

**STATE COMPENSATION INSURANCE FUND
AUDIT COMMITTEE**

MINUTES OF OPEN SESSION MEETING

January 20, 2011

The Audit Committee met on January 20, 2011 in the One Leidesdorff Mezzanine Conference Room 1 at 344 Pine Street, 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; Steven Rank, William Zachry, and alternate James Richardson.

There was a quorum.

Also present: President and CEO Tom Rowe; Acting Chief Financial Officer Dan Sevilla; General Counsel and Corporate Secretary Carol Newman; Senior Management Auditor Edward Nielsen and Internal Audit Program Manager and Assistant Corporate Secretary Marie Wardell; and KPMG Engagement Partner Leigh Wilson and KPMG Manager Julie Rhodes.

AGENDA ITEM 2: APPROVAL OF NOVEMBER 18, 2010 OPEN MEETING MINUTES

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

MOTION: Mr. William Zachry Second: Mr. Steven Rank

To approve the minutes of the November 18, 2010 Open Meeting of the Audit Committee as presented.

YES: 3 NO: 0 Motion carried.

AGENDA ITEM 3: EXTERNAL AUDITOR - US LONGSHORE AND HARBOR WORKERS COMPENSATION AUDIT

Leigh Wilson, KPMG Engagement Partner, presented a summation of their audit of State Fund's US Longshore and Harbor (L&H) Workers' financial records. KPMG reported that in their review, no significant material exceptions were noted.

A discussion ensued regarding the exposure that is created with construction jobs that might require L&H coverage with State Fund's L&H premium being approximately two million dollars. Tom Rowe assured the Committee that State Fund conservatively underwrites the L&H exposure if presented in the Workers' Compensation application with a separate L&H endorsement when appropriate.

AGENDA ITEM 4: COMPLETED CLOSED AUDITS

Internal Audit Program Manager Marie Wardell reported on two completed closed audits; **CDI Operational Review** and **Electronic Commerce Audit**.

CDI Operational Review: All operational findings by CDI have been either fully or partially remediated, with the exception of one. The one open finding, regarding controls for recurring disability statements, will require application and database programming changes which are expected to be completed in 2011. The CDI Operational Review is available electronically on the CDI website.

Electronic Commerce Audit: Audit scope was to review and evaluate internal controls related to State Fund's e-commerce activities. All findings have action plans developed by the business process owners, with the majority of remediation activities completed. All outstanding findings will be remediated during 2011.

AGENDA ITEM 5: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 7 THROUGH 13.

There was no public comment.

The Committee adjourned at 8:15 a.m., and immediately convened into Closed Session.

AGENDA ITEM 14: CALL TO ORDER AND ROLL CALL

The meeting reconvened at 10:00 a.m. and the following members were present: Francis (Frank) E. Quinlan, Chair; Steven Rank, William Zachry and Alternate James Richardson.

There was a quorum.

Also present: President and CEO Tom Rowe; Acting Chief Financial Officer Dan Sevilla; General Counsel and Corporate Secretary Carol Newman; Senior Management Auditor Edward Nielsen and Internal Audit Program Manager and Assistant Corporate Secretary Marie Wardell; and KPMG Engagement Partner Leigh Wilson; and KPMG Manager Julie Rhodes.

AGENDA ITEM 15: COMMITTEE MEMBER PRESENTATIONS

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

**AGENDA ITEM 16: PROPOSALS AND SUGGESTIONS FOR MARCH 2011
AGENDA**

The Audit Chair requested continued monitoring of the unfunded pension and other post employment benefits liabilities and a recommendation to the Audit Committee on the best avenue to address the unfunded liabilities exposure. At this time, State Fund will provide enhanced disclosure in the 2010 Financial Statement.

PUBLIC COMMENT

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

The next Audit Committee meeting is scheduled for March 17, 2011, with location to be announced.

ADJOURNMENT

There being no further business before the Audit Committee, the meeting adjourned at 10:05 a.m.

Respectfully submitted,

Marie W. Wardell
Assistant Corporate Secretary