



Tuesday, September 2, 2025
Audit Committee

9:00 A.M.

Virtual Meeting

The link to view the meeting virtually can be found at www.sib.wa.gov/meetings.html

OR

Members of the public may view the virtual meeting in person at the Washington State Investment Board Olympia Office located at 2100 Evergreen Park Drive SW, Olympia, WA 98502

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

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

A. Adoption of June 3, 2025, Minutes

3. Internal Audit (9:05-10:20)

A. Audit Recommendation Status Report

B. Internal Audit Report – FY2025 Computer Assisted Auditing

C. Internal Audit Report – Daily Valued Funds

D. Internal Audit Report – Public Markets Investment Compliance Monitoring

E. Fiscal Year 2025 Performance Measures

F. Fiscal Year 2025 Quality Assurance Reporting

G. Audit Plan Quarterly Status Report - Fiscal Year 2026

4. Management (10:20-10:25)

A. Quarterly Investment Referral Report

5. Other Items (10:25-10:30)

6. Executive Session (10:30-10:55)

A. Cybersecurity Update

7. Adjourn (10:55a)

COMPUTER ASSISTED AUDITING VENDOR PAYMENTS, PAYROLL, SYSTEM ACCESS INTERNAL AUDIT REPORT #2025-01

SEPTEMBER 2, 2025

Susan Iselin, Internal Auditor



BACKGROUND

Regular monitoring of transactions

- Better practice

Data sources

- Office of Financial Management (OFM)
 - Exception reports and queries
 - Agency Financial Reporting System (AFRS) – appropriated
 - Human Resources Management System (HRMS)
- Investment Accounting and Administration
 - Custody bank system
 - Non-appropriated

Previously used information provided by the State Auditor's Office





EXPENDITURES (APPROPRIATED)

- Payments to vendors
- Payments to vendor with same address as employee
- Expenditure duplicate payments

PAYROLL

- Gross pay greater than \$5,000 per pay period
- Relocation compensation payments
- Performance recognition payments

EXPENDITURES (NON-APPROPRIATED)

- Payments to vendors

REVENUES

- Summarized by major source

AFRS SYSTEM ACCESS

- AFRS Security (access by user)

AUDIT SUMMARY

Audit Planning

- Discussion with key WSIB staff
 - Investment and Financial Services
 - Human Resources
- Review of state laws, regulations, and WSIB policies
- Review of prior internal audit working papers

Audit Scope

- April 1, 2024, through March 31, 2025
- Quarterly reviews



AUDIT SUMMARY – FIELDWORK

Vendor Payments

- Transactions reviewed
 - 50 appropriated payments
 - 31 non-appropriated payments
- Valid, allowable, supported
- Compliance with state regulations and policy
- Travel reimbursements
 - 32 over 3 staff

Payroll

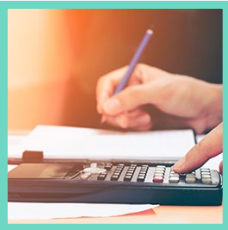
- 31 transactions reviewed
 - Valid, allowable, supported
 - Compliance with state regulations and policy
- Reviewed all gross pay greater than \$5,000 pay per period
 - Pay within approved pay bands



AUDIT SUMMARY – FIELDWORK (CONTINUED)

AFRS System Access

- Reviewed by quarter
 - Separation of duties
 - Appropriateness/removal of access



OVERALL AUDIT CONCLUSION

Selected vendor payment and payroll transactions were supported, valid, allowable, and in compliance with state regulations and policy

Access to the state's accounting system was appropriate and adequately separated to ensure assets are safeguarded

There are no formal recommendations at this time



DAILY VALUED FUNDS INTERNAL AUDIT REPORT #2025-06

SEPTEMBER 2, 2025

Susan Iselin
Internal Auditor





BACKGROUND

Daily valued funds

- Self-directed investment options
- Investment component of the Retirement Strategy Funds (RSF)



Three funds

- Savings Pool
- Bond Fund
- U.S. Treasury Inflation Protected Securities (TIPS) Fund

