

**STATE COMPENSATION INSURANCE FUND  
AUDIT COMMITTEE**

**MINUTES OF OPEN SESSION MEETING**

**August 13, 2013**

The Audit Committee met on August 13, 2013, at the San Diego Marriott Marquis and Marina, 333 West Harbor Drive, San Diego, California.

**AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL**

The meeting was called to order at 10:00 a.m. and the following Members were present: Francis (Frank) E. Quinlan, Robin Baker; Sheryl A. Chalupa; Steven L. Rank, and William M. Zachry.

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.

Mr. Quinlan noted that he recommended at the May 2013 meeting, that other members of the Committee take a turn at chairing the meeting to increase each member's engagement with management now that the Committee has five members; to bring new perspectives to Audit Committee full Board reports and to increase each member's involvement in preparation for Audit Committee meetings. For the August meeting, Mr. William Zachry volunteered to be the Chair Pro-Tem and since there is no objection from the Committee he will serve in that capacity at this meeting.

**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: APPROVAL OF MAY 15, 2013 OPEN MEETING MINUTES**

MOTION: Mr. Quinlan

SECOND: Ms. Chalupa

To approve the minutes of the May 15, 2013 Open Meeting of the Audit Committee as presented.

Mr. Zachry asked for public comment of which there was none, and called for the vote.

YES: 5

NO: 0

Motion carried.

#### **AGENDA ITEM 4: COMPLETED CLOSED AUDITS**

Chief of Internal Affairs, Mr. Robinson reported that the completed report on the five closed audits is included in the Audit Committee book and all of the closed audits are correctable in the normal course of business. The 2012 Investments Audit was a result of an action item from the February 2013 Audit Committee meeting requesting an audit to determine State Fund's ability to access funds in the event of a disaster. The audit found that in the event of a shutdown there is immediate access to a Line of Credit from the Federal Home Loan Bank.

#### **AGENDA ITEM 5: WHISTLEBLOWER HOTLINE**

Mr. Robinson reported all Ethics Hotline reports are investigated. During 2Q 2013 there were 117 reports received from all sources of which the majority was related to privacy and security breaches. The Privacy matters saw an uptick in referrals based on: (i) transmission of private information for non-business purposes, and (ii) increased awareness of the importance of data privacy through various channels of communication including Privacy road show presentations. In addition, workforce members are required to complete the 2013 Code of Conduct Acknowledgement and Training. The individual managers are held accountable for referral of non-compliant workforce members.

#### **AGENDA ITEM 6: RATIFICATION OF ENGAGEMENT OF EXTERNAL AUDITOR FOR 2013 AUDIT PLAN**

Mr. Zachry noted the Audit Chair has authority to engage the independent audit firm which Mr. Quinlan authorized. This year the 2013 Engagement Fees are \$885,000 for audit and actuarial services, split between \$750,000 for audit and \$135,000 for actuarial services. This is a savings of \$5,000 from last year's engagement fee.

Discussion ensued on retaining the same external auditor over the mandated audit firm rotation. Mr. Quinlan noted every year the Audit Committee discusses the idea of audit firm rotation. The proposal to mandate auditor rotation is based on the belief that it promotes objectivity because personnel at a new audit firm are not tied down by judgments, compromises and personal relationships of the past. While this may be the case, auditor rotation also can create the possibility of some important issues being overlooked by new auditors or settled improperly in favor of the client. KPMG has been the external auditor since 2005, and State Fund has worked with three engagement partners. The Audit Committee has been satisfied with KPMG's performance and its auditors' expertise.

Ms. Leigh Wilson, KPMG partner, noted the National Association of Insurance Commissioners (NAIC) study on mandated audit firm rotation suggests that most of the benefits of rotation can be realized by rotating the engagement partners rather than audit firms and this is what KPMG does.

MOTION: Ms. Chalupa

SECOND: Mr. Rank

To ratify the engagement of external auditor KPMG for the 2013 Audit Plan at a cost of \$885,000.

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

YES: 5

NO: 0

Motion carried.

**AGENDA ITEM 7 PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 10 THROUGH 13**

Mr. Zachry requested public comment on the appropriateness of Closed Session Agenda Items 10-13, of which there was none.

**AGENDA ITEM 8: PUBLIC COMMENT**

Mr. Zachry requested other public comment, of which there was none. The Audit Committee immediately convened into Closed Session at 10:35 a.m.

**AGENDA ITEM 14: CALL TO ORDER AND ROLL CALL**

The meeting reconvened at 12:30 p.m. following the conclusion of the Closed Session and the following Members were present: Francis (Frank) E. Quinlan, Robin Baker, Sheryl A. Chalupa; Steven L. Rank, and William M. Zachry (Chair Pro-Tem).

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.

There was a quorum.

**AGENDA ITEM 15: COMMITTEE MEMBER PRESENTATIONS**

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

**AGENDA ITEM 16: PROPOSALS AND SUGGESTIONS FOR NOVEMBER 13, 2013 AGENDA**

Mr. Zachry requested suggestions for agenda items for the November 13, 2013 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 November 13, 2013 at the State Fund's 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 12:35 p.m.

Respectfully submitted,

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Hilda B. Padua  
Board Liaison and Assistant Corporate Secretary