

**STATE**  
COMPENSATION  
INSURANCE  
**FUND**

**UPDATE ON GOVERNANCE, COMPLIANCE,  
AND ETHICS INITIATIVES**

Jim Neary  
Executive VP Actuarial/Chief Advisor  
January 21, 2010

# Governance

- ❑ A draft summary of the Governance Framework has been completed
- ❑ A summary of Board delegations of authority to management has recently been completed
- ❑ Barbara Simmons, our Governance Manager, is developing a summary of management responsibilities, under the title: Governance Guide
- ❑ Barbara is also coordinating a comprehensive review and update of all of our Corporate Policies

<b>Board of Directors</b>	<b>Compliance &amp; Regulatory Matters</b>	<b>Ethics</b>	<b>Investigations and Fraud Reporting</b>	<b>Managing Risks</b>	<b>Monitoring Activities</b>
Directors are independent of management	Ethics and Compliance Department	Ethics and Compliance Department	Insurance Fraud Policy established and provided to all new hires as part of orientation	Addition of CFO, Chief Risk Officer and Chief Investment Officer positions	Creation of an Ethics and Compliance Department
Board has established Governance, Audit & Investment Committees	Model Audit Rule documentation & testing	Employee Handbooks	Email and telephone hotlines established to allow confidential reporting	Promotion of candid/open discussions of risk at Executive level –Risk Committee	Internal Audit does an annual risk based audit plan
Board subcommittee charters Established	Analysis of new regulations that impact company	Conflict of Interest Disclosure (FPPC 700) for designated filers	Independent investigations performed under Atty-client privilege	Quarterly Senior Management Business Updates	Management follow-up of issues in Auditors Management Letter
Independent Reporting by External & Internal Auditors and General Counsel to Board	Required postings in all company locations	Ethics Policy in place for Mgrs & Supervisors	Internal Audit investigation of controls where suspected wrongdoing has occurred	ERM linked to annual planning process	Management follow-up of whistleblower reports
Director continuing education on Governance	Sexual harassment training every 2 yrs	HR policies and procedures	Identified fraud or other criminal activity always reported to law enforcement	Business Continuity Plans in place	Internal Audit follow-up: audit findings and corrective actions
Periodic evaluation of management	Annual insurance fraud training for customer contact ees	Performance appraisal process		Initial Enterprise Risk Analysis Completed	Financial results, trend analysis, forecasted cash flow reports
Board Assimilation Process in place	Corporate Policy Initiative established for sustained management of policy review and development	Hotline in place for employee whistle blowing		Appropriate risk transference through contractual clauses and 3 <sup>rd</sup> party insurance	Investment Activity Reports
Periodic review of “Tone at the Top” in each governance area	Internal Affairs Division established	Required pre-employment screening		Fleet Safety Program for drivers	

<b>Board of Directors</b>	<b>Compliance &amp; Regulatory Matters</b>	<b>Ethics</b>	<b>Investigations &amp; Fraud Reporting</b>	<b>Managing Risks</b>	<b>Monitoring Activities</b>
Audit Committee review of financial statements	Internal Audit Charter	Orientation program for new hires		Leadership succession plans developed	
Board selects external auditors	Bi-annual Ethics Training for FPPC filers	Incompatible Activities Statement		Strategic Planning	
Board Conflict of Interest policy & a Code of Conduct	Annual Hotline notice to employees	Ethics related hotline established		Governance Risk & Compliance Committee	
Audit Committee Oversight of whistleblower reports	Initiation of a Privacy Policy initiative			Appropriate reinsurance in place	
Board discussion of Enterprise Risk Management					
Independent Appointed Actuary reports to Board on reserves					
Board reviews and adopts By-Laws					
Delegated Authorities by Board resolution					
Management Guide revision 1sr Qtr 2010: re-established as Governance Guide					
Audit Committee oversight of Internal Affairs					
General Counsel reports to the Board of Directors					

