

**STATE COMPENSATION INSURANCE FUND
AUDIT COMMITTEE**

MINUTES OF OPEN SESSION MEETING

May 22, 2019

The Audit Committee met on May 22, 2019 at the State Fund Pleasanton Office, 5890 Owens Drive (Atlantic and Pacific rooms), Pleasanton, California.

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 2:00 p.m. Ms. Padua took roll and the following Members were present: William M. Zachry (Chair); Senator Tom. C. Berryhill (Ret.); David M. Lanier; Senator Michael J. Machado (Ret.); and Angela D. Tate.

There was a quorum.

Also present: President and CEO Vernon L. Steiner; General Counsel and Corporate Secretary Margie R. Lariviere; Chief of Internal Affairs Dante Robinson; Chief Financial Officer Peter Guastamachio; Board Liaison and Assistant Corporate Secretary Hilda B. Padua; and Counsel and Assistant Corporate Secretary Judith D. Sapper.

Mr. Zachry welcomed Sen. Berryhill and Ms. Tate to the Audit Committee.

AGENDA ITEM 2: ANTITRUST ADMONITION

Mr. Zachry 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

- a. Approval of February 14, 2019 Open Meeting Minutes
- b. Annual Review and Approval of Audit Committee Charter
- c. Annual Review and Approval of Internal Audit Charter and Compliance with International Internal Audit Standards

Mr. Zachry pulled agenda item 3c "Annual Review and Approval of Internal Audit Charter and Compliance with International Internal Audit Standards" from the Consent calendar and requested for strategic discussion during Closed session.

Mr. Zachry asked whether any Committee member had any comments, of which there were none.

Mr. Zachry called for a Motion.

MOTION: Sen. Machado

SECOND: Mr. Lanier

To approve the Consent Calendar as revised.

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

YES: 3

NO: 0

Abstain: 0

Motion carried.

AGENDA ITEM 4: COMPLETED CLOSED AUDITS

Mr. Zachry noted that this item is read only, unless questions. Mr. Zachry asked Chief of Internal Affairs Mr. Robinson if there was any new information from the time the report was published. Mr. Robinson noted that the report was current and there were no changes.

AGENDA ITEM 5: WHISTLEBLOWER HOTLINE

Mr. Zachry noted that this item is read only, unless questions. He asked Executive Vice President and Chief Administrative Officer Andreas Acker and Vice President of HR Connect Patrick Gage if there was any new information from the time the report was published. Mr. Acker and Mr. Gage noted that the report was current and there were no changes.

AGENDA ITEM 6: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 9 THROUGH 14

Mr. Zachry requested public comment on the appropriateness of Closed Session Agenda Items 9 through 14, of which there was none.

AGENDA ITEM 7: PUBLIC COMMENT

Mr. Zachry requested other public comment, of which there was none. The Audit Committee immediately convened into Closed Session at 2:05 p.m.

AGENDA ITEM 15: CALL TO ORDER AND ROLL CALL

The meeting reconvened at 5:15 p.m. following the conclusion of the Closed Session and the following Members were present: William M. Zachry (Chair); Senator Tom. C. Berryhill (Ret.); David M. Lanier; Senator Michael J. Machado (Ret.); and Angela D. Tate.

There was a quorum.

Also present: President and CEO Vernon L. Steiner; General Counsel and Corporate Secretary Margie R. Lariviere; Chief of Internal Affairs Dante Robinson; Chief Financial Officer Peter Guastamachio; Board Liaison and Assistant Corporate Secretary Hilda B. Padua; and Counsel and Assistant Corporate Secretary Judith D. Sapper.

Mr. Zachry recalled agenda item Consent Calendar 3c "Annual Review and Approval of Internal Audit Charter and Compliance with International Internal Audit Standards".

Ms. Padua noted the following recommended changes from the Committee:

Under Independence and Objectivity, add the language highlighted in red:

“Where the Chief Audit Executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, the Audit Committee will be notified and safeguards will be established to limit impairments to independence or objectivity”.

Under Responsibility, add the word “materially” and remove the word “as appropriate” from the language below.

“Ensure trends and emerging issues that could materially impact State Fund are considered and communicated to senior management and the Audit Committee ~~as appropriate~~”.

Mr. Zachry called for a Motion.

MOTION: Sen. Machado

SECOND: Ms. Tate

To approve the recommended changes to the Internal Audit Charter and Compliance with International Internal Audit Standards as revised.

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

YES: 5

NO: 0

Abstain: 0

Motion carried.

AGENDA ITEM 16: RATIFICATION OF ENGAGEMENT OF EXTERNAL AUDITOR FOR 2019-2021 AUDIT SERVICES

Mr. Zachry noted that the Audit Committee Charter gives the Audit Committee the responsibility to select and retain the independent auditors and set their compensation for preparing and issuing the State Fund audited financial report or related work.

Mr. Zachry advised the Committee of EY’s proposed 2019-2021 Engagement fees of \$749,000 (2019); \$771,500 (2020); and \$794,500 (2021) for audit services with no travel expenses. Mr. Zachry reported that he has reviewed the Engagement letter and recommends proceeding with the engagement at the proposed fees.

MOTION: Sen. Machado

SECOND: Mr. Lanier

To ratify the engagement of external auditor EY for the 2019-2021 Audit services at a cost of \$749,000 (2019); \$771,500 (2020); and \$794,500 (2021) for audit services with no travel expenses.

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

YES: 5

NO: 0

Motion carried.

AGENDA ITEM 17: COMMITTEE MEMBER PRESENTATIONS

Mr. Zachry requested presentations from the Committee members, of which there were none.

AGENDA ITEM 18: PROPOSALS AND SUGGESTIONS FOR AUGUST 20 , 2019 AGENDA

Mr. Zachry requested suggestions for agenda items for the August 20, 2019 Audit Committee meeting other than the standing agenda items, of which there were none.

Mr. Zachry requested public comment, of which there was none, and he noted that the next Audit Committee meeting is scheduled for August 20, 2019 at The Lodge at Sonoma Renaissance, Sonoma, California unless noticed for a new date and time.

ADJOURNMENT

There being no further business before the Audit Committee, the meeting adjourned at 5:20 p.m.

Respectfully submitted,

Hilda B. Padua, Board Liaison and Assistant Corporate Secretary