

WASHINGTON STATE INVESTMENT BOARD
Audit Committee Meeting Minutes
December 3, 2013

The Audit Committee met in open public session at 9:00 a.m. at the Washington State Investment Board (WSIB) boardroom at 2100 Evergreen Park Drive SW, Olympia, Washington.

Committee Members Present: Natasha Williams, Chair
 Arlista Holman
 Bill Longbrake
 George Masten
 Bob Nakahara

Other Members Present: Mike Ragan

Absent: Treasurer Jim McIntire
 Senator Sharon Nelson

Also Present: Theresa Whitmarsh, Executive Director
 Gary Bruebaker, Chief Investment Officer
 Liz Mendizabal, Institutional Relations Director
 Shawna Killman, Audit Director
 Rodney Reynolds, Internal Auditor
 Kate Sandboe, Corporate Governance Officer
 Mary Hougan, Administrative Assistant

 Mary Lobdell, Attorney General's Office
 Mark Raker, Peterson Sullivan LLP
 Ray Holmdahl, Peterson Sullivan 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 SEPTEMBER 10, 2013, MINUTES

Ms. Holman moved to adopt the September 10, 2013, Audit Committee meeting minutes. Mr. Masten seconded, and the motion carried unanimously.

Audit Recommendations Status Report

Mr. Reynolds reported on the status of follow-up activities related to prior audit recommendations. Over the past quarter, management resolved one of two prior recommendations. Public Records Management has implemented a fillable records request event-tracking log for key dates in the response process. Additionally, staff has refined redaction protocols to generate a redaction report to accompany record responses.

INTERNAL AUDIT

Internal Audit Report 2014-04 Business Continuity Plan

Mr. Reynolds presented the results of the Business Continuity Plan (BCP) audit. He reported the WSIB is complying with state requirements and agency policies related to business continuity. Mr. Reynolds indicated control procedures are in place to assist in rapid recovery of critical business operations. He confirmed the BCP contains all applicable requirements of the Office of the Chief Information Officer (OCIO) Planning for Disaster Recovery and Business

Resumption standards. Mr. Reynolds stated OCIO recognized WSIB in their biennial report to the Governor and Legislature as having one of the best recovery plans in the state.

WSIB created the agency BCP in 2004 and finalized a policy in November 2013, which provides a framework for the management of business continuance. The policy clearly outlines the essential team's roles and responsibilities. Mr. Reynolds stated there were no audit recommendations.

Mr. Longbrake inquired if the WSIB conducts active tests of the back-up systems. Mr. Reynolds informed the Committee tests are conducted annually to ensure systems are working.

Mr. Nakahara asked whether the WSIB has had an event requiring the BCP to be utilized in the past. Ms. Whitmarsh informed the Committee the BCP was used on a snow day a few years ago. The Board meeting scheduled was successfully completed by utilizing the contact trees, communication updates, and teleconference procedures outlined in the plan.

Annual Internal Audit Plan Quarterly Status Report

Mr. Reynolds presented the Annual Internal Audit Plan Quarterly Status Report. The report contained all planned audits for fiscal year 2014 approved by the Board and the expected completion dates. Three audits were completed this quarter, and Internal Audit is on schedule to complete all audits in the annual plan.

MANAGEMENT

Investment Referral Quarterly Report

Ms. Whitmarsh presented the quarterly investment referral log to the Committee and noted several more referrals were added.

Board Adopted Policy Review

Ms. Hougan reviewed the Board adopted policy database and explained WSIB's internal controls for policy approval. She stated the database tracks several items such as adoption date, review date, next review date, version number, and staff member check out. She informed the Committee that all policy drafts are stored electronically on a secured drive. To maintain security, Ms. Hougan is the only employee who has permission to edit these records.

Mr. Masten requested staff consider having the Board review the large volume of policies due in 2015 over the course of one-year, rather than during one meeting.

