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Date: May 4, 2023

TO: MEMBERS, GOVERNANCE COMMITTEE

I. AGENDA ITEM # AND TITLE:	Open Agenda Item 3d – Consent Calendar: Annual Review and Approval of Audit Committee and Investment and Risk Committee Charters
II. NAME AND PROGRAM:	Hilda Padua, Board Liaison
III. ACTIVITY:	<input type="checkbox"/> Informational <input type="checkbox"/> Request for Direction <input checked="" type="checkbox"/> Action Proposed <input type="checkbox"/> Exploratory
IV. JUSTIFICATION:	<input checked="" type="checkbox"/> Standard/Required Item <input type="checkbox"/> Board Request – New Item <input type="checkbox"/> New Topic from Staff

V. EXECUTIVE SUMMARY:

Part of the Board process and agenda setting is to review the Committee Charters regularly for potential changes, and review the recommendations of the Governance Committee to be presented and approved at the May Governance Committee meeting and, thereafter, at the Board Open meeting.

VI. ANALYSIS:

The staff reviews the Committee Charters, at least annually, pursuant to the Governance Charter and best practices.

In November of 2016, the Board established an Ad Hoc Safety and Loss Prevention Committee and adopted its Charter. On February 2020, the Ad Hoc Safety and Loss Prevention Committee was retired.

At the March 2017 meeting, the Board approved the revised Audit and Governance Committee Charters, and redistributed oversight of Enterprise Risk Management. The Board approved all of the Charters without further change in May of 2017. In November of 2017, the Board determined that oversight of Enterprise Risk Management would be handled by an expanded and renamed Investment and Risk Committee. The Board approved the Investment and Risk Committee Charter at the February 2018 meeting. In May 2021, the Board approved the revised Investment and Risk Committee Charter, for non-substantive changes.

VII. RECOMMENDATION:

To recommend, to the Board, the approval of the Audit Committee Charter and Investment and Risk Committee Charter, as presented and without changes.

VIII. APPENDIX:

Copy of Audit Committee Charter and Investment and Risk Committee Charter.



STATE COMPENSATION INSURANCE FUND AUDIT COMMITTEE CHARTER

Adopted May 17, 2011

1st Amended: Adopted August 16, 2012

2nd Amended: Adopted May 21, 2015

3rd Amended: Adopted May 26, 2016

4th Amended: Adopted March 2, 2017

4th Amended: Approved Without Change May 18, 2017; May 24, 2018; May 23, 2019; June 16, 2020;

May 20, 2021, May 19, 2022

[Proposed for review and to be approved - no recommended changes]

Audit Committee: May 17, 2023

Governance Committee: May 18, 2023

Board of Directors: May 18, 2023

Purpose

The purpose of the Audit Committee of the Board of Directors of the State Compensation Insurance Fund (the "State Fund") is to assist the Board of Directors (the "Board") in its oversight responsibilities for State Fund's legal, ethical, and regulatory compliance obligations by:

1. Overseeing the preparation, presentation, and integrity of the State Fund's financial statements and financial reporting processes, policies, and practices;
2. Maintaining adequate internal controls and procedures designed to ensure compliance with accounting standards and applicable laws and regulations;
3. Overseeing State Fund's internal accounting systems, and financial and operational controls;
4. Assessing the qualifications and independence of the independent auditor;
5. Evaluating, and assuring the performance of, the Internal Audit function responsible for reviewing and auditing State Fund management's assessment of its controls and procedures;
6. Hiring, evaluating, and assuring the performance of, the independent auditor responsible for planning and carrying out a proper audit of State Fund's annual financial statements;
7. Monitoring State Fund's compliance with legal, ethical, and regulatory requirements, including the National Association of Insurance Commissioners' Model Audit Rule ("MAR").