Washington State Investment Board's (WSIB) responsibilities

- Investment and management
- Investment Accounting and Administration (IAA) unit
 - Daily fund activities
 - Valuation
 - Unitization
 - Pricing (unit value)
 - Report to stakeholders

BACKGROUND

Investors

- Deferred Compensation Program
- Defined contribution retirement plans (Plan 3s)
- AllianceBernstein
 - Bond Fund and U.S. TIPS Fund
 - Investment component of the RSF
- Other funds, as approved



As of March 30, 2025

- Daily valued funds represented 1.9 percent of total assets under management

Daily Valued Funds	Market Value
Savings Pool	\$898,150,660
Bond Fund	\$2,649,610,976
US TIPS Fund	\$516,020,623
Total	\$4,063,782,259
Total Assets Under Management	\$213,154,641,201

AUDIT SUMMARY

Audit areas

- Valuation, unitization, and pricing
 - Daily process and controls
 - Completeness and accuracy
 - Reporting to stakeholders
- Compliance with policies

Scope

- Current processes and controls
- Activities related to the valuation, unitization, and pricing of the daily valued funds
 - July 1, 2024, through June 30, 2025



AUDIT SUMMARY – FIELDWORK

Testing

- **Daily process**
 - **20 days selected**
 - Processes and controls
 - Completeness and accuracy
 - Reported price per unit
- **Policy compliance**
 - Operational guidelines
 - Tolerance monitoring and reporting errors, if applicable





OVERALL AUDIT CONCLUSION

The IAA unit has processes and controls in place to ensure the daily valued funds are valued, priced, and reported

- Complete, accurate, and timely manner

Calculations for the daily valued fund valuation, pricing, and unitization are:

- Accurate
- Complete
- Supported

The WSIB complies with policies regarding the pricing and oversight of the daily valued funds

There are no audit recommendations



PUBLIC MARKETS INVESTMENT COMPLIANCE INTERNAL AUDIT REPORT #2025-05

SEPTEMBER 2, 2025

Marie Steffen, CPA, CIA
Audit Director





BACKGROUND

Investment compliance program

- Internal governance structure
- Rules and guidelines
 - Washington State Investment Board (WSIB) policy
 - Investment manager contracts



Investment Compliance team

- Daily monitoring program
 - Use of custody bank compliance system
 - Post-trade monitoring
 - Review and research
- Reporting
 - Quarterly
 - Annual

Calendar year 2024

Approximately 190,000 tests performed across WSIB accounts

- **980 alerts review by Investment Compliance**
- **31 investment guideline/WSIB policy breaches identified**

State Street Bank Compliance Alert Totals

Investment Area	Q1	Q2	Q3	Q4	Total
Asset Allocation*	0	0	1	0	1
Public Equity	1	2	3	2	8
Fixed Income	1	0	0	0	1
Cash Overlay	1	2	0	1	4
Securities Lending	6	1	8	2	17



AUDIT SUMMARY

Audit areas

- Compliance system rules
- Compliance alert monitoring and follow up
- Quarterly reporting and oversight
- Operational continuity

Scope

- Current processes and controls
- Transactions and activities
 - January 1, 2024, to December 31, 2024



AUDIT SUMMARY – FIELDWORK

Testing

- **Compliance system rules**
 - Policies and investment manager agreement guidelines
 - System coding
- **Compliance alert monitoring**
 - **Daily activities**
 - Research
 - Communication
 - Documentation
- **Quarterly reporting**
 - Accuracy
 - Review/oversight
- **Operational continuity**
 - Procedures and activities





OVERALL AUDIT CONCLUSION

The WSIB has processes and controls in place that ensure public markets investment compliance monitoring activities are:

- Sufficient
- Effective

There is one audit recommendation:

