

**STATE COMPENSATION INSURANCE FUND
AUDIT COMMITTEE**

MINUTES OF OPEN SESSION MEETING

May 20, 2015

The Audit Committee met on May 20, 2015 at the State Fund Corporate Office, 333 Bush Street, 7th floor, 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: Sheryl A. Chalupa (Chair); Sen. Michael J. Machado; Steven L. Rank; and William M. Zachry.

There was a quorum.

Also present: President and CEO Vernon L. Steiner; Chief Financial Officer Peter Guastamachio; Chief of Internal Affairs Dante Robinson; Board Liaison and Interim Corporate Secretary Hilda B. Padua; Counsel and Assistant Corporate Secretary Judith D. Sapper; and Randall Keen of Manatt, Phelps & Phillips, LLP.

AGENDA ITEM 2: ANTITRUST ADMONITION

Ms. Chalupa 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: CONSENT CALENDAR

- 3a. Approval of February 18, 2015 Open Meeting Minutes**
- 3b. Annual Review of Audit Committee Charter**
- 3c. Annual Review of Internal Audit Charter and Compliance with International Internal Audit Standards**

Ms. Chalupa asked whether any Board member had any comments on the items on the Consent Calendar of which there were none.

MOTION: Mr. Zachry

SECOND: Mr. Rank

To approve the Consent Calendar as presented.

Ms. Chalupa requested public comment of which there was none. Ms. Chalupa called for the vote.

YES: 4

NO: 0

Abstain: 0

Motion carried.

AGENDA ITEM 4: COMPLETED CLOSED AUDITS

Chief of Internal Affairs Dante Robinson reported that Internal Audit completed six closed audits: the Claims Operations Site Visit and File Review - Fresno, Real Estate Management, Active Directory, Corporate Secretary Board, Enterprise Risk Management, and Claims Operations Site Visit and File Review – Santa Ana audits. The findings and remediation actions are noted on the Audit Committee package.

Mr. Robinson also noted all of the issues identified in closed audits are correctible in the normal course of business and do not represent significant risk to State Fund.

AGENDA ITEM 5: WHISTLEBLOWER HOTLINE

Executive Vice President and Chief Administrative Officer Andreas Acker reported that the format of the presentation of this material has changed for easier reading. Mr. Acker and Mr. Robinson were available to answer questions from the Audit Committee, of which there were none.

AGENDA ITEM 6: TODAY'S TECHNOLOGY AND STATE FUND: INCREASED RISK FOR BOARDS AND LEADERS (IDENTIFYING IT RISKS)

Mr. Robinson introduced Sanjeev Ratti, Assistant Internal Audit Manager and Gwilym Martin, Internal Audit Program Manager to present on the learnings, issues and topics regarding IT Risks associated with Cyber security. The presentation covered types of cyber-attacks, recent cyber-attacks, emerging threats and counter measures. Mr. Ratti noted that according to the Verizon 2015 Data Breach Investigation Report, in 60% of cyber-attack cases attackers are able to compromise an organization within minutes which affects the reputation, legal, operational, and financial aspects of the business.

Mr. Ratti also discussed the different types of cyber-attacks which include: i) Compromised employee log-in credentials through phishing, spyware, and sharing passwords; ii) Point-of-sale (POS) malware used to steal customer payment data; iii) SQL injection used to obtain personal information; iv) insecure wireless; v) hard drive sent for repair; vi) breached test environment containing live data; and vii) defeated encryption. According to the 2010 Data Breach Investigation Report - Verizon Business RISK Team/US Secret Service, 98% of all data breaches came from servers, which are highly susceptible due to unencrypted data, unpatched vulnerabilities in configuration, and easily compromised server passwords. Mr. Ratti noted that 96% of breaches were avoidable through key basic controls which can be effective but expensive to implement. Lastly, 86% of victims had evidence of a breach available but didn't review their logs until after the breach was detected. Mr. Ratti noted regular review of log files will help with early detection of suspicious activity and decrease the duration of breach exposure.

AGENDA ITEM 7: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 10 THROUGH 16

Ms. Chalupa requested public comment on the appropriateness of Closed Session Agenda Items 10-16, of which there was none.

AGENDA ITEM 8: PUBLIC COMMENT

Ms. Chalupa requested other public comment, of which there was none. The Audit Committee immediately convened into Closed Session at 2:15 p.m.

AGENDA ITEM 17: CALL TO ORDER AND ROLL CALL

The meeting reconvened at 5:30 p.m. following the conclusion of the Closed Session and the following Members were present: Sheryl A. Chalupa (Chair); Sen. Michael J. Machado; Steven L. Rank; and William M. Zachry.

Also present: President and CEO Vernon L. Steiner; Chief Financial Officer Peter Guastamachio; Chief of Internal Affairs Dante Robinson; Board Liaison and Interim Corporate Secretary Hilda B. Padua; Counsel and Assistant Corporate Secretary Judith D. Sapper; and Randall Keen of Manatt, Phelps and Phillips.

There was a quorum.

Ms. Chalupa announced that KPMG partner Leigh Wilson has completed her five year rotation as the lead audit partner for State Fund. This is in compliance with Model Audit Rule (MAR), requiring the rotation of the lead audit partner, with a five year "cool off" period, after a five year consecutive period with the audit of the insurer. Ms. Chalupa thanked Ms. Wilson for her work and welcomed KPMG partner Jennifer Austin as the new lead audit partner.

AGENDA ITEM 18: COMMITTEE MEMBER PRESENTATIONS

Ms. Chalupa requested presentations from the Committee members of which there were none.

AGENDA ITEM 19: PROPOSALS AND SUGGESTIONS FOR AUGUST 18, 2015 AGENDA

Ms. Chalupa requested suggestions for agenda items for the August 18, 2015 Audit Committee meeting other than the standing agenda items, of which there were none. Ms. Chalupa requested public comment, of which there was none, and she noted that the next Audit Committee meeting is scheduled for August 18, 2015 at the State Fund Corporate Office, 333 Bush Street, San Francisco, California unless noticed for a new date and time.

ADJOURNMENT

There being no further business before the Audit Committee, the meeting adjourned at 5:35 p.m.

Respectfully submitted,

Hilda B. Padua
Board Liaison and Interim Corporate Secretary