WASHINGTON STATE INVESTMENT BOARD
Audit Committee Meeting Minutes
May 31, 2016

The Audit Committee met in open public session at 9:06 a.m. at the Washington State Investment Board (WSIB) boardroom at 2100 Evergreen Park Drive SW, Olympia, Washington.

Committee Members Present:	Treasurer McIntire, Chair Marcie Frost Arlista Holman Bill Longbrake (via teleconference) George Masten Bob Nakahara (via teleconference)
Committee Members Absent:	Joel Sacks
Also Present:	Theresa Whitmarsh, Executive Director Gary Bruebaker, Chief Investments Officer Chis Phillips, Institutional Relations Director Marie Steffen, Audit Director Susan Parsons, Internal Auditor Cathy Nielsen, Administrative Assistant Mary Lobdell, Attorney General's Office Sarah Mahugh, State Auditor's Office Conor Clingman, State Auditor's Office

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

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

ADOPTION OF THE MARCH 1, 2016, MINUTES

> **Ms. Holman moved to adopt the March 1, 2016, Audit Committee meeting minutes. Ms. Frost seconded, and the motion carried unanimously.**

EXTERNAL AUDIT

State Auditor's Office – Fiscal Year 2015 Accountability Audit – Exit Conference

Ms. Steffen introduced Ms. Mahugh and Mr. Clingman from the State Auditor's Office, who performed the accountability audit of the WSIB.

Ms. Mahugh gave an overview of the accountability audit, stating there were no findings or management letter items to report. She added that the WSIB complied with all state laws and regulations in the areas reviewed.

Mr. Clingman discussed the audit process, stating there were no issues identified.

Ms. Frost asked about the regularity of audits from the State Auditor's office for all state agencies. Ms. Mahugh stated yes there would be regular audits, keeping in mind budget approvals.

> **Ms. Frost moved that the Audit Committee recommend the Board approve the Fiscal Year 2015 State Auditor's Office Accountability Audit Report of the Washington State Investment Board. Mr. Masten seconded, and the motion carried unanimously.**

Fiscal Year 2016 Independent Financial Statement Auditor Letters
Ms. Steffen stated that in April 2016, the Board hired Eide Bailly to conduct the independent audits of the Fiscal Year 2016 financial statements prepared by the WSIB. An engagement letter, outlining the terms of the audit engagement with management, has been signed by WSIB management and is available for the Committee's review.

When asked about overlap in work performed by External Audit versus Internal Audit, Ms. Steffen said there will be an overlap this year. External Auditors will do the testing, and Internal Audit will do testing and a review of the internal controls. She added that all information is shared with the External Auditors.

INTERNAL AUDIT

Audit Recommendation Status Report
Ms. Parsons discussed the recommendation status report, stating there were three recommendations on this quarter's report.
The first recommendation pertained to the IT Security and Data Warehouse Audits. Previous elements of the recommendations have been completed, and will be removed from this report.

The second recommendation related to the tracking of the private markets unfunded commitment within and internal database and the reconciliation with the Board's back office service provider. Management has reported that the unfunded database is current and the monthly data had been reconciled through March 31. This recommendation is complete.

The third recommendation pertained to the review of the access to the custody bank's system, Enhanced Cash Flow Module (eCFM). The WSIB's Master Custody Authority dictates the employees who should have access to the system, and the assigned role. Management is still in the process of implementing procedures to review the access on a regular basis. The implementation of this process is being transitioned to the Innovation and Technology unit where formalized procedures regarding system access, terminations, and access reviews will be implemented. Management expects these procedures to be completed and in place by June 30, 2016.

Internal Audit Report – Cash Daily Wire and Monthly Cash Movement
Ms. Parsons stated the Cash Daily Wire-Monthly Cash Movement Audit has been completed and stated the WSIB's processes and controls over the daily and monthly cash movements between the WSIB and the Office of the State Treasurer are in place and adequate to ensure timely, accurate, and complete transfers.

For stakeholders with cash movement requests, the WSIB obtains a letter from the entity which identifies the individuals authorized to approve the stakeholder's transfer requests. The authorization letter assists the WSIB in authenticating the stakeholder request.

During our scope period, six of the seven entities that requested cash movements had authorization letters. The entity without an authorization letter conducts transfers of approximately $5,000, up to three times a year, with an e-mail at the beginning of the year detailing the expected transfers for the upcoming year. This request has historically been from only one individual. With these mitigating factors, this recommendation is being reported at the lowest level – level 3.

It is recommended that the Investment Accounting and Administration unit obtain authorization letters from all stakeholders to ensure the cash transfer request is approved by an authorized individual. Management is in agreement with this recommendation and has already obtained the letter from the stakeholder. This recommendation is considered complete.

Audit Plan Quarterly Status Report – Fiscal Year 2016:
Ms. Steffen presented the quarterly status report on the Fiscal Year 2016 Internal Audit Plan, stating five of the audits have been completed. She stated the Private Markets Back Office Consultant audit is underway and will be reported on at the September Committee meeting. When asked, Ms. Steffen stated there were sufficient resources available to complete the audit plan.

Fiscal Year 2017 Annual Internal Audit Plan
Ms. Steffen presented the Fiscal Year 2017 Internal Audit Plan, which was developed using a rigorous risk assessment using both quantitative and qualitative methods. Ms. Steffen confirmed the independence of the Internal Audit function at the WSIB and noted Internal Audit has been free from interference in determining the scope of the work, the performance of the work, and reporting the results to management and the Audit Committee. Ms. Steffen reviewed the planning process used to select the proposed audit areas, including the risk assessment tool, interviews conducted, and analysis of the cycle plan.

Using the process described, the seven audit areas selected for the Fiscal Year 2017 Audit Plan were Daily Valued Funds – Pricing, Net Asset Value, Unitization; Real Estate; Fixed Income; Payroll; Public Records Requests; Cash Overlay, and Accounts Receivable and Cash Receipts.

Mr. Nakahara asked how the audits would be prioritized if not all seven could be completed in fiscal year. Ms. Steffen stated the audits are set in priority order based on risk and staff availability, and status is reported on at the quarterly Audit Committee meetings.

Ms. Frost asked where the IT Audit Activity is reflected. Ms. Steffen said the IT Audit is on the Audit Cycle History, broken out into 4 different areas – Data Warehouse Audit, Access Management to Outside Services Audit, Network Security and Hardware Updates Audit, and IT Security Audit.

Ms. Frost asked about the previous discussion on increasing the audit cycle for the IT reviews due to IT vulnerabilities. Ms. Steffen explained that management will perform a 12 month, 18 month and 2 year interval audit with an outside source, while an internal audit will be performed at the 3 year cycle. She said the internal and external audits will be reviewed as they are completed.

Ms. Frost requested that the Audit Plan reflect the internal audit cycle.

> **Ms. Frost moved that the Audit Committee recommend the Board adopt the Fiscal Year 2017 Internal Audit Plan. Ms. Homan seconded, and the motion carried unanimously.**

MANAGEMENT

Investment Referral Quarterly Report

Mr. Bruebaker said the Investment Referral Report is available for the Committee's review.

OTHER ITEMS

Public Equity Investment Manager – Termination Process

Ms. Whitmarsh said that as a follow-up on the process for management terminations, the WSIB policy was updated to reflect that the Executive Director, Chief Investment Officer and the Chief Operating Officer are the only people who may enter into agreements and, therefore, are the only people who may terminate agreements.

There was no further business to come before the Committee, and the meeting adjourned at 10:01 a.m.