- Strengthen processes and controls

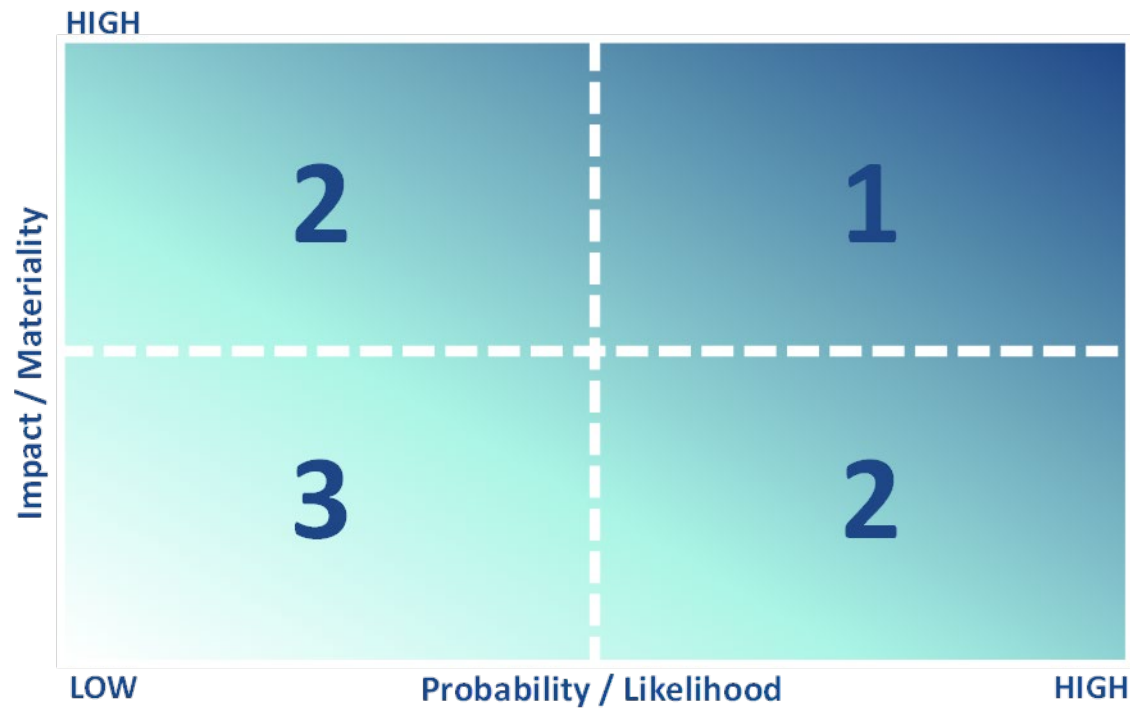


AUDIT RECOMMENDATION LEGEND

Internal audit recommendations are ranked by importance as follows:

- Level 1 – High
- Level 2 – Medium
- Level 3 – Low

Audit Recommendation Assessment



Policy Revision

Level: 3 (Low)

Category: Process Improvement

Implement a process to

- Review and evaluate WSIB policy
 - New or revised
- Communicate to State Street
 - Update in compliance system

Management's Response and Action

- Agree
- Investment Compliance staff review of policies with rules
- Internal notification of policy approval

Anticipated Completion Date

Completed

FISCAL YEAR 2025 INTERNAL AUDIT PERFORMANCE MEASURES

SEPTEMBER 2, 2025

Marie Steffen, CPA, CIA
Audit Director



AGENDA

- **Global Internal Audit Standards**
- **Performance measures**
- **Fiscal Year (FY) 2025 actual performance**
- **5-year review**



GLOBAL INTERNAL AUDIT STANDARDS

Standard 12.2 Performance Measurement

- Objectives to evaluate
- Consider input
 - Board and senior management
- Assess progress
- Promote continuous improvement

Implementation

- Considerations
 - Principles of the Global Internal Audit Standards
 - Internal Audit Charter
 - Internal Audit unit's long-term priorities
- Standard 8.3 Quality
 - Board approval



INTERNAL AUDIT PERFORMANCE MEASURES

Five Measures

- Adopted in FY2010
- Recommendation from the 2009 external quality assessment
 - Reviewed annually
 - Consideration of other measures
- Outcomes reported after completion of plan cycle