Review Proxy Voting Guidelines

Ms. Sandboe introduced Robert McCormick, Chief Policy Officer for Glass Lewis & Co., the WSIB's proxy voting advisory service. Mr. McCormick noted the Proxy Voting Guidelines were adopted in 1981 and had a major rewrite in 2004. He explained the guidelines have been reviewed and updated periodically to reflect governance trends, new regulations, and evolving views to include global perspective.

Mr. McCormick reviewed the Proxy Voting Guidelines and suggested new language in the areas of election of directors, ratification of auditors, compensation, and shareholder initiatives. Ms. Sandboe indicated new language was also added under the Board diversity section, which reflects the WSIB's expectations of responsibilities from nominating committees to ensure more diversity.

Mr. McCormick recommended the WSIB oppose members who re-nominate directors who fail to receive majority support of shareholders. Committee members discussed a recommendation to remove the section in the guidelines requiring multiple nominees for Board seats. Mr. McCormick said his recommendation was based on concerns that requiring

a selection of multiple nominees for each board may discourage prospective directors from serving.

Mr. Longbrake suggested that an alternative to requiring multiple nominees might involve encouraging companies to engage in more deliberate and effective board and individual director assessments.

Ms. Whitmarsh indicated discussions with Millstein Center continue around reframing the corporate governance debate so it is less antagonistic between corporations and large public funds. Ms. Whitmarsh said collaboration with Hermes is probably not going to happen due to key personnel changes.

WSIB is also engaging with a number of international funds and corporations. The Canadian Pension Plan is leading an initiative of CEO's and leading institutional investors on long horizon investing and governance. WSIB will continue to explore these initiatives and will report back to the Committee in March.

Policy Update

Ms. Sandboe noted it was brought to the Audit Committee's attention at its September meeting that the Global Proxy Voting Guidelines is the only policy the Audit Committee Charter Policy 1.00.130 has scheduled for annual review instead of every three years. It was agreed the Charter should be amended to schedule reviews of the Global Proxy Voting Guidelines every three years as recommended by staff.

Mr. Masten moved that the Audit Committee recommend the Board approve the revisions to policies 2.05.200 and 1.00.130. Ms. Holman seconded, and the motion carried unanimously.

Recognition

Mr. Masten thanked Chair Williams for her service on the Board and as Audit Committee Chair. Chair Williams was recognized, presented with a letter of appreciation, and wished well in her future endeavors. Chair Williams thanked the Committee for the opportunity and appreciated the hard work and standards set by the WSIB.

EXTERNAL AUDIT

FY 2013 Independent Financial Auditors' Reports

Ms. Killman introduced Messers. Holmdahl and Raker, Peterson Sullivan LLP. The Audit Committee appointed Peterson Sullivan LLP to perform the Fiscal Year 2013 financial statement audit, which involves statements for each category of funds under management by the WSIB. The categories are: Retirement Funds, Labor and Industries' Funds, Permanent Funds, Guaranteed Education Tuition Fund, and Developmental Disabilities Endowment Trust Fund.

The independent auditors' reports and the respective financial statements prepared by management were reviewed. The auditor concluded in each case the financial statements were presented fairly in all material respects. The auditor did not detect any material misstatements and no disagreements arose during the course of the audits. The auditor did not issue a management letter for new or repeat deficiencies in internal control and did not propose any adjustments to the fiscal year 2013 financial statements.

Mr. Masten moved that the Audit Committee recommend the Board approve the FY 2013 Independent Auditors' Reports. Ms. Holman seconded, and the motion carried unanimously.

EXECUTIVE SESSION

Chair Williams announced the Committee would go into executive session to review and

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. She said the executive session was expected to last until about 11:25 a.m., at which time the Committee would reconvene in open session.

[The Committee went into executive session at 10:47 a.m.]

Discussion with External Auditors
Internal Audit Report - Real Estate Intermediaries and Operating Companies

[The Committee reconvened in open session at 11:35 a.m.]

There was no further business to come before the Committee, the meeting adjourned at 11:36 a.m.