In carrying out its oversight responsibilities, the Audit Committee does not provide expert or special assurance as to State Fund's financial statements or legal and regulatory compliance or any professional certification as

to the work of the independent auditor. As such, it is not the duty or responsibility of the Audit Committee or its members to conduct field work, or other types of auditing or accounting reviews or procedures, or to set auditor independence standards, and each member of the Audit Committee shall be entitled to rely on:

1. The integrity of those persons and organizations, within and outside of State Fund, from which it receives information, including State Fund's independent and internal auditors;
2. The accuracy of the financial and other information provided to the Audit Committee by such persons or organizations, absent actual knowledge to the contrary (which shall be promptly reported to the Board of Directors);
3. Representations made by management as to any non-audit services provided by the independent auditor. The Internal Audit department and independent auditors report to the Board through the Committee, and shall provide the Committee with periodic reporting on the status of their activities and findings.

In discharging its oversight role, the Audit Committee may investigate any matter brought to its attention, with full access to all books, records, facilities and personnel of the State Fund, and the authority to engage independent counsel and other advisors, as it determines necessary, to carry out its duties (including the approval of the fees and other retention terms of such independent counsel and advisers).

Organization

The Committee is a standing committee of the Board and shall be composed of not less than three and not more than five members of the Board. Member nominations are made by the Board Chair, reviewed and approved by the Governance Committee and ratified by the Board annually. All members should have general knowledge of financial and auditing matters and the Board shall have, at all times, a member with an auditing background for the purposes of fulfilling the responsibility of the Chair of the Audit Committee, pursuant to Insurance Code Section 11770(b)(1) as may be amended. The Chair of the Audit Committee shall serve for two years or until resignation, removal, or until a successor has been appointed pursuant to the provisions of State Fund's By-Laws. The Board Chair may nominate a Vice-Chair who shall serve until appointment as Audit Committee Chair or until resignation, removal, or until a successor has been appointed pursuant to the provisions of State Fund's By-Laws. All members must comply with the minimum requirements of Section 14 of MAR, as may be amended.

Meetings

The Committee will meet at least four times each year with authority to convene additional meetings, as needed. All meetings shall be held in accordance with the Bagley-Keene Open Meeting Act ("Bagley-Keene"). The Committee may invite members of management, auditors, or others to attend meetings, and the Committee will hold separate closed sessions, when necessary, to further the business of the Committee and to meet with management, the internal auditors, and independent auditors, as in the Committee's judgment is necessary. Board members who are not members of the Committee may attend the Committee's open session meeting as observers, and may attend closed sessions only at the Committee's request. The Committee will regularly report on its actions to the full Board at the next scheduled meeting.

Committee Duties and Responsibilities

The Committee shall have the following duties and responsibilities:

1. *Independent Auditor*

- a. Select and retain, evaluate and terminate when appropriate, the independent auditors, set the independent auditors' compensation, and oversee the work of the independent auditors for the purpose of preparing or issuing the State Fund audited financial report or related work.
- b. Pre-approve all audit services and non-audit services performed by the independent auditor and the related fees, and consider whether the provision of any such non-audit services is compatible with the independence of the independent auditor. Review the independent auditors' annual audit plan, including the planning, scope and staffing, and approach.
- c. Review the qualifications, independence, and performance of the independent auditors at least once annually, in accordance with the established measures approved by the Committee, and include a discussion of the performance of the independent auditors with management.
- d. Review and confirm the independence of the independent auditors by obtaining statements from the auditors on relationships between the independent auditors and the State Fund, including their non-audit services, and discuss any relationships with the independent auditors.
- e. Monitor and ensure the independent audit partner in charge is rotated as required by law or regulation.
- f. At least annually, obtain and review a report, either in writing or orally, by the independent auditors, describing the independent auditor's internal quality control procedures, material issues raised by recent internal quality control reviews of the firm, and any investigations by governmental or professional authorities concerning independent audits conducted by the firm for the last five years.
- g. On a regular basis, and in accordance with Bagley-Keene, meet separately with the independent auditors to discuss any matters that the Committee or auditors believe should be discussed privately.

2. *Accounting Principles and Policies, Financial Reporting and Internal Control over Financial Reporting*

- a. Receive periodic reports from the Chief Financial Officer relating to significant accounting developments, including emerging issues, the impact of the accounting changes where material, and the effect of regulatory and accounting initiatives.
- b. Review and discuss reports, by the independent auditors, in connection with State Fund's audited financial statements, that are required by, or referred to, in SAS 61 (and management's responses thereto), or that describe all significant accounting policies and material permitted practices used, all material alternative treatments within statutory accounting principles that have been discussed with management, the ramifications of the use of the alternative disclosures and treatments, and the treatment preferred by the independent auditors; obtain any material written

communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences.