FY2025

- Identified as part of annual Internal Audit Plan
- Approved by the Board in June 2024



INTERNAL AUDIT PLAN

Target Performance

Develop the FY2026 Internal Audit Plan and obtain approval by June 30, 2025



Actual Performance

The FY2026 Internal Audit Plan was approved by the Board on June 20, 2025

Target Performance

Complete 80 percent of scheduled audits for FY2025



Actual Performance

6 of the 8 scheduled internal audits for FY2025 were completed (75 percent)

COMPLETION OF AUDITS AND OTHER PROJECTS

FY2025

Approved Audits

- Daily Valued Funds
- Real Estate – Commingled Trust Fund Portfolio
- Payroll
- Compliance Monitoring – Public Markets
- Proxy Voting
- Computer Assisted Auditing – Quarterly Reviews
- Moved to FY2026 Internal Audit Plan
 - Public Market Trade Processing and Settlement
 - Inventoriable Assets
 - Advisory: Labor and Industries, Real Estate

Advisory and Other Projects

- FY2026 Internal Audit Plan
- Global Internal Audit Standards assessment and updates
- Informal fact-finding review
- Regular meetings with management
- Board and Committee meetings
- Internal Committees
 - Enterprise Risk Management, Project and Collaboration, Investment Risk Steering
- External Audit Activities
 - FY2024 Financial Statement Audit
 - Annual Report review
 - Liaison activities
 - State Auditor's Office
 - FY2022 – FY2024 Accountability and Compliance
 - Liaison activities

SUMMARY OF INTERNAL AUDIT RECOMMENDATIONS

There were five internal audit reports issued between July 1, 2024, and June 30, 2025

- Two reports did not contain recommendations

Recommendation Category	Number	Action taken or will be taken	Description
Compliance with Procedures/Policies/Laws	1	1	Adherence to current procedures, policies, and laws
Process Improvement	2	2	Documentation, approvals, review, verification, monitoring, training
Compliance and Process Improvement	5	5	Recommendation covered both elements
Total Recommendations	8	8	

