WASHINGTON STATE INVESTMENT BOARD
Audit Committee Meeting Minutes
September 1, 2015

The Audit Committee met in open public session at 9:04 a.m. at the Washington State Investment Board (WSIB) boardroom at 2100 Evergreen Park Drive SW, Olympia, Washington.

Committee Members Present:	Treasurer Jim McIntire, Chair Marcie Frost Arlista Holman Bill Longbrake George Masten
Committee Members Absent:	Bob Nakahara Joel Sacks
Also Present:	Theresa Whitmarsh, Executive Director Gary Bruebaker, Chief Investment Officer Liz Mendizabal, Institutional Relations Director James Mackison, Director of Technology & Innovation Marie Steffen, Audit Director Susan Parsons, Internal Auditor Kate Sandboe, Corporate Governance Officer Shawna Killman, Operational Due Diligence Analyst Cathy Nielsen, Administrative Assistant Mary Lobdell, Attorney General's Office Stephen Heath, Intrinium Kylie Martonik, Intrinium

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

Acting Chair Frost called the meeting to order and took roll call.

ADOPTION OF THE JUNE 2, 2015, MINUTES

Ms. Holman moved to adopt the June 2, 2015, Audit Committee meeting minutes. Ms. Frost seconded, and the motion carried unanimously.

EXTERNAL AUDIT

IT Security and Data Warehouse Audits

Ms. Steffen introduced Mr. Stephen Heath and Ms. Kylie Martonik, auditors from Intrinium, and Mr. James Mackison, Director of Technology and Innovation.
Ms. Steffen explained that as part of the fiscal year 2015 internal audit plan, the Board hired Intrinium in April to perform the IT Security and Data Warehouse audits. Intrinium also performed the 3-year security audit required by the state's Office of the Chief Information Officer. Ms. Steffen noted the audits were completed during April

and May of 2015 and, due to the confidential nature of the work, the results and discussion would take place in executive session.

Acting Chair Frost announced the Committee would 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. She said the executive session was expected to last about 20 minutes, at which time the Committee would reconvene in open session.

[The Committee went into executive session at 9:06 a.m., and reconvened in open session at 9:40 a.m.]

[Chair McIntire arrived at 9:10 a.m.]

> **Ms. Frost moved that the Audit Committee recommend the Board approve the IT Security and Data Warehouse Audits. Mr. Masten seconded, and the motion carried unanimously.**

INTERNAL AUDIT

Audit Recommendations Status Report

Ms. Steffen and Ms. Parsons reported on the status of follow-up activities related to prior audit recommendations. Ms. Steffen stated that over the last quarter, one of two recommendations was resolved. In response to the recommendation on the Custody Bank audit, the Master Custody Authority was updated and additional clarifications were made regarding approvals and callback procedures.

Ms. Parsons said the follow-up action taken relating to the Tangible Assets audit was reviewed, and the Tangible Assets Investment Due Diligence and Monitoring Policy 3.35.100 was updated to include the due diligence process. Ms. Parsons added that management is in the process of developing an office-wide investment documentation policy. This has been assigned to a team and is scheduled to be completed by year end. Ms. Parsons stated Internal Audit will follow-up on this and report at the next quarterly meeting.

Fiscal Year 2015 Performance Measures and Quality Assurance Reporting

Ms. Steffen presented the Fiscal Year 2015 internal audit performance measures. Performance measure targets met included completion of the Fiscal Year 2015 Internal Audit Plan in a timely manner, completing 87.5 percent of the scheduled audits for Fiscal Year 2015, both auditors receiving 40 hours of Continuing Professional Education during the period, and reporting the outcome of the Fiscal Year 2015 performance measures to the Audit Committee timely. Ms. Steffen said that as a result of hiring a new Audit Director and Internal Auditor, direct audit services comprised 59.2 percent of the total available hours, instead of the targeted 60 percent.

Ms. Steffen presented the results from Internal Audit's quality assurance and improvement program. Internal Audit performs ongoing and periodic assessments of the internal audits and consulting activities to ensure the function adds value and improves the WSIB operations. Ms. Steffen added that assessments also provide assurance that the function complies with Internal Audit Standards.

Ms. Frost asked whether any internal audits would be outsourced to supplement the Internal Audit staff as a results of the turnover. Ms. Steffen stated that Internal Audit staff will be completing the audits and there are currently no plans to outsource any work.

Ms. Holman asked about the satisfaction surveys and what was reported. Ms. Steffen stated there are six survey questions, and some of the questions included audit coordination to minimize disruptions, audit report accuracy, and discussing findings and recommendations with appropriate staff and/or management.

