

**WASHINGTON STATE INVESTMENT BOARD**  
**Audit Committee Meeting Minutes**  
**September 13, 2016**

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: Arlista Holman  
Bill Longbrake  
George Masten  
Joel Sacks

Committee Members Absent: Treasurer Jim McIntire, Chair  
Marcie Frost  
Bob Nakahara

Also Present: Theresa Whitmarsh, Executive Director  
Gary Brubaker, Chief Investment Officer  
Ian Cameron, Chief Operating Officer  
Chris Phillips, Institutional Relations Director  
Marie Steffen, Audit Director  
Susan Parsons, Internal Auditor  
Stephen Backholm, Director of Technology & Innovation  
Cathy Nielsen, Administrative Assistant  
  
Mary Lobdell, Attorney General's Office  
Lillian McDonell, Watson McDonell  
Jared Swisher, Watson McDonell

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

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

**ADOPTION OF THE MAY 31, 2016, MINUTES**

**Ms. Holman moved to adopt the May 31, 2016, Audit Committee meeting minutes. Mr. Masten seconded, and the motion carried unanimously.**

**EXTERNAL AUDIT**

**Calendar Year 2015 Conflict of Interest Policy Compliance Review**

Ms. Steffen introduced Ms. McDonell and Mr. Swisher from Watson McDonell, the independent external CPA firm that performed the annual review of Board and staff compliance with the WSIB's Conflict of Interest Policy. Ms. Steffen explained the

Board contracted with Watson McDonell in April 2016 to perform the reviews through calendar year 2018.

Ms. McDonell provided an overview of the four areas reviewed for calendar year 2015; which included gift and public disclosure reporting, travel paid for directly by a source other than the State of Washington, personal investments, and training on the Conflict of Interest policy. Ms. McDonell reviewed the results and discussed the exceptions identified in each area.

When asked about next steps management will take in addressing the exceptions, Mr. Cameron stated that along with process automation, a much more rigorous approach is being taken on tracking and ownership. He added there have been discussions with partners on the rules regarding payment of travel expenses for WSIB employees.

## **INTERNAL AUDIT**

### **Audit Recommendation Status Report**

Ms. Parsons provided an overview of the one recommendation on this quarter's Audit Recommendation Status Report. The recommendation was resolved over the quarter and Internal Audit verified the action taken.

### **Internal Audit Report - Public Records Requests**

Ms. Parsons presented the results of the Public Records Requests internal audit. The report contained six recommendations regarding compliance with state laws and regulations, strengthening internal controls, addressing key person risk, and ensuring information is easily available to the public. Management agrees with the six recommendations, and will be reviewing the public records request activities as part of a planned restructuring; which will include the hiring of a Legal Services Director who will be responsible for the public records requests function. Management indicated they are in the process of developing a procedures and resource manual, as well as working with the Washington State Register to update Washington Administrative Code 287-02.

Ms. Holman inquired about the legal ramifications for a delay in responding to a public records request. Ms. Parsons stated there could be penalties if the requester takes the issue to court. Mr. Sacks added the fine could be \$100 per day, per record.

There was discussion on the timing of the next audit of this area. Mr. Longbrake suggested considering an interim review, but keeping the audit on a three year cycle. Ms. Steffen noted this would be reviewed and considered as part of the annual internal audit plan development.

### **Internal Audit Report - Private Markets Back Office Service Provider**

Ms. Steffen gave an overview of the internal audit of the Private Markets Back Office Service Provider, Hamilton Lane Advisors. Hamilton Lane had processes and controls in place designed to ensure the WSIB's private market investment transactions are processed in compliance with contract agreements; the accuracy of the WSIB's financial data, and performance management and portfolio reporting; the WSIB's data is safeguarded; services provided to the WSIB will remain consistent; and that internal governance, ethics, and compliance programs are in place.

The audit report contained two recommendations. One regarding the documentation of the validation process for capital call wire instructions validation and one regarding the tracking of WSIB correspondence and requests. Hamilton Lane agrees with the recommendations and will implement the action recommended. Internal audit will follow up and report the status of corrective action at the next quarterly Audit Committee meeting.

### **Fiscal Year 2016 Performance Measures and Quality Assurance Reporting**

Ms. Steffen presented the Fiscal Year 2016 internal audit performance measures. Internal Audit met all performance measures: completion of the Fiscal Year 2016 Internal Audit Plan in a timely manner; completing 100 percent of the scheduled audits for Fiscal Year 2016; spending 77.1 percentage of total available hours on direct audit services; both internal auditors receiving over 40 hours of Continuing Professional Education during the period; and, reporting the outcome of the Fiscal Year 2016 performance measures to the Audit Committee timely.

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.

Mr. Sacks asked about whether Ms. Steffen had been asked to participate in peer reviews of other state pension funds. Ms. Steffen stated she has not participated in reviews of other states' internal audit functions. When asked about the customer service survey, Ms. Steffen stated the survey is reviewed by the internal audit staff and is included in the documentation for the applicable audit.

### **Audit Plan Quarterly Status Report – Fiscal Year 2017**

Ms. Steffen presented Fiscal Year 2017 Audit Plan Quarterly Status Report. She noted the report had been revised to show Internal Audit projects, External Audit Liaison work, and Internal Audit's review of Information Technology Security reviews that are to be contracted by management.

### **POLICY REVIEW**

#### **Audit Committee Charter and Internal Audit Charter Update**

Ms. Steffen presented proposed technical changes to the Audit Committee Charter 1.00.130 and Internal Audit Charter 1.00.190. The revision to the Audit Committee Charter updates the Committees responsibility in regards to external audit reports to forwarding the report to the Board for acceptance, rather than approval. The revision to the Internal Audit Charter adds the quality assurance program and annual reporting to Internal Audit's responsibility and adds the Core Principles to the mandatory guidance.

**Ms. Holman moved that the Audit Committee recommend the Board adopt the proposed revisions to charters 1.00.130 and 1.00.190. Mr. Masten seconded the motion, and the motion carried unanimously.**

## **MANAGEMENT**

### **2017 Meeting Schedule**

Mr. Cameron presented the proposed meeting dates for 2017 for the Committee's consideration. He stated the quarterly meetings will continue to start at 9 a.m.

**Ms. Holman moved that the Audit Committee adopt the 2017 meeting dates as presented. Mr. Masten seconded the motion, and the motion carried unanimously.**

### **Investment Referrals Quarterly Report**

Ms. Whitmarsh presented the quarterly investment referral log to the Committee.

Ms. Whitmarsh stated the report is a method to track investment referrals presented to Board members and report to the Audit Committee on the due diligence steps taken by WSIB investment staff to research the investment.

## **EXECUTIVE SESSION**

### **Business Continuance Plan Overview**

### **Audit Director Compensation**

Acting Committee Chair Sacks announced the Committee would go into executive session to review commercial information that relates to the investment of public trust and retirement funds that would result in loss to such funds or in private loss to the providers of the information, as well as the performance of a public employee. The executive session was expected to last approximately 20 minutes, at which time the Committee would reconvene in open session.

[The Committee went into executive session at 10:38 a.m., and reconvened in open session at 11:04 a.m.]

**Ms. Holman moved that the Audit Committee approve the Executive Director's recommended salary increase for the Audit Director, at 4.8 percent. Mr. Masten seconded the motion, and the motion carried unanimously.**

## **OTHER ITEMS**

There was no further business to come before the Committee, and the meeting adjourned at 11:05 a.m.