



**Summary of Proposed Changes to
State Compensation Insurance Fund
Audit Committee Charter**

Adopted May 17, 2011
 1st Amended by Audit Committee August 15, 2012
 Adopted by the Board August 16, 2012
 2nd Amended by Audit Committee May 20, 2015
 Adopted by the Board May 21, 2015
 3rd Amended by Audit Committee May 25, 2016
 Adopted by the Board May 26, 2016
 [Proposed 4th Amended for review and to be approved:]
 Governance Committee: March 2, 2017
 Board of Directors: March 2, 2017

The following summarizes the proposed revisions to the Fourth Amended State Compensation Insurance Fund (“State Fund”) Audit Committee Charter, to be adopted by State Fund’s Board of Directors as the Fourth Amended Audit Committee Charter. Section and section references are to the provisions in the Audit Committee Charter.

<u>Section</u>	<u>Summary of Proposed Changes</u>
	The revisions arise from the Board's decision on November 18, 2016 to oversee Enterprise Risk Management at the Board level rather than at the Audit Committee.
<u>Under Purpose</u>	Deletes reference in Item 3 to “enterprise risk management initiatives”.
<u>Under Committee Duties and Responsibilities</u>	<ul style="list-style-type: none"> ▪ Deletes Item 5, <i>Enterprise Risk Management</i>. ▪ Renumbers Item 6 to Item 5



STATE COMPENSATION INSURANCE FUND AUDIT COMMITTEE CHARTER

Adopted May 17, 2011
1st Amended by Audit Committee August 15, 2012
Adopted by the Board August 16, 2012
2nd Amended by Audit Committee May 20, 2015
Adopted by the Board May 21, 2015
3rd Amended by Audit Committee May 25, 2016
Adopted by the Board May 26, 2016
[Proposed 4th Amended for review and to be approved:]
Governance Committee: March 2, 2017
Board of Directors: March 2, 2017

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, ~~enterprise risk management initiatives~~ 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 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 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 required. 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 where necessary to further the business of the Committee to meet with management, the internal auditors and independent auditors, as in the Committee's judgment is required. 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 including 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 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, including the effect of regulatory and accounting initiatives.
- b. Review and discuss reports obtained 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; and 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 auditor, 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 auditor 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 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 auditor 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 auditor 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, 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. Enterprise Risk Management~~

- ~~a. 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 policies with respect to risk assessment and risk management.~~
- ~~b. Review with State Fund's Chief Risk Officer and Risk Committee 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.~~
- ~~c. Review with management 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.~~
- ~~d. Review with management the effectiveness of State Fund's management of the risk of fraud.~~

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 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.

To perform such other functions as assigned by State Fund's Charter, By-Laws, or the Board.



**Summary of Proposed Changes to
State Compensation Insurance Fund
Governance Committee Charter**

Adopted May 17, 2011
 1st Amended: Adopted August 16, 2012
 2nd Amended: Adopted May 16, 2013
 3rd Amended: Adopted May 22, 2014
 4th Amended: Adopted May 26, 2016
 [Proposed 5th Amended for review and to be approved:]
 Governance Committee: March 2, 2017
 Board of Directors: March 2, 2017

The following summarizes the proposed revisions to the Fifth Amended State Compensation Insurance Fund (“State Fund”) Governance Committee Charter, to be adopted by State Fund’s Board of Directors as the Fifth Amended Governance Committee Charter. Section and paragraph references are to the provisions in the Governance Committee Charter.

<u>Provision</u>	<u>Summary of Proposed Changes</u>
	The following revisions arise from the Board’s decision on November 18, 2016 to oversee Enterprise Risk Management at the Board level rather than at the Governance Committee.
<u>Under Purpose</u>	Deletes Item 2. “Overseeing Enterprise Risk Management (“ERM”) issues which may have a material impact on State Fund” and renumbers remaining three items.
<u>Under Committee Duties and Responsibilities</u>	<ul style="list-style-type: none"> • Deletes Item 1. <i>Oversight</i>, subsection f. “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” and relabels the remaining subsection as f. • Deletes Item 2. <i>Recommend</i>, subsection f. “On an ad hoc basis, and upon the request of the Board, review 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 and make recommendations to the Board to address any such risks.” • Deletes reference to “Enterprise Risk Management Plan” from Item 3. <i>Approve</i>, subsection b.

	<p>Additional revisions were recommended by the Governance Committee at the November 17, 2016 meeting to emphasize the Committee's role in Board effectiveness.</p>
<p><u>Under Committee Duties and Responsibilities</u></p>	<ul style="list-style-type: none"> • In Item 1. <i>Oversight</i>, subsection b., adds references to Board effectiveness, and educational development opportunities and plans including for each individual Director. • In Item 1. <i>Oversight</i>, subsection d., adds reference to Board succession planning. • In Item 4. <i>Advise</i>, subsection e., adds reference to Board succession planning.



STATE COMPENSATION INSURANCE FUND GOVERNANCE COMMITTEE CHARTER

Adopted May 17, 2011

1st Amended: Adopted August 16, 2012

2nd Amended: Adopted May 16, 2013

3rd Amended: Adopted May 22, 2014

4th Amended: Adopted May 26, 2016

[Proposed 5th Amended for review and to be approved:]

Governance Committee: March 2, 2017

Board of Directors: March 2, 2017

Purpose

The purpose of the Governance 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 shaping State Fund's governance policies and practices by:

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, a State Fund Governance Guide (the "Governance Guide") which, along with State Fund's By-Laws (the "By-Laws"), State Fund's Code of Conduct (the "Code of Conduct"), State Fund Governance Policies (the "Governance Policies"), 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), provides the framework for the governance of State Fund; and
5. Monitoring and evaluating State Fund's compliance with applicable policies and guidelines.

Organization

The Committee is a standing committee of the Board and shall be composed of at least 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 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

State Compensation Insurance Fund

Governance Committee – March 2, 2017

Open Agenda Item 3c – Consent Calendar: Review and Approval of the Audit and Governance Committee Charters
(Copy of Revised Governance Committee Charter)

serve until appointment as Governance Committee Chair or until resignation, removal or a successor has been appointed pursuant to the provisions of State Fund's By-Laws.

Meetings

The Committee will meet at least four times each year with authority to convene additional meetings as required. All meetings shall be held in accordance with the Bagley-Keene Open Meeting Act ("Bagley-Keene") and State Fund By-Laws. The Governance Committee will hold separate closed sessions when necessary to further the purpose of duties 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. The Committee will regularly report on its actions to the full Board at the scheduled meeting.

- 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. 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. During a portion of this closed session, the President or the General Counsel, or both, will be present.
- 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 Governance Committee Chairperson or the Chairperson's designee shall give a full report of the Committee's actions at the earliest scheduled Board meeting.

Committee Duties and Responsibilities

In discharging its duties and responsibilities to shape State Fund's governance policies and practices, the Committee shall:

1. *Oversight*
 - 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 Conduct 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 **Board effectiveness, including** the orientation and continuing education of the members of the Board. In this regard, the Committee shall, from time to time, recommend educational **development programs, opportunities, or plans** for the full Board, any Committee ~~or any and each~~ 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 succession planning for **the Board and** State Fund's top executive positions and ensure that State Fund has effective contingency plans in place to address planned and unplanned vacancies in those positions.
- e. Oversee the material projects recommended by State Fund's management which relate to State Fund's governance.
- ~~f. 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.~~
- g. Oversee and assist Human Resource Operations regarding personnel compliance, performance and compensation issues to support State Fund's strategic objectives.

2. *Recommend*

- a. Review the qualifications of members suggested to be Chairperson and Directors of the Board, and make recommendations to the appointing authority concerning these members.
- b. 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.
- c. Recommend the establishment, charter, and membership of the various committees of the Board.
- d. Recommend changes to the charters of other State Fund Board committees.
- e. Recommend governance guidelines for State Fund.
- ~~f. On an ad hoc basis, and upon the request of the Board, review 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 and make recommendations to the Board to address any such risks.~~

3. *Approve*

- a. Review, and approve, with any revisions deemed appropriate by the Committee, the proposals of the President of State Fund for the appointment and setting of salaries of State Fund's exempt appointments, including but not limited to Chief Financial Officer, Chief Operating Officer, Chief Information Technology Officer, Chief Investment Officer, Chief Risk Officer, General Counsel.
- b. Review and approve appropriate changes to State Fund's governance documents such as By-Laws, Code of Conduct, Code of Ethics, Conflict of Interest Code, ~~Enterprise Risk Management Plan~~, and other compliance policies, and as requested, the other committees' charters.
- c. Approve procurement contracts with an aggregate value in excess of \$25 million.

4. *Advise*

- a. Advise the Board on matters related to governance as deemed appropriate by the Board.
- b. Advise the Board on corporate governance trends, issues and changing business, legislative, regulatory, legal or other conditions within the industry that may affect State Fund's governance.
- 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 ~~Directors~~ and the President and other identified executive positions.

5. *Evaluate*

- a. Conduct a self-evaluation, on a regular 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 Governance 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 and responsibilities under this Charter.
- f. To perform such other functions as assigned by State Fund's Charter, By-Laws, or the Board.