



DISCUSSION DOCUMENT

Review of Committee Size

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Introduction:

The Audit Committee requested consideration to increase the Audit Committee membership from 3 to 5 Board members.

Analysis:

Best practices identified by the National Association of Corporate Directors (NACD) find committee membership is most effective with 3-5 members. Every member should have experience pertinent to the business such as risk management, security or IT, with at least one member having a solid background in the company industry. All members should be financially literate, i.e. capable of understanding the financial reporting issues and complexities arising from the company's business activities. At least one member should have accounting or financial management expertise.

The Governance Committee is typically charged with determining the size and composition of the committees.

Current Composition:

The State Fund's by-laws and Committee charters support the best practices for committee organization. State Fund Committees are composed of not less than 3 or more than 5 members of the Board. By statute the Audit Committee Chair must have auditing background for the purposes of fulfilling the responsibility of the chair of the audit committee [Calif. Insurance Code Section 11770 (b)(1)]. The current composition of State Fund's Audit Committee has members with extensive experience in workers compensation insurance, security and auditing practices, risk management and financial reporting.

Opportunities and Risks: Opportunities and risks associated with increasing the Audit Committee from 3 to 5 members

Opportunities

- New or broader expertise
- Diversity of thought
- Increased input from a greater number of Board members

Risks

- Quorum will need to be 3 instead of 2
- Majority of Board members will need to serve on more than 1 Committee
- Potential for overlap and duplication of efforts
- Potential to slow decision-making
- Time constraints

Next Steps:

- Audit Committee discussion and recommendation to Governance Committee.