

WASHINGTON STATE INVESTMENT BOARD
Audit Committee Meeting Minutes
March 5, 2013

The Audit Committee met in open public session at 9:01 a.m. at the Washington State Investment Board (WSIB) boardroom at 2100 Evergreen Park Drive Southwest, Olympia, Washington.

Committee Members Present: Natasha Williams, Chair
Bill Longbrake (via teleconference)
George Masten
Treasurer James McIntire
Bob Nakahara
Judi Owens

Members Absent: Senator Sharon Nelson

Others Present: Theresa Whitmarsh, Executive Director
Victor Moore, Chief Operating Officer
Gary Bruebaker, Chief Investment Officer
Liz Mendizabal, Institutional Relations Director
Shawna Killman, Audit Director
Rodney Reynolds, Internal Auditor
Tammy Wood, Human Resources Director
Alicia Markoff, Portfolio Administrator
Kate Sandboe, Corporate Governance Officer
Beth Vandehey, Risk and Compliance Director
Jen Edwards, Compliance Officer
Marie Bradbury, Program Specialist

Steve Dietrich, Attorney General's Office
Michael D. Gutierrez, KPM & Associates LLP
Joseph C. Chally, KPM & Associates LLP

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

Chair Williams called the meeting to order and took roll call.

ADOPTION OF THE DECEMBER 4, 2012, MINUTES

Mr. Masten moved to approve December 4, 2012, Audit Committee meeting minutes. Ms. Owens seconded, and the motion carried unanimously.

INTERNAL AUDIT

Human Resources Management Audit Report

Mr. Reynolds presented Internal Audit's review of the Board's human resources management. The objectives were to determine whether:

1. The WSIB is complying with requirements related to human resources management; and
2. Control procedures are in place and operating to assist with ensuring compliance.

Mr. Reynolds summarized the audit process and the items reviewed. This report contains four audit recommendations to improve compliance with specific rules and policies.

Mr. Nakahara inquired if the WSIB performs background and credit checks for staff and Mr. Moore confirmed.

Ms. Owens questioned if the sexual harassment training was online or in person. Ms. Wood stated they provide online and in person training. Human Resources hired a trainer to provide sexual harassment prevention training for all new employees in March. Human Resources required staff to take online training for the last couple of years.

Mr. Nakahara asked what the reporting process is if a person wants to report inappropriate behavior. Ms. Wood responded that there are several ways staff can report behaviors and they are listed in the policy.

Chair Williams requested that sexual harassment training be made available for Board members who are interested in taking the training, if they have not received it in their own workplace or would like to receive current information. She noted that while it is not a requirement of Board members, voluntary participation represents a positive and proactive step to safeguard the WSIB's reputation.

[Treasurer McIntire arrived at 9:20 a.m.]

Trade Processing, Confirmation, and Settlement Audit Report

Ms. Killman presented the Board's internal Trade Processing, Confirmation, and Settlement internal audit results. The objectives were to:

1. Assess the adequacy of the procedures designed to ensure trades are processed, confirmed, and settled for each asset class in an accurate, complete, and timely manner; and
2. Determine whether the internal controls established by the Board are in place and operating effectively.

The report contains two recommendations that would serve to further strengthen controls around foreign currency exchange transactions.

Private Markets Back-Office Service Provider Hamilton Lane Advisors, LLC

Ms. Killman reviewed the partnership with the WSIB and Hamilton Lane (HL). The objectives outlined in the audit were to determine whether:

1. WSIB investment transactions are processed in compliance with contract agreements;

2. An accurate accounting of WSIB's financial data and transactions is maintained; and
3. Internal governance, ethics, compliance, and risk management programs are in place and operating.

The report contains two recommendations that would serve to further strengthen controls around the services provided to the Board by Hamilton Lane.

Audit Recommendations Status Report

Ms. Killman reviewed the responsiveness and timeliness of staff's follow-up activities related to prior audit recommendations. Over the last quarter all three outstanding recommendations were addressed by management.

Annual Internal Audit Plan Quarterly Status Report

Ms. Killman reviewed the Annual Internal Audit Plan Quarterly Status Report with the Committee and projected report dates for the remainder of fiscal year 2013.

EXTERNAL AUDIT

2012 Conflict Of Interest Policy Compliance Review – Scope of Services and Auditor Appointment

Ms. Killman explained that the Board established an external Audit Service Provider pool in September 2012, with three firms under optional-use contracts available to perform project work related to compliance audit services. The WSIB released a Project Work Request for this review in February 2013, with all three firms responding. Based upon a review of the responses and fees proposed, staff would like to hire Peterson Sullivan LLP to perform the 2012 Conflict of Interest Policy Compliance Review.

Ms. Owens moved that the Audit Committee recommend the Board appoint Peterson Sullivan LLP to perform the calendar year 2012 Conflict of Interest Policy Compliance Review.

Mr. Masten seconded, and the motion carried unanimously.

MANAGEMENT

Investment Referrals Quarterly Report

Ms. Whitmarsh offered the information for the members' reference. There were three new referrals, one which was deemed of no value and two that are under review by staff.

Daily Valued Funds Annual Report

Ms. Markoff explained that the Board's Daily Valued Funds Operation Policy requires staff to report annually to the Audit Committee all errors. There were no errors to the Savings Pool or the WSIB Bond Fund in 2012.

International Proxy Voting Update

Ms. Sandboe reviewed the WSIB's international proxy voting program. The results of a vote analysis by Institutional Shareholder Services this proxy voting season will be included in the year-end proxy voting report to the Audit Committee in December.

Public and Private Markets Compliance Overview and Results For 2012

Ms. Vandehey gave an overview of the compliance program. She also presented the asset allocation, cash overlay, securities lending, public equity, and fixed income testing results for 2012.

Ms. Edwards gave an overview of the federal compliance reporting, private markets compliance program, and results from private equity, real estate, and tangible assets compliance testing. Ms. Edwards then reviewed the testing plan for 2013.

Ms. Owens inquired about action taken on the one private equity exception. Ms. Edwards let her know staff talked to the investment officer and the general partner and the issues were resolved in a timely manner.

Chair Williams inquired if staff is happy with the current testing areas. Ms. Edwards informed the Committee that staff looks for areas to enhance our testing annually and one specific area where a deeper review will be made for 2013 is valuation testing using the recommendations from the Duff & Phelps review.

[The Committee took a recess at 10:06 a.m., and reconvened in open session at 10:16 a.m.]

Real Estate and Tangible Assets Compliance Monitoring

Ms. Edwards introduced Messrs. Gutierrez and Chally from KPM & Associates. Mr. Gutierrez gave an overview of the types of testing completed. Mr. Chally reviewed the types of documents they use to complete their review of our partners. Mr. Challey also reported on the compliance issues and observations that were found in compliance testing over a three-year period. He also stated they had strong cooperation from the WSIB partners. Mr. Gutierrez then shared the number of compliance items found over the number of funds tested was minor in comparison to his experience with public pension plan real estate programs and that we had good partners.

Mr. Nakahara asked who is responsible for sharing the compliance issues and observations with the funds. Ms. Edwards indicated she receives a report from KPM and then reviews it with real estate staff. Then, together with real estate staff, decides next steps with the partner, keeping KPM independent.

Ms. Owens congratulated the real estate team and all staff because audit reports consistently come back with high marks, and if there are issues, they are taken care of timely.

Enterprise Risk Management – Annual Review and Update

Ms. Vandehey gave an overview of the WSIB Enterprise Risk Management program and structure. Ms. Vandehey reviewed the scenario analysis discussions the ERM team participated in 2012. She explained the results are reported to executive management and used to help build the strategic plan. Ms. Whitmarsh explained how the information ERM presents to management is used in developing the strategic plan.

EXECUTIVE SESSION

Audit Director's Evaluation

Chair Williams announced the Committee would go into executive session to review and discuss the performance of a public employee. She said that the executive session was expected to last until about 11:10, at which time the Committee would reconvene in open session.

[The Committee went into executive session at 10:58 a.m., and reconvened in open session at 11:19 a.m.]

There was no further business to come before the Committee, the meeting adjourned at 11:19.