External Manager Due Diligence and Monitoring, Valuation of Alternative Assets, Contracts Management, Investment Performance Reporting, Inventoriable Assets, and Computer Assisted Auditing (Payments, Payroll, System Access). There is one planned outsourced audit, Information Technology (IT) Security Audit / WaTech IT Security Policies and Standards Compliance. Also included are two contingency audits, Securities Lending and Commingled Funds Monthly Accounting, Pricing, Unitization, and Distribution, that could be completed without an additional administrative step of Board approval.

Discussion ensued regarding the risk rating and scope of the Private Markets Capital Calls and Distributions audit area. When asked how decisions are made on where capital calls are funded from, Allyson Tucker noted that a cash account is used for this purpose.

The presentation concluded with a review of internal audit resources, FY2027 performance measures, and a discussion regarding how internal audit considers the WSIB's 2026 Strategic Theme of Sustaining Excellence as part of internal audit engagements and the operations of the Internal Audit unit.

> **Chair Lewis moved that the Audit Committee recommend the Board approve the Fiscal Year 2027 Audit Plan. Yona Makowski seconded, and the motion carried unanimously.**

MANAGEMENT
2027 Committee Meeting Schedule
Presenter: Liz Lewis, Audit Committee Chair
Chair Lewis presented the proposed 2027 Audit Committee meeting dates for consideration: March 2, June 1, September 7, and December 7.

Chair Lewis moved that the Audit Committee adopt the proposed 2027 Audit Committee meeting dates as presented. Senator Robinson seconded, and the motion carried unanimously.

Investment Referral Quarterly Report
Presenter: Liz Lewis, Audit Committee Chair
In accordance with 2.05.800 Investment Referral Process policy, staff prepared a quarterly report that reflects investment referrals from Board members to the investment team, as well as status updates for each referral. The report was included for informational purposes.

OTHER ITEMS
There was no further business to come before the Committee.

ADJOURNMENT
The meeting adjourned at 10:14 a.m.

Exit Conference

Washington State Investment Board

Carol Gross
Audit Manager

Nick Henrick
Audit Supervisor

Na Gao
Audit Lead

June 2, 2026

Results with impact

Increased trust in government

Independent, transparent examinations

Improved efficiency and effectiveness of government

“Independent audits can be believed and relied upon by everyone, regardless of personal or political beliefs.”

State Auditor Pat McCarthy

Accountability audit results

July 1, 2024, through June 30, 2025

<u>Results in Brief</u>

This report describes the overall results and conclusions for the areas we examined.

In those selected areas, Board operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over the safeguarding of public resources.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control or area. As a result, no information is provided on the areas that were not examined.

