

**STATE COMPENSATION INSURANCE FUND
AUDIT COMMITTEE**

MINUTES OF OPEN SESSION MEETING

May 15, 2013

The Audit Committee met on May 15, 2013, at the State Compensation Insurance Fund Stockton Office, 3247 West March Lane, Stockton, 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, Sheryl A. Chalupa (Alternate) and Ms. Robin Baker (new Board member, joined during item 2).

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.

Mr. Quinlan welcomed Ms. Robin Baker as a new member of the Audit Committee, subject to Board ratification. Mr. Quinlan noted that Ms. Baker has been the Director of research to practice at the University of California, Berkeley Center for Occupational and Environmental Health and at The Center for Construction Research and Training since 2010. She was director at the UC Berkeley's Labor Occupational Health Program from 1981 to 2010 and director at the Project on Health and Safety in Electronics, Santa Clara Center for Occupational Safety and Health from 1978 to 1981. Ms. Baker is a member of the American Federation of Teachers and the American Public Health Association. She earned a Master of Public Health degree from the University of California, Berkeley. She fills the vacant seat on the 11-member board.

AGENDA ITEM 3: APPROVAL OF FEBRUARY 13, 2013 OPEN MEETING MINUTES

MOTION: Mr. Zachry SECOND: Mr. Rank

To approve the minutes of the February 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: 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 six closed audits is included in the Audit Committee book. Mr. Robinson reported that all the findings were correctible. There were no major findings in any of the six audits and no significant risks to State Fund.

AGENDA ITEM 5: WHISTLEBLOWER HOTLINE

Chief of Internal Affairs Mr. Robinson reported that the Hotline was implemented last year and State Fund takes its Code of Conduct seriously. All reports made through the Ethics Hotline are investigated. During the 1Q 2013, there were 70 reports of which the majority are related to privacy and security breaches. The increased reporting is likely due to the increased awareness of the importance of data privacy through various channels of communication including Privacy road show presentations conducted by Enterprise Security, Corporate Legal, and Governance, Compliance and Privacy units.

AGENDA ITEM 6: ANNUAL REVIEW OF AUDIT COMMITTEE CHARTER

Mr. Quinlan noted that this agenda item was “read only” unless there were questions from the Committee. Mr. Quinlan noted that the staff updated the Audit Charter last year by comparing it to the recent Blue Ribbon Committee on Audit Committee material. No updates to that have been made and no industry changes have been recommended for corresponding changes to the Audit Charter.

AGENDA ITEM 7: REVIEW OF INTERNAL AUDIT CHARTER AND COMPLIANCE WITH INTERNATIONAL INTERNAL AUDIT STANDARDS

Mr. Quinlan called on Dante Robinson to present the recommended changes to the Internal Audit Charter. Mr. Robinson reported that the Internal Audit Charter was reviewed and updated by comparing it to Institute of Internal Audit charter provisions. Revisions include non-substantive and formatting changes; aligned titles where

appropriate, "Senior VP of Internal Affairs/Chief Audit Executive was changed to "Chief of Internal Affairs". There were no significant changes to the Internal Audit Charter.

MOTION: Mr. Zachry

SECOND: Mr. Rank

To approve the Internal Audit Charter as presented and attached hereto.

Mr. Quinlan requested public comment of which there was none. Mr. Quinlan called for the vote.

YES: 3

NO: 0

Motion carried.

AGENDA ITEM 8: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 11 THROUGH 19

Mr. Quinlan requested public comment on the appropriateness of Closed Session Agenda Items 11-19, of which there was none.

AGENDA ITEM 9: 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 20: CALL TO ORDER AND ROLL CALL

The meeting reconvened at 5:20 p.m. following the conclusion of the Closed Session and the following Members were present: Francis (Frank) E. Quinlan, Robin Baker, 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 21: COMMITTEE MEMBER PRESENTATIONS

Mr. Quinlan asked if there were any presentations from the Committee members of which there were none.

AGENDA ITEM 22: PROPOSALS AND SUGGESTIONS FOR AUGUST 13, 2013 AGENDA

Mr. Quinlan requested suggestions for agenda items for the August 13, 2013 Audit Committee meeting other than the standing agenda items, of which there was none.

Mr. Quinlan asked for any public comment, of which there was none, and he noted that the next Audit Committee meeting is scheduled for August 13, 2013 at the Marriott Marquis, San Diego, California unless noticed for a new date and time.

ADJOURNMENT

There being no further business before the Audit Committee, the meeting adjourned at 5:25 p.m.

Respectfully submitted,

Hilda B. Padua
Board Liaison and Assistant Corporate Secretary

STATE COMPENSATION INSURANCE FUND INTERNAL AUDIT ACTIVITY CHARTER

This charter sets forth the purpose, authority, and responsibilities of the Internal Audit Department at State Compensation Insurance Fund (State Fund). It provides the framework for the activities of the Internal Audit Department. The Charter is an adjunct to Corporate Policy GOV 1.2.

Table of Contents

INTRODUCTION	2
ROLE.....	2
PROFESSIONALISM	2
MISSION/PURPOSE	2
AUTHORITY	2
INDEPENDENCE AND OBJECTIVITY.....	3
RESPONSIBILITY.....	4
INTERNAL AUDIT PLAN	5
REPORTING AND MONITORING	6
PERIODIC ASSESSMENT	6

INTRODUCTION

Internal Auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of State Fund. It assists State Fund in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's risk management, control, and governance processes.

ROLE

The Internal Audit Department is established by the Board of Directors (hereafter referred to as the Board). The Internal Audit Department's responsibilities are defined by the Board as part of their oversight role.

PROFESSIONALISM

The Internal Audit Department will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of internal audit's activities.

The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the Internal Audit Department will adhere to State Fund's relevant policies and procedures and the Internal Audit Procedure Manual.

MISSION/PURPOSE

The mission of the Internal Audit Department is to provide independent, objective assurance and consulting services designed to add value and improve State Fund's operations. Internal Audit will help State Fund accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, compliance and governance processes. By accomplishing its mission, the Internal Audit Department will assist the Board and Executive management in fulfilling its oversight responsibilities.

AUTHORITY

The State Fund Chief of Internal Affairs shall act in the capacity of Chief Audit Executive for the Organization. The Chief Audit Executive and Internal Audit Department staff as determined by and under the direction and control of the Internal Audit Program Manager is authorized to:

- Manage and conduct the internal audit activity, including determining the risk-based priorities for such activities, consistent with the organization's objectives.
- Select audit subjects, determine scopes of work, allocate resources, set frequencies, establish follow-ups on recommendations, and apply the techniques required to accomplish audit, investigation and control objectives.
- Exercise full and unrestricted access to all functions, records, property, premises, agents, and personnel, and all documents and information of State Fund that the Chief Audit Executive considers necessary for the Internal Audit Department to meet its responsibilities.
- Have full and free access to the Audit Committee of the State Fund Board of Directors.
- Work with personnel throughout the organization and with external vendors in performing Internal Audit responsibilities. All employees of State Fund are required to assist and support the Internal Audit Department in fulfilling its roles and responsibilities

The Chief Audit Executive and Internal Audit Department staff is not authorized to:

- Perform any operational duties for State Fund.
- Initiate or approve accounting transactions external to the Internal Audit Department.
- Direct the activities of any State Fund employee not employed by the Internal Audit Department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

INDEPENDENCE AND OBJECTIVITY

To provide for the independence of the Internal Audit Department, its staff will report to the Internal Audit Program Manager, who reports to the Chief of Internal Affairs/Chief Audit Executive, who reports administratively to the General Counsel and functionally to the Audit Committee. In the event one or more of the individuals in the line of authority is the target of an audit or investigation, then the Internal Audit Department staff will not report to those individual(s) and may report if necessary directly to the Board's Audit Committee Chairperson.

The Internal Audit Department will remain free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The Chief Audit Executive will confirm to the board, at least annually, the organizational independence of the Internal Audit Department.

The internal audit activity must be independent of internal influences, and Internal Auditors must be objective in the performance of their work.

RESPONSIBILITY

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management, and internal process as well as the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives. This includes the following:

- Periodically reviewing with the Audit Committee and Management the Internal Audit Charter and mission, and recommend changes to support State Fund's organization, objectives, and services.
- Maintaining a professional audit staff with sufficient knowledge, skills, and experience to meet the requirements of this charter. Retaining independent advisors in the event the Internal Audit staff does not have the capacity, skills, certifications, experience, or independence necessary for a particular audit.
- Evaluating the reliability and integrity of information and the means used to identify measure, classify, and report such information.
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations that could have a significant impact on the organization.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which resources are employed.

- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals, and whether the operations or programs are being carried out as planned.
- Monitoring and evaluating governance processes.
- Monitoring and evaluating the effectiveness of the organization's risk management processes.
- Evaluating the quality of performance of external auditors and the degree of coordination with internal audit.
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organization.
- Reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan.
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board.
- Evaluating specific operations at the request of the Board or management, as appropriate.
- Conducting internal fraud investigations and reporting trends and significant findings on all investigations conducted by either Internal Audit or Human Resources.
- Serving as the organization's contact point for coordination of regulatory audits and compliance issue inquiries, including but not limited to audits from the California Department of Insurance and Bureau of State Audits.

INTERNAL AUDIT PLAN

At least annually, the Chief Audit Executive will submit to senior management and the Board an internal audit plan for review and approval. The internal audit plan will consist of a work schedule as well as budget and resource requirements for the next fiscal/calendar year. The Chief Audit Executive will communicate the impact of resource limitations and significant interim changes to senior management and the Board.

The internal audit plan will be developed based on a prioritization of the audit universe using a risk-based methodology, including input of senior management and the board. Any significant deviation from the approved internal audit plan will be communicated to senior management and the Board through periodic activity reports.

REPORTING AND MONITORING

A written report will be prepared and issued by the Chief Audit Executive or designee following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Board.

The internal audit report may include management's response and corrective actions taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter (i.e. within thirty days) by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The internal audit activity will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

PERIODIC ASSESSMENT

The Chief Audit Executive will periodically report to senior management and the Board on the Internal Audit Department's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the Board.

In addition, the Chief Audit Executive will communicate to senior management and the Board on the Internal Audit Department's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

INTERNAL AUDIT ACTIVITY CHARTER APPROVALS

Approved this 15th day of May, 2013.



Carol R. Newman