TIME SPENT ON ASSURANCE, CONSULTING, AND ADVISORY ACTIVITIES

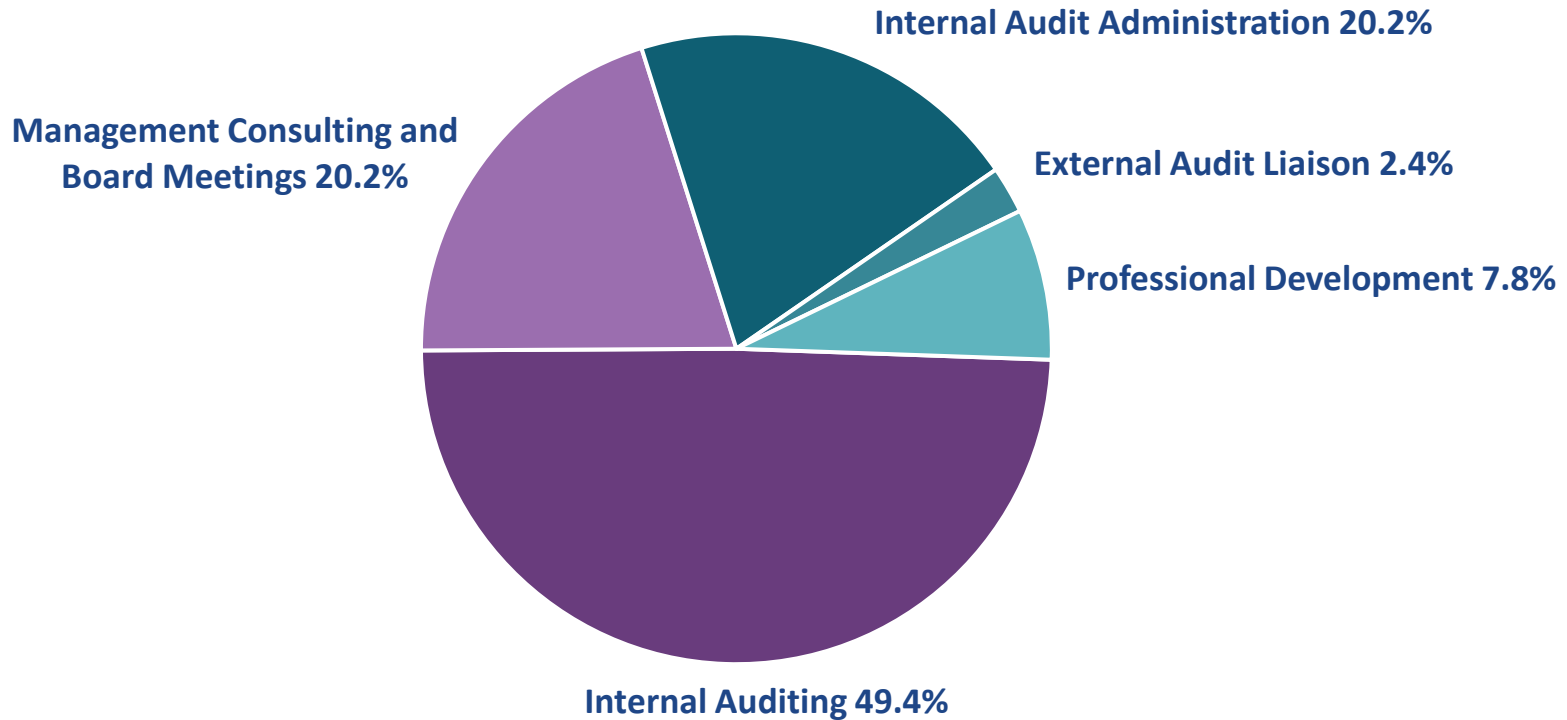
Target Performance

Spend a minimum of 60 percent of planned total unit hours on direct assurance, consulting, and advisory activities



Actual Performance

Direct audit, consulting, and advisory services comprised 69.6 percent of the total available hours for FY2025



CONTINUING PROFESSIONAL EDUCATION (CPE) AND REPORTING ON OUTCOMES

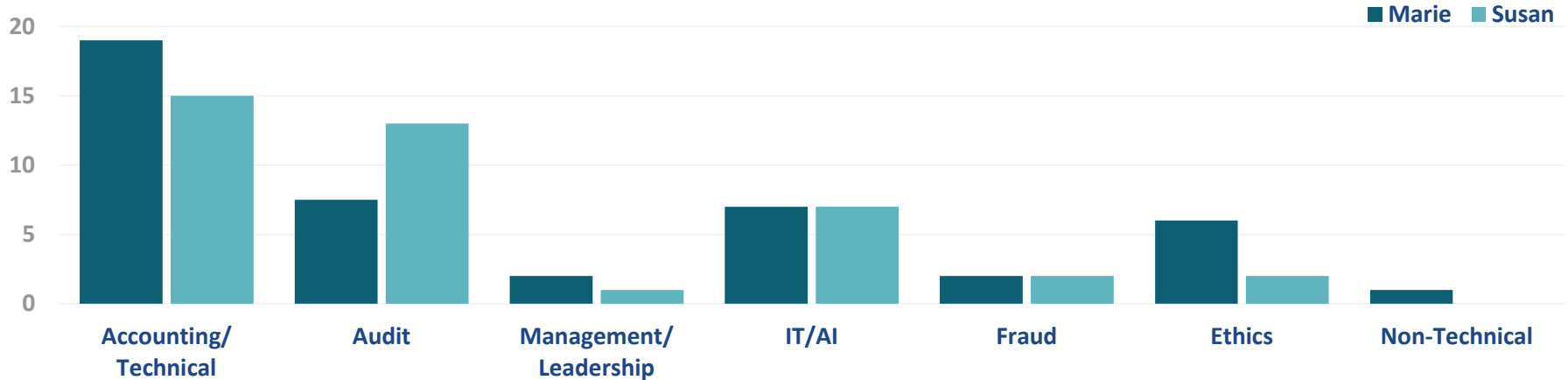
Target Performance

Obtain at least 40 hours of CPE each year for each auditor



Actual Performance

Both auditors received at least 40 hours of CPE during FY2025



Target Performance

Report on the outcomes of the FY2025 performance measures at the first Audit Committee meeting after June 30, 2025



