



**Tuesday, September 6, 2022
Audit Committee**

Virtual meeting

Meeting start time: 9:00 A.M.

1. Call to Order/Roll Call (9:00a)

2. Adoption of Minutes (9:00-9:05)

A. Adoption of June 7, 2022, Minutes

3. Internal Audit (9:05-9:50)

A. Audit Recommendation Status Report

B. Internal Audit Report – FY2022 Computer Assisted Auditing

C. Fiscal Year 2022 Performance Measures

D. Fiscal Year 2022 Quality Assurance Reporting

E. Audit Plan Quarterly Status Report - Fiscal Year 2023

4. Management (9:50-10:15)

A. 2023 Meeting Schedule

B. Investment Referral Quarterly Report

C. The Three Lines Model and Assurance Coverage

5. Policy Review (10:15-10:20)

A. Audit Committee Charter Policy 1.00.130

6. Break (10:20-10:30)

7. Education Session (10:30-11:00)

A. WSIB Proxy Policy Update

8. Other Items (11:00-11:05)

9. Executive Session (11:05-11:35)

A. Cybersecurity Update

B. Audit Director Compensation

10. Adjourn (11:35a)

**WASHINGTON STATE INVESTMENT BOARD
Audit Committee Meeting Minutes
September 6, 2022**

The Audit Committee met in open public session via Teams video conferencing, with dial-in access available to the public.

Committee Members Present: Treasurer Mike Pellicciotti, Chair
Tracy Guerin
Joel Sacks
Liz Lewis
Bill Longbrake
David Nierenberg
George Zinn

Committee Members Absent: Sara Ketelsen

Also Present: Allyson Tucker, Chief Executive Officer (CEO)
Chris Hanak, Chief Investment Officer (CIO)
Kristina Taylor, Chief Financial Officer (CFO)
Curt Gavigan, Chief Operating Officer (COO)
Marie Steffen, Audit Director
Susan Iselin, Internal Auditor
Greg Henderson, Investment Compliance Manager
Bridget Murphy, Corporate Governance Officer
Michael Christopher, Director of IT Operations and Security
Stacy Conway, Executive Assistant
Lisa Devlin, Administrative Assistant

Tor Jernudd, Attorney General's Office
Jesse Yoder, Attorney General's Office

CALL TO ORDER

Chair Pellicciotti called the meeting to order at 9:04 a.m. and took roll call. All Committee members listed as present were able to fully participate in the meeting.

ADOPTION OF THE JUNE 7, 2022, MINUTES

**Ms. Guerin moved to adopt the June 7, 2022, meeting minutes.
Ms. Lewis seconded, and the motion carried unanimously.**

Treasurer Pellicciotti introduced Tammie Nuber, the Assistant State Treasurer and informed the Committee that Ms. Nuber would participate at Committee and Board meetings if he is unable to attend.

Treasurer Pellicciotti ask Ms. Tucker to provide an update on the Washington State Investment Board's (WSIB) investment exposure in China. Ms. Tucker noted that a risk report was provided to the Board in June, the Board received various education sessions relating to China

in July, and staff plan to present an update on China exposure in the defined benefit plans in the Spring of 2023.

INTERNAL AUDIT

Audit Recommendation Status Report

Ms. Steffen reported on one open audit recommendation relating to cash receipting. She reviewed the anticipated remediation process and noted that the process will be implemented after the WSIB's full return to office.

Internal Audit Report – Fiscal Year 2022 Computer Assisted Auditing

Ms. Iselin presented the results of the Fiscal Year (FY) 2022 Computer Assisted Auditing engagement. The audit reviewed vendor payments, payroll transactions, revenues, and system access during FY2022. Overall, the audit concluded that the transactions were valid, allowable, and in compliance with state regulations and policy, and access to the state's accounting system was appropriate and adequately separated. There were no reportable audit recommendations. Ms. Iselin noted that the FY2023 Computer Assisted Auditing engagement will include non-appropriated payments in its scope.

FY2022 Performance Measures

Ms. Steffen reviewed the FY2022 performance of the Internal Audit Unit using the five established performance measures approved by the Board. The measures focus on output, quality, and efficiency as a means of evaluating the Unit's activity and operations. In FY2022 the unit met four of the five measures. Ms. Steffen explained that the unit completed 63 percent of their scheduled audits, which was under the 80 percent target, and this performance was due to staff onboarding and turnover.

Discussion ensued regarding audit coverage when scheduled audits are postponed, outsourcing internal audits, and the timing of the Unit's next external quality assessment.

FY2022 Quality Assurance Reporting

Ms. Steffen presented an overview of the Internal Audit Unit's FY2022 Quality Assurance and Improvement Program (QAIP), as well as the results of the FY2022 internal assessment. She noted the Unit's focus on continuous improvement through ongoing monitoring, periodic self-assessments, and external assessments and described how these activities are built into the Unit's structure and operations. She shared the results of the annual self-assessment, stating that two areas were identified for improved conformance with the standards. One area will be addressed over the quarter, and the second area was addressed in an update to the Internal Audit Manual. In addition, she noted that Internal Audit activity "generally conforms" with the Institute of Internal Auditing (IIA) Standards.