## Model Audit Rule - Provisions

- ❑ Officially named the “Annual Financial Reporting Model Regulation”
  - Incorporates the key provisions of SOX requirements
- ❑ Overall guidance applies to all insurance companies
- ❑ Requires a Management Report on Internal Control Over Financial Reporting for most insurance companies
- ❑ Independent Audit Committee members will be required for all companies, except foreign insurers
- ❑ Includes auditor scope of services provisions, similar to SOX
  - No auditor attestation – Sign-off by Management only

- ❑ Insurers will be required to file annually a Management Report on Internal Control Over Financial Reporting
  - Compliance is required for 2010 audit year
  - First report will be filed in 2011
  - No auditor attestation is required
- ❑ Management may select the basis of the reporting framework and the nature of controls to be relied upon
- ❑ The rule gives no specific guidance on validation of controls; therefore, management may determine the appropriate level of testing required to support their report

## MAR Reporting Requirements

- Assertion of the effectiveness of internal control over financial reporting
- Brief description of approach for evaluating effectiveness internal control over financial reporting
- Brief description of scope of work, description of internal controls which were excluded
- Disclosure of any unremediated material weaknesses
- Signatures of Chief Executive Officer and Chief Financial Officer

## MAR Project Status

- ❑ 213 Key Controls Identified
  - 103 Key Controls Documented and Tested
  - 110 Key Controls Awaiting Testing in 2010
  - 24 Key Controls Documented and in Remediation
  - 25 Key Controls Currently in Testing
  - 61 Key Controls Pending Progress of IT Change Mgt & Program Development (see below)
- ❑ Project Challenges

The most challenging aspect of the project is installing a new protocol for moving software from development and testing into production. In essence this means strengthening the procedures that guarantee that as software that impacts the financial statement is written and/or updated there will be no errors introduced which will introduce material misstatements.
- ❑ At this point we see no risks to having the project completed when the certifications are due in early 2011



## MEDICARE REPORTING

- ❑ Medicare has begun to aggressively defend itself from paying for services that are primarily the liability of another 3<sup>rd</sup> party payor.
- ❑ Workers Compensation carriers must report details of their claims to Medicare where the claimant is likely to also be a Medicare client.
- ❑ Failure to report a claim is subject to a \$1,000/day/claim penalty.
- ❑ We expect additional revisions in the reporting requirements as late as next month.
- ❑ Our initial reporting date for insured claims is April 8, 2010; the initial reporting date for state contract claims is May 15, 2010.
- ❑ State Fund has completed an extensive “Data Clean Up” to make sure all the required fields have correct entries.
- ❑ We are in the process of running a match of 200,000 insured claimants and 80,000 state contract claimants against the Medicare data base.
- ❑ We expect to meet reporting deadlines.

## MANDATORY TRAINING COMPLETED IN 2009

- ❑ Disclosure training (for all Form 700 filers)
- ❑ Harassment Prevention training (98% of supervisors and managers completed the training)
- ❑ Anti-fraud training (for all front line employees administering workers compensation policies and claims)
- ❑ Information Security (for all employees with access to IT systems)

## PRIVACY

- ❑ State Fund Privacy Initiative launched.
- ❑ Responsibility for privacy has been assigned to the Ethics & Compliance Department.
- ❑ A new Privacy Policy is needed and is under development.
- ❑ Impact on IT Systems is significant.
  - Data on all laptop computers has been encrypted
  - Good practices already in place – but more is needed
- ❑ Setting Up Corporate Privacy Response Team.
  - Modeled after I.T. Security Response Team

## WHISTLE BLOWER HOTLINES

This month we will republish information about State Fund's three hotlines:

- Integrity In Action for ethical concerns
- Bureau of State Audits for the California Whistleblower Act
- CHP Task Force for issues related to management misconduct

- ❑ Conflict of Interest Limitations and Disclosure Requirements (Form 700) are being extended to a Broader Group of Employees.
  - 2,754 employees are currently subject to disclosure requirement.
  - Under the new policy approximately 6,000 employees will be subject to the disclosure requirements.
- ❑ The new policy has been shared with employee unions.
- ❑ The Conflict of Interest policy is currently with the Fair Political Practices Commission for review.
  - When it obtains their approval, it will then go to the Secretary of State through the Office of Administrative Law for approval.
  - It becomes effective thirty days after the Secretary of State signs the policy.

