

**STATE COMPENSATION INSURANCE FUND
AUDIT COMMITTEE**

MINUTES OF OPEN SESSION MEETING

November 18, 2010

The Audit Committee met on November 18, 2010 in the Benicia Room of the Milton Marks Conference Center, State Building, 455 Golden Gate Ave, San Francisco, California.

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 8:00 a.m. and the following members were present: Francis (Frank) E. Quinlan, Chair; William Zachry, and Alternate James Richardson. Absent: Steven Rank (by prior arrangement).

There was a quorum.

Also present: President and CEO Tom Rowe; Acting Chief Financial Officer Dan Sevilla; Chief Risk Officer Doug Stewart; Chief Information Officer Shaun Coyne; General Counsel and Corporate Secretary Carol Newman; Senior Vice President of Internal Affairs Lisa Middleton; Internal Audit Program Manager and Assistant Corporate Secretary Marie Wardell; and KPMG Engagement Partner Leigh Wilson and Managing Partner Mark McMorrow.

AGENDA ITEM 2: APPROVAL OF SEPTEMBER 9, 2010 OPEN MEETING MINUTES

Mr. Quinlan requested public comment of which there was none.

MOTION: Mr. James Richardson Second: Mr. William Zachry

To approve the minutes of the September 9, 2010 Open meeting of the Audit Committee as presented.

YESSES: 3 NOES: 0 Motion carried.

AGENDA ITEM 3: REPORT OF EXTERNAL AUDITOR

Leigh Wilson, KPMG Engagement Partner, submitted KPMG's audit plan for State Compensation Insurance Fund financial review as of and for the year ending December 31, 2010. She introduced Karen Saunders who is serving as the KPMG Concurring Review Partner. The Committee discussed the opportunity for KPMG to thoroughly review State Fund reserves and pricing with the

introduction of a new Chief Actuary. Mark McMorrow, the prior engagement partner, will assist with the transition.

After reviewing responsibilities, Ms. Wilson indicated that audit procedures are in place to protect subjects including both line and management personnel when interviewed about potential fraud. Review of critical 2011 audit areas will focus on processes and review of prior deficiencies although there are no existing significant deficiencies requiring remediation. In addition, KPMG will consider current market conditions which are creating premium deficiencies and IT control environment, including any new systems implementation as part of the 2011 KPMG audit. The Committee discussed the need to also review the potential impact of Medicare reimbursements exposure.

AGENDA ITEM 4: RECOGNITION OF LISA MIDDLETON FOR HER SERVICE TO STATE FUND

The Committee presented Lisa Middleton with a Certificate of Appreciation and thanked her for her illustrious thirty-six years of service to State Fund.

AGENDA ITEM 5: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 6 THROUGH 11.

There was no public comment.

The Committee immediately convened into Closed Session.

AGENDA ITEM 12: CALL TO ORDER AND ROLL CALL

The meeting reconvened at 9:55 a.m. and the following members were present: Francis (Frank) E. Quinlan, Chair; William Zachry and Alternate James Richardson. Absent: Steven Rank (by prior arrangement).

There was a quorum.

Also present: President and CEO Tom Rowe; Acting Chief Financial Officer Dan Sevilla; Chief Risk Officer Doug Stewart; Chief Information Officer Shaun Coyne; General Counsel and Corporate Secretary Carol Newman; Senior Vice President of Internal Affairs Lisa Middleton; Internal Audit Program Manager and Assistant Corporate Secretary Marie Wardell; and KPMG Engagement Partner Leigh Wilson and Managing Partner Mark McMorrow.

AGENDA ITEM 13: REPORT ON CLOSED AUDITS

Marie Wardell, Internal Audit Program Manager, reported that on November 3, 2010 CDI submitted its Claims Review. The report along with State Fund's response will be posted on the CDI website.

There were 183 citations after review of 100 claims files. Of the findings, there were 72 instances for failure to correctly pay or object to a medical treatment expense. There were twenty-one (21) instances cited for failure to process a medical bill. Twenty-five (25) instances were identified for failure to comply with Utilization Review (UR) standards. State Fund's response identified remediation plans in place or in process and those responses have been incorporated into the report.

Lisa Middleton, Senior Vice President of Internal Affairs, reported on the audit of the State Fund fleet. In 2009, State Fund had nearly 2000 assigned drivers with company fleet vehicles. By July 1, 2011, the number of assigned drivers with company fleet vehicles is projected to decrease by 1000 drivers (50% decrease).

AGENDA ITEM 14: COMMITTEE MEMBER PRESENTATIONS

Mr. Quinlan requested Committee Member presentations. There were none.

AGENDA ITEM 15: PROPOSALS AND SUGGESTIONS FOR JANUARY 2011 AGENDA

The Committee requested that the industrial hygiene and safety program be reviewed at a Board or Audit Committee meeting in the near future.

Mr. Quinlan requested public comment of which there was none.

AGENDA ITEM 16: PUBLIC COMMENT

Mr. Quinlan requested public comment of which there was none.

The next Audit Committee meeting is scheduled for January 20, 2011 with location to be announced.

ADJOURNMENT

There being no further business before the Audit Committee, the meeting adjourned at 10:00 am.

Respectfully submitted,

Marie W. Wardell
Assistant Corporate Secretary