

**STATE COMPENSATION INSURANCE FUND
AUDIT COMMITTEE**

MINUTES OF OPEN SESSION MEETING

SEPTEMBER 14, 2011

The Audit Committee met on September 14, 2011 in the Napa Valley Marriott Hotel & Spa, 3425 Solano Avenue, Napa Valley, California.

AGENDA ITEM 1: ROLL CALL

The meeting was called to order at 12:00 p.m. and the following Members were present: Francis (Frank) E. Quinlan, Chair, Steven Rank and Sheryl A. Chalupa (Alternate). William M. Zachry was absent by prior arrangement.

There was a quorum.

Also present: President and CEO Thomas E. Rowe; Chief Financial Officer Dan Sevilla; Chief Risk Officer Ken Van Laar; Internal Audit Program Manager Marie W. Wardell; General Counsel and Corporate Secretary Carol R. Newman; Assistant Chief Counsel and Assistant Corporate Secretary Vera C. De Martini; Executive Operations Manager Hilda B. Padua; Mr. Thomas E. Rankin; and KPMG Engagement Partner Leigh Wilson and KPMG Manager Julie Rhodes-Urrea.

AGENDA ITEM 2: APPROVAL OF JULY 14, 2011 OPEN MEETING MINUTES

MOTION: Ms. Chalupa

Second: Mr. Rank

To approve the minutes of the July 14, 2011 Open Meeting Minutes of the Audit Committee as presented.

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

YES: 3

NO: 0

Motion carried.

AGENDA ITEM 3: COMPLETED CLOSED AUDITS

Mr. Quinlan invited Marie W. Wardell, Internal Audit Manager, to report on the completed closed audits.

PAO 635 – Claims Data Compare – DP211

Ms. Wardell reported on the Internal Audit assessment for the adequacy of controls to ensure State Fund maintains data integrity amongst its several claims databases. Between 2007 and 2011 error rates declined from 2.7% to less than 1%.

Errors caused by the timing of data transmissions have been remediated through revised transmission timelines. Chief Information Officer Shaun Coyne also noted a targeted next step is to write to a single data base, which should avoid such data integrity errors in the future.

AGENDA ITEM 4: REPORT OF EXTERNAL AUDITOR

Mr. Quinlan invited Leigh Wilson, Engagement Auditor leading the KPMG external financial audit, to provide an update regarding Schedules of Additional Information Formatted for the State Controller's Office. Ms. Wilson reported that KPMG issued its opinion on the 2010 Schedules submitted to the California State Controller's office. Written communications between State Fund management and the auditors, which consisted of KPMG's opinion on the Schedules and management's representation letter, along with the summary of audit differences and adjustments, have been provided to the Audit Committee. No significant matters related to these Schedules were reported.

AGENDA ITEM 5: RATIFICATION OF 2011 EXTERNAL AUDITOR'S ENGAGEMENT FEE

Mr. Quinlan advised committee members of KPMG's proposed 2011 Engagement Fee of \$890,000 for services, which includes \$775,000 for audit services and \$135,000 for actuarial services, and he recommended that State Fund proceed with the engagement at the proposed fee. Mr. Quinlan moved for ratification of his recommendation and authorizing the Audit Committee Chair to proceed with KPMG's engagement.

MOTION: Ms. Chalupa

Second: Mr. Rank

To ratify the Audit Committee Chair's recommendation to accept KPMG's proposed 2011 Engagement Fee of \$890,000 for services, including \$775,000 for audit services and \$135,000 for actuarial services, and authorizing the Chair to proceed with KPMG's engagement.

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

YES: 3

NO: 0

Motion carried.

AGENDA ITEM 6: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 9 THROUGH 13

Mr. Quinlan requested public comment on the appropriateness of Closed Session Agenda Items 9-13, 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 12:15 p.m.

AGENDA ITEM 14: CALL TO ORDER AND ROLL CALL

The meeting reconvened at 1:55 p.m. following the conclusion of the Closed Session and the following Members were present: Francis (Frank) E. Quinlan, Sheryl A. Chalupa, and Steven L. Rank. William M. Zachry was absent by prior arrangement.

Also present: President and Chief Executive Officer Tom Rowe; Internal Audit Manager Marie W. Wardell; Chief Risk Officer Ken Van Laar; Chief Financial Officer Dan Sevilla; General Counsel and Corporate Secretary Carol R. Newman; Thomas E. Rankin; Assistant Chief Counsel; Assistant Corporate Secretary Vera C. De Martini; and Executive Operations Manager Hilda B. Padua.

There was a quorum.

AGENDA ITEM 15: COMMITTEE MEMBER PRESENTATIONS

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

AGENDA ITEM 16: PROPOSALS AND SUGGESTIONS FOR NOVEMBER 17, 2011 AGENDA

Mr. Quinlan noted that the next Audit Committee meeting is scheduled for November 17, 2011 in San Francisco; he noted the November 2011 Standing Agenda Items and requested proposals and suggestions for the November 2011 agenda, of which there were none. Mr. Quinlan reported that State Fund will place on its Balance Sheet the estimated share of its potential liability for state Pension and Other Post Employment Benefits (OPEB) and continue to watch trends and provide updates regarding any changes proposed by the GAAP (Generally Accepted Accounting Principles) standards Board of Directors on whether the Pension and OPEB values will be required to be reported by agencies on their balance sheets.

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 2:00 p.m.

Respectfully submitted,

Vera C. De Martini
Assistant Corporate Secretary