- ❑ The Corporate Ethics Policy applicable to Executive Committee Members and Program Managers was republished as a reminder last month (see attachment)
- ❑ A new Employee Code of Conduct is going through the approval process (see attachment). It is currently being revised based on employee and union feedback. We expect the new Code of Conduct to become effective in the first quarter.
- ❑ Planned Ethics Training. We've identified a two video package (focused on Fairness, Honesty, Integrity and Respect) that will be the basis of our initial 2010 ethics training.

## IN CONCLUSION

We continue to build upon the initiatives begun in 2008 to enhance State Fund's governance, compliance, ethics and transparency. These initiatives are a work in process. Our goal is to be recognized by our customers, regulators, and the insurance industry as the gold standard of workers compensation carriers.

# Attachments



Conflict of Interest  
Code



Management Ethics  
Policy



Code of Conduct



**CH. 35 CONFLICT OF INTEREST CODE FOR THE  
STATE COMPENSATION INSURANCE FUND**

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**52400 General Provisions**

The Political Reform Act, Government Code Sections 81000, *et seq.*, requires state and local government agencies to adopt and promulgate Conflict of Interest Codes. The Fair Political Practices Commission has adopted a regulation, 2 Cal. Code of Regs. Section 18730, which contains the terms of a standard Conflict of Interest Code, which can be incorporated by reference, and which may be amended by the Fair Political Practices Commission to conform to amendments in the Political Reform Act after public notice and hearings. Therefore, the terms of 2 Cal. Code of Regs. Section 18730 and any amendments to it duly adopted by the Fair Political Practices Commission are hereby incorporated by reference and, along with the attached Appendix in which officials and employees are designated and disclosure categories are set forth, constitute the Conflict of Interest Code of the State Compensation Insurance Fund.

Pursuant to Section 4 (A) of the standard code, designated employees shall file statements of economic interests with their agency. Upon receipt of the statements of the Board of Directors, the agency shall make and retain a copy and forward the original of these statements to the Fair Political Practices Commission.

**Note:** The Political Reform Act consists of Sections 81000 through 91014 of the Government Code. The Political Reform Act was an initiative approved by the people on June 4, 1974 which became effective on January 7, 1975. The provisions of Section 18730 of Title 2 of the California Code of Regulations, together with the two pages attached hereto, constitute the Conflict of Interest Code of the State Compensation Insurance Fund and provide the specific procedures to be followed in complying with the Political Reform Act.

**APPENDIX**

**DESIGNATED EMPLOYEES**

<b><u>EMPLOYEE (S)</u></b>	<b><u>DISCLOSURE CATEGORIES</u></b>
Members of Board of Directors	1, 2, 3, 4
President	1, 2, 3, 4
Executive Vice-President	1, 2, 3, 4
Vice-President	1, 2, 3, 4
Chief Counsel	1, 2, 3, 4, 6
All Other Counsel	4, 6
District Manager	5, 7
Claims Manager	7
Assistant Claims Manager	7

**APPENDIX CONT.**

**DESIGNATED EMPLOYEES**

<b><u>EMPLOYEE (S)</u></b>	<b><u>DISCLOSURE CATEGORIES</u></b>
Claims Adjuster	7
Business Services Manager	4
Purchasing Manager	4
Buyer	5
Real Property Manager	1, 5
Fiscal & Investment Services Manager	3
Corporate Planning Officer	2
Group Insurance Manager	5, 7

**DISCLOSURE CATEGORIES**

**Category 1**

Interest in real property within two (2) miles of any real property owned or leased by State Compensation Insurance Fund.