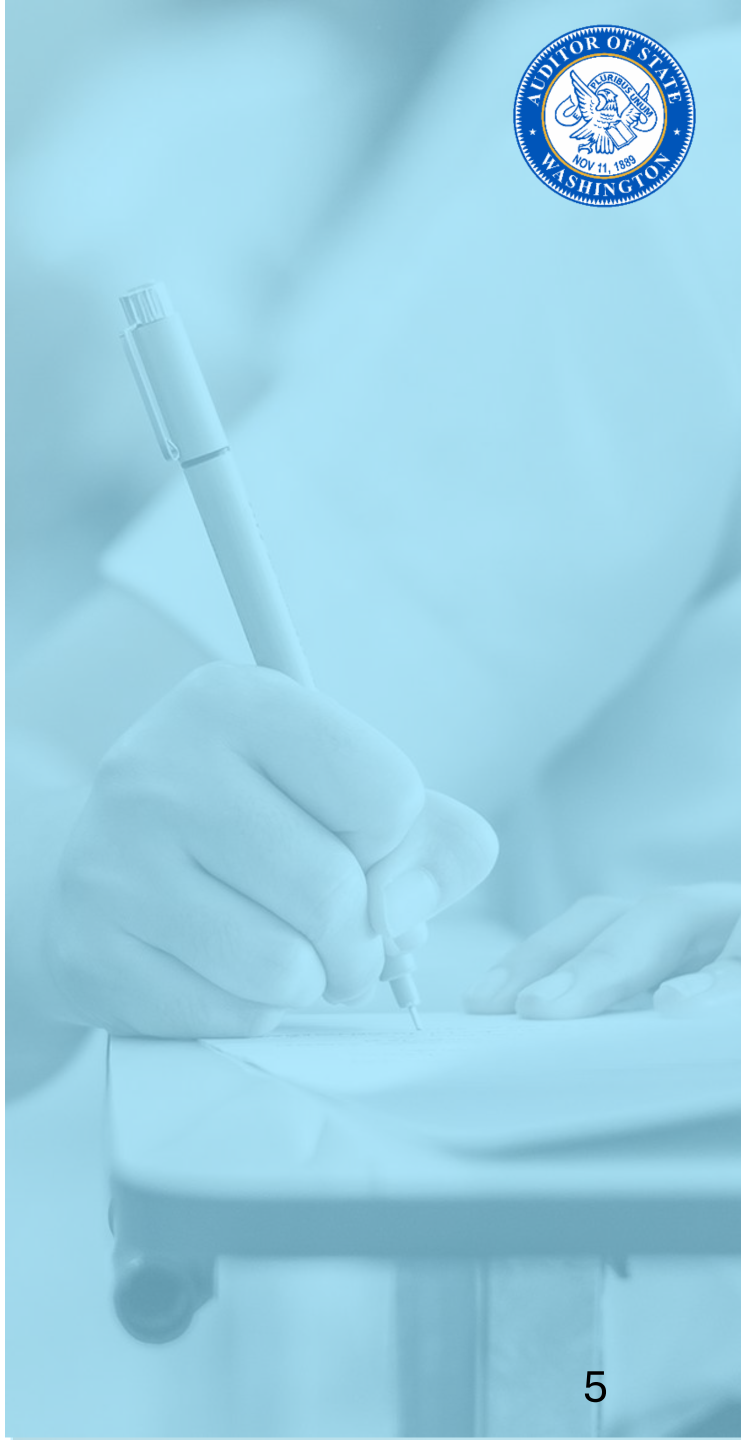
Accountability audit results, cont.

Using a risk-based audit approach for the Board, we examined the following areas during the period:

- Custodian bank – investment accounting reconciliations and compliance alert monitoring
- Accounts payable – travel expenditure and employee reimbursements
- Payroll – leave balances and accruals, leave cash outs, and relocation payments
- Private equity – external manager due diligence and monitoring
- Innovation portfolio – compliance with WSIB policy 2.10.800

Closing remarks

- We have sent a copy of the materials to Board management
- Audit costs are in alignment with our original estimate
- Next audit: 2028
    - Accountability for public resources



Report publication

- ✓ Audit reports are published on our website.
- ✓ Sign up to be notified by email when audit reports are posted to our website:

  https://sao.wa.gov/about-sao/sign-news-alerts

Audit Survey

When your report is released, you will receive an audit survey from us. We value your opinions on our audit services and hope you provide feedback.

Thank you!

We would like to thank the Internal Audit Team for their exceptional support in coordinating audit requests and for their continued effort to facilitate clear and effective communication between WSIB and SAO throughout the audit process.

We would also like to extend our appreciation to WSIB staff, for their professionalism, responsiveness, and collaboration during the audit. Their timely assistance, thorough preparation, and positive attitude greatly contributed to the efficiency and success of the audit.

Questions

Carol Gross, Audit Manager

Carol.Gross@sao.wa.gov

(560) 999-0897

CASH OVERLAY
INTERNAL AUDIT REPORT #2026-05

JUNE 2, 2026

Carissa Palmer, Internal Auditor
Susan Iselin, Internal Auditor

CASH OVERLAY PROGRAM

Washington State Investment Board's (WSIB) cash overlay program

- Primary purpose
  - Improve portfolio returns by investing excess cash
  - Align daily asset allocation
- Risk Management and Asset Allocation (RMAA)
  - Oversight and monitoring
    - Cash overlay program
    - Investment manager

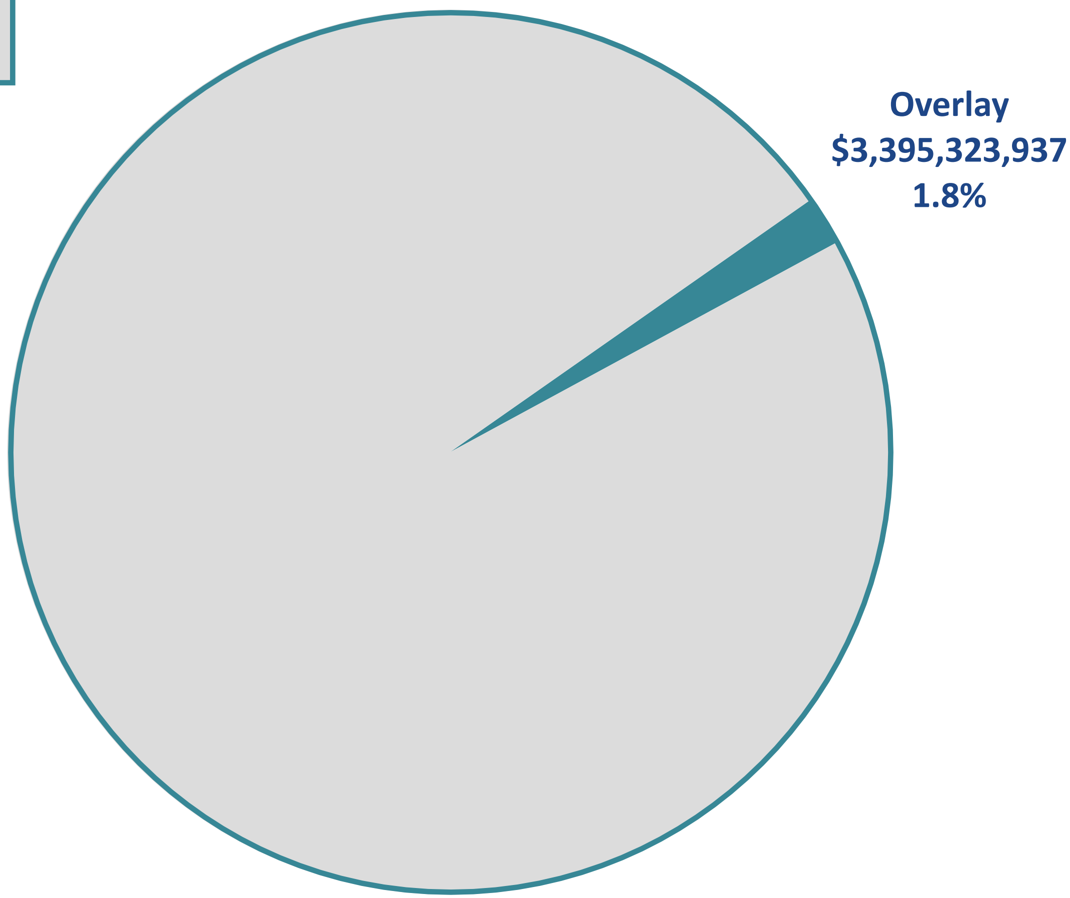
Russell Investment Group (Russell)

- Contract #22-019 Cash Overlay Management
  - July 1, 2022, through June 30, 2027
  - WSIB's Retirement Commingled Trust Fund (CTF)

CASH OVERLAY PROGRAM AS OF DECEMBER 31, 2025

Cash Overlay Program Exposure

Total CTF
$187,618,635,831



AUDIT SUMMARY

Audit areas

- RMAA
  - Oversight of the cash overlay program
  - Ongoing monitoring activities
- Russell’s portfolio management and operations

Scope

- Current processes and controls
- Activities related to the cash overlay program
  - January 1, 2025, through December 31, 2025

AUDIT SUMMARY – FIELDWORK

RMAA oversight of the cash overlay program

- Contract manager designation and responsibilities
- Daily activity monitoring
  - 15 days - monitoring reports and documentation
  - Compliance alerts – research and response
- Processes and procedures
  - Continuity of operations
- Investment manager monitoring
  - Receipt of required reports
  - Communication of key changes
  - Invoice verification

AUDIT SUMMARY – FIELDWORK
CONTINUED

Russell's portfolio management and operations

- System and Organization Controls (SOC) 1 report, dated September 30, 2025
- Preliminary questionnaire
- Onsite visit
  - Inquiry and limited testing

Subsequent Information

- RMAA meeting guidelines

OVERALL AUDIT CONCLUSION

RMAA unit

- Ongoing monitoring activities are in place
- Processes and controls
  - Compliance with WSIB policy
  - Operational continuity

Russell

- Process and controls are in place
  - Compliance
  - Operational continuity

Three audit recommendations:

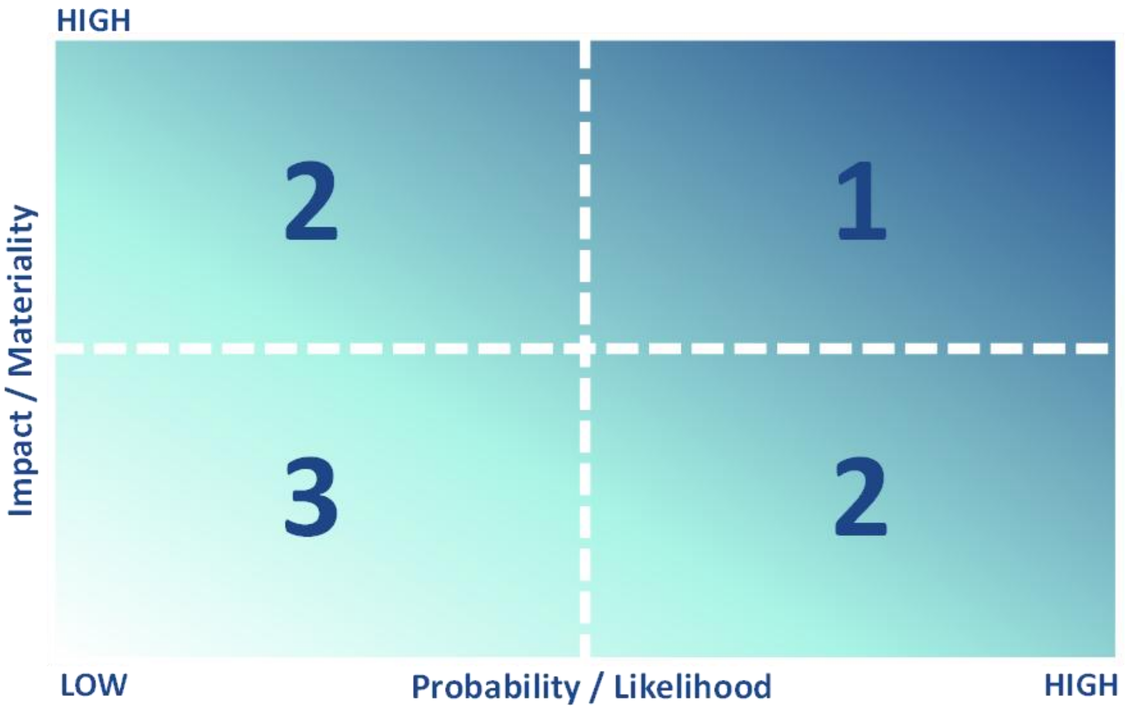
- Strengthen processes
- Support operational continuity
- Ensure compliance with the Contract

AUDIT RECOMMENDATION RANKING

Internal audit recommendations are ranked by importance as follows:

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

Audit Recommendation Assessment



CASH OVERLAY MONITORING PROCEDURES
AUDIT RECOMMENDATION

Level: 3 (Low)

Category:

Process improvement

RMAA unit update procedures

- Contract monitoring expectations
- Cadence to periodically review/update

Management's Response and Action

- Agree
- Enhance documentation

Anticipated Completion Date

June 30, 2026

Level: 3 (Low)

Category:

Compliance

RMAA unit

- Develop and provide attestation form
- Ensure receipt as required by Contract

Management's Response and Action

- Agree
- Provide attestation form
- Ensure quarterly receipt

Anticipated Completion Date

June 30, 2026

CONTRACT MANAGER DESIGNATION

AUDIT RECOMMENDATION

Level: 3 (Low)

Category:

Process improvement

Contract Manager designation

- Closer alignment with duties
- Document accordingly

Management's Response and Action

- Agree
- Designation moving to RMAA Senior Investment Officer
- Will be documented accordingly

Anticipated Completion Date

June 30, 2026

Washington State Investment Board

ETHICS PROGRAM
INTERNAL AUDIT REPORT #2026-06

JUNE 2, 2026

Marie Steffen, CPA, CIA
Audit Director

FOUNDATION

Washington State Ethics in Public Service Act

- Minimum standards
- Responsibility to understand and follow

Board and administrative policy

- Ethics-related
- Code of conduct
- Requirements

Incorporation of ethical standards

- Strategy
- Operations
- Expectations

AUDIT SUMMARY

Audit areas

- Ethics advisory activities
- Ethics-related training and certifications
- Gifts (reporting and resolution)
- Ethical framework

Scope

- Current processes and controls
- January 1, 2025, to December 31, 2025
- Not included – personal investment compliance and trading
- Report separately – Conflict of Interest (Travel Paid Directly by an Outside Source)

AUDIT SUMMARY – FIELDWORK

Ethics advisory activities

- Advisor identified
- Guidance and advice
- Processes and procedures

Training

- Annual attendance
- Materials

Certifications

- Newly appointed or hired
  - Board members by their first Board meeting
  - Employees within 1 week
- Annual

AUDIT SUMMARY – FIELDWORK
CONTINUED

Gifts

- Board member and employee report
- Analytics report to the Audit Committee

Ethics Framework – better practices

- Ethics code and code of conduct
- Ethical values built into mission and vision statements
- Communication
- Comprehensive ethics training
- Ethics “help line”

OVERALL AUDIT CONCLUSION

The Washington State Investment Board's ethics program:

- Effective
- Supports a strong ethical culture and compliance

Compliance – calendar year 2025

- Ethics-related training
- Written certifications
- Gifts

There are no audit recommendations at this time

Washington State Investment Board

FISCAL YEAR 2027
AUDIT PLAN

JUNE 2, 2026

Marie Steffen, CPA, CIA
Audit Director

BACKGROUND

Washington State Investment Board (WSIB) Internal Audit

- Organization and independence
- Internal Audit value proposition

Audit plan development process

Planned internal audit areas

Other internal audit projects and activities

Internal audit resources

- Staffing, development, and additional resources
- Estimated resource allocation

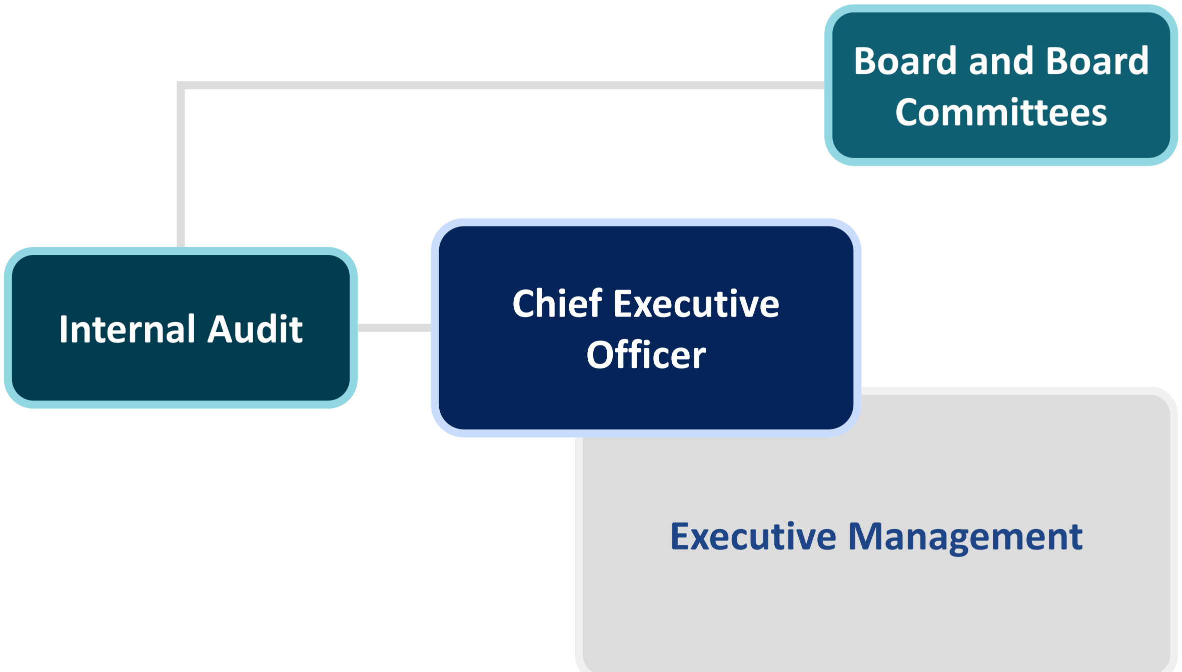
Fiscal Year (FY) 2027 performance measures

2026 Strategic Theme: Sustaining Excellence

WSIB INTERNAL AUDIT
ORGANIZATION AND INDEPENDENCE

Annual confirmation and disclosure

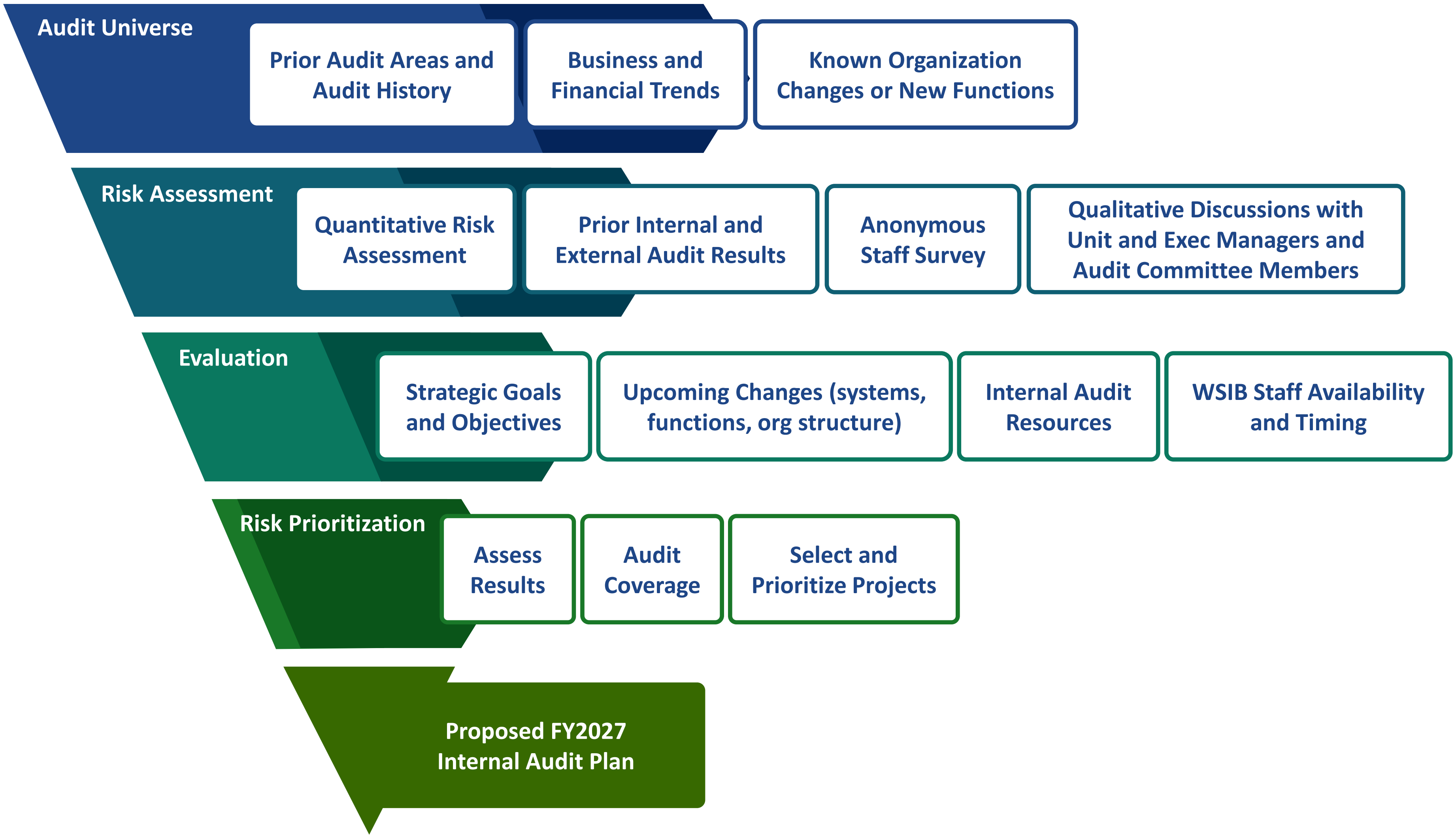
- Organizational independence
- Free from interference



Internal Audit Value Proposition

An independent, trusted advisor that provides risk-based and objective assurance, advice, insight, and foresight to the Board and management designed to strengthen the WSIB's ability to create, protect, and sustain value

AUDIT PLAN DEVELOPMENT PROCESS



PLANNED INTERNAL AUDIT AREAS

Using the completed risk assessment, the audit cycle framework, the FY2027 assurance map, and professional judgment, the following audit areas are selected (FY2027 risk rating noted):

FY2027 Planned Internal Audit Areas

- Private Markets Capital Calls and Distributions (3.67)
- Public Equity – External Manager Selection and Monitoring (3.67)
- Tangible Assets – External Manager Due Diligence and Monitoring (3.33)
- Valuation of Alternative Assets (3.00)
- Contracts Management (2.83)
- Investment Performance Reporting (2.83)
- Inventoriable Assets (2.17)
- Computer Assisted Auditing (Payments, Payroll, System Access)
- Information Technology (IT) Security Audit / WaTech IT Security Policies and Standards Compliance
- Outsourced

Contingency Audits

- Securities Lending (1.00)
- Commingled Funds Monthly Accounting, Pricing, Unitization, and Distribution (2.00)

OTHER INTERNAL AUDIT PROJECTS AND ACTIVITIES

Other Internal Audit Activities

- FY2026 audit wrap-up
  - Conflict of Interest (travel paid directly by an outside source)
  - Computer Assisted Auditing
- Quarterly follow-up on prior audit recommendations

Internal Audit Administration

- FY2028 Internal Audit Plan
- Administration / planning

Advisory Activities / Board-related

- Other advisory activities
  - Meetings with management
  - Internal committees
  - Consulting / special projects / other
- Board and Committee meetings

External Audit Liaison

- Eide Bailly
  - Financial statement auditor
  - Contracted through FY2027

INTERNAL AUDIT RESOURCES
STAFFING, DEVELOPMENT, AND ADDITIONAL RESOURCES

WSIB Internal Audit unit

- Audit Director
- Internal Auditors
- Administrative support

Career development for staff is a continuing goal of the unit

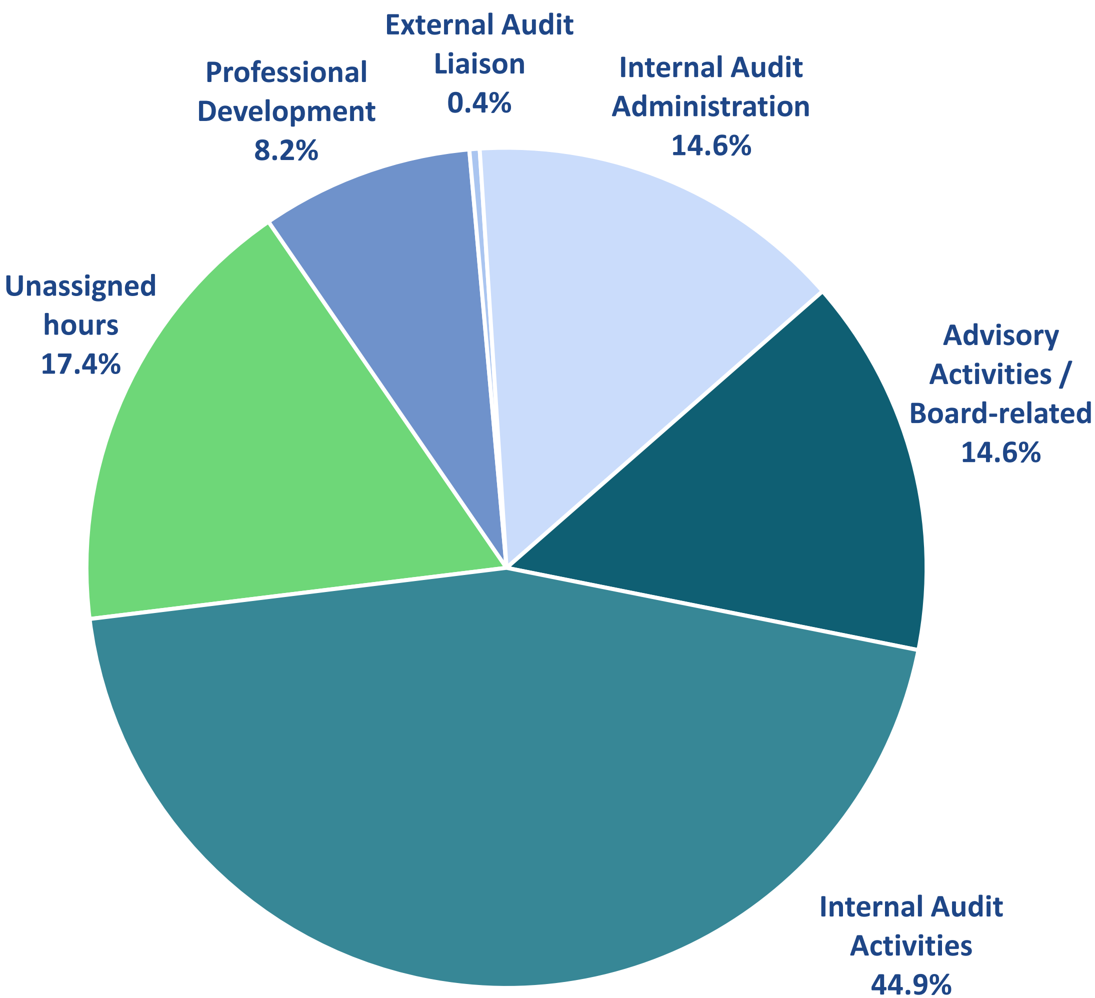
- Training and conferences
- Professional associations and networks
  - Ad hoc requests and guidance

External audit services

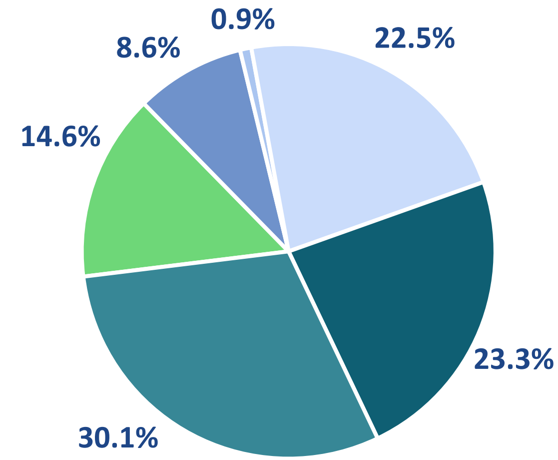
- Department of Enterprise Services
  - Professional Auditing Services
  - IT Professional Services

INTERNAL AUDIT RESOURCES

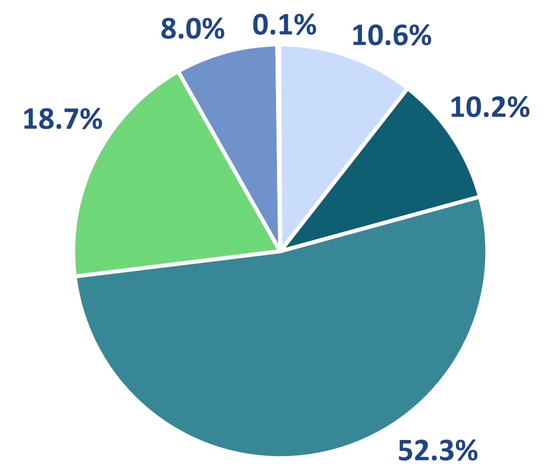
Estimated Resource Allocation for FY2027



Audit Director



Internal Auditors



FY2027 PERFORMANCE MEASURES

Internal Audit

- Complete 80 percent of scheduled audits for FY2027
- Spend a minimum of 60 percent of available hours on direct assurance, consulting, and advisory activities
- Obtain a minimum of 40 hours of continuing professional education for each auditor
- Prepare the FY2028 Internal Audit Plan and obtain Board approval by June 30, 2027
- Report on outcomes of the FY2027 performance measures at the first Audit Committee meeting following June 30, 2027

2026 STRATEGIC THEME: SUSTAINING EXCELLENCE

- **The WSIB's hallmarks are prioritization, planning, and preparation**
  - **Process is prudence**
  - **Long-term thinking is essential**