## General

***Code:*** S1Investment-AC21

***Name:*** Washington State Investment Board

***Group:*** Financial Audit

***Type:*** S1-Agency, Commission, or Board

***Location:*** State

***Scope:*** Not Applicable

## Team

***Lead:*** Rajpreet maynock

***Manager:*** Carol Gross

# Procedures

**D.3.PRG - Private Equity External Manager Due Diligence and Monitoring**

***Procedure Step:*** Controls & Testing

***Prepared By:*** RKM, 1/26/2022

***Reviewed By:*** CJG, 1/26/2022

Purpose/Conclusion***:***

**Purpose:**

To determine whether the private equity program controls are adequate to safeguard public resources.

To detemine if there are due diligence activities performed before an investment was made and if there are monitoring activities in place to ensure the investment philosophy outlined in the original investment approved by WSIB is in place and being followed.

**Sources:**

Fabrizio Natale, Senior Investment Officer

Aaron Daley, Assistant Senior Investment Officer

**Conclusion:**

We determined the private equity program controls are adequate to safeguard public resources. ***No issues noted.***

We determined there are due diligence activities performed before an investment was made and there are monitoring activities in place to ensure the investment philosophy outlined in the original investment approved by WSIB is in place and being followed. ***No issues noted.***

Testing Strategy***:***

Guidance/Criteria***:***

Record of Work Done***:***

**Risk Identified During Planning:**

* There is a risk that monitoring activities are not performed to ensure the investment philosophy outlined in the original investment approved by WSIB is in place and being followed.

**Controls:**

We gained an understanding of controls over the private equity program here: [C.2.PRG].

**Testing:**

Due Diligence:

For the due diligence selection, we haphazardly selected 30 out of 42 investments made during FY20 and FY21. 15 selections were from FY20 and 15 were from FY21. See testing selection at: [D.3.1]. We tested for the following attributes:

**A:** Investment memo was prepared before the investment was made.

**B:** An outside consultant provided an investment memo that concurred with WSIB's recommendation before the investment was made.

**C:** The investment was approved by the appropriate individuals.

**D:** If applicable, the executed transaction was reported to the Board at its next regularly scheduled meeting.

We obtained staff executed recommendations (investment memos), consultant approvals (memorandums), and staff executed and approved logs from Fabrizio Natale, Senior Investment Officer, and Aaron Daley, Assistant Senior Investment Officer. See testing at: [D.3.2]. ***No issues noted.***

**Note:** We decided to review the investment memo because it has ten sections and a few paragraphs which include the following information related to due diligence activities:

* Investment Recommendation Summary
* Investment Thesis
* Investment Performance
* Management
  + Assessing the ability and stability of the investment management team and the investment organization.
* Investment Strategy
  + Evaluating the proposed investment strategy.
  + Reviewing the use of financial leverage.
* Portfolio Fit
  + Evaluating the fit of the proposed investment within the WSIB private equity portfolio.
* Key Terms and Conditions
  + Reviewing the proposed terms, conditions, and fees of the partnership.
* Investment Summary (Details in Section 9)
* Metrics Evaluation
  + Analyzing the investment track record of the principals.
  + Reviewing the proposed business plan and exit strategies
* Key Concerns
  + Identifying and resolving key issues.
* Due Diligence
  + Reviewing market conditions.
  + Identifying potential competitors and evaluating sources of deal flow.
  + Conducting reference checks
  + Conducting face-to-face meetings with the principals to discuss important aspects of the offering.
  + Reviewing the offering memorandum and related documents, including the most recent partnership financial statements and the most recent audited financial statements.
* Action Requested

Monitoring:

For the monitoring selections we decided to focus on the following investment types since they had the highest percentage of capital committed, paid in capital, and total value:

* Corporate Finance/Buyout - Large, Mega, and Mid
* Growth Equity
* Venture Capital

We haphazardly selected 3 managers from each investment type for a total of 15 managers that were active through FY20 and FY21. See selection at: [D.3.1]. We tested for the following attributes:

**A:** The WSIB staff representative attended the FY20 or FY21 annual manager meeting.

**B:** The WSIB staff representative attended the FY20 or FY21 advisory board meetings.

We obtained meeting notes from Fabrizio Natale, Senior Investment Officer, and Aaron Daley, Assistant Senior Investment Officer. See testing at: [D.3.2]. ***No issues noted.***

# Issues

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| --- | --- | --- |
| **ISS.1 - V: Small and Attractive Assets Tagging** | | |
| ***Prepared By:*** HB, 2/7/2022  ***Reviewed By:*** SLB, 3/30/2022  ***Type:*** Verbal Recommendation  ***Category:*** Safeguarding of Assets/Property   |  |  | | --- | --- | | ***Reporting Level(s):*** |  |   ***Impact***  ***Cost Savings:***  ***Questioned Costs:*** $0.00 | ***Issue***  We found two small and attractive assets at the Olympia location and one asset at the Seattle location that did not include a tag number as required by SAAM 30.40 and WSIB inventory procedures.    We recommend WSIB ensure all small and attractive assets are properly labeled with tag numbers or the tag is placed on a copy of the item packing slip or purchase order in order to stay in compliance with SAAM 30.40 and internal inventory procedures. | |
| **NOTES** | | |
| LOR: [AS2.a].    Recommended level of reporting: Verbal recommendation    Rationale for level of reporting: There were three assets in our selection that did not include tag numbers. We are able to identify that these were the assets listed in Asset Panda and CAMS due to the correct location and matching serial numbers.    Communication: We communicated this issue to Jason Gordon, Financial Service Manager, on 1/27/2022. We communicated this issue to Marie Steffen, Audit Director, on 2/1/2022. | |