

**WASHINGTON STATE INVESTMENT BOARD**  
**Audit Committee Meeting Minutes**  
**September 28, 2007**

The Audit Committee met in open public session at 9:03 a.m. at the Washington State Investment Board (WSIB) boardroom at 2100 Evergreen Park Drive SW, Olympia, Washington.

Committee Members Present:           Sandy Matheson, Chair  
  Charlie Kaminski  
  George Masten  
  Bob Nakahara  
  Mason Petit  
  Dave Scott

Others Present:                           Joe Dear, Executive Director  
  Theresa Whitmarsh, Chief Operating Officer  
  Liz Mendizabal, Public Affairs Director  
  Shawna Killman, Internal Auditor  
  Rita Wineinger, Administrative Assistant  
  
  Paul Silver, Assistant Attorney General

[Names of other individuals attending the meeting are not included in the minutes, but are listed in the permanent record.]

Chair Matheson called the meeting to order at 9:03 a.m.

**INTERNAL AUDITOR REPORT**

**Management Letter**

Ms. Killman presented a management letter recommendation regarding the custodian bank contracting authority at the WSIB. Based on research of what is considered best practices in the industry, Ms. Killman opined that the question of and decisions regarding custodian bank services should be controlled fully and solely by the WSIB, rather than a separate state officer, or one member of the Board. This would assure all Board fiduciaries exercise sole and full control over the decision-making regarding the custodian bank that the Board uses in fulfilling its requirement to oversee the assets under its care, with due care, prudence, and undivided loyalty.

[Dave Scott arrived at 9:05 a.m.]

[Mason Pettit arrived at 9:06 a.m.]

Ms. Killman indicated that the Board is currently constrained in fulfilling its fiduciary duties as it cannot, by itself, act on serious deficiencies in the existing custody relationship. Instead, the WSIB needs to inform and act through the State Treasurer. Operational inefficiencies and an environment more susceptible to conflicts of interest are other risks Ms. Killman indicated the Board must manage under the current custody structure.

Ms. Killman recommended, as a policy and trustee matter, that the WSIB evaluate whether it is prudent for the authority regarding custodial bank services to be clarified as fully and solely to be within the purview of the WSIB. Ms. Killman further explained that establishing an alternative custodian model that is more consistent with best practices, a legal and operational structure that empowers the Board as the sole and full decision-maker, while allowing the State Treasurer or State Treasurer's designee to continue to play a robust role as a Board member would be in the best interest of the Board and its stakeholders.

The Committee discussed the relationship of the Office of the State Treasurer, the WSIB, and the custodian bank and requested that WSIB management continue to monitor the efficiencies of the current custodian contract relationship during this contract period and bring any further evaluation to the Committee if necessary.

### **Audit Recommendations Status Report**

Ms. Killman presented the Audit Recommendation Status Report. Since the last quarterly status report in May 2007, three recommendations related to the Investment Performance Reporting Audit were added to the tracking sheet, and four of the six items were completed by staff.

In response to an inquiry by Mr. Nakahara, Ms. Whitmarsh indicated that staff is on track to meet the December 31, 2007, completion date for the audit recommendation regarding development and documentation of a more robust review process with clearly defined guidelines, procedures, and clear responsibilities for performance reporting.

### **Internal Auditor Recruitment Status**

Ms. Killman reported that interviews are underway for the additional internal auditor position that was requested and approved through the biennial budget process. A successful candidate is expected to begin work with the WSIB on October 16, 2007, or November 1, 2007.

### **State Auditor's Office Public Records Request Performance Audit**

Ms. Killman reported that the WSIB is one of ten state agencies selected by the State Auditor's Office (SAO) for a performance audit of its public records request policies and procedures. The final report from the SAO was expected in July 2007; however, there have been changes to the audit report timeline and a new final report date is set for November 13, 2007. According to the SAO, a representative from their office will be here to present the audit results at the next Audit Committee meeting.

## **EDUCATION SESSION**

### **The Audit Committee: Purpose, Process, Professionalism**

Ms. Killman presented an education session derived from The Institute of Internal Auditor's publication entitled, "*The Audit Committee: Purpose, Process, Professionalism*," which provided a summary of the oversight responsibilities of the Audit Committee, as its role in governance has expanded in recent years.

Ms. Killman discussed the role of the Internal Auditor with regard to reporting structure and independence, which results in balancing the role as advisor and consultant to management and having open communication with the Board.

Mr. Kaminski initiated a discussion regarding the Audit Committee's relationship with external auditors and questioned the need for additional Committee meetings in order to meet those responsibilities. Ms. Killman explained that she acts as contract manager for external audits on behalf of the Audit Committee and brings forward information to the Committee as required by the current Charter. Mr. Kaminski responded by wondering if the link between the audit committee and the external auditor should be direct.

Ms. Whitmarsh suggested that the reason the current meeting schedule has met the needs of the Committee, is because there have been no audit findings to follow-up on with the Committee. The Board has enjoyed an exemplary control environment evidenced by a history of clean audits from the State Auditor for fourteen years and the first external audit of the financials last year resulted in a clean audit. Mr. Kaminski acknowledged the lightened load due to the long tenure of clean audits and contrasted this with the environment when he joined the board in 1992 – the audit performed in the prior year had 44 findings.

Chair Matheson suggested the Committee review a calendar of topics at the next Audit Committee meeting to get a better understanding of the cycle of issues that the Committee addresses.

Mr. Nakahara raised a question regarding what level of oversight the Audit Committee should have regarding the financial reports. Ms. Killman explained that determining the users of the financial reports would help determine the appropriate level of oversight. Ms. Whitmarsh indicated that an overview of the process by which the financial reports are developed will also be presented with the financial reports upon completion of the financial audit.

Mr. Nakahara also inquired about the process for staff to raise concerns. Ms. Killman explained that the Whistleblower process within the state system provides an avenue for reporting concerns.

[Roll call was conducted by Chair Matheson.]

#### **ADOPTION OF THE MAY 15, 2007, MINUTES**

**Mr. Masten moved to approve the May 15, 2007, Audit Committee meeting minutes. Mr. Scott seconded the motion and the motion carried unanimously.**

## **NONVOTING BOARD MEMBERS TERM EXPIRATIONS**

Mr. Dear discussed the upcoming term expirations of nonvoting Board members Jeffrey Seely and Robert Nakahara. Both Mr. Seely and Mr. Nakahara indicated interest in continuing to serve on the Board.

**Mr. Masten moved that the Audit Committee recommend to the Board the reappointment of Mr. Jeffrey Seely and Mr. Robert Nakahara for another term. Mr. Scott seconded and the motion passed unanimously.**

## **2008 MEETING DATES**

Chair Matheson presented the proposed Audit Committee meeting schedule for 2008. The dates selected are: February 5, April 1, September 9, and November 4.

Ms. Whitmarsh indicated that staff would like to reschedule the November 4 meeting due to a conflicting obligation of the Internal Auditor.

**Mr. Scott moved to approve 2008 Audit Committee meeting schedule, with the exception of the November meeting. Mr. Masten seconded and the motion passed unanimously.**

Chair Matheson directed staff to work with Committee members to schedule a November 2008 meeting.

## **OTHER ITEMS**

There was no further business to come before the Committee and the meeting adjourned 9:57 a.m.