Discussion ensued regarding who conducts external quality assessments (also referred to as peer reviews) and the quality assurance reporting activities of WSIB's third-party vendors. Ms. Steffen provided examples of how key third-party vendors with internal audit functions can demonstrate they are following the IIA standards. Mr. Henderson discussed the independently conducted System and Organization Controls Reports, which are reviewed by WSIB staff, that add an additional layer of control and vendor risk mitigation.

[Mr. Nierenberg joined the meeting at 9:49 a.m.]

Audit Plan Quarterly Status Report – FY2023

Ms. Steffen reported on the status of the FY2023 Audit Plan and external audit activity over the quarter. She highlighted the timeline for approved FY2023 internal audit projects and reviewed the preliminary results of the Public Employees Benefit Board (PEBB) Eligibility Audit. Overall, the PEBB audit determined that the WSIB complies with eligibility and enrollment regulations relating to state provided healthcare.

MANAGEMENT

2023 Meeting Schedule

Treasurer Pellicciotti presented the proposed 2023 Audit Committee meeting dates for consideration: March 7, June 6, September 5, and December 5.

Treasurer Pellicciotti moved that the Audit Committee adopt the proposed 2023 Audit Committee meeting dates as presented. Ms. Guerin seconded, and the motion carried unanimously.

Investment Referral Quarterly Report

Ms. Tucker provided an overview of the quarter’s investment referral report.

The Three Lines Model and Assurance Coverage

Ms. Steffen and Mr. Henderson provided an education session on the risk management and control activities of the WSIB and the Three Lines Model, a framework to consider risk and controls at an organization. Ms. Steffen explained the Three Lines Model can be utilized to mitigate risks by assigning and coordinating specific duties related to risk controls to the governing body, management, and internal audit. Overall, the Three Lines Model utilizes collaboration across an organization to create value and prioritize the interest of stakeholders. Mr. Henderson walked through an example of how the Three Lines Model is applied at the WSIB and described how the compliance monitoring function can be utilized by Internal Audit and assist in mitigating duplication of effort. In addition, he reviewed other assurance activities and functions related to investments that are performed by the WSIB’s Legal, Risk, and Compliance and other Units.

Discussion ensued regarding risks, including those of third-party managers.

POLICY REVIEW

Audit Committee Charter Policy 1.00.130

Ms. Steffen reviewed the proposed changes to the Audit Committee Charter. The revisions document the Committee’s responsibilities related to cybersecurity risk management and set forth an annual review with staff to understand the WSIB’s cybersecurity risks, risk mitigation techniques, and the framework used to respond to cybersecurity incidents.

Treasurer Pellicciotti moved that the Audit Committee recommend the Board adopt the proposed revisions to the Audit Committee Charter Policy 1.00.130. Ms. Guerin seconded, and the motion carried unanimously.

[The Committee recessed at 10:27 a.m. and reconvened at 10:33 a.m.]

EDUCATION SESSION

WSIB Proxy Policy Update

Ms. Murphy presented the planned proxy voting policy updates which will be formally recommended to the Committee at its December meeting. The proposed policy updates are aligned with the WSIB's asset stewardship and investment priorities and include updates regarding diversity, climate, and shareholder rights. She reviewed the WSIB's incremental approach to the advancement of policy updates and noted that technical issues are assessed following the proxy voting season. An evaluation of prior year trends and proxy advisor data capabilities will be conducted in order to formulate rules-based policy updates. She noted that there is a manual oversight process that generally relates to shareholder resolutions and director-level voting on climate issues.

Discussion ensued regarding dual class shares and opportunities to share the WSIB's views on dual class shares with partners, what other peers are focused on related to proxy voting and fiduciary duty, and how to balance rules-based proxy voting policies and submit votes based on evidence. Ms. Murphy explained that the policy allows for certain exceptions; however, the rules-based policies are formed based on research and performance data making it easier to argue for a certain performance threshold. Overall, the policy provides flexibility and is designed to withstand challenges.

OTHER ITEMS

There was no further business to come before the Committee.

EXECUTIVE SESSION

Chair Pellicciotti announced that the Committee would go into executive session to review information regarding the infrastructure and security of computer networks, security and service recovery plans, security risk assessments and security test results that, if made public, may increase the risk to the confidentiality, integrity, or availability of agency security or to information technology infrastructure or assets and, in addition, to review the performance of a public employee. The executive session was expected to last until approximately 11:30 a.m., at which time the Committee would reconvene in open session.

[The Committee went into executive session at 10:59 a.m.]

Cybersecurity Update Presentation

Audit Director Compensation

[The executive session was extended for an additional 10 minutes, and notification was provided to those waiting in the virtual lobby.]

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[The executive session was extended for an additional 10 minutes. There were no members of the public waiting in the virtual lobby.]

[The Committee reconvened in open session at 11:56 p.m.]

APPROVED

Treasurer Pellicciotti moved that the Audit Committee take the action discussed in executive session relative to the Audit Director's salary. Ms. Guerin seconded, and the motion carried unanimously. *

There was no further business, and the meeting adjourned at 11:57 a.m.

****To be clarified and reaffirmed at the December 6, 2022, Audit Committee meeting.***