

**STATE COMPENSATION INSURANCE FUND  
AUDIT COMMITTEE**

**MINUTES OF OPEN SESSION MEETING**

**November 14, 2012**

The Audit Committee met on November 14, 2012 at the State Compensation Insurance Fund Headquarters, Board Room, 333 Bush Street, San Francisco, California.

**AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL**

The meeting was called to order at 2:00 p.m. and the following Members were present: Francis (Frank) E. Quinlan, William M. Zachry and Sheryl A. Chalupa (Alternate).

Absent by prior arrangement: Steven L. Rank.

There was a quorum.

Also present: President and CEO Thomas E. Rowe; Chief Financial Officer Dan Sevilla; Chief of Internal Affairs Dante Robinson; General Counsel and Corporate Secretary Carol R. Newman; Assistant Chief Counsel and Assistant Corporate Secretary Vera C. De Martini and Board Liaison and Assistant Corporate Secretary Hilda B. Padua.

**AGENDA ITEM 2: ANTITRUST ADMONITION**

Mr. Quinlan called attention to and requested confirmation that the Audit Committee members read State Fund's Antitrust Admonition, which is included in each Committee member's meeting materials.

**AGENDA ITEM 3: APPROVAL OF AUGUST 15, 2012 OPEN MEETING MINUTES**

MOTION: Mr. Zachry                      SECOND: Ms. Chalupa

To approve the minutes of the August 15, 2012 Open Meeting of the Audit Committee as presented.

Mr. Quinlan asked for public comment of which there was none, and called for the vote.

YES: 3                      NO: 0                      Motion carried.

#### **AGENDA ITEM 4: COMPLETED CLOSED AUDITS**

Mr. Quinlan invited Dante Robinson, Chief of Internal Affairs to report on the completed closed audits.

##### **PAO 621 – 2011 MAR (Model Audit Rule)**

In compliance with the NAIC Model Audit Rule for financial reporting, Internal Audit reviewed and tested key controls as identified by the MAR Compliance unit for the 2011 reporting requirements. The testing was completed and the results were reported to the MAR Compliance Team.

##### **PAO 637 – Payroll Audit**

Internal Audit evaluated controls over payroll audits for the period of January through November 2011. Improvements were noted in the audit cycle time, new audit review procedures are being developed, and training will be developed and implemented by year's end.

##### **PAO 676 – Dividend Payment Implementation Process**

Internal Audit assessed the procedures and controls which are in place to ensure that the objectives of the dividend payment process are met.

Mr. Robinson reported that there were no major findings in any of the three audits.

#### **AGENDA ITEM 5: REPORT OF EXTERNAL AUDITOR: 2012 AUDIT PLAN**

Leigh Wilson, KPMG's lead audit partner, reviewed the 2012 Audit Plan timing for various deliverables and elements of its risk assessment, including internal and external factors. Ms. Wilson also introduced new rotating KPMG audit staff. The Audit Committee invited KPMG to have its audit team members with IT expertise attend the next meeting on February 13, 2013.

#### **AGENDA ITEM 6: RATIFICATION OF ENGAGEMENT OF EXTERNAL AUDITOR FOR 2013 AUDIT**

Mr. Quinlan advised committee members of KPMG's proposed 2013 Engagement Fee of \$890,000 for services, which includes \$755,000 for audit services and \$135,000 for actuarial services, and he recommended that State Fund proceed with the engagement at the proposed fee. Mr. Quinlan moved for approval of his recommendation and authorization to proceed with KPMG's engagement.

MOTION: Ms. Chalupa

Second: Mr. Zachry

To approve the Audit Committee Chair's recommendation to accept KPMG's proposed 2013 Engagement Fee of \$890,000 for services, including \$755,000

for audit services and \$135,000 for actuarial services, and authorize the Chair to proceed with KPMG's engagement.

Mr. Quinlan asked for public comment of which there was none, and called for the vote.

YES: 3

NO: 0

Motion carried.

#### **AGENDA ITEM 7: WHISTLEBLOWER HOTLINE**

Chief of Internal Affairs Dante Robinson noted that State Fund is continuing to receive whistleblower hotline and integrity in action complaints and reports of privacy breaches. Each of these complaints or reports is investigated. For training and reinforcement purposes, Internal Affairs will share with State Fund's employee base the total number of complaints received and the number of disciplinary actions taken.

#### **AGENDA ITEM 8: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 11 THROUGH 17**

Mr. Quinlan requested public comment on the appropriateness of Closed Session Agenda Items 11-17, of which there was none.

#### **AGENDA ITEM 9: PUBLIC COMMENT**

Mr. Quinlan requested other public comment, of which there was none. The Audit Committee immediately convened into Closed Session at 2:15 p.m.

#### **AGENDA ITEM 18: CALL TO ORDER AND ROLL CALL**

The meeting reconvened at 4:15 p.m. following the conclusion of the Closed Session and the following Members were present: Francis (Frank) E. Quinlan, William M. Zachry and Sheryl A. Chalupa (Alternate).

Absent by prior arrangement: Steven L. Rank.

Also present: President and Chief Executive Officer Tom E. Rowe; Chief Financial Officer Dan Sevilla; Chief of Internal Affairs Dante Robinson; General Counsel and Corporate Secretary Carol R. Newman; Assistant Chief Counsel and Assistant Corporate Secretary Vera C. De Martini; and Board Liaison and Assistant Corporate Secretary Hilda B. Padua.

There was a quorum.

#### **AGENDA ITEM 19: COMMITTEE MEMBER PRESENTATIONS**

Mr. Quinlan asked if there were any Committee Member presentations, of which there were none.

**AGENDA ITEM 20: PROPOSALS AND SUGGESTIONS FOR FEBRUARY 13, 2013 AGENDA**

Mr. Quinlan noted that the next Audit Committee meeting is scheduled for February 13, 2013 in San Francisco and requested proposals and suggestions for the February 13, 2013 agenda, of which there were none.

Mr. Quinlan asked for any public comment, of which there was none.

**ADJOURNMENT**

There being no further business before the Audit Committee, the meeting adjourned at 4:20 p.m.

Respectfully submitted,

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Hilda B. Padua  
Board Liaison and Assistant Corporate Secretary