

AUDIT COMMITTEE MEETING (OPEN)

AGENDA ITEM 6

ATTACHMENT 6-I

MINUTES OF MAY 14, 2009 OPEN AUDIT COMMITTEE MEETING

PRESENTED BY: Frank Quinlan

July 9, 2009

**STATE COMPENSATION INSURANCE FUND
AUDIT COMMITTEE**

MINUTES OF OPEN SESSION MEETING

MAY 14, 2009

The Audit Committee met on May 14, 2009 in the Auditorium 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 noon and the following members were present:

Francis (Frank) E. Quinlan, Chair; Vincent E. Mudd; Steven L. Rank.

There was a quorum.

Also present: KPMG Audit Partner Mark McMorrow and Senior Manager Shelly Kay Pfeiffer; Chief Financial Officer Jay Stewart; Executive Vice President Jim Neary; Acting Internal Audit Manager Sandy Peters; Internal Audit Supervisor Edward Nielsen; Senior Vice President of Internal Affairs Lisa Middleton; Assistant Chief Counsel and Assistant Secretary Judith D. Sapper; and Randall Keen, Esq. of Manatt Phelps & Phillips.

AGENDA ITEM 2: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION ITEMS 4 THROUGH 7

There was no public comment.

The Committee immediately convened into Closed Session.

AGENDA ITEM 3: APPROVAL OF MINUTES OF MARCH 12, 2009 CLOSED MEETING Closed Session.

AGENDA ITEM 4: PRESENTATION OF AUDITED DRAFT 2008 FINANCIALS Closed Session.

AGENDA ITEM 5: APPOINTMENT OF AUDITORS 2009 Closed Session.

AGENDA ITEM 6: INTERNAL AUDIT MANAGER'S REPORT ON AMENDED 2009 AUDIT PLAN Closed Session.

AGENDA ITEM 7: INTERNAL AUDIT MANAGER'S REPORT ON PENDING AUDITS AND INVESTIGATIONS Closed Session.

AGENDA ITEM 8: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 1:40 p.m. following the conclusion of the Closed Session and the following members were present: Francis Quinlan, Chair; Vincent E. Mudd; Steven Rank.

Also present: KPMG Audit Partner Mark McMorrow and Senior Manager Shelly Kay Pfeiffer; President and CEO Janet Frank; Executive VP Jim Neary; Chief Financial Officer Jay Stewart; Chief Risk Officer Doug Stewart; Senior Vice President of Internal Affairs Lisa Middleton; General Counsel and Corporate Secretary Carol R. Newman; Assistant Chief Counsel and Assistant Secretary Judith D. Sapper; and Randall Keen, Esq. of Manatt Phelps & Phillips.

AGENDA ITEM 9: APPROVAL OF MARCH 12, 2009 OPEN MEETING MINUTES

MOTION: Mr. Mudd Second: Mr. Rank

To approve the minutes of the March 12, 2009 Open meeting of the Audit Committee as presented.

AYES: 3 NOES: 0 Motion carried.

AGENDA ITEM 10: COMPLETED AUDIT PROJECTS REPORT

Ms. Middleton presented the Completed Audit Projects Report, discussing the completed CDI Operational Review that resulted in reports and findings in 2007 and 2008. Of the 110 findings in 2007, 53 have been fully remediated of which 31 were critical, 40 have been partially remediated and 17 were open as of December 10, 2008. In 2008 there were 35 findings. The CDI noted State Fund has made substantial progress in areas of corporate governance, internal controls, finance and business, and continues to work toward improvement. RSM McGladrey has completed its function but will return to review operations as part of the annual market conduct audit. There was no public comment.

AGENDA ITEM 11: REVIEW OF AUDIT CHARTER

The revisions to the Audit Charter after the March 2009 meeting addressed the Committee's prior concerns with structure and language. There was no public comment. After discussion of the revised Charter the following action was taken:

MOTION: Mr. Rank Second: Mr. Mudd

To approve the revised Audit Charter as presented.

AYES: 3 NOES: 0 Motion carried.

AGENDA ITEM 12: COMMITTEE MEMBER PRESENTATIONS

Mr. Mudd commented on the California Department of Insurance (CDI) audit report and State Fund's remediation, tone at the top, and transparency noted. There was a brief discussion of Internal Audit and it was noted that it has the necessary resources and will be reforming its output with training, mentoring, and metrics. There was no public comment.

AGENDA ITEM 13: PROPOSALS AND SUGGESTIONS FOR JULY 2009 AGENDA

In addition to standing agenda items and recurring calendar items, the Committee requested a follow up report on the progress of the Internal Audit Department's improvements including prioritization, resource allocation, reduced completion time and evident value of Internal Audit investigations. The Committee also requested presentations by key Executives focusing on risk, custody of assets, the investment environment, and IT systems. There was no public comment.

AGENDA ITEM 14: PUBLIC COMMENT

There was no public comment.

The next Audit Committee meeting is scheduled for July 9, 2009 at noon in San Francisco, California.

ADJOURNMENT

There being no further business before the Audit Committee, the meeting adjourned at 1:55 p.m.

Respectfully submitted,

Judith D. Sapper,
Assistant Secretary