

GOVERNANCE COMMITTEE MEETING (OPEN)

AGENDA ITEM 9

ATTACHMENT 9-III

MINUTES OF MAY 20, 2010 OPEN GOVERNANCE  
COMMITTEE MEETING

PRESENTED BY: Jeanne Cain

July 8, 2010

**STATE COMPENSATION INSURANCE FUND  
GOVERNANCE COMMITTEE**

**MINUTES OF OPEN SESSION MEETING**

**MAY 20, 2010**

The Governance Committee met on May 20, 2010 in the Milton Marks Conference Center, State Building, 455 Golden Gate Ave, San Francisco, California.

**AGENDA ITEM 1: ROLL CALL**

The meeting was called to order at 10:00 a.m. and the following Members were present: Jeanne Cain, Chair; Sheryl Chalupa; and Daniel M. Curtin.

Also present: Interim President and CEO Doug Stewart; General Counsel and Corporate Secretary Carol Newman; and Assistant Chief Counsel and Assistant Corporate Secretary Judith D. Sapper.

There was a quorum.

**AGENDA ITEM 2: PUBLIC COMMENT ON THE APPROPRIATENESS OF CLOSED SESSION ITEMS 4 through 6.**

Ms. Cain requested public comment of which there was none. The Governance Committee immediately convened into Closed Session.

**AGENDA ITEM 7: CALL TO ORDER AND ROLL CALL**

The meeting was called to order at 11:35 a.m. following the conclusion of the Closed Session and the following Members were present: Jeanne Cain, Chair; Sheryl Chalupa; and Daniel Curtin.

Also present: Interim President and CEO Doug Stewart; General Counsel and Corporate Secretary Carol Newman; Assistant Chief Counsel and Assistant Corporate Secretary Judith Sapper; and Randall Keen, Esq. of Manatt Phelps & Phillips.

There was a quorum.

**AGENDA ITEM 8: APPROVAL OF MARCH 18, 2010 OPEN MEETING MINUTES**

MOTION: Mr. Curtin                      Second: Ms. Chalupa

To approve the minutes of the March 18, 2010 Open meeting of the Governance Committee as presented.

AYES: 3      NOES: 0                      Motion carried.

**AGENDA ITEM 9: REPORT ON NATIONAL SEARCH FOR PRESIDENT & CEO**

Ms. Cain reported the Board has reviewed some initial candidates for President and CEO and within the next sixty days expects to have final candidates, in accordance with the original timeline set.

**AGENDA ITEM 10: UPDATE ON BOARD EVALUATION PROCESS**

Ms. Cain reported that the Veaco Group was the finalist approved by the Governance Committee at the January 2010 meeting to assist the Board and Committee members to evaluate their effectiveness. Ms. Cain, Mr. Doug Stewart and Ms. Newman met with the Veaco Group in April to review the Board Evaluation process and questionnaires to be used. They determined that the evaluation would begin after the July 2010 Board and Committee meetings to allow newer board members an opportunity to acquire additional experience. Board members will receive a questionnaire packet to be completed and returned to the Veaco Group by July 23, 2010. Each board member will then be interviewed individually and the Veaco Group will compile a confidential assessment of the strengths and weaknesses and training needs of the Board and Committees as a whole. The Veaco Group will provide confidential assessments of each individual board member directly to that individual board member.

**AGENDA ITEM 11: AMENDMENT TO GOVERNANCE AND AUDIT COMMITTEE CHARTERS**

Ms. Cain noted at the March 2010 meeting the Board passed a resolution giving the Governance Committee responsibility for oversight of identification of key risks, the likelihood and impact of occurrence, and development of mitigation plans while the Audit Committee has responsibility for oversight of testing processes and controls for mitigating risks. The Board had directed staff to amend the Governance Committee and Audit Committee charters to reflect these oversight responsibilities, for consideration at the May 2010 Committee meetings. Ms. Newman reported that the Audit Committee had approved the amendments to the Audit Charter as presented at the May 20, 2010 Audit Committee meeting. The Governance Committee reviewed the proposed amendments to the Governance Committee Charter. Ms. Cain requested public comment of which there was none.

MOTION: Ms. Chalupa                      Second: Mr. Curtin

To approve the amendments to the Governance Committee Charter to include oversight of Enterprise Risk Management issues which may materially impact State Fund; work with the CRO and Risk Committee to oversee identification, assessment, and development of mitigation plans; and review specific operational segments of State Fund posing unusual, significant risks materially impacting the risk profile and to recommend the Board of Directors adopt the Governance Committee Charter as amended.

AYES: 3                      NOES: 0                      Motion carried

**AGENDA ITEM 12: ALIGNMENT OF BOARD AND COMMITTEES 2010**  
**AGENDA ITEMS**

Ms. Cain reported the Committee had reviewed in Closed Session the updates to the standing agenda items for the 2010 Board and Committee meetings requested at the May 2010 meeting. The Committee directed staff to include a standing Governance Committee item for Enterprise Risk Management issues. Ms. Cain requested public comment of which there was none.

**AGENDA ITEM 13: BOARD MEMBER UPCOMING SPEECHES OR**  
**ARTICLES**

Ms. Cain described the recently created process for identification and review of upcoming board member speeches and articles relating to workers' compensation to prevent an adverse impact on State Fund's operations. She requested board members identify any upcoming speeches and articles. Mr. Zachry reported he will be giving a speech on the legislative process and enacting workers' compensation legislation in California at the upcoming meeting of the National Council of Self-Insureds and has an article being published in Risk and Insurance magazine on the Double Play process of claims review. Ms. Cain requested public comment of which there was none.

**AGENDA ITEM 14: PROPOSALS AND SUGGESTIONS FOR JULY 2010**  
**AGENDA**

In addition to the standing Agenda items, the Committee directed staff to include agenda items for a process for providing training and outside speakers at Board meetings, and a presentation to the full Board on Enterprise Risk Management. Ms. Cain requested public comment of which there was none.

**AGENDA ITEM 15: PUBLIC COMMENT**

Ms. Cain requested public comment of which there was none.

The next Governance Committee meeting is scheduled for July 8, 2010 at 10:00 a.m. in San Francisco, California.

**ADJOURNMENT**

There being no further business before the Governance Committee, the meeting adjourned at 11:45 a.m.

Respectfully submitted,

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Judith D. Sapper,  
Asst. 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.