



1275 Market Street  
San Francisco, CA 94103  
(415) 565-1456  
www.statefundca.com

Date: September 2, 2011

**AGENDA ITEM 15a**

**TO: MEMBERS, BOARD OF DIRECTORS**

- I. SUBJECT:** Approval of July 14-15, 2011 Open Meeting Minutes
- II. PROGRAM:** Legal Department
- III. RECOMMENDATION:** Action: To approve.

Attached July 14-15, 2011 Open Meeting Minutes of the Board of Directors is presented for consideration and approval at the Board meeting of September 15, 2011.

*Judith D. Sapper*

---

Deputy Chief Counsel and Assistant  
Corporate Secretary

Attachment



#### **AGENDA ITEM 4: CRIMINAL PROSECUTION OF WORKERS' COMPENSATION FRAUD**

Mr. Mulryan called on Frank Quinlan, a State Fund Board member and an attorney in Orange County who recommended a presentation on fraud and workers' compensation. Mr. Quinlan introduced Tony Rackauckas, District Attorney of Orange County, and William Scott Zidbeck, Assistant District Attorney of Orange County, to give the presentation. Senator Machado joined the meeting.

District Attorney Rackauckas reported that, while the overall crime rate is decreasing, the incidence of fraud is increasing. As a result, the District Attorney's Office in Orange County has been increasing its resources to combat fraud, particularly workers' compensation and insurance fraud. The different types of workers' compensation fraud include applicant fraud, where workers file a false application for workers' compensation or exaggerate their injury; provider fraud, where accountants, doctors, chiropractors, and others who provide services to applicants commit fraud and/or recruit people to commit fraud; and premium fraud, where the employers pay less for insurance than they owe. Fraud has an adverse effect on workers' compensation premiums by increasing them for everyone, and the District Attorney is advising the public that fraud is against the law and will be prosecuted. To prevent and prosecute fraud, District Attorney Rackauckas has created an investigative and legal team of sworn police officers and civilian fraud investigators, investigative assistants, legal program director Assistant District Attorney Zidbeck, attorneys, and a paralegal. Mr. Rackauckas discussed the joint investigation with State Fund of up to \$30M premium fraud in the Petronella Roofing case, culminating in Mr. Petronella's conviction of multiple counts of fraud, with a 10 year sentence and restitution. Mr. Rackauckas also discussed the recently filed Hoffman case of alleged provider fraud for unnecessary treatment or billings for treatment not actually provided.

There was Board discussion regarding how insurers can assist the District Attorney's Office in prosecuting fraud, including the possibility for insurers' in-house attorneys to receive training in the District Attorney's Office, and seeking legislative changes to combat misclassification and underreporting of payroll by requiring reporting names of every policyholder's insured employees. State Fund will continue to work closely with the Orange County District Attorney's Office on fraud prevention. Mr. Mulryan requested public comment of which there was none.

#### **AGENDA ITEM 5: HUMAN RESOURCES STRUCTURE AND FUNCTION**

Mr. Mulryan introduced Senior Vice President of Human Resources and Organizational Development Andreas Acker. Mr. Acker provided an overview of the Human Resources and Organizational Development department. Human Resources Operations is comprised of Personnel Transactions Management, which handles payroll and benefit transactions, and timekeeping; and Staffing Management, which handles recruitment, examinations, selects oversight for hiring, transfers, and promotion, handles classification development and review, and controls position. Organizational Development is comprised of Workforce

Development, which administers the Employee Assistance Program; the Strategic Planning and Organizational Change unit which provides consultation and resources for strategic objectives and change initiatives; and Employee Development for recognition and talent management. Organizational Development also includes Performance Development, which provides consultation on employee performance and discipline and medical management oversight of return to work; Equal Employment Opportunity, which focuses on diversity and discrimination issues; and Corporate Investigations, which handles in-house investigations of misuses of time, vehicles, and company equipment. The Ethics and Labor Relations unit focuses on compliance with ethical, regulatory, and statutory requirements and support on union and bargaining issues. The Learning & Development program develops training initiatives, provides training resources, and monitors certification training. Mr. Mulryan requested public comment of which there was none.

## **AGENDA ITEM 6: PERSONNEL MATTERS**

### **6a: STAFFING UPDATE**

Mr. Acker provided a staffing update. As of May 31, 2011, there were 7,135 permanent State Fund employees, 203 of which were on extended leaves, leaving 6,932 available. There were 16 non-permanent employees, five new hires, 79 promotions, and 156 separations. There were 192 separations through June 2011, which is equivalent to that of other agencies for the first half of 2011. There was Board discussion about the turnover rate. Mr. Mulryan requested public comment of which there was none.

### **6b: UPDATE ON GEOGRAPHIC STRATEGY**

Mr. Acker provided an update about State Fund's geographic strategy. He reported that everything is underway as planned. Mr. Mulryan requested public comment of which there was none.

## **AGENDA ITEM 7: PRESIDENT'S REPORT**

### **7a: STATE OF THE MARKET**

Mr. Mulryan called upon President and CEO Thomas E. Rowe to provide an update on the state of the workers' compensation market since the last Board meeting. Mr. Rowe reported Second Quarter results were not final but the market continues to be competitive yet with a modest slow-down. State Fund has continued to maintain its pricing discipline, whereas State Fund's competitors continue to provide aggressive pricing discounts, which are not sustainable. State Fund's existing book of business, prices, and imputed loss ratios remain in great condition, the result being that State Fund is managing its price and expenses. State Fund is experiencing slightly less volume, but it is spending significantly less money. Its net profits are expected to increase and expenses to continue to decrease. There was Board discussion regarding the potential rebound from the current undisciplined market and the

change in pure premium rates. Mr. Mulryan requested public comment of which there was none.

## **AGENDA ITEM 8: REPORTS BY THE CHAIRS OF COMMITTEE ACTIVITIES**

### **8a: GOVERNANCE COMMITTEE**

#### **8ai: UPDATE ON SEPTEMBER STRATEGIC MEETING AGENDA INCLUDING FUTURIST SPEAKER**

Mr. Mulryan reported that the Governance Committee has been working with staff to put together an agenda for the Board and Executive Strategic Planning Meeting in September. State Fund has arranged for John Petersen, President and founder of the Arlington Institute and one of the world's foremost futurists, to speak at the meeting. There also may be a speaker on the California market. An excellent discussion is expected regarding State Fund's operations. Mr. Mulryan requested public comment of which there was none.

#### **8aia: 2012 BOARD SCHEDULE AND LOCATION**

Mr. Mulryan reported that the Governance Committee considered the recommendation that the 2012 Board and Committee meetings take place quarterly instead of six times annually. The change would align financial information with the meetings and allow staff more time to act on Board directions from the meetings. The recommended change needs to be balanced with a perception of reduced oversight and less transparency. The committee unanimously approved a motion to recommend review and amendment of the bylaws to include more flexibility in the meeting requirements by making the minimum number of annual meetings four instead of six. There was Board discussion that four meetings per year is sufficient, and enable staff to provide better analysis.

MOTION: Mr. Quinlan

Second: Mr. Rankin

To direct the General Counsel to review and recommend amendments to the State Compensation Insurance Fund By-Laws to include more flexibility in the Committee and Board meeting requirements by changing the minimum number of meetings from six to four, to be presented at the September Governance Committee meeting for consideration, and further directs the minutes to reflect the decision regarding the number, dates, and times of 2012 meetings will be deferred until the November Board meeting after development of the 2012 Committee and Board Standing Agenda items.

Mr. Mulryan requested public comment of which there was one. Mr. Randal Cheek, Legislative Advocate of SEIU Local 1000, made public comment that moving from six to four annual meetings excludes the public and creates less transparency.

Since State Fund is going through a period of transition, Mr. Cheek asserted that meetings every other month is appropriate to create a more open, more transparent organization. Mr. Mulryan called for the vote.

YES: 8

NO: 0

Motion carried.

## **8b: AUDIT COMMITTEE**

### **8bi: COMPLETED CLOSED AUDITS**

Mr. Quinlan reported the Audit Committee heard reports of two completed closed audits. The Data Integrity report focused on ensuring standardization and minimizing duplication through technological efforts. There was a report pertaining to the Department of Insurance statutory financial examination. Loss adjustment expense reserves are reasonable, and trends continue to be monitored. Chief Financial Officer Dan Sevilla reported on Model Audit Rule status and the demonstrated effective internal controls. There was a report on the U.S. Longshore & Harbor Workers' Act. There is no longer need for an audit of those claims, which total less than \$2M per year. The Chief Information Technology Officer gave a report on cloud computing and virtualization. The external auditor KPMG's report on State Fund's 2010 financial audit found no discrepancies in internal controls to report. KPMG noted State Fund is not in conformance with Generally Accepted Accounting Principles because State Fund operates under Insurance rules. The WCIRB filing was reviewed and there were no concerns for the Audit Committee.

## **8c: INVESTMENT COMMITTEE**

Sen. Machado reported the Committee received a monthly report of investments and there were no discrepancies. Wellington Company presented on investing in equities to diversify State Fund's portfolio and stabilize investments. The contracts with the current investment managers expire at the end of 2011 and a Request for Proposal (RFP) is underway. The Committee will review the RFP findings at the November meeting.

### **8ci: INVESTMENT CHARTER**

Sen. Machado reported on the revisions to the Investment Committee Charter, which the committee reviewed and adopted. The Charter states the purpose and responsibilities of the committee, with relevant references to the Insurance Code and oversight activities.

MOTION: Ms. Chalupa

Second: Mr. Quinlan

To approve the Investment Committee Charter as presented.

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

YES: 8

NO: 0

Motion carried.

### **8cii: BOND TRANSACTIONS AND COMPLIANCE REPORTS**

Sen. Machado discussed the investment transactions and compliance reports for the period of April 1, 2011 to May 31, 2011, which are now approved by the Investment Committee. Treasury and Investments Program Manager Stephanie Chan presented the investment transactions for the period. There were no abnormalities and no Board action was needed on the investment transactions and compliance reports.

Mr. Mulryan requested public comment of which there was none.

### **AGENDA ITEM 9: REPORT BY CHAIR OF BOARD ACTIVITIES**

Mr. Mulryan reported on the current state of the workers' compensation market and State Fund's place in that market. State Fund's competitors continue to undercut State Fund's pricing, but it is not a sustainable practice. State Fund continues to maintain its pricing discipline and to serve California employers regardless of how the market shifts. As the market moves from a soft to hard cycle, State Fund's mission to provide fair pricing to all California employers will enable it to mitigate the impact. In order to maintain stable pricing, the areas where reform is needed to re-balance the system and stabilize the long-term affordability of workers' compensation insurance are: increased disability payments to injured workers; improvement of the medical delivery system to reduce costs and delays and improve outcomes for injured workers; and speedy payment of appropriate medical care and resolution of provider lien claims. Mr. Mulryan requested public comment of which there was none.

### **AGENDA ITEM 10: BOARD MEMBER REPORTS**

Mr. Quinlan reported there will be a hearing in October on Governmental Accounting Standards Board draft recommendations for post-employment benefits and pensions.

### **AGENDA ITEM 11: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 14 THROUGH 19**

Mr. Mulryan requested public comment of which there was none.

### **AGENDA ITEM 12: PUBLIC COMMENT**

Mr. Mulryan requested public comment of which there was none.

## **ADJOURNMENT**

There being no further business, Chair Mulryan adjourned the meeting at 3:30 p.m.

**July 15, 2011**

The Board of Directors of State Compensation Insurance Fund continued their Open Session on July 15, 2011 at the Omni Hotel, 500 California Street, San Francisco, California.

### **AGENDA ITEM 20: CALL TO ORDER AND ROLL CALL**

The meeting was called to order on July 15, 2011 at 10:25 a.m. and the following were present: Lawrence E. Mulryan, Chair; Sheryl A. Chalupa; Daniel M. Curtin; Donald E. Garcia; Sen. Michael J. Machado (Ret.); Francis E. Quinlan; Thomas E. Rankin; Scott K. Reid; and non voting member Christine Baker. Absent: Steven L. Rank and William M. Zachry (by prior arrangement).

There was a quorum.

Also present: President and CEO Thomas E. Rowe; Chief Financial Officer Dan Sevilla; Executive Operations Manager Hilda Padua; General Counsel and Corporate Secretary Carol R. Newman; and Deputy Chief Counsel and Assistant Corporate Secretary Judith Sapper.

### **AGENDA ITEM 21: UPDATE ON PERFORMANCE BASED RETENTION TOOL FOR EXEMPT POSITIONS**

Mr. Mulryan reported that he is working on development of a performance-based retention tool for the exempt executives with outside counsel. Two prospective vendors have been identified, both which would meet the Board's needs, and the Board has agreed to negotiate with the lower priced vendor.

### **AGENDA ITEM 22: PROPOSALS AND SUGGESTIONS FOR SEPTEMBER, 2011 AGENDA**

In addition to the Board Standing Agenda items Mr. Mulryan noted items to consider for the September meeting included Reserves and Loss/Expense Ratios, Internal Audit Structure and Function, Special Investigations Unit Structure and Function, Legislative Update, 2012 Agenda topics, and Amendment to By-Laws. Mr. Mulryan requested additional items for the September Strategic and Board meeting, and public comment, of which there was none.

There being no further business, Chair Mulryan adjourned the meeting at 10:30 a.m.



The next regularly scheduled Board meeting will begin on Tuesday, September 14, 2011 in Napa following the Strategic Board and Executive Committee meeting.

Respectfully submitted,

---

Judith D. Sapper,  
Assistant Corporate Secretary