

**STATE COMPENSATION INSURANCE FUND
AUDIT COMMITTEE**

MINUTES OF OPEN SESSION MEETING

May 16, 2012

The Audit Committee met on May 16, 2012 at the State Compensation Insurance Fund Headquarters, Board Room, 333 Bush Street, San Francisco, California.

AGENDA ITEM 1: ROLL CALL

The meeting was called to order at 2:05 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; Assistant Chief Counsel and Assistant Corporate Secretary Vera C. De Martini 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 FEBRUARY 16, 2012 OPEN MEETING MINUTES

MOTION: Mr. Rank

SECOND: Mr. Zachry

To approve the minutes of the February 16, 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: 4

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.

PAO 646 – Adjusting Journal Entries

Mr. Robinson reported that Internal Audit performed an audit of the Adjusting Journal Entries process owned by Financial Operations. The audit's objective was to determine whether adjusting journal entries were necessary and accurate, supported by sufficient documentation, and had appropriate approvals. Sixty adjusting journal entries were reviewed. Exceptions were noted in the area of sufficient documentation to support the adjusting journal entries. Financial Operations has acknowledged this process weakness and developed and adopted workflow procedures to strengthen the documentation for the initiation, review and posting of all adjusting journal entries.

PAO 631 – Ultimate Claims System

Mr. Robinson reported that Internal Audit conducted a review of the Ultimate Claims System. The purpose of the review was to assess what was being done to replace the current claims management system and provide a status report and project timeline. The new claims management system project started Q4 2011 and will be used for all new and legacy claims. The expected system implementation date is 2013.

Anticipated benefits of the new claims management system are a 50% reduction in IT related support and maintenance costs and a single claims management system for claims adjusting staff to handle all of their adjusting needs.

AGENDA ITEM 5; REVIEW OF COMMITTEE SIZE

Mr. Quinlan called on Hilda Padua to report on the Review of Committee Size.

Ms. Padua reported that she researched the National Association of Corporate Directors (NACD) and it is a best practice for committee members to periodically review and discuss committee membership composition alignment with best practices. The State Fund By-Laws and committee charters support best practices for committee organization. Opportunities associated with increasing the Audit Committee from 3 to 5 members include, but are not limited to the addition of new expertise and diversity of thought: associated risks include increasing a quorum from 2 to 3 members and the need for the majority of board members to serve on more than one Committee. Ms. Padua then asked Mr. Robinson to facilitate a discussion. Discussion ensued, including acknowledging limitations imposed by the Bagley-Keene Open Meeting Act requirements.

MOTION: Zachry

SECOND: Mr. Rank

To recommend to the Board of Directors that the President of State Compensation Insurance Fund be authorized to pursue legislation to exempt the State Compensation Insurance Fund Board and its Committees from the Bagley-Keene Open Meeting Act requirements with particular attention to the

Audit Committee's need to be exempt because of its duty to identify and minimize risk to State Compensation Insurance Fund and;

Further to authorize the President to do all things necessary to effectuate this motion.

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

YES: 3 NO: 0 Motion carried

AGENDA ITEM 6: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 9 THROUGH 16

Mr. Quinlan requested public comment on the appropriateness of Closed Session Agenda Items 9-16, 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 2:20 p.m.

AGENDA ITEM 17: CALL TO ORDER AND ROLL CALL

The meeting reconvened at 5:35 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; Assistant Chief Counsel and Assistant Corporate Secretary Vera C. De Martini; and Board Liaison and Assistant Corporate Secretary Hilda B. Padua.

There was a quorum.

AGENDA ITEM 18: COMMITTEE MEMBER PRESENTATIONS

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

AGENDA ITEM 19: PROPOSALS AND SUGGESTIONS FOR AUGUST 16, 2012 AGENDA

Mr. Quinlan noted that the next Audit Committee meeting is scheduled for August 16, 2012 in San Francisco and requested proposals and suggestions for the August 16, 2012 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 5:40 p.m.

Respectfully submitted,

Hilda B. Padua
Board Liaison and Assistant Corporate Secretary