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Date: November 2, 2012

AGENDA ITEM 3b – ACTION REQUIRED

TO: MEMBERS, GOVERNANCE COMMITTEE

- I. SUBJECT:** Board Member Education and Travel Expense Reimbursement Policy Update
- II. PROGRAM:** EXECUTIVE
- III. RECOMMENDATION:** **Action Required** - To approve continued membership in the National Association of Corporate Directors (NACD) for all the members of the Board of Directors of State Compensation Insurance Fund which includes NACD membership for the President and CEO; Chief Financial Officer; General Counsel, Chief of Internal Affairs and Assistant Corporate Secretaries and Board Liaison. In addition, to approve the Board Continuing Education budget of \$140,000 for NACD Leadership Forum and conferences and New Director Education. To adopt the State Compensation Insurance Fund Board Member Education and Travel Expense Reimbursement Policy as presented (see attached).

IV. ANALYSIS:

Insurance Code Section 11770(e), mandates Board of Director subject matter training and requires that it be provided by persons or entities not affiliated with State Fund, although training by State Fund on topics required to be completed by all State Fund employees, such as preventing sexual harassment in the workplace, annual fraud prevention and ethics training is permitted.

There is no statutory requirement regarding the number of hours, frequency and quality of Board Continuing Education (training), leaving to the Board's or Committee's discretion to choose from an array of training program offerings to enhance members' corporate performance and governance.

National Association of Corporate Directors (NACD)

The National Association of Corporate Directors (NACD) is a nationally recognized organization dedicated to serving the corporate governance needs of directors of public, private, and non-profit organizations and achieving improved corporate performance through better board practices. NACD is well recognized for its training resources and

programs which are available to its members through web-based tools, as well as local and national conferences.

With State Fund's current membership in NACD, Board members have derived significant value from their access to a broad variety of governance best practice tools, continuing education opportunities and online research resources addressing a comprehensive spectrum of leadership and governance issues.

Recommendation: Maintain the Board's annual membership in NACD, which provides full access to a wide variety of high quality, topically relevant conferences, meetings, materials and presentations at the cost of \$9,571.25.

Annual Education

As noted above, Board members have found the NACD Leadership Forum and conferences a valuable training and leadership growth vehicle.

Recommendation: Continue Board members' participation at NACD Leadership Forum and conferences. Continue to participate in other educational or industry forums, including but not limited to conferences, classes, meetings or programs that will enhance the Board's effectiveness and complies with the legislative requirement for continuing education. Continue to secure outside speakers to present data and information to the Board or its Committees at regular meetings to enhance members' global, national and local perspectives on relevant market, economic, governance and industry topics and other matters of interest.

New Director Education

Newly appointed Board members are provided with an orientation regarding the history, mission, vision, role and operations of State Fund, and their own duties and responsibilities as members of the Board.

Recommendation: Continue to offer the customized State Fund specific curriculum, and explore the option of partnering with an academic institution to provide a broader educational scope that will also meet the statutory requirements, such as Stanford University or the University of California at Los Angeles (UCLA) both of which offer such programs at an approximate cost of \$6,250 - \$7,700 per director. State Fund has learned that CalSTRS uses the UCLA program and is satisfied with the training program.

Board Member Education and Travel Expense Reimbursement Policy

Board members' reimbursement for education and travel is not subject to DPA imposed rules. Board reimbursement must be actual and necessary travel expenses incurred in the performance of his or her duties as a member of the Board under the Insurance Code provisions section 11770(d)(1), which states "Each member of the board shall receive his or her actual and necessary traveling expenses incurred in the performance of his or her duties as a member and, with the exception of the ex officio members, one hundred dollars (\$100) for each day of his or her actual attendance at meetings of the board."

Recommendation: To align the policy with the statutory requirement that members be reimbursed for their actual and necessary traveling expenses, the staff recommends

removing the cap of \$60 for meal expenses for any one day. The current \$60 meal limit is not a per diem. It has been rare for submitted meal expenses to exceed \$60 per day. To align the policy's already-existing pre-approval for travel involving overnight accommodations for two educational programs per year, and to reduce the cumbersome process of obtaining Board pre-approval for travel involving overnight accommodations, staff recommends removing the pre-approval requirement.

