

**WASHINGTON STATE INVESTMENT BOARD**  
**Audit Committee Meeting Minutes**  
**September 20, 2012**

The Audit Committee met in open public session at 1:00 p.m. at the Washington State Investment Board (WSIB) boardroom at 2100 Evergreen Park Drive SW, Olympia, Washington.

Committee Members Present: Steve Hill, Chair  
Senator Lisa Brown (via teleconference)  
Bill Longbrake  
George Masten  
Treasurer Jim McIntire  
Bob Nakahara  
Natasha Williams

Other Members Present: Judi Owens

Others Present: Theresa Whitmarsh, Executive Director  
Victor Moore, Chief Operating Officer  
Gary Bruebaker, Chief Investment Officer  
Shawna Killman, Audit Director  
Rodney Reynolds, Internal Auditor  
Beth Vandehey, Risk and Compliance Director  
Chris Green, Risk Analyst  
James Mackison, Innovation and Technology Director  
Patty Davis, Administrative Assistant

Steve Dietrich, Assistant Attorney General

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

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

**APPROVAL OF THE MAY 24, 2012, MINUTES**

**Treasurer McIntire moved to approve the May 24, 2012, Audit Committee meeting minutes. Mr. Masten seconded, and the motion carried unanimously.**

[Senator Brown arrived via teleconference at 2:35 p.m.]

**INTERNAL AUDIT**

**Audit Recommendation Status Report**

Mr. Reynolds reported there were two items outstanding in the report. The IT Security follow-up has been completed and will be discussed during Executive Session later in the meeting. All remaining items are on target for timely resolution.

The annual Conflict of Interest Policy 2.00.100 review now includes a review of receipts where an outside source paid WSIB travel costs directly to the travel vendor. The results of the review will be reported at the December meeting.

**Innovation Portfolio Audit Report – #2012-05**

Mr. Reynolds reported on the Innovation Portfolio audit covering activity in the portfolio between May 2011 and August 2012. The results of the audit show the WSIB is complying

with policy requirements related to the Innovation Portfolio, and control procedures are in place and operating properly. Audit staff commended Portfolio Administration, Compliance, Tangible Assets, Private Equity, Real Estate, and Asset Allocation staff for their assistance during this audit.

### **Performance Measures Dashboard – FY 2012**

Ms. Killman presented Internal Audit's function performance measures for Fiscal Year 2012. The Audit Committee previously approved five Internal Audit performance measures recommended by a public pension fund expert: 1) complete development and obtain approval for the FY 2013 Internal Audit Plan by June 30, 2012, 2) Spend a minimum of 60 percent of available hours on direct assurance, consulting, and advisory services, 3) complete 80 percent of scheduled audits for FY 2012, 4) obtain at least 40 hours of continuing professional education each year for each auditor, and 5) report on outcomes of the FY 2012 performance measures at the first Audit Committee meeting after June 30, 2012.

All performance measures were achieved well within established criteria.

### **Annual Audit Plan Quarterly Status Report**

At the Audit Committee's request, Ms. Killman developed a quarterly report template that will provide status toward completion of the approved annual audit plan, as well as other projects completed during the quarter. This will be a standing agenda item at each Audit Committee meeting.

### **Public Pension Fund Frauds Review**

Chair Hill informed members that he requested Internal Audit staff prepare a summary of public pension fund frauds and identify any gaps in WSIB controls. Internal Audit conducted a survey of the Association of Public Pension Fund Auditors, and compiled a list of the frauds reported. Ms. Killman informed members that Internal Audit identified controls that would help mitigate the fraud risks reported, and explained WSIB's control procedures currently in place.

Only two areas of concern were noted. First, a gap was identified regarding mandatory annual ethics compliance certification. In 2011, the WSIB added the practice of requiring annual ethics compliance certifications for all new employees and Board members, and annually thereafter. What was noted during this review, however, was the Board's Conflict of Interest Policy had not been updated to reflect that practice.

The second item was travel paid for directly by outside sources. Action is underway to have an independent audit to test compliance with WSIB policies and state regulations. Results will be reported to the Committee in December.

Members praised Internal Audit staff for a quality outcome. Treasurer McIntire relayed that the WSIB is held in high regard for its conflict of interest compliance.

## **EXTERNAL AUDIT**

### **Audit Services Provider Pool**

Ms. Killman informed members that the WSIB sought to create a pool of Audit Service Providers to ensure the Board has timely access to highly-qualified external audit service teams. There were three separate categories of audit services identified in the RFQQ: 1) Accountability and Compliance; 2) Financial Statements; and 3) Information Technology. Five firms met the qualifications and were selected for placement in the Audit Service Provider Pool in one or more categories. Contract negotiations are underway with those firms. Any audit project identified will require approval of an auditor appointment by the Audit Committee and Board.

Ms. Williams inquired if these providers would replace the 0.5 FTE no longer provided by the State Auditor's Office (SAO). Ms. Killman advised that they could perform that replacement work, and could potentially do more work at the Committee's request.

Mr. Nakahara inquired if Peterson Sullivan could retain their independence while performing multiple services for the WSIB. Ms. Killman indicated that for non-financial audit services, they are engaged to perform agreed-upon procedures with a scope very different than that of the financial statement audit. Independence of the auditor is reviewed by the Audit Committee prior to the commencement of the financial statement audit each year.

Mr. Masten inquired whether a change in the Auditor would prompt a change in the level of service from the SAO. Ms. Killman indicated the SAO would likely need a budget increase to support additional work for the WSIB. Mr. Moore reminded members that the statute is very clear on the types of services the SAO can provide. Ms. Killman indicated that any change in the SAO's audit coverage for the WSIB would impact the level of coverage the Board would seek through the Audit Services Provider Pool.

## **MANAGEMENT**

### **Investment Referrals Quarterly Report**

Ms. Whitmarsh offered the information for the members' reference. There were five new referrals. One was referred to the Request for Qualifications and Quotations for Audit Service Provider Pool and the remaining four continue to be evaluated by the investment team. Ms. Whitmarsh indicated the referral process is working well and provides transparency for the WSIB.

### **2013 Meeting Schedule**

Mr. Moore presented the proposed 2013 meeting dates of March 5, June 4, September 4, and December 3. Mr. Nakahara inquired if the dates were coordinated with the Public Markets Committee. Staff assured Mr. Nakahara that every effort would be made to do so.

**Mr. Hill moved that the Audit Committee adopt the 2013 meeting dates as presented. Treasurer McIntire seconded, and the motion carried unanimously.**

## **EXECUTIVE SESSION**

Chair Hill stated the Committee would now go into executive session to discuss financial and commercial information relating to an investment since public knowledge regarding the discussion would result in loss to the funds managed by the WSIB or would result in private loss to the providers of the information. The executive session is expected to last until about 3:00 p.m., at which time the Committee would reconvene in open session.

[The Committee went into executive session at 2:53 p.m.]

### **IT Security Review Quarterly CTF Board Risk Report Discussion**

[Senator Brown was no longer in attendance via teleconference at 3:10 p.m.]

[Mr. Nakahara departed at 3:31 p.m.]

[The Committee reconvened in open session at 3:58 p.m.]

There were no further items to come before the Committee, and the meeting adjourned at 3:58 p.m.