

**WASHINGTON STATE INVESTMENT BOARD**  
**Audit Committee Meeting Minutes**  
**June 1, 2010**

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: Steve Hill, Chair  
Bill Longbrake  
George Masten  
Treasurer Jim McIntire  
Bob Nakahara (via teleconference)  
Mason Petit

Other Board Members Present: Judi Owens (via teleconference)

Committee Members Absent: Senator Lisa Brown

Others Present: Theresa Whitmarsh, Executive Director  
Gary Bruebaker, Chief Investment Officer  
Liz Mendizabal, Public Affairs Director  
Victor Moore, Chief Operating Officer  
Shawna Killman, Internal Audit Director  
Kate Sandboe, Corporate Governance Officer  
Patty Davis, Administrative Assistant  
Marie Repcik, Administrative Assistant  
  
Steve Dietrich, Assistant Attorney General  
Mark Raker, Peterson Sullivan PLLC (via teleconference)  
Jim Brownell, State Auditor's Office  
Steve Wendling, State Auditor's Officer

[Names of other individuals attending the meeting are listed in the permanent record.]

Mr. Hill called the meeting to order and took roll call.

**ADOPTION OF THE MARCH 2, 2010, MINUTES**

**Mr. Masten moved to approve the March 2, 2010, Audit Committee meeting minutes. Mr. Petit seconded, and the motion carried unanimously.**

**EXTERNAL AUDIT**

**Financial Statement Audit – Auditor Independence Review**

Ms. Killman stated that Peterson Sullivan PLLC, independent CPA firm, performs the financial statement audit for the Washington State Investment Board (WSIB) annually per a 5-year contract entered into by the Board. Ms. Killman stated that the independence of the firm is essential for

promoting confidence in the audit process and must be monitored continuously. According to the WSIB Audit Committee Charter Policy 1.00.130, the Committee is to review the independence of the external auditor.

Ms. Killman presented a letter of independence from Peterson Sullivan PLLC, along with a list of services provided by Peterson Sullivan PLLC, to the Committee for its review. Ms. Killman also indicated, as contract manager and liaison, nothing has come to her attention that has caused her any concern regarding Peterson Sullivan PLLC's independence from the WSIB.

### **State Auditor's Office Accountability Audit – New Approach for Fiscal Year 2010**

Ms. Killman stated that the State Auditor's Office (SAO) has historically conducted accountability and compliance audits on an annual basis, and the Board has come to rely upon the SAO's audit services as a key component of the Board's overall initiatives on strong governance and impeccable integrity. Ms. Killman explained the SAO is in the process of developing a new statewide audit approach where they will select statewide audit areas, and perform audits across the agencies with the most impact.

Ms. Killman introduced Messrs. Wendling and Brownell from the SAO. Mr. Wendling described the changes the SAO is experiencing due to budget cuts. He explained the new statewide risk assessment model, which will identify and prioritize specific audit topics, is currently in the planning stages and they hope to have available August 1, 2010. Mr. Wendling explained that the SAO will not be performing accountability audits or issuing an audit report for the WSIB during this audit cycle. If the Committee would like the SAO to continue to do accountability and compliance audits, the WSIB will need to enter into an interagency agreement with the SAO.

Ms. Whitmarsh explained that the WSIB relies on the SAO for the accountability audit from a reputational risk standpoint to assert we comply with certain state policies, for example, travel policies and procurement practices. A detailed discussion ensued regarding the SAO's audit plan and potential options for WSIB accountability audits for 2010. After the discussion the Committee directed staff to bring an audit plan back to the next Audit Committee meeting in September. Mr. Hill stated that it is critical that we get this adjustment to the SAO's changes right and it is important to make sure the WSIB is adequately audited going forward.

[Ms. Owens was no longer in attendance via teleconference at 9:17 a.m.]

[Treasurer McIntire arrived at 9:27 a.m.]

### **INTERNAL AUDIT**

#### **Fiscal Year 2010-2011 Internal Audit Plan**

Ms. Killman reviewed the audit plan for Fiscal Year 2010-2011. She reminded the Committee that the audit plan is dynamic and may require changes at any time depending on WSIB's audit needs.

Ms. Killman reviewed the audit universe and described how she developed the current audit plan.

Ms Killman reviewed the planned audit areas for Fiscal Year 2010-2011: Cash Flow Management,

Retirement Fund Asset Allocation Rebalancing, Fixed Income, Custodian Bank Operations, Public Equity – External Manger Monitoring, and Data Warehouse.

**Treasurer McIntire moved that the Audit Committee recommend that the Board adopt the Fiscal Year 2010-2011 Internal Audit Plan. Mr. Petit seconded, and the motion carried unanimously.**

#### **Audit Recommendation Status Report**

Ms. Killman reviewed the recommendation status report. At the beginning of the quarter there were seven outstanding prior audit recommendations; four have been resolved.

#### **Investment Referral Process Follow-up**

Ms. Whitmarsh stated that the Internal Auditor recommended the Board consider developing a contact and referral policy or process that formalizes a consistent approach with regard to investment opportunities received by the WSIB through various channels. At its last meeting, the Audit Committee directed staff to review industry best practices. Ms. Whitmarsh stated three policies from other funds were located in the packet. The Committee discussed the best options for the WISB.

**Treasurer McIntire moved that the Audit Committee recommends that staff create an investment referral policy and process to bring back to the Committee for review. Mr. Masten seconded the motion, and the motion carried unanimously.**

[The Committee took a brief recess at 10:00 a.m., and reconvened in open session at 10:14 a.m.]

#### **OTHER ITEMS**

##### **Corporate Governance Planning – International Proxy Voting Follow-up**

Ms. Mendizabal introduced the request to expand the corporate governance program to include international proxy voting.

Ms. Sandboe explained that under the current Board policy, only proxies for U.S. equities are voted in-house. If the Board wishes to expand the program to include international proxy votes, Glass Lewis can design a program to vote WSIB's international proxies. The additional cost for external services is estimated at between \$100,000 and \$125,000. A discussion ensued regarding voting international proxies.

**Treasurer McIntire moved that the Audit Committee recommends a policy and process for voting international shares be taken to the Board. Mr. Petit seconded the motion and the motion carried unanimously.**

Ms. Sandboe continued with an update of the current proxy voting season and shareholder proposals. The Committee discussed being a reasoned and engaged voice for shareholder issues and corporate governance.

Mr. Longbrake requested a presentation at the September Audit Committee on how the federal financial reform legislation will affect the WSIB's corporate governance program.

#### **Internal Audit Director Annual Evaluation**

Mr. Hill announced the Committee would go into executive session to review and discuss the performance of a public employee. He said the executive session was expected to last approximately seven minutes, at which time the Committee would reconvene in open session and adjourn.

[The Committee went into executive session at 10:52 a.m., and reconvened in open session at 11:00 a.m.]

There was no further business to come before the Committee and the meeting adjourned at 11:02 a.m.