

**STATE COMPENSATION INSURANCE FUND
AUDIT COMMITTEE**

MINUTES OF OPEN SESSION MEETING

February 13, 2013

The Audit Committee met on February 13, 2013, 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, Steven L. Rank, William M. Zachry and Sheryl A. Chalupa (Alternate).

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 NOVEMBER 14, 2012 OPEN MEETING MINUTES

MOTION: Mr. Zachry SECOND: Mr. Rank

To approve the minutes of the November 14, 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.

Mr. Robinson noted that the completed report on the four closed audits is included in the Audit Committee book. Mr. Robinson reported that, under Internal Audit oversight, Price Waterhouse Coopers, LLP (PwC) conducted a review of State Fund's documentation, processes, and controls implemented in response to the California Department of Insurance Operational Review performed in 2007, with follow-up reviews conducted in 2008 and 2010. The Operational Review generated 145 findings; 104 had been remediated and 41 were identified as unremediated. He further reported that as of February 13, 2013, 17 of the 41 findings have been remediated.

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

AGENDA ITEM 5: WHISTLEBLOWER HOTLINE

Chief of Internal Affairs Mr. Robinson reported that State Fund takes its Code of Conduct seriously. There will be a periodic summary report out to all employees of the actions taken as one indication of State Fund's commitment to addressing concerns raised by its employees. Mr. Robinson also reported an increase in the number of privacy breach reports, most likely due to the increased awareness of the importance of data privacy through various channels of communication including Privacy road show presentations currently being conducted by Enterprise Security Corporate Legal and Governance, Compliance and Privacy units.

AGENDA ITEM 6: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 9 THROUGH 17

Mr. Quinlan requested public comment on the appropriateness of Closed Session Agenda Items 9-17, of which there was none.

AGENDA ITEM 7: 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 4:50 p.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 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 19: COMMITTEE MEMBER PRESENTATIONS

Mr. Quinlan reported on the four completed closed audits.

PAO 672 – CDI Operational Review

As reported earlier by Mr. Robinson, PwC conducted a review with Internal Audit oversight of State Fund's documentation, processes and controls implemented in response to the California Department of Insurance Operational Review performed in 2007, with follow-up reviews conducted in 2008 and 2010.

PAO 667 – CORPORATE PHYSICAL ACCESS SECURITY

Internal Audit assessed Real Estate Management's execution of its responsibilities and compliance with Corporate Guidelines, policies, directives, and procedures. Improvements were noted in the current physical access security protocols.

PAO 680 – 2012 UNDERWRITING AUDIT

Internal Audit reviewed the Underwriting processes to assess the design and adequacy of operational, financial, and monitoring system controls currently in place. It was noted that updates to the Policy Reference Operating Procedure (PROP) Manual are needed.

PAO 665 – 2012 MARKETING AUDIT

Internal Audit reviewed the Marketing process to assess the design and adequacy of operational, financial, and monitoring system controls currently in place. Remediation plans are in place and updates to the contract management procedures will be made.

Mr. Quinlan reported that there were no major findings in any of the four audits.

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

AGENDA ITEM 20: PROPOSALS AND SUGGESTIONS FOR MAY 15, 2013 AGENDA

Mr. Quinlan requested Mr. Rank to report on the review of the steel erection classifications and trends scheduled to take place in Santa Ana on March 27, 2013. Mr. Rank reported that training will be conducted on the steel erection industry in order for loss control, underwriting, auditing and claims staff to discuss better ways to detect potential premium fraud.

Mr. Quinlan noted that the next Audit Committee meeting is scheduled for May 15, 2013 in San Francisco and requested proposals and suggestions for the May 15, 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 5:00 p.m.

Respectfully submitted,

Hilda B. Padua
Board Liaison and Assistant Corporate Secretary