

**STATE COMPENSATION INSURANCE FUND
AUDIT COMMITTEE**

MINUTES OF OPEN SESSION MEETING

July 8, 2010

The Audit Committee met on July 8, 2010 in the Benicia Room of the Milton Marks Conference Center, State Building, 455 Golden Gate Ave., San Francisco, California.

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 8:00 a.m. and the following members were present: Francis (Frank) E. Quinlan, Chair; Steven Rank; and Alternate James Richardson. Absent: William Zachry (by prior arrangement).

There was a quorum.

Also present: Interim President and CEO Doug Stewart; Chief Financial Officer Jay Stewart; General Counsel and Corporate Secretary Carol Newman; Senior Vice President of Internal Affairs Lisa Middleton; Internal Audit Program Manager and Assistant Corporate Secretary Marie Wardell; and KPMG Lead Audit Partner Julie Rhodes.

AGENDA ITEM 2: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION ITEMS 3 THROUGH 8

There was no public comment.

The Committee immediately convened into Closed Session.

AGENDA ITEM 9: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 9:50 a.m. and the following members were present: Francis (Frank) E. Quinlan, Chair; William Zachry; and Alternate James Richardson. Absent: Mr. Rank (by prior arrangement).

There was a quorum.

Also present: Interim President and CEO Doug Stewart; Chief Financial Officer Jay Stewart; General Counsel and Corporate Secretary Carol Newman; Senior Vice President of Internal Affairs Lisa Middleton; Internal Audit Program Manager & Assistant Corporate Secretary Marie Wardell; and KPMG Lead Audit Partner Julie Rhodes.

AGENDA ITEM 10: APPROVAL OF MAY 20, 2010 OPEN MEETING MINUTES

Mr. Quinlan requested public comment of which there was none.

MOTION: Mr. James Richardson Second: Mr. William Zachry

To approve the minutes of the May 20, 2010 Open meeting of the Audit Committee as presented.

AYES: 3 NOES: 0 Motion carried.

AGENDA ITEM 11: REPORT ON CLOSED AUDITS

Lisa Middleton, Sr. Vice President of Internal Affairs, reported on completed audits.

The **Business Continuity Plan (BCP) Audit** involved reviewing State Fund's plan to manage potential non-IT business interruptions thus assuring the safety of staff, security of facilities, communication capabilities, and the continued ability to provide quality services to clients in the aftermath of a disaster.

Internal controls established by Risk Management to meet the objectives of the BCP are adequate. A remediation plan has been developed to attend to a limited number of issues including an analysis of the impact to the business and enhanced recognition of interdependencies of systems, personnel and services.

The **Employee Pay Warrant Audit** involved the segregation of duties at one State Fund processing location. The timekeeper had access both to the Oracle Financial Human Resources Internet (absence/leave) system and to the employee pay warrants. After testing the internal controls in the area of processing warrants and distributing warrants to employees for payroll transactions for the April 2010 pay period, it was determined that internal controls established by Fiscal and Investment Services were adequate. However, the internal controls established by the processing center were not adequate to prevent potential unexpected loss or fraud. The time keeper had access rights to the HR systems and was also distributing the paychecks. The processing center has fully remediated the pay check distribution process.

Mr. Quinlan requested public comment of which there was none.

AGENDA ITEM 12: REPORT ON PUBLIC AUDIT

Mr. Jay Stewart reported on the Public Audit. KPMG's finalized report was filed timely with the California Department of Insurance. The audit did not identify any material findings. The review of the 2009 financials is complete.

Mr. Quinlan requested public comment of which there was none.

AGENDA ITEM 13: COMMITTEE MEMBER PRESENTATIONS

Mr. Quinlan requested Committee Member presentations. Mr. Jay Stewart reported that the Audit Committee reviewed updates on MAR (Model Audit Review).

Mr. Quinlan requested public comment of which there was none.

AGENDA ITEM 14: PROPOSALS AND SUGGESTIONS FOR SEPTEMBER 2010 AGENDA

There were no proposals or suggestions for the September 2010 agenda. Mr. Quinlan requested a review of the risk of hacking into State Fund's fiscal data universe.

Mr. Quinlan requested public comment of which there was none.

AGENDA ITEM 15: PUBLIC COMMENT

Mr. Quinlan requested public comment of which there was none.

The next Audit Committee meeting is scheduled for September 9, 2010 in San Francisco, California.

ADJOURNMENT

There being no further business before the Audit Committee, the meeting adjourned at 10:00 am.

Respectfully submitted,

Marie W. Wardell
Assistant Corporate Secretary