Audit Plan Quarterly Status Report – Fiscal Year 2016
Ms. Steffen presented the Fiscal Year 2016 Audit Plan Quarterly Status Report. She reviewed the six scheduled internal audits and their planned completion dates.

Mr. Longbrake asked if Ms. Steffen anticipates being able to meet all the dates. Ms. Steffen responded the audits are on track for completion by their deadlines. She added that a status update will be reported at each quarterly meeting.

POLICY REVIEW
Audit Committee Charter 1.00.130 and Internal Audit Charter 1.00.190 – Technical Revisions
Ms. Steffen reviewed the proposed technical changes to the Audit Committee Charter and Internal Audit Charter. She stated language was added in both Charters to document the Audit Committee's responsibility of recommending to the Board the approval of the annual internal audit plan, which is current practice. The Internal Audit Charter was updated to include termination oversight of the Audit Director position as a Committee responsibility, which was already included in the Audit Committee Charter.

> **Ms. Frost moved that the Audit Committee recommend the Board adopt the proposed technical changes to Charters 1.00.130 and 1.00.190. Mr. Masten seconded, and the motion carried unanimously.**

MANAGEMENT
2016 Meeting Schedule
Ms. Steffen presented the proposed meeting dates for 2016 of March 1, June 7, September 13, and December 6.

> **Ms. Frost moved that the Audit Committee adopt the 2016 meeting dates as presented. Ms. Holman seconded the motion, and the motion carried unanimously.**

Board Policy Compliance Review
Ms. Killman presented the results of the biennial Board Governance Policy Compliance Review. The review demonstrates the Board's internal governance structure is strong, improves policy oversight, and identifies any overlaps in policies. The provisions included in 13 governance charters and policies were verified. Ms. Killman was pleased to report the review revealed no areas of non-compliance over the two-year period ended June 30, 2015. She further stated this

demonstrates the ongoing commitment of the Board and its staff to strong governance.

Ms. Whitmarsh commented this is the first report with no compliance issues.

Revised Global Proxy Voting Policy – Draft

Ms. Sandboe discussed the revised Global Proxy Voting guidelines and stated this is the first substantive revision since the guidelines were adopted in 2005. She stated a majority of the original language remains intact, with the biggest change being the addition of several sections covering areas such as proxy access, compensation issues, clawback policies, and shareholder-unfriendly bylaw amendments.

Ms. Sandboe worked with both Glass Lewis and Institutional Shareholder Services to draft language for the new guidelines, with the goal to have a document that reflects best practices in proxy voting and corporate governance.

Ms. Sandboe pointed out that nothing in the guidelines is a significant change from the way the WSIB has been voting the proxies up until now. She went on to say that these are guidelines she uses to review issues on a case-by-case basis.

Ms. Sandboe requested comments and feedback from the Committee, stating they would be incorporated into the final version and brought back to the Committee in December.

Ms. Whitmarsh commented on the process and stated the guidelines were given in draft form so the Committee has time to give feedback prior to the December meeting, in order for Ms. Sandboe to have them in place for next year's proxy voting season.

Chair McIntire stated his understanding of proxy access is that there has been significant controversy around the aggregation issue for how you get 3 percent of the shareholders, and some homegrown companies have been more restrictive than what the WSIB's guidelines call for. Ms. Sandboe stated the WSIB does not support any limitation on aggregation. She stated there has been an effort to limit the aggregation and require a longer holding period.

Mr. Masten questioned whether the Board had seen the draft policy guidelines. Ms. Whitmarsh answered that the normal process is to bring the guidelines to the Audit Committee, receive comments, and then they will ultimately go to the Board for adoption after the Audit Committee recommends approval. Mr. Masten requested Board review and feedback at the September Board meeting, so that the Audit Committee can make a recommendation at its meeting in December. Mr. Longbrake suggested it might be helpful to the Board to supplement the guidelines with commentary about what peer institutions or pension managers are doing. Ms. Whitmarsh suggested a cover memo to the guidelines that explains the rationale for the changes.

Investment Referrals Quarterly Report

Ms. Whitmarsh presented the quarterly investment referral log to the Committee and noted two referrals were added this quarter.

EXECUTIVE SESSION

Audit Director Compensation

Chair McIntire announced the Committee would go into executive session to review the performance of a public employee. He said the executive session was expected to last approximately 10 minutes, at which time the Committee would reconvene in open session.

[The Committee went into executive session at 10:26 a.m., and reconvened in open session at 10:34 a.m.]

> **Ms. Holman moved that the Audit Committee approve the Executive Director's recommended salary for the Audit Director. Ms. Frost seconded, and the motion carried unanimously.**

There was no further business to come before the Committee, and the meeting adjourned at 10:35 a.m.