- c. Review with management, and the independent auditors, all matters required to be communicated to the Committee under generally accepted auditing standards, and any significant findings prepared by the independent auditors and internal audit together with management's responses.
- d. Review and discuss, with management and the independent auditors, State Fund's annual audited financial statements and quarterly financial statements, and discuss State Fund's financial reports filed with the Department of Insurance and the California State Controller's Office, and solicit the independent auditor's opinion with respect to the financial statements in the reports.
- e. Review with management, and the independent auditors, significant issues regarding accounting principles and financial statement presentation, including any significant changes in the selection or application of accounting principles; any significant deficiencies or material weaknesses in State Fund's internal controls and State Fund's remediation plans regarding these issues, and any special audit steps adopted in light of material control deficiencies.
- f. Review with management, and the independent auditors, the results of the audit, including any difficulties encountered, and State Fund's accounting practices, policies and compliance with accounting standards.
- g. Review with management, independent and internal auditors, the integrity of State Fund's financial reporting processes and controls, any significant financial risk exposures, and State Fund's policies, guidelines, and steps that management has taken to monitor, control and report such risk exposures.
- h. Review and assess all significant matters related to audits, examinations, investigations or inquiries regarding State Fund, by the California State Auditor and other appropriate State and Federal agencies.
- i. Review and discuss reports, from the General Counsel, on legal matters determined by the General Counsel to warrant the Audit Committee's attention, including legal, compliance or regulatory matters that may have a material impact on State Fund's business, financial statements or compliance policies and any material reports or inquiries received from regulators and government agencies.

3. *Internal Audit*

- a. Review with management, and the Chief Audit Executive and Internal Audit manager, the charter, budget, activities, staffing, and organizational structure of the Internal Audit function, Internal Audit's compliance with applicable standards and guidelines, and any recommendations with respect to the quality, timeliness, performance or strengthening of that function.
- b. Review, and recommend approval of, the annual audit plan, all major changes to the plan, and the annual update of the biennial plan.

- c. Review and evaluate the performance of the Internal Audit function, including a review of the performance of the Chief Audit Executive and, if appropriate, recommend the selection of a new Chief Audit Executive.
- d. Review, with the internal auditors, any difficulties including restriction on scope of work, access to required information, and any other issues the Committee deems appropriate.
- e. On a regular basis, and in accordance with the Bagley-Keene Open Meeting Act, meet separately with the internal auditors to discuss any matters that the Committee or auditors believe should be discussed privately.

4. *Ethics and Legal Compliance*

- a. Review with management, the internal auditors and independent auditors, as applicable, on at least a quarterly basis, the adequacy and effectiveness of State Fund's systems and controls for monitoring and managing legal and regulatory compliance, including State Fund's disclosure procedures and controls.
- b. Establish procedures for the receipt, retention, and treatment of complaints received by State Fund regarding State Fund's employees, accounting, internal controls or auditing matters, including complaints received by the California State Auditor regarding State Fund, and for the confidential, anonymous submission of complaints and tips by State Fund's employees regarding questionable accounting or auditing matters as mandated by the Board or by law.
- c. Establish procedures for the receipt, retention, and treatment of reports of investigations and audits conducted of State Fund by the California State Auditor.
- d. Review, and recommend to the Board, any changes to the Code of Conduct and related policies and/or other compliance policies and guidelines that relate to financial reporting, and receive reports regarding compliance with the Code.
- e. Recommend to the Board, as appropriate, any other compliance policies and guidelines that the Committee deems appropriate, to ensure compliance with applicable laws and regulations.
- f. Review and approve State Fund's compliance plan on a regular basis, and recommend and approve changes, as needed.
- g. Obtain regular updates, from State Fund's management and State Fund's legal counsel, regarding compliance matters, and assurances that compliance functions are performed with independence and in accordance with professional standards. Discuss, annually with the General Counsel, the effectiveness of State Fund's compliance program in detecting and preventing violations of law, the State Fund Code of Conduct and Business Ethics Policy.
- h. Review with management State Fund's policies and procedures with respect to officers and key employees' expense accounts and perquisites, including excess benefit transactions, and review the results of any audit of these areas by the internal or independent auditors.