Actual Performance

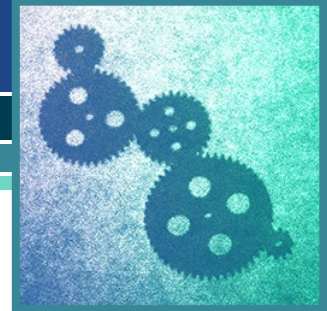
The outcomes for FY2025 performance measures will be reported to the Audit Committee on September 2, 2025

Performance Measure	Actual Performance				
	FY2021	FY2022	FY2023	FY2024	FY2025
Internal Audit Plan Approval	✓	✓	✓	✓	✓
Completion of Audits (80%)	6 of 7 85.7%	5 of 8 62.5%	7 of 8 87.5%	8 of 8 100%	6 of 8 75%
Time Spent on Assurance, Consulting, and Advisory Activities (60%)	73%	69%	75%	70%	70%
Continuing Professional Education	✓	✓	✓	✓	✓
Reporting on Outcomes	✓	✓	✓	✓	✓

FISCAL YEAR 2025 QUALITY ASSURANCE REPORTING

SEPTEMBER 2, 2025

Marie Steffen, CPA, CIA
Audit Director



AGENDA

Quality Assurance and Improvement Program

- Requirement

Activities

- Ongoing monitoring
- Periodic self-assessment
- External assessment
 - At least once every 5 years

Fiscal Year 2025 assessment





QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

Requirement

- Global Internal Audit Standards
 - Standard 8.3 Quality
 - Standard 8.4 External Quality Assessment
 - Standard 12.1 Internal Quality Assessment
- State policy
- Internal Audit Charter

Purpose

- Evaluate and promote conformance with the Global Internal Audit Standards
- Assess efficiency and effectiveness
- Identify opportunities for improvement



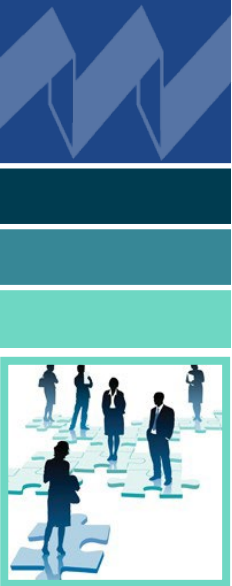
QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