**Category 2**

Investments in, income from, and positions held with business entities providing workers' compensation insurance coverage under the California Workers' Compensation Laws.

**Category 3**

Investments in, income from, and positions held with financial institutions or business entities of the type with which the State Compensation Insurance Fund has deposits or in which it makes investments.

**Category 4**

Investments in, income from, and positions held with business entities of the type which, within the past two years, have contracted with the State Compensation Insurance Fund to provide services, supplies, materials, machinery, or equipment. (As an aid to designated employees, the State Compensation Insurance Fund shall provide a list of vendors with whom it has transacted business during the twelve-month period preceding the disclosure statement filing date.)

### **Category 5**

Investments in, income from, and positions held with business entities of the type which, within the past two years, have contracted with the State Compensation Insurance Fund to provide services, supplies, materials, machinery, or equipment which the filer has responsibility for purchasing. (As an aid to designated employees, the State Compensation Insurance Fund shall provide a list of vendors with whom it has transacted business during the twelve-month period preceding the disclosure statement filing date.)

### **Category 6**

Investments in, income from, and positions held with business entities and persons who have, during the reporting period, been the subject of legal work performed by the filer in his/her capacity as an attorney for the State Compensation Insurance Fund.

### **Category 7**

Investments in, income from, and positions held with business entities and persons whose claims have been adjusted by the filer during the reporting period. If the employee has not participated in an adjustment assignment during the course of the reporting period in which he or she has a financial interest, then the employee shall sign a statement to that effect under penalty of perjury. Such statement shall be filed and processed as though it were the disclosure statement required by Section 4 (A) the Standard Code. The employee who participated in an adjustment assignment in which he or she has a financial interest shall disclose that interest as described above, but such statement shall be delivered to the filing officer who will file the statement as a public record.

## **MODIFICATION TO STANDARD CONFLICT OF INTEREST CODE**

Section 8 is modified by adding a paragraph following the last paragraph, to read as follows:

Four members of the Board of Directors of State Compensation Insurance Fund are required by law to be selected from its policyholders (Ins. C. S11770). For purposes of dividend decisions, these policy holders are deemed to constitute the public generally within the meaning of 2 Cal. Code of Regs. S18703 (d).

# INTER-COMMUNICATION

**STATE**  
COMPENSATION  
INSURANCE  
**FUND**

DATE December 9, 2009

POLICY NO.

CLAIM NO.

TO EXECUTIVE COMMITTEE  
PROGRAM MANAGERS  
(DEPT. or D.O.)

INJURED

ATTN \_\_\_\_\_

EMPLOYER

FROM DOUGLAS STEWART  
(DEPT. or D.O.)

SUBJECT **State Fund Corporate Ethics Policy**

A reminder that the attached State Fund Corporate Ethics Policy applicable to the Executive Committee and to Program Managers (originally published April 18, 2007) remains in effect. Human Resources is working on a broader Code of Conduct that will be applicable to all employees, but that is still going through the approvals process. This policy is consistent with those adopted by many publicly traded companies and serves as a statement of our common commitment to high standards of ethical conduct in all our business practices.



DOUGLAS STEWART  
Interim President and CEO

Attachment

# CORPORATE POLICY

## **OBJECTIVE:**

To promote honest and ethical business practices, assure that State Fund's mission, vision, and values are not compromised, and maintain State Fund's reputation for integrity and fairness in business dealings with others.

## **POLICY:**

It is State Fund's policy that its executives and program managers:

1. Conduct business in an honest and ethical manner.
2. Comply with applicable governmental laws, rules and regulations.
3. Deal fairly with our policyholders, claimants, suppliers, competitors and employees. No one should take unfair advantage of another through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair-dealing practice. Under no circumstance should information be obtained through theft, illegal entry, blackmail, or electronic eavesdropping, or through misrepresentation of managers' affiliation with State Fund or misrepