

**STATE COMPENSATION INSURANCE FUND
AUDIT COMMITTEE**

MINUTES OF OPEN SESSION MEETING

November 13, 2013

The Audit Committee met on November 13, 2013, at the State Fund Corporate Office, 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 (Chair); Sheryl A. Chalupa; Steven L. Rank, and William M. Zachry.

Absent: Robin Baker by prior arrangement

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; 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 13, 2013 OPEN MEETING MINUTES

MOTION: Mr. Zachry

SECOND: Ms. Chalupa

To approve the minutes of the August 13, 2013 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: 4

NO: 0

Motion carried.

AGENDA ITEM 4: COMPLETED CLOSED AUDITS

Chief of Internal Affairs, Mr. Robinson reported that the completed report on the three audits, Treasury Audit, Legal Departments' Peer to Peer Review, and Unclaimed Property-Escheatment Processes Review, and all of the closed audits are correctible in the normal course of business and do not represent significant risk to State Fund. Management has provided their corrective action plans and Internal Audit monitors the completion of the corrective action plans. Closed issues are validated on a sample basis to ensure management's corrective actions are functioning as intended.

AGENDA ITEM 5: WHISTLEBLOWER HOTLINE

Mr. Robinson reported all Ethics Hotline reports are investigated. During 3Q 2013 there were 112 reports from all sources (Ethics Hotline -28; Management referral – 36; Privacy – 48) of which the majority was related to privacy and security breaches.

Investigations were completed on 80 cases of which 64 involved suspected privacy breaches due to improper transmission out of State Fund of information, including personal information of policyholders and claimants and proprietary information for unapproved business or personal use. The increase in Privacy reports represents an increase in understanding of personal identifiable information and what constitutes a breach. Management works with HR or the Privacy Office to implement corrective actions and to execute any disciplinary actions.

AGENDA ITEM 6: REPORT OF EXTERNAL AUDITOR: 2013 AUDIT PLAN

KPMG partner, Leigh Wilson reported that overall KPMG's team will be fairly consistent with prior years. Lindsay Brusco will be replacing Julie Rhodes-Urrea as audit senior manager since Ms. Rhodes-Urrea has transferred to KPMG's Advisory Practice. Ms. Brusco served as senior manager for the 2011 audit of State Fund, specializes in insurance and is experienced with California workers' compensation. Jennifer Austin will be the concurring review partner (recently transferred to the KPMG San Francisco office from their National Office and specializes in insurance). A key area of focus for the 2013 audit in addition to loss and loss adjustment expense reserving is the impact related to tiered pricing.

AGENDA ITEM 7 PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 10 THROUGH 16

Mr. Quinlan requested public comment on the appropriateness of Closed Session Agenda Items 10-16, of which there was none.

AGENDA ITEM 8: PUBLIC COMMENT

Mr. Quinlan requested other public comment, of which there was none. The Audit Committee immediately convened into Closed Session at 2:10 p.m.

AGENDA ITEM 17: CALL TO ORDER AND ROLL CALL

The meeting reconvened at 4:05 p.m. following the conclusion of the Closed Session and the following Members were present: Francis (Frank) E. Quinlan (Chair); Sheryl A. Chalupa; Steven L. Rank, and William M. Zachry.

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; and Board Liaison and Assistant Corporate Secretary Hilda B. Padua.

There was a quorum.

AGENDA ITEM 18: COMMITTEE MEMBER PRESENTATIONS

Mr. Quinlan requested presentations from the Committee members of which there were none.

AGENDA ITEM 19: PROPOSALS AND SUGGESTIONS FOR FEBRUARY 19, 2014 AGENDA

Mr. Quinlan requested suggestions for agenda items for the February 19, 2014 Audit Committee meeting other than the standing agenda items, of which there were none.

Mr. Quinlan requested public comment, of which there was none, and he noted that the next Audit Committee meeting is scheduled for February 19, 2014 at the State Fund's corporate office, 333 Bush Street, San Francisco, California unless noticed for a new date and time.

ADJOURNMENT

There being no further business before the Audit Committee, the meeting adjourned at 4:10 p.m.

Respectfully submitted,

Hilda B. Padua
Board Liaison and Assistant Corporate Secretary