Assessors

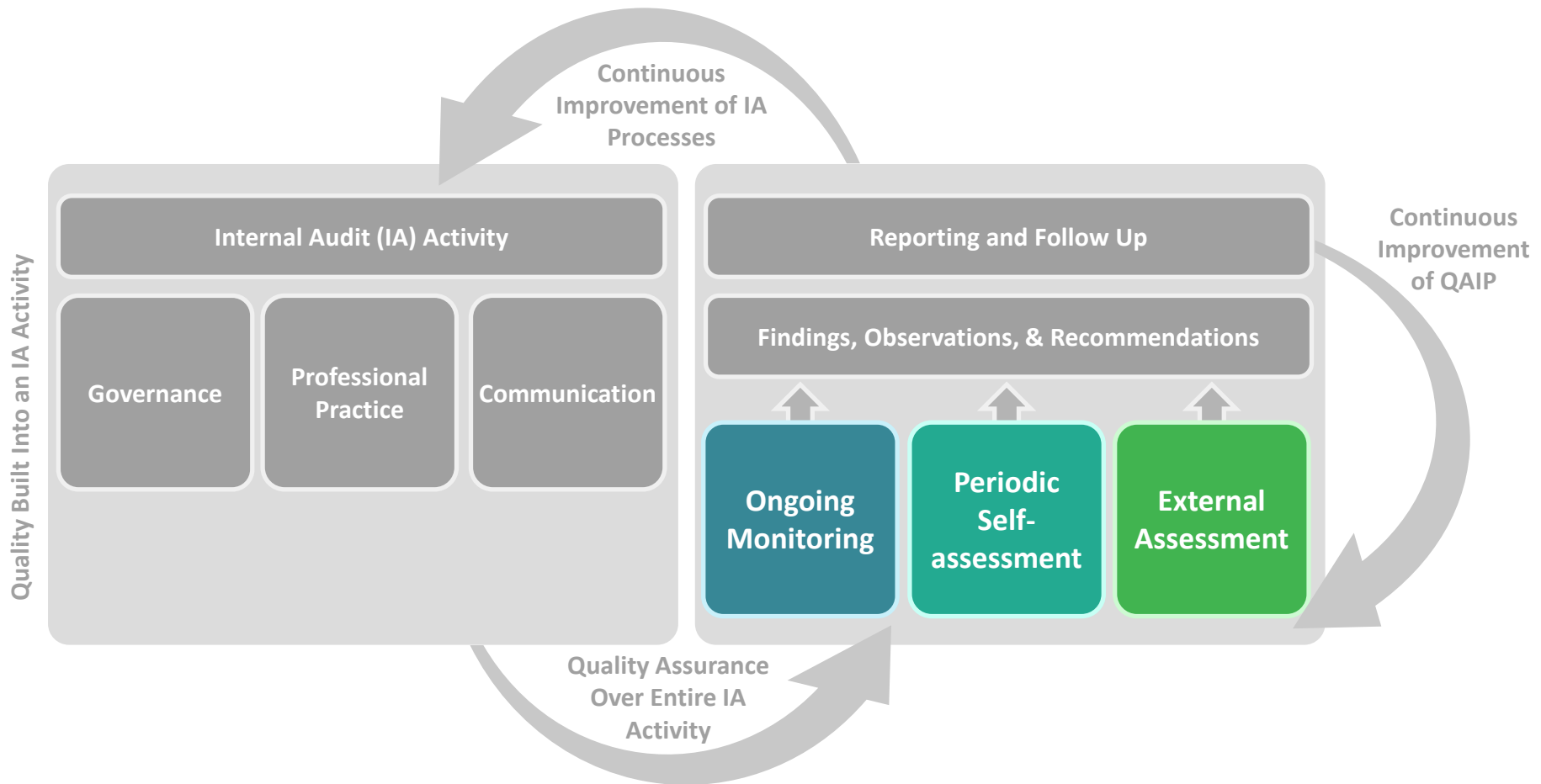
- Audit Director
- Internal Auditor
- Internal Audit administrative support
- External assessor and/or assessment team (5-year)

Annual communication of results

- Degree of conformance
- Compliance with laws and or regulations
- If applicable, action plans
 - Enhancements
 - Deficiencies



Quality Assurance and Improvement Program (QAIP) Framework





Ongoing Monitoring

- Delivering quality on each engagement
- Opportunities for improvement

Periodic Self-assessment

- Internal audit activities
 - Holistic and comprehensive review
 - Consider conformance with every standard
 - Internal Audit Charter

External Assessment

- Independent review and validation
 - Conformance with the Global Internal Audit Standards
 - Effectiveness and efficiency of the function

Quality Assurance and Improvement Program results

- **Recommendations from the 2024 External Quality Assessment**
 - **Action identified has been completed**
- **Performed in November 2024**
 - **Global Internal Audit Standards, effective January 9, 2025**
 - **Action identified has been completed**
 - **Updates to the audit-related Charters, Internal Audit Manual, work practices and procedures**
 - **Audit Director qualifications and competencies, hiring plan**
 - **Internal Audit long-term priorities**



Overall, the WSIB's internal audit function "generally conforms" with the Global Internal Audit Standards and the Internal Audit Charter