5. *Evaluation of Committee and Charter*

- a. Conduct, and report to the Board the results of, an annual self-evaluation of its performance in accordance with the requirements of this Charter.
- b. Review this Charter at least annually and recommend any changes to the Board.

Powers

The Audit Committee shall have the following powers:

- a. To obtain advice and assistance from, internal or external, legal, accounting, or other advisors, and to have direct access to advisors without the presence of any officer of State Fund, and to initiate, direct, and conduct investigations, using outside experts of any kind at the direct cost of the State Fund.
- b. To interview and meet with any employee of State Fund, without the presence of any officer of State Fund.
- c. To form, and delegate authority to, subcommittees, with Board approval.
- d. To recommend, to the Board, amendments to any provisions of this Charter, as appropriate, due to new laws, regulations, or the needs of State Fund or the Board.
- e. Such other powers as may be necessary and appropriate to fulfill the Committee's purposes and responsibilities under this Charter.
- f. To perform such other functions, as assigned by State Fund's Charter, By-Laws, or the Board.

BOARD of DIRECTORS of the STATE COMPENSATION INSURANCE FUND



STATE COMPENSATION INSURANCE FUND INVESTMENT and RISK COMMITTEE CHARTER

Investment Committee Charter: Adopted July 14, 2011
1st Amended: Adopted May 22, 2014
2nd Amended: Adopted July 27, 2016
3rd Amended: Adopted November 18, 2016
3rd Amended: Approved Without Changes May 18, 2017
Investment and Risk Committee Charter: Adopted February 22, 2018
Approved Without Changes: May 24, 2018; May 23, 2019 and June 16, 2020,
Approved with Non-Substantive Change: May 20, 2021
Approved Without Changes: May 19, 2022
[Proposed for review and to be approved - no recommended changes]
Investment and Risk Committee: May 18, 2023
Governance Committee: May 18, 2023
Board of Directors: May 18, 2023

Purpose

The Investment and Risk Committee (“Committee”) helps execute the Board’s oversight pertaining to State Compensation Insurance Fund (“State Fund”) investment strategy, enterprise risk management, and cyber security.

The Committee’s responsibilities include:

1. Overseeing State Fund’s capital, investments, and financial resources.
2. Evaluation of the integrity and effectiveness of State Fund’s enterprise risk management procedures, including the enterprise risk management framework, key risk policies and critical risk tolerances adopted by State Fund.
3. Oversight of State Fund’s cyber risk management strategy.

In discharging its oversight role, the Committee may investigate any matter brought to its attention, with full access to all books, records, facilities and personnel of the State Fund and the authority to engage independent counsel and other advisors as it determines necessary to carry out its duties (including the approval of the fees and other retention terms of such independent counsel and advisors).

The Committee shall review and reassess the adequacy of this Charter at least annually and recommend any proposed changes to the Board for approval.

Organization

The Committee is a standing committee of the Board and shall be composed of not less than three (3) members and not more than five (5) members of the Board. Member nominations are made by the Board Chair, reviewed and approved by the Governance Committee, and ratified by the Board annually. The

Committee shall include a Chair of the Committee who shall serve for two years or until resignation, removal or until a successor has been appointed pursuant to the provisions of State Fund's By-Laws. The Board Chair may nominate a Vice-Chair who shall serve until appointment as Investment and Risk Committee Chair or until resignation, removal, or until a successor has been appointed pursuant to the provisions of State Fund's By-Laws.

All Committee members must possess an understanding of the detailed responsibilities of the Committee and of State Fund's business, operating, financial, and investment environment. The Committee members shall maintain an effective working relationship with the Board, Chief Investment Officer, Financial Officer, Chief Information Security Officer, State Fund's management, the outside Investment Managers, and relevant consultants.

Meetings

The Committee will meet at least four times each year with authority to convene additional meetings, as needed. All meetings shall be held in accordance with the Bagley-Keene Open Meeting Act ("Bagley-Keene") and State Fund's By-Laws. The Investment and Risk Committee will hold separate closed sessions, when necessary, to further the purpose and the duties of the Committee.

- a. The Committee may invite members of management and/or other persons or independent advisors to attend the Committee's meetings, where necessary, to further the purpose and business of the Committee. Board members who are not members of the Committee may attend the Committee's open session meetings as observers and may attend closed sessions only at the Committee's request. State Fund's Chief Investment Officer, Chief Financial Officer, Chief Risk Officer, and Chief Information Security Officer shall be present or available by phone during all regularly scheduled Committee meetings. The outside Investment Managers shall be present at Committee meetings, as deemed appropriate by the Committee.
- b. A majority of the Committee shall constitute a quorum. Each member of the Committee will have one vote and actions at the meeting shall be approved by a majority of the members present.
- c. Minutes shall be prepared at each meeting and filed with the minutes of State Fund's Board.
- d. The Committee Chairperson or the Chairperson's designee shall give a full report of the Committee's actions at the earliest scheduled Board meeting.

Duties and Responsibilities

With respect to the Committee's responsibilities, relating to the financial and investment affairs of State Fund, the Committee shall have the following duties and responsibilities:

1. *Oversight*
 - a. Oversee State Fund's operations to assure that State Fund operates in a legal, ethical, and socially responsible manner and complies with all applicable laws in the execution of State Fund's Investment Resolutions.
 - b. Oversee all transactions as required by the Investment Resolutions and in compliance with the Insurance Code as amended from time to time, and approve or ratify all investment transactions, as appropriate within the parameters established by the Investment Resolutions

and set forth in State Fund's Statutory Annual Statement to the Insurance Commissioner of the State of California.

- c. Oversee and verify accounts at any depository financial institution having custody of State Fund money and accounts held by, or established with, the State Treasurer in compliance with the Insurance Code, as amended from time to time.
- d. Oversee the material projects recommended by State Fund's management that relate to the Investment Resolutions or the investment guidelines or practices or procedures of State Fund.
- e. Oversee and evaluate the enterprise risks associated with State Fund's investments, including emerging risks, and review and discuss with management State Fund's major financial risk exposures and the steps management has taken to monitor and control such exposures, and the policies with respect to risk assessment and risk management.

2. *Recommend*

- a. Work, with State Fund's Chief Investment Officer, to develop criteria for the selection and recommendation of an outside Investment Manager(s) to the Board based on those criteria.
- b. Recommend the discharge of an Investment Manager, if necessary.
- c. Recommend and approve updates and/or changes to the Investment Resolutions and or the investment guidelines or practices or procedures of State Fund, taking into account State Fund's strategic and risk management goals.
- d. Work with State Fund's Chief Risk Officer and Committee to review and recommend the testing of processes and controls in place to mitigate certain risks identified by the Board that could have a material impact on State Fund.

3. *Advise*

- a. Advise the Board on matters related to State Fund's Investment Resolutions and investment guidelines or practices or procedures of State Fund.
- b. Advise the Board of changing business, legislative, regulatory, legal or other conditions that may affect State Fund's investment strategy.
- c. Advise the Board on investment trends and related issues within the insurance industry.

4. *Evaluate*

- a. Evaluate the Investment Managers' performance, fee structures, services and any other relevant factors on an annual basis.
- b. Evaluate the effectiveness of the system used for monitoring compliance with State Fund's Investment Resolutions and investment guidelines or practices or procedures of State Fund.
- c. Evaluate the current investment strategy to determine if it is consistent with meeting State Fund's strategic and risk management goals.

- d. Evaluate the investment portfolio managed by outside Investment Managers and make recommendations based on that evaluation.
- e. Review peer company investments on an annual basis.
- f. Review State Fund's account activity with depository financial institutions and the State Treasurer on an annual basis.
- g. Self-evaluate on an annual basis the Committee's performance, which evaluation should, among other things, compare the Committee's performance with the requirements of this Charter.

In carrying out its oversight responsibilities, the Committee is not providing expert or special advice to State Fund regarding the selection of investments in various securities or financial instruments and is not providing legal and regulatory advice regarding compliance with applicable laws or regulations concerning investments made by State Fund. As such, it is not the duty or responsibility of the Committee or its members to conduct field work or other types of detailed analysis of the State Fund investment portfolio or detailed analysis of the outside Investment Managers, and each member of the Committee shall be entitled to rely on:

- a. The integrity of those persons and organizations within and outside of State Fund from which it receives information, including State Fund's auditors and outside Investment Managers. The Treasury & Investments Department and the outside Investment Managers report to the Board through the Committee, and shall provide the Committee with periodic reporting on the status of their activities and results.
- b. The accuracy of the financial and other information provided to the Committee by such persons or organizations absent actual knowledge to the contrary (which shall be promptly reported to the Board).
- c. Representations made by management as to any non-investment services provided to State Fund that assist management in accounting for the portfolio investments made by State Fund.

A. With respect to the Committee's responsibilities relating to enterprise risk management, the Committee shall:

- 1. Review State Fund's major risk exposures, including financial, operational, privacy, security, business continuity, cyber, legal, and regulatory risks.
- 2. Evaluate State Fund's methodology for establishing overall risk, including the design and function of the processes, effectiveness and efficiency of risk responses and control activities, and completeness and accuracy of risk management reporting.
- 3. Review and consider risks that may affect State Fund's viability and the steps taken by management to manage these risks within acceptable tolerances.
- 4. Monitor State Fund's risk management performance and obtain reasonable assurance from management that its risk management policies are effective and are being adhered to, based on industry best practices.
- 5. Review the effectiveness of State Fund's management of fraud risk.
- 6. Review with management on an annual basis State Fund's Own Risk Self-Assessment ("ORSA") Report.

7. Regularly report to the Board the substance of enterprise risk management reviews and discussions, and recommend to the Board such actions as the Committee deems appropriate.
- B. The Committee’s responsibilities related to cyber security include overseeing State Fund’s development of a cybersecurity plan and information protection management strategy, to include:
1. Work with State Fund’s Chief Information Security Officer (“CISO”) to carry out oversight of cyber security responsibilities.
 2. Monitor and evaluate the quality and effectiveness of State Fund’s technology security, capabilities for disaster recovery, data protection, cyber threat detection, and cyber incident response.
 3. Receive periodic reports and coordinate with the CISO and management on the metrics used to measure, monitor, and manage cyber risks posed to State Fund.
 4. Review reports from ERM and Legal regarding the implications of cyber risks posed to State Fund, including from potential data breaches.
 5. Maintain awareness of cyber regulatory issues and State Fund’s adherence to regulations.
 6. Monitor regulatory disclosure and reporting activities.
 7. Review reports by the CISO regarding the status of plans for the security of State Fund’s data stored on internal resources and with third party vendors.
 8. Ensure that State Fund has adequate cyber insurance coverage aligned with industry best practice.

Powers

The Investment and Risk Committee shall have the following powers:

1. To meet with senior management and other appropriate parties to receive information and discuss investment strategies, including but not limited to strategic allocations, strategic duration, and/or a method of determining an appropriate duration, and benchmarks, as necessary, and to measure relevant investment manager performance and overall investment performance of State Fund.
2. To oversee and consult with State Fund’s Chief Investment Officer on matters related to investment strategies in accordance with State Fund’s Investment Resolutions.
3. To hire appropriate experts and authorize management to hire appropriate experts to execute investment and oversight functions.
4. To delegate to the President and Chief Investment Officer, the authority to direct investment transactions on behalf of State Fund and, in their absence, to delegate to either the Chief Financial Officer or Chief Risk Officer that authority to the extent deemed appropriate by the Investment and Risk Committee and subject to the limitations set forth in the Investment Resolutions.
5. To perform other investment functions as requested by the Board.

6. To obtain advice and assistance from cybersecurity and data privacy advisors and consultants, as it deems necessary, to carry out its duties.
7. To form and delegate certain authority to subcommittees.
8. To amend or repeal the Charter or any provisions of the Charter as appropriate due to new laws or regulations and recommend any changes to the Board.
9. To execute other powers as may be necessary and appropriate in order to fulfill the Committee's responsibility under this Charter.
10. To perform such other functions as assigned by State Fund's Charter, By-Laws, or the Board.

BOARD of DIRECTORS of the STATE COMPENSATION INSURANCE FUND