

BOARD OF DIRECTORS (OPEN)

AGENDA ITEM 15a

ATTACHMENT 15a-I

CONSENT CALENDAR: *Approval of May 20-21, 2010 Open Meeting Minutes*

PRESENTED BY: Jeanne Cain

July 9, 2010

**STATE COMPENSATION INSURANCE FUND
BOARD OF DIRECTORS**

MINUTES OF OPEN SESSION MEETING

May 20-21, 2010

The Board of Directors of State Compensation Insurance Fund met on May 20, 2010 and May 21, 2010 in the Milton Marks Conference Center, State Building, 455 Golden Gate Avenue, San Francisco, California.

May 20, 2010

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting was called to order on May 20 at 12:00 p.m. and the following were present: Jeanne L. Cain, Chair; Sheryl A. Chalupa; Daniel Curtin; Donald E. Garcia; Sen. Michael J. Machado (Ret.); Francis E. Quinlan; Thomas Rankin; James S. Richardson; and William Zachry. Absent: Lawrence Mulryan, Steven L. Rank and non-voting member John. C. Duncan.

There was a quorum.

Also present: Interim President and CEO Doug Stewart; General Counsel and Corporate Secretary Carol R. Newman.

AGENDA ITEM 2: ANTITRUST ADMONITION

Ms. Cain called attention to and requested the Board members read State Fund's Antitrust Admonition which is included in each Board member's meeting materials.

AGENDA ITEM 3: PUBLIC COMMENTS ON THE APPROPRIATENESS OF CLOSED SESSION ITEMS 5 THROUGH 11 ON MAY 20 AND ITEMS 12 THROUGH 15 ON MAY 21.

Ms. Cain requested public comment. Ms. Kathleen B. Collins, Vice President of Bargaining for SEIU Local 1000 commented that SEIU Local 1000 objected to Agenda Item 6 if the staffing update was to discuss outsourcing and overstaff positions. In addition, SEIU Local 1000 objected to a discussion on Paid Leave Accruals if that would include a discussion on vacation time. Finally, Ms. Collins objected to a discussion on Fringe Benefits if that would include a discussion on State Fund provided vehicles since this is an important benefit to SEIU 1000 members. Ms. Cain noted the objection and closed the Open Session. The meeting convened into Closed Session at 1:10 p.m. and reconvened at 12:30 p.m. on May 21, 2010 into Open Session.

MAY 21, 2010

AGENDA ITEM 16: CALL TO ORDER AND ROLL CALL

The meeting was called to order on May 21, 2010 at 12:30 p.m. and the following were present: Sheryl A. Chalupa, Acting Chair; Daniel Curtin; Donald E. Garcia; Lawrence Mulryan; Francis E. Quinlan; Thomas Rankin; James S. Richardson; William Zachry; and non-voting member John. C. Duncan. Absent: Jeanne Cain (by prior arrangement). Sen. Michael Machado (Ret.) joined the meeting at Agenda Item 18 and Steven L. Rank

There was a quorum.

Also present: Interim President and CEO Doug Stewart; Chief Financial Officer Jay Stewart; General Counsel and Corporate Secretary Carol R. Newman; and Chief Counsel and Assistant Corporate Secretary Suzanne Ah-Tye.

Ms. Chalupa noted that prior to the close of the May 20, 2010 Closed Board meeting, Ms. Cain recommended Ms. Chalupa's appointment as Acting Chair and the Board concurred.

AGENDA ITEM 17: CONSENT CALENDAR

Ms. Chalupa referred to the Consent Calendar matters which are included with each member's agenda noting particularly the approval of the March 18-19, 2010 Open Meeting Minutes, Board Member Training Opportunities and Approval of Planned Board Member Training, report on Board Member travel expense reimbursement January through April 2010 and recognition of retiring employees attached hereto and incorporated as part of these Minutes:

Resolution No. 911 in appreciation of Robert T. Salgado, thanking him for serving State Fund with distinction for more than 30 years;

Resolution No. 912 in appreciation of Bradford S. Richmond, thanking him for serving State Fund with distinction for more than 36 years;

Resolution No. 913 in appreciation of Donna D. Myrman, thanking her for serving State Fund with distinction for more than 30 years;

Resolution No. 914 in appreciation of Helen L. Nelson, thanking her for serving State Fund with distinction for more than 30 years;

Resolution No. 915 in appreciation of Teresa D. Wayland, thanking her for serving State Fund with distinction for more than 36 years;

Resolution No. 916 in appreciation of Lila Munroe, thanking her for serving State Fund with distinction for more than 30 years;

Resolution No. 917 in appreciation of Marlene B. Frohmuth, thanking her for serving State Fund with distinction for more than 30 years;

Resolution No. 918 in appreciation of Vivian H. Gan, thanking her for serving State Fund with distinction for more than 39 years.

Ms. Chalupa requested whether any Board member had any additional comments on the items on the Consent Calendar of which there were none.

MOTION: Mr. Richardson Second: Mr. Mulryan

To approve the Consent Calendar as presented.

Ms. Chalupa requested public comments of which there were none. Ms. Chalupa called for the vote.

AYES: 8 NOES: 0 Motion carried.

AGENDA ITEM 18: PRESENTATION OF INDEPENDENT ACTUARIAL OPINION AND APPOINTMENT OF ACTUARY (ORAL)

Guy Avagliano, of Milliman, Inc, State Fund's independent actuarial and consulting firm, reported that State Fund's loss reserves of \$15B was reasonable and consistent with reserve standards and the laws of California. Sen. Machado joined the meeting. Ms. Chalupa requested public comments of which there were none.

AGENDA ITEM 19: FINANCIAL UPDATE 1ST QUARTER 2010 (ORAL)

Chief Financial Officer Jay Stewart reported on Q1 2010 results. State Fund faced a continued soft market in 2010 and rate pressure from competitors resulting in less revenue than budgeted. By controlling expenses and maintaining strong investment income, State Fund had first quarter 2010 net income of \$26M. Direct premium written at quarter end was \$278M compared to a budget of \$340M. This is a decrease of \$48M compared to Q1 2009. Net earned premium at quarter end was \$277M compared to a budget of \$330M. This is a decrease of \$39M compared to Q1 2009. Net premium charged off at quarter end was \$6M. Losses incurred were \$208M compared to a budget of \$248M. 2009 first quarter losses incurred were \$239M. Loss adjustment expenses for Q1 2010 were \$134M compared to a budget of \$161M and \$610M for Q1 2009. Underwriting expenses was \$124M compared to a budget of \$134M. Underwriting loss was \$189M compared to a budget of \$214M and \$197M for Q1 2009. The combined ratio for 1Q 2010 was 171.2 compared to a budget of 168.6. Incurred loss ratio was 75.2 at 1Q 2010 and loss adjustment expenses ratio was at 48.4. Underwriting expense ratio for 1Q 2010 was at 47.6. Net investment income for 1Q 2010 was \$222M which represents a \$9M increase compared to budget though 1Q 2009 was \$234M. At 1Q 2010, the book yield was 4.4 on a total book value of \$19.3B. Net income for the quarter was \$26M, compared to a budgeted net loss of \$14M. Q1 2009 net income was \$30M. The

balance sheet remains strong with asset exceeding liabilities by approximately \$5.3B, up \$159M or 3.1% over Q1 2009. Q1 2010 unaudited financial results were filed timely, on May 15, 2010, with the California Department of Insurance and the National Association of Insurance Commissioners.

AGENDA ITEM 20: PRESIDENT'S REPORT

Doug Stewart, Interim President and CEO, reported that despite difficult economic times, State Fund's first quarter 2010 results were positive. State Fund's net income was \$26M and loss ratio was 75%. State Fund has made progress in advancing technological improvements including the straight through renewal process, upgrades to the billing system, online payroll reporting and the introduction of credit and debit card payment options. State Fund is also committed to reducing energy consumption and was rewarded with a \$335,000 energy rebate this past month. State Fund's Human Resources Department has made improvements in talent management and organizational development through an updated talent cycle for appraisals, performance plans and individual development plans. In the area of governance, State Fund received approval from the Fair Political Practice Commission for a new conflicts of interest code. State Fund's Ethics and Compliance Department has launched online ethics training for all employees. State Fund's Medical Provider Network has lowered costs resulting in 40% lower medical and 26% lower indemnity benefit payments. In the area of fraud, State Fund's Special Investigations Unit reviewed 903 fraud tips the first quarter of 2010 and made 76 referrals to law enforcement. As a result, there were three successful prosecutions with more than \$1.2M in restitution ordered to be paid to State Fund.

AGENDA ITEM 21a: GOVERNANCE COMMITTEE UPDATE (i) UPDATE ON NATIONAL SEARCH FOR PRESIDENT AND CEO (ORAL)

Ms. Chalupa, reported that the IR Group, the consulting firm responsible for conducting a national search for the appointed President and CEO is working on screening candidates and the Board expects to make a decision by June or July 2010. Ms. Chalupa requested public comments of which there were none.

AGENDA ITEM 21a: GOVERNANCE COMMITTEE UPDATE (ii) UPDATE ON BOARD EVALUATION PROCESS (ORAL)

Ms. Chalupa reported that oral and written surveys will be provided to Board members for the Board evaluation process. It is anticipated that the evaluations should be complete by July 2010. Ms. Chalupa requested public comments of which there were none.

AGENDA ITEM 21a: GOVERNANCE COMMITTEE UPDATE (iii) ALIGNMENT OF BOARD AND COMMITTEE 2010 AGENDA ITEMS (ORAL)

Ms. Chalupa reported that standing agenda items were included in all Board and Committee meetings to ensure proper and efficient management of work flow. Two items were added to July's Board agenda including an overview of Enterprise Risk Management and a State Contract overview.

AGENDA ITEM 21a: GOVERNANCE COMMITTEE UPDATE (iv) GOVERNANCE COMMITTEE CHARTER AMENDMENT

Ms. Chalupa reported that the Governance Committee is recommending that the Board adopt an amended Corporate Governance Committee Charter which includes overseeing Enterprise Risk Management issues which may have a material impact on State Fund. Also, the charter specifies that the Governance Committee shall work with State Fund's Chief Risk Officer and Risk Committee in overseeing the identification and assessment of risks within State Fund.

MOTION: Mr. Curtin Second: Mr. Quinlan

To approve the Governance Committee Charter amendment recommended by the Governance Committee as attached hereto and made a part of these minutes.

Ms. Chalupa requested public comments of which there were none. Ms. Chalupa called for the vote:

AYES: 9 NOES: 0 Motion carried.

AGENDA ITEM 21b: AUDIT COMMITTEE UPDATE (i) CLOSED AUDIT REPORT (ORAL)

Mr. Quinlan provided an Audit Committee update. The 2009 Financials Audit performed by KPMG, showed that all financial requirements were met. There were no significant differences in audit findings and no material control deficiencies. State Fund work on the Model Audit Rule (MAR) is also progressing well and there will be an update on State Fund's implementation of MAR at the July 2010 Board meeting. KPMG, as State Fund' external auditing firm, was reappointed.

Mr. Quinlan called on Lisa Middleton, Senior Vice President of Internal Affairs, to provide an update on the closed audit reports. Ms. Middleton reported that two investigations were conducted into allegations of wrongdoing. Internal Audit Committee concluded the allegations were invalid; but that there were oversight

issues that could be improved and remedial action is being undertaken. Ms. Chalupa requested public comments of which there were none.

AGENDA ITEM 21b: AUDIT COMMITTEE UPDATE (ii) AUDIT COMMITTEE CHARTER AMENDMENT

Mr. Quinlan reported that the Audit Committee is recommending that the Board adopt an amended Audit Committee Charter which includes a provision that the Audit Committee assist the Board in evaluating the effectiveness of State Fund's Enterprise Risk Management (ERM) initiatives.

MOTION: Mr. Zachry Second: Mr. Richardson

To approve the Audit Committee Charter amendment recommended by the Audit Committee as attached hereto and made a part of these minutes.

Ms. Chalupa requested public comments of which there were none. Ms. Chalupa called for the vote:

AYES: 9 NOES: 0 Motion carried.

AGENDA ITEM 21c: INVESTMENT COMMITTEE UPDATE (ORAL)

Sen. Michael Machado provided an Investment Committee update. Mr. Machado reported on the review of the Portfolio Managers and noted that Conning and NEAM have similar performance. More active State Fund management has generated \$3M in additional annual income. No future agenda items have been added. Sen. Machado reported that the Investment Committee is recommending that the Board adopt Resolution No. 919 - Investment Policy Statement and Guidelines Resolution. Copies of Resolution No. 919 will be posted on the State Fund website forthwith.

MOTION: Mr. Zachry Second: Mr. Curtin

To approve the Investment Statement and Guidelines Resolution No. 919 to replace Investment Resolution No. 871 effective May 21, 2010.

Ms. Chalupa requested public comments of which there were none and she called for the vote.

AYES: 9 NOES: 0 Motion carried.

AGENDA ITEM 22a-b: RATIFICATION OF INVESTMENT TRANSACTIONS

Stephanie Chan, Treasury Manager at State Fund recommended the ratification of investment transactions from February 1, 2010 to March 31, 2010. Investment transactions for the period were made in conformance with State Fund's Investment policy at the time of purchase. During the months of February and March, State Fund purchased 33 securities totaling \$803.6M. During this same time period, State Fund sold 15 securities totaling \$119.7M. Year-to-date through March 31, 2010, State Fund has booked a net capital gain of approximately \$136,000. The value of State Fund's portfolio as of March 31, 2010 was approximately \$19.4B.

MOTION: Mr. Rankin Second: Mr. Quinlan

To ratify the investment transactions from February 1, 2010 to March 31, 2010.

Ms. Chalupa requested public comments of which there were none. Ms. Chalupa called for the vote.

AYES: 9 NOES: 0 Motion carried.

Ms. Chan presented the Compliance Report which includes securities whose credit ratings fell below the "A" credit rating required at the time of purchase. There is one Taxable Municipal Issuer, Southern California Public Power Authority, which exceeded State Fund's "Per Issuer" limit of 0.5% by approximately \$3M. This bond was in compliance with the Investment Policy at the time of purchase since the Per Issuer limit for Taxable Municipals was implemented after this bond was purchased. There are also 10 other securities totaling approximately \$183M whose credit ratings have fallen below the minimum single 'A' credit rating required at the time of purchase. One of State Fund's Oregon State bond holdings totaling \$25M is not rated, but the state of Oregon is rated AAa2/AA. At the end of March 2010, the total value of the securities listed on the Compliance Report is \$308M which represents less than 2% of State Fund's total investments.

MOTION: Mr. Rankin Second: Sen. Machado

To ratify the compliance report for the period February 1, 2010 to March 31, 2010.

Ms. Chalupa requested public comments of which there were none. Ms. Chalupa called for the vote.

AYES: 9 NOES: 0 Motion carried.

AGENDA ITEM 23: CHAIR'S REPORT

Acting Chair Chalupa thanked the Board members and staff for their work. Ms. Chalupa requested public comments of which there were none.

AGENDA ITEM 24: BOARD MEMBER REPORTS

Mr. Zachry reported that claims staff from State Fund and Safeway met to discuss and share ideas on settlement processes. Ms. Chalupa requested public comments of which there were none.

AGENDA ITEM 25: PROPOSALS AND SUGGESTIONS FOR JULY 2010 AGENDA

There was a proposal to include internal training for Board members on Governance Committee July 2010 agenda. Ms. Chalupa requested public comments of which there were none.

AGENDA ITEM 26: PUBLIC COMMENT

Ms. Chalupa requested public comment. Ms. Kathleen Collins, from SEIU Local 1000, referenced the new 52 page State Fund Code of Conduct policy and requested a copy of same. Ms. Collins also requested a report on items objected to by SEIU during closed session. Ms. Collins stated that SEIU Local 1000 opposes outsourcing of IT projects and noted the talent within State Fund staff. Ms. Chalupa requested public comments of which there were none.

ADJOURNMENT

There being no further business, Acting Chair Chalupa adjourned the meeting at 1:10 p.m.

The next regularly scheduled Board meeting will begin on Thursday, July 8, 2010 at 12:00 noon at the Milton Marks Conference Center, 455 Golden Gate Ave, San Francisco.

Respectfully submitted,

Suzanne Ah-Tye
Assistant Corporate Secretary

STATE COMPENSATION INSURANCE FUND
Corporate Governance Committee Charter
(Amended May 20, 2010)

Mission/Purpose

The Governance Committee (the "Committee") shall assist the Board of Directors (the "Board") of State Compensation Insurance Fund ("State Fund") in shaping corporate governance policies and practices including (1) overseeing that State Fund operates in a legal, ethical, and socially responsible manner; (2) overseeing Enterprise Risk Management ("ERM") issues which may have a material impact on State Fund; (3) advising and updating the Board on corporate governance trends and issues within the industry; (4) recommending to the Board, Corporate Governance Guidelines (the "Guidelines") which, along with State Fund's By-laws, State Fund's Code of Business Conduct and Ethics ("Code of Ethics"), the charters of the various Board committees, Insurance Code Section 11770 et seq., as amended pursuant to AB 1874, and Government Code Sections 6251 et seq. (Public Records Act) and 11120 et seq. (Bagley-Keene Open Meeting Act), provide the framework for the governance of State Fund; and (5) monitoring and evaluating State Fund's compliance with the Guidelines.

Organization

The Committee is a standing committee of the Board composed of not less than three (3) Directors and shall include a Chair of the Committee who shall serve until resignation, removal or a successor has been appointed pursuant to the provisions of State Fund's By-laws.

Meetings

The Committee shall hold regular meetings in accordance with the provisions of the Bagley-Keene Open Meeting Act ("Bagley-Keene") and no less than four times a year. The Committee shall hold regular meetings on the same day as, or within one day of, the regular meetings of the Board. The Committee may hold additional meetings at the request of any Committee member, in compliance with the provisions of Bagley-Keene and State Fund's By-laws.

- a. The Committee may, at its discretion, invite members of management and/or other Directors to attend the Committee's meetings where necessary to further the business of the Committee. Notwithstanding the foregoing, the total number of members of the Board (including Committee members) attending the Committee's meeting at any one time shall not equal or exceed a majority of the number of members of the Board.

- b. Unless the Committee determines otherwise, the Committee shall hold a closed session at each regularly scheduled meeting. During a portion of this closed session, the President or the General Counsel, or both, will be present. Closed sessions of the Committee may be held at any meeting pursuant to the provisions of Bagley-Keene and California Government Code section 11120 et seq., as may be amended.
- c. 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.
- d. Minutes shall be prepared at each meeting and filed with the minutes of State Fund's Board.
- e. The Committee Chairperson or the Chair's designee shall give a full report on the Committee's actions at the earliest scheduled Board meeting.

Duties and Responsibilities

In discharging its duties and responsibilities to shape corporate governance policies and practices, the Committee shall:

- 1. **Oversee**
 - a. Oversee that State Fund operates in a legal, ethical, and socially responsible manner and that all directors, officers, and employees support State Fund's Code of Business Conduct and Ethics which is designed to promote (1) honest and ethical conduct; (2) full, fair, accurate, timely, and understandable disclosures in the periodic reports required to be filed by State Fund; and (3) compliance with applicable laws, rules, and regulations.
 - b. Oversee the orientation and continuing education of the members of the Board. In this regard, the Committee shall, from time to time, recommend educational programs for the full Board, any Committee or any individual Director as the Committee may determine is necessary or appropriate.
 - c. Assist in developing criteria for the assessment of the performance of the Board and management and take the lead in overseeing the evaluation of the Board and State Fund's management on no less than an annual basis.
 - d. Oversee the Enterprise Portfolio Management Office's ("EPMO") material projects recommended by State Fund's management which relate to corporate governance.
 - e. Work with State Fund's Chief Risk Officer and Risk Committee in overseeing the identification, assessment, and where appropriate, the development of mitigation plans for risks within State Fund.

2. Recommend

- a. Recommend to the Board, director nominees for appointment to the Committee or any sub-committee in compliance with the procedures outlined in State Fund's By-laws.
- b. Recommend the establishment, charter, and membership of the various committees of the Board.
- c. Recommend corporate governance guidelines for State Fund.
- d. Recommend appropriate changes to corporate governance documents such as by-laws, Code of Ethics, and as requested, the charters of the other committees' charters.
- e. Review the qualifications of members suggested to be Chairperson, and Directors of the Board, and make recommendations to the appointing authority concerning these members.
- f. Recommend changes to the charters of other State Fund Board committees.
- g. On an ad hoc basis and upon the request of the Board, a review of specific operational segments of State Fund that may pose unusual, significant risks that could have a material impact on the risk profile of State Fund.

3. Advise

- a. Advise the Board on matters related to governance as deemed appropriate by the Board.
- b. Advise the Board on corporate governance trends and issues within the industry.
- c. Advise the Board with respect to Board procedures including the frequency and structure of the Board meetings.
- d. Advise the Board on qualifications for leadership positions within State Fund.
- e. Advise and assist the Board in its responsibilities relating to succession planning, particularly with respect to the President and Chief Operating Officer and other identified executive positions.

4. Evaluate

- a. Conduct a self-evaluation, on an annual basis, of the performance of the Committee and deliver to the Board a written report setting forth the results of its evaluation which shall be discussed with the full Board and acted upon as appropriate.
- b. Evaluate, at least annually, the overall performance of the Board as a whole and in consultation with all Board members, conduct an assessment of individual Board members.
- c. Evaluate on an annual basis whether the committees of the Board are functioning effectively and within the guidelines as set forth in their respective charters.
- d. Evaluate, at least annually, the quality, sufficiency and currency of information furnished by management to the Directors in connection with Board and committee meetings and other activities of the Directors.

Powers

The 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.
- 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.
- d. 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.
- e. Such other powers as may be necessary and appropriate to fulfill the Committee's purposes.
- f. To perform such other functions as assigned by State Fund's charter, bylaws, or the Board.

STATE COMPENSATION INSURANCE FUND
Audit Committee Charter
(Amended May 20, 2010)

Mission/Purpose

The Audit Committee (the “Committee”) shall assist the Board of Directors (the “Board”) of State Compensation Insurance Fund (“State Fund”) in fulfilling its responsibility for oversight of (1) the quality and integrity of State Fund’s accounting, auditing and financial reporting practices and the management of State Fund’s financial risks; (2) the independent public accounting firm’s qualifications, performance, and independence; (3) the performance of State Fund’s internal audit function; (4) State Fund’s compliance with legal, ethical and regulatory requirements; and (5) evaluating the effectiveness of State Fund’s Enterprise Risk Management (“ERM”) initiatives.

Organization

The Committee is a standing committee of the Board and shall be composed of not less than three (3) members. 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 11770(b)(1) as may be amended.

Meetings

The Committee shall hold regular meetings, in accordance with the provisions of the Bagley-Keene Open Meeting Act (“Bagley-Keene”) and no less than four (4) times a year. The Committee shall hold regular meetings on the same day as, or within one day of, the regular meetings of the Board. The Committee may hold additional meetings at the request of any Committee member in compliance with the provisions of Bagley-Keene and State Fund’s By-laws.

- a. The Committee is expected to maintain free and open communications with the independent auditor, internal audit manager, internal finance staff and management in compliance with Bagley-Keene.
- b. The Committee may, at its discretion, invite members of management or other Board members to attend the Committee’s meetings where necessary to further the business of the Committee. Notwithstanding the foregoing, the total number of members of the Board (including committee members) attending the Committee’s meeting at any one time shall not equal or exceed a majority of the number of members of the Board.
- c. The Committee shall create an agenda for each meeting pursuant to the requirements of Bagley-Keene.

- d. Unless the Committee determines otherwise, the Committee shall hold separate closed sessions to meet with management, the internal auditors and independent auditors. Closed sessions of the Committee may be held at any meeting pursuant to the provisions of Bagley-Keene and California Government Code section 11120 et seq., as may be amended.
- e. 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.
- f. Minutes shall be prepared at each meeting and shall be filed with the minutes of State Fund's Board.
- g. The Committee Chairperson or the Chairperson's designee shall give a full report on the Committee's actions at the earliest scheduled Board meeting.

Duties and Responsibilities

In discharging its duties and responsibilities, the Committee shall:

1. Financial Reporting
 - a. Review with management and the external auditor, State Fund's financial statements on an annual basis and discuss State Fund's financial reports filed with the Department of Insurance and the California State Controller's Office and solicit the external auditor's opinion with respect to the financial statement in the reports.
 - b. Review with management and the head of Internal Audit, any interim financial reports that may be issued throughout the year.
 - c. Review with management and the external auditor any significant changes or other issues regarding accounting principles, judgments and the quality of financial reporting.
 - d. Review with management and the external auditor, State Fund's accounting practices, policies and compliance with accounting standards.
 - e. Review with management, external 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 management has taken to monitor, control and report such risk exposures.
 - f. Review significant findings prepared by the independent auditors and the internal auditing department together with management's responses.
 - g. Review and assess all matters related to audits, examinations, investigations or inquiries of the State Auditor and other appropriate State and Federal agencies.

- h. Review the report issued by the external auditor and discuss with the external auditor all critical accounting policies and practices to be used and alternative treatments of financial information within statutory accounting principles (“SAP”) that have been discussed with management, ramifications of the use of alternative disclosures and treatments, the treatment preferred by the external auditor, and any other material written communications between the external auditor and State Fund’s management.
- i. Create an agenda for the ensuing year or review and approve the agenda submitted by the head of Internal Audit
- j. Oversee the preparation of, or prepare, an audit committee annual report.

2. External Audit

- a. Have responsibility for the appointment, retention, compensation, termination and oversight of the independent, external auditors’ work, scope and terms including the coordination of the audit effort with internal audit. The Committee will recommend to the Board approval of all audit engagement fees. The external auditor reports directly to the Committee, and the Chairperson of the Committee or a Committee member will sign the engagement letter with the auditor. The standards for selections of the independent auditors will comply with all State and Federal laws and regulations.
- b. Discuss with the external auditor any disclosed relationships or services that may impact the auditor’s objectivity and independence.
- c. Review and confirm the independence of the external auditors by obtaining statements from the auditors of relationships between the auditors and State Fund including non-audit services.
- d. At least annually, the Committee will obtain and review a report either in writing or orally by the external auditors describing the external auditor’s internal quality control procedures; material issued 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.
- e. Monitor and ensure the external audit partner in charge is rotated as required by law or regulation.
- f. Review the scope and results of the audit and any disagreements the external audit partner may have had with management and any problems encountered by the external audit partner in performing the audit(s).
- g. Review any questions, comments or suggestions the auditor may have relative to the internal controls and accounting practices and procedures of State Fund.

3. Internal Audit Function

- a. Review with management and the internal audit manager the charter, budget, activities, staffing and organizational structure of the internal audit function, internal audit's compliance with applicable standard and guidelines, and any recommendations with respect to the 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 with the manager of internal audit and management the adequacy and effectiveness of State Fund's internal controls, the reliability of its financial reporting as well as the external auditor's assessment of the adequacy of such controls and systems and management's response to any material weakness in State Fund's internal controls.
- d. Review and evaluate the performance of the internal audit function including a review of the performance of the manager of internal auditing and, if appropriate, recommend the selection of a new manager.
- e. Review with the internal auditor any difficulties including restriction on scope of work, access to required information, and any other issues the Committee deems appropriate.

4. Ethics and Legal Compliance

- a. Review with management, the finance staff, the internal auditors and external 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 from the California State Auditor regarding improper governmental activity, theft, conflict of interest, gross misconduct, inefficiencies or incompetence of State Fund's employees, accounting, internal accounting controls or auditing matters.
- c. Establish procedures for the confidential, anonymous submission of complaints and tips by State Fund's employees as mandated by the Board or by law.
- d. Establish procedures for the receipt, retention, and treatment of reports of investigations and audits conducted of State Fund by the California State Auditor.
- e. Formulate and recommend to the Board any changes to the Code of Ethics or Code of Conduct and/or other compliance policies and

guidelines that relate to financial reporting, and monitor compliance with these Codes.

- f. 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.
 - g. Conduct a review of all related-party transactions, as necessary, and recommend to the Board, as appropriate, whether to approve such transactions.
 - h. Approve State Fund's compliance plan, make and approve changes as needed and ensure that compliance functions are performed with independence and in accordance with professional standards.
 - i. Obtain regular updates from State Fund's management and State Fund's legal counsel regarding compliance matters.
 - j. Review with management, State Fund's policies and procedures with respect to officers and key employees' expense accounts and perks, including excess benefit transactions, and review the results of any audit of these areas by the internal or external auditors.
5. Enterprise Risk Management
- a. Work with State Fund's Chief Risk Officer and Risk Committee on overseeing 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.
 - b. Evaluate the effectiveness of State Fund's Enterprise Risk Management system 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.

Powers

The Committee shall have the following powers:

- a. To form and delegate authority to subcommittees.
- b. To hire appropriate experts as it deems necessary, including but not limited to outside counsel and investigators, to carry out its responsibilities and have other responsibilities and authority as designated from time to time by resolution of the Board.
- c. 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.

- d. To have unrestricted access to management, State Fund personnel, and the external auditors as is appropriate for the proper performance of its function.
- e. To oversee all contracted reviews, assessments and examinations required by the Board or requested by the Committee including, but not limited to, compliance with audit-related laws, rules, regulations, Board policies, internal controls, management operating procedures, and industry best practices.
- f. Such other powers as may be necessary and appropriate to fulfill the Committee's purposes.
- g. The Committee will evaluate its performance on an annual basis, either separately or in conjunction with an annual evaluation of the full Board.
- h. To perform such other functions as assigned by State Fund's charter or bylaws, or the Board.