Motion

To direct staff to take all actions necessary to continue membership in the National Association of Corporate Directors (NACD) for all the members of the Board of Directors of State Compensation Insurance Fund, which also includes NACD membership for the President and CEO; Chief Financial Officer; General Counsel, Chief of Internal Affairs and Assistant Corporate Secretaries and Board Liaison; and

To direct staff to continue to provide information on educational opportunities for Board members through the NACD or other educational and industry forums and to establish the process for Board or Committee Chair approval of a specific Board member request with State Fund paying for all reasonable and necessary expenses associated with continuing education or industry forums; and

To direct the Board Liaison to research options for partnering with academic institutions offering a broader Board training curriculum which also meets the statutory educational requirements; and

To adopt the State Compensation Insurance Fund Board Member Education and Travel Expense Reimbursement Policy as presented (see attached).

HILDA PADUA, Asst. Corporate Secretary
& Board Liaison

Summary of Proposed Changes to
State Compensation Insurance Fund
Revised Board Member Education and
Travel Expense Reimbursement Policy

Approved:
Board of Directors September 11, 2009
Governance Committee September 10, 2009
1st Revisions Approved:
Board of Directors November 18, 2011
Governance Committee November 17, 2011
[Proposed] Revisions Approved:
Board of Directors November 15, 2012
Governance Committee November 15, 2012

The following summarizes the proposed revisions to the Amended State Compensation Insurance Fund (“State Fund”) Board Member Education and Travel Expense Reimbursement Policy, to be adopted by State Fund’s Board of Directors as the Amended Board Member Education and Travel Expense Reimbursement Policy (“the Travel Expense Reimbursement Policy”). Section and paragraph references are to the numbered paragraphs in the Travel Expense Reimbursement Policy.

<u>Paragraph Number</u>	<u>Summary of Proposed Changes</u>
<u>Guidelines</u> <u>A. Approval</u>	Removed the pre-approval requirement in order to align with the policy’s already-existing authorization of travel involving overnight accommodations for two educational programs per year, and to reduce the cumbersome process of obtaining Board pre-approval for travel involving overnight accommodations.
<u>Exhibit A –</u> <u>Expense Reimbursement</u> <u>Schedule</u> <u>Meals</u>	Board members’ reimbursement for education and travel is not subject to DPA imposed rules. Board reimbursement must be actual and necessary travel expenses incurred in the performance of his or her duties as a member of the Board under the provisions of Insurance Code section 11770(d)(1). Removed provisions establishing a cap of \$60 for meal expenses for any one day and stating that the \$60 cap was not a per diem, and replaced them with “Board member shall be reimbursed for actual and necessary expenses for meals for approved travel on State Fund business.”
<u>Guidelines</u> <u>B. Limitation on</u> <u>Attendance by Board</u> <u>Members, paragraph 2.</u>	Changed reference to “Board training” to “Board continuing education” for greater clarity.

Guidelines C. Authorized Expenses, paragraph 3.	Changed referenced to “Board Training Budget” to “Board Continuing Education Budget” to align with revision to Section B, Limitation on Attendance by Board Members.
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**STATE COMPENSATION INSURANCE FUND
BOARD MEMBER EDUCATION AND TRAVEL EXPENSE REIMBURSEMENT POLICY**

APPROVED:

Board of Directors September 11, 2009
Governance Committee September 10, 2009

1st REVISION APPROVED:

Board of Directors November 17, 2011
Governance Committee November 17, 2011

2nd REVISION APPROVED (changes highlighted)

Board of Directors _____
Governance Committee _____

I. Purpose.

The State Compensation Insurance Fund (“State Fund”) Board of Directors (the “Board”) recognizes the importance of each of its members’ participation in regular Board and Committee meetings, and their regular education regarding topics pertinent to State Fund. In addition, as required by California Insurance Code section 11770, State Fund seeks to ensure that Board members are properly trained to perform their duties and are, on an ongoing basis, exposed to up-to-date information regarding best practices in the numerous subject matters that are pertinent to the operation of the State Fund, including, without limitation, the duties and obligations of members of a board of directors, corporate governance, ethics, board of director legal issues, insurance, finance and investment, and information technology.

In furtherance of these purposes and to establish uniform and clear guidelines for the reimbursement for Board members’ travel-related expenses incurred as a result of their performing State Fund duties, the Board adopts this Board Member Education and Travel Expense Reimbursement Policy (the “Travel Expense Reimbursement Policy”).

This Travel Expense Reimbursement Policy is intended to be applied and interpreted in compliance with the relevant provisions of the California Insurance Code and California Government Code, all other applicable law, and in harmony with State Fund’s mission statement, policies and guidelines.

II. Guidelines.

State Fund shall reimburse Board members for their actual and necessary travel expenses incurred while participating in Board and Committee meetings, continuing education programs, and in the performance of any other appropriate State Fund duties. The purpose of this Travel Expense Reimbursement Policy is to set forth approval procedures, to impose certain limitations on travel expense reimbursements, and to promote prudent and cost effective travel.

A. Approval.

Travel on State Fund business within California need not be approved in advance as long as overnight accommodations are not provided. The Board hereby approves for purposes of authorizing reimbursement under this Policy, and their current cost, the actual and necessary costs for attendance at the regular and special Board and/or Committee meetings, and for the performance of any other appropriate State Fund duties, including but not limited to attendance at conferences, classes, meetings, or programs that benefit their ability to serve State Fund, and complies with the legislative requirement for continuing education. Board attendance at conferences outside of the United States is generally disfavored.

State Compensation Insurance Fund
Board Member Education and Travel Expense Re-imbursement Policy

B. Limitation on Attendance by Board Members.

1. A Board member is authorized to attend up to two (2) approved educational programs that require overnight accommodations each calendar year. A Board member may attend more than two approved educational programs in any given calendar year only with prior approval of the Board. Attendance by Board members at any educational programs provided by NACD or that are sponsored or organized by State Fund are excluded from this limitation.

2. The Board hereby authorizes the President of State Fund to identify and determine those Board continuing education opportunities that Board members may attend. A list of these authorized Board continuing education opportunities shall be provided to every member of the Board on a periodic basis, and not less than once every six months.

3. A majority of Board members, or of a Standing Committee of the Board, may not meet together for business purposes unless there is public notice of the meeting in accordance with the Bagley-Keene Act. Attendance by more than a majority of the members of the Board or a Committee at educational conferences and seminars and social activities at which State Fund business is not discussed, is not a violation of this provision.

C. Authorized Expenses.

Board members shall be entitled to reimbursement, either directly or through business expense reimbursement requests submitted by State Fund employees on a Board member's behalf, for travel expenses and for all other necessary expenses incurred in connection with State Fund business on the terms set forth herein and as reflected in the schedule attached as Exhibit A to this Policy.

Meals provided by State Fund to Board members while they are conducting State Fund business (and thus not paid for by State Fund through reimbursement requests) are excluded from the attached schedule's limitations.

The Board hereby authorizes State Fund to sponsor educational training programs for the Board at a calendar year expense to State Fund not to exceed the amount that will be included in a Board Continuing Education Budget to be adopted by the Board annually.

D. Claims for Reimbursement.

Reimbursement for travel by a Board member shall be submitted on State Fund's Expense Reimbursement Forms, which shall be reviewed and approved (or disapproved) by the President, or the President's designee, in accordance with the provisions of this Travel Expense Reimbursement Policy. All claims should be submitted within sixty (60) days following the completion of travel. In no event will a claim for reimbursement be approved if submitted ninety (90) days after the end of the calendar year in which the expense was incurred. Board members shall reimburse State Fund for all advances or reimbursements made in excess of allowable expenses within ninety (90) days from the date State Fund submits a refund request.

E. Expenses for Traveling Companions.

Under no circumstances shall State Fund pay or provide reimbursement for the expenses of a family member or traveling companion of a Board member; provided, however, that reimbursable expense that would be the same if incurred by a State Fund Board member without a traveling companion (e.g., for a taxi) need not be reduced from the full actual cost.

F. Limitations on Expense Allowance.

Reimbursement for expenses shall not exceed that which is reasonable and necessary for travel to the precise destination and date of the covered occurrence, whether by private automobile or

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common carrier. Expense costs for extra days prior to or after a conference and/or meeting will be reimbursed only if such extension results in the same or lower overall trip costs in accordance with this Travel Expense Reimbursement Policy.

G. Travel and Lodging Cancellations.

Board members are responsible for the timely cancellation of or change to any registration to a conference where fees may be charged and/or travel and lodging reservations are made on their behalf. Board members shall be responsible for the costs of any fees charged as a result of the failure to timely cancel or resulting from changes to said reservations, unless cancellation is due to State Fund business and unless otherwise approved, on a case-by-case basis, by the President.

H. Travel Expense Reports.

The President shall report all travel expenses reimbursed to Board members by State Fund on the consent calendar that is submitted to the Board at each regular Board meeting. All travel expense reimbursements to Board members are subject to review and a determination by the Board that the payments are in accordance with the provisions of this Travel Expense Reimbursement Policy.

I. Gifts of Travel and Education.

Prior to accepting or using payment or reimbursement for travel from any source other than State Fund or a Board member's employer, it is recommended that a Board member obtain the advice of counsel to ensure that such payment complies with the provisions of the Political Reform Act and the implementing regulations adopted by the Fair Political Practices Commission. Board members shall be responsible for tracking and properly reporting any such payments on the Board member's Form 700-Statement of Economic Interests.

All proposed gifts or payments for travel to State Fund must be approved in advance by the Board after obtaining advice from the General Counsel as to whether such payment complies with the provisions of the Political Reform Act and the implementing regulations adopted by the Fair Political Practices Commission.

J. Travel Arrangements.

All hotel arrangements for which reimbursement will be sought shall be made through or coordinated with the office of the President.

III. Policy Review.

This Travel Expense Reimbursement Policy may be amended from time to time by majority vote of the Board.

EXHIBIT A -- EXPENSE REIMBURSEMENT SCHEDULE

Airline Travel

Board members shall be reimbursed for actual and necessary expenses for airfare for approved travel on State Fund business. Any scheduled U.S. or recognized international air carrier may be used for domestic or international travel. A fully refundable coach class ticket shall be purchased, which shall be at competitive prices. If a restricted or excursion class ticket is purchased at the request of a Board member and the ticket is subsequently cancelled, the Board member shall be required to reimburse State Fund for the cost of the ticket, unless a credit voucher for future travel is issued by the air carrier; charges incurred because of urgent State Fund business or the cancellation of a meeting or event by the organizing entity are exempt from this requirement.

If savings can be realized on the airfare by having a Board member extend his or her stay to include a Saturday night, at his or her option, said Board member may extend his or her stay in order to realize such savings. State Fund shall reimburse the cost associated with the additional lodging and meals resulting from an extended itinerary, not to exceed the savings in airline fare.

If, at the conclusion of a business-related trip, it would be impractical for a Board member to return home the same day and arrive home prior to 10:00 p.m. California time due to the distance that must be traveled, or the unavailability of a return flight, the Board member may lay over for one additional night and State Fund shall reimburse the costs associated with the additional lodging and meals resulting from the extended stay.

Hotels

Actual expenses for lodging in a standard class of hotel shall be reimbursed by State Fund. Whenever possible, a request for a government or conference rate should be made. If State Fund has obtained a negotiated rate at a preferred hotel for a particular event, Board members may not be reimbursed for more than the amount of that negotiated rate. While meals charged to the hotel bill shall be reimbursed in accordance with this Travel Expense Reimbursement Policy, State Fund shall not reimburse expenses related to tobacco, in-room movies, barber/beauty shop, gifts, magazines, personal telephone calls and mini-bar charges. In the case of an extended trip or an emergency situation, laundry and dry cleaning expenses may be reimbursed. Cancellation fees incurred because of urgent State Fund business or the cancellation of a meeting or event by the organizing entity are exempt from this requirement.

Original hotel receipts must be submitted along with a completed State Fund Expense Reimbursement Form to obtain reimbursement.

Meals

Board members shall be reimbursed for actual and necessary expenses for meals for approved travel on State Fund business. Meal expenses on the day of travel may be claimed (i) for breakfast if the departure is prior to 6 a.m., and/or (ii) for dinner if arrival is completed after 7:00 p.m.

A Board member shall be reimbursed for a gratuity of up to 20% of the cost of the meal. A Board member must provide a receipt for any meal that exceeds \$25.00.

When a meal is provided to Board members at a State Fund meeting or other State Fund function, or is included in the cost of a conference registration fee, mode of travel (e.g. airfare), or other State Fund-paid activity, Board members will not be entitled to reimbursement for that meal.

Automobile Mileage

A Board member who uses his/her personal automobile for transportation on State Fund business may be reimbursed for the actual mileage driven on business and shall report such mileage on a State Fund Expense Reimbursement Form. Reimbursement shall be made at the per-mile rate allowed by the Internal Revenue Service.

Parking and Tolls

Parking and tolls will be reimbursed at current rates. A receipt is required for amounts over \$25.00.

Public Transportation

Use of taxis, hired cars and public transportation for State Fund business shall be reimbursed at actual rates; provided, however, those Board members are encouraged to use the most economically reasonable form of public transportation that is reasonably available to them. A receipt is required for amounts over \$25.00.

Car Rentals

The use of a rental car by a Board member shall be reimbursed when it is economically reasonable to rent a vehicle rather than use taxis, hired cars or public transportation. Rental car discounts must be used whenever possible and appropriate. If available, midsize or smaller vehicles should be requested, unless several Board members will be using the vehicle together. Receipts are required for all car rentals.

Incidental Business Expenses

Incidental business expenses reasonably incurred in connection with State Fund business, such as telephone, fax, internet access, and similar business expenses, shall be reimbursed as necessary and appropriate. Receipts are required in each instance of such business expense.

Porterage

Maximum reimbursement for porterage is \$10.00 per day of travel. Receipts are not required for porterage.