

**STATE COMPENSATION INSURANCE FUND
AUDIT COMMITTEE**

MINUTES OF OPEN SESSION MEETING

September 23, 2014

The Audit Committee met on September 23, 2014 at the Hyatt Regency Hotel, 1 Old Golf Course Road, Monterey, 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: Sheryl A. Chalupa (Chair); Robin Baker; Jack Neureuter; and Steven L. Rank.

Absent by prior arrangement: William M. Zachry

There was a quorum.

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

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: APPROVAL OF MAY 14, 2014 OPEN MEETING MINUTES

MOTION: Mr. Neureuter

SECOND: Mr. Rank

To approve the minutes of the May 14, 2014 Open Meeting of the Audit Committee as presented.

Ms. Chalupa asked for public comment of which there was none, and called for the vote.

YES: 4

NO: 0

Motion carried.

AGENDA ITEM 4: COMPLETED CLOSED AUDITS

Chief of Internal Affairs Dante Robinson reported on the completed report on the three closed audits, Corporate Communications, Business Services and Claims. Corporate Communications were not getting authorization requests from business units for advertising expenditures. Business Services had 5 issues which include not reviewing and removing access for employees who have left the department and within the travel department there were flights booked without prior approval from the manager. Claims had 4 issues which are timely liability

decisions, balancing of disability payments on claims, no uniform standard for closing non-rated and non-litigated claims, and file maintenance and documentation.

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

AGENDA ITEM 5: WHISTLEBLOWER HOTLINE

Executive Vice President of Human Resources and Chief Administrative Officer Andreas Acker reported all Ethics Hotline reports are investigated. During the 2Q 2014, there were 106 reports from all sources (Ethics Hotline – 48; Management Referral – 34; Privacy Office – 24). There were 28 substantiated violations of the Code of Conduct, involving employees transmitting their own, their family members', relatives', policy holders', and claimants' personally identifiable information (PII) to a non-State Fund e-mail account. None of the 28 substantiated privacy allegations were material to State Fund's financial statements. State Fund continues to educate its employees on the importance of protecting PII and proprietary information.

AGENDA ITEM 6: RATIFICATION OF ENGAGEMENT OF EXTERNAL AUDITOR FOR 2014 AUDIT

Ms. Chalupa advised the Committee of KPMG's proposed 2014 Engagement fee of \$855,000 for audit services and travel costs of \$22,500. Ms. Chalupa reported that she has reviewed the Engagement letter and recommends proceeding with the engagement at the proposed fee.

Discussion ensued on the cost of the engagement fee last year. Ms. Leigh Wilson, KPMG partner noted that there was a decrease from last year's engagement fee of \$885,000, which is a savings of \$30,000 but with travel cost of \$22,500, net savings is \$7,500. This is due to scope reduction through omitting a report no longer needed to be issued to the State Controller's Office but does include a 2% cost of living expense.

MOTION: Ms. Baker

SECOND: Mr. Neureuter

To ratify the engagement of external auditor KPMG for the 2014 Audit Plan at a cost of \$855,000 for audit services and an additional amount for travel costs for \$22,500.

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

YES: 4

NO: 0

Motion carried.

AGENDA ITEM 7: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 10 THROUGH 14

Ms. Chalupa requested public comment on the appropriateness of Closed Session Agenda Items 10-14, 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 10:10 a.m.

AGENDA ITEM 15: CALL TO ORDER AND ROLL CALL

The meeting reconvened at 11:50 a.m. following the conclusion of the Closed Session and the following Members were present: Sheryl A. Chalupa (Chair); Robin Baker; Jack Neureuter; and Steven L. Rank.

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; and Randall Keen of Manatt, Phelps and Phillips.

There was a quorum.

AGENDA ITEM 16: COMMITTEE MEMBER PRESENTATIONS

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

AGENDA ITEM 17: PROPOSALS AND SUGGESTIONS FOR NOVEMBER 19, 2014 AGENDA

Ms. Chalupa noted that the Committee requested to add an update on the CDI Triennial response and a report on premium audit procedures related to premium fraud issues. Ms. Chalupa requested other suggestions for agenda items for the November 19, 2014 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 November 19, 2014 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 11:55 am.

Respectfully submitted,

Hilda B. Padua
Board Liaison and Interim Corporate Secretary