

**STATE COMPENSATION INSURANCE FUND  
AUDIT COMMITTEE**

**MINUTES OF OPEN SESSION MEETING**

**November 17, 2011**

The Audit Committee met on November 17, 2011 in 333 Bush Street, San Francisco, California.

**AGENDA ITEM 1: ROLL CALL**

The meeting was called to order at 8:05 a.m. and the following Members were present: Steven L. Rank, William M. Zachry and Sheryl A. Chalupa (Alternate). Mr. Zachry was Acting Chair.

There was a quorum.

Also present: President and CEO Thomas E. Rowe; Chief Financial Officer Dan Sevilla; Chief Risk Officer Ken Van Laar; Internal Audit Program Manager Marie W. Wardell; General Counsel and Corporate Secretary Carol R. Newman; Assistant Chief Counsel and Assistant Corporate Secretary Vera C. De Martini; Board Liaison and Assistant Corporate Secretary Hilda B. Padua; and KPMG Engagement Partner Leigh Wilson and KPMG Manager Julie Rhodes-Urrea.

Francis (Frank) E. Quinlan, Chair, joined at 8:15 a.m.

**AGENDA ITEM 2: APPROVAL OF SEPTEMBER 14, 2011 OPEN MEETING MINUTES**

MOTION: Ms. Chalupa

Second: Mr. Rank

To approve the minutes of the September 14, 2011 Open Meeting of the Audit Committee as presented.

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

YES: 4

NO: 0

Motion carried.

**AGENDA ITEM 3: COMPLETED CLOSED AUDITS**

Mr. Zachry invited Marie W. Wardell, Internal Audit Manager, to report on the completed closed audits.

**PAO 632 – Office Supply Ordering Audit**

Ms. Wardell reported that Office Supply Ordering Audit assessed 2010 purchases through the Staples' eWay system to evaluate adequacy of controls for non-business

or unessential orders. Findings noted a small number of purchases that belonged under another budget line item were purchased through the system, and that written corporate policy and procedures identifying permitted and non-permitted purchases and expense guidelines should be developed for Program Managers accountable for their department's purchases and a review process. The agreed upon remediation plan will be complete in November 2011.

**PAI 645 – Corporate Governance – Ethics Audit**

Internal Audit assessed the governance framework for the period from January 2010 to July 2011 and concluded that the framework is in place, including a Corporate Policy Portfolio and Governance Guide in process, with implementation and monitoring of Ethics Training, Incompatible and Unethical Activity and Business Ethics policies, Integrity in Action and Whistleblower Programs. A remediation plan for minor findings is underway and will be complete by Q2 2012.

**AGENDA ITEM 4: REPORT OF EXTERNAL AUDITOR**

Mr. Zachry called on KPMG Engagement Partner to provide an overview of the 2011 KPMG Financial Audit Plan. Mr. Quinlan joined the meeting and resumed his Chair position. Ms. Wilson noted that the 2010 engagement team members will return for the current audit, and while some individuals have different roles there are no changes in audit responsibilities or methodology from the prior year. Ms. Wilson summarized the timeline for various deliverables and reviewed the elements of its risk assessment including internal and external factors. There was a discussion regarding engagement partner rotational requirements to assure vigilance and neutrality, which includes KPMG's secondary "concurring review" performed by a partner not on the engagement, as well as KPMG's cyber risk management team providing assistance and training so KPMG stays up to day on rapidly changing technological advances.

**AGENDA ITEM 5: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 8 THROUGH 14**

Mr. Quinlan requested public comment on the appropriateness of Closed Session Agenda Items 8-14, of which there was none.

**AGENDA ITEM 6: PUBLIC COMMENT**

Mr. Quinlan requested other public comment, of which there was none. The Audit Committee immediately convened into Closed Session at 8:20 a.m.

**AGENDA ITEM 15: CALL TO ORDER AND ROLL CALL**

The meeting reconvened at 9:55 a.m. following the conclusion of the Closed Session and the following Members were present: Francis (Frank) E. Quinlan, Steven L. Rank, William M. Zachry and Sheryl A. Chalupa (Alternate).

Also present: President and Chief Executive Officer Tom Rowe; Internal Audit Manager Marie W. Wardell; Chief Risk Officer Ken Van Laar; Chief Financial Officer Dan Sevilla; 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 16: COMMITTEE MEMBER PRESENTATIONS**

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

**AGENDA ITEM 17: PROPOSALS AND SUGGESTIONS FOR FEBRUARY 16, 2012 AGENDA**

Mr. Quinlan noted that the next Audit Committee meeting is scheduled for February 16, 2012 in San Francisco and requested proposals and suggestions for the February 2012 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 10:00 a.m.

Respectfully submitted,

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Vera C. De Martini  
Assistant Corporate Secretary