



INSURANCE

State Compensation Insurance Fund Audit Committee Meeting

January 20, 2011 (Open Session Item #3)

AUDIT

Required Communications

- 2009 Longshore and Harbor Workers' Compensation Act Report Required Communications 3-4
- KPMG Ethics and Compliance Hotline 5

As a reminder, KPMG has previously disclosed Management and Audit Committee responsibilities during our annual audit communications.

This report to the Audit Committee is intended solely for the information and use of the audit committee and is not intended to be and should not be used by anyone other than these specified parties. This report is not intended for general use, circulation or publication and should not be published, circulated, reproduced or used for any purpose without our prior written permission in each specific instance.

Required Communications-2009 Longshore and Harbor Workers' Report

Open Session Materials

NOTE – Under the Longshore and Harbor Workers' Compensation Act and extensions, all authorized insurers are required each year to complete and file the Form LS-513 which shows the number of cases and all compensation and medical payments made under the Act(s). The Form LS-513 must be certified as to the accuracy and be signed by an independent certified public accountant.

The required communications below relate to the 2009 Longshore and Harbor Workers' report due 12/31/10 to the Office of Workers' Compensation Programs.

I. Required communications	
-Fraud	No items noted
-Illegal acts	No items noted
-Internal control significant deficiencies and material weaknesses	No significant deficiencies or material weaknesses noted.
-Audit differences	No audit differences noted.
II. Other matters	
-Independence	In our professional judgment, KPMG is independent of State Fund and there were no non-audit services or other relationships that may reasonably be thought to impair our independence.
-Significant and critical accounting policies	Refer to accounting policy footnote in the annual financial statements.

Required Communications-2009 Longshore and Harbor Workers' Report

Open Session Materials

II. Other matters, Continued

-Quality of accounting principles	We have discussed with the Audit Committee and Management our judgments about the quality, not just the acceptability, of the Company's accounting principles as applied in its financial reporting. The discussions generally included such matters as the consistency of the Company's accounting policies and their application, and the understanding and completeness of the Company's financial statements, which include related disclosures.
-Alternative accounting treatments	We have not noted significant alternative treatments related to State Fund's accounting policies and practices.
-Significant/Unusual Transactions	No material items noted related to the Longshore and Harbor Workers' report
-Management judgments and accounting estimates	See Critical Audit Areas and Other Areas of Focus within Audit Plan
-Other info in documents containing audited financials	None
-Disagreements with management and difficulties encountered	None
-Consultations with other accountants	None identified that were a condition of our retention
-Major issues discussed with the AC and management prior to retention	No major issues discussed
-Material written communication	Management Representation Letter





KPMG Ethics and Compliance Hotline

www.kpmgethics.com and 1-877-576-4033

Open Session Materials

Purpose – To provide a confidential, non-retaliatory, and anonymous hotline for the good faith reporting of concerns about possible violations of law, professional and ethical standards, and KPMG policy.

Scope – The Hotline is available to all firm partners and employees, as well as clients, contractors, vendors, and others in a business relationship with KPMG, including other KPMG member firms whose partners and employees may be working with the U.S. firm on engagements with U.S. clients.

Firm Ombudsman – All reports related to SEC audit clients will be directed to the firm's Ombudsman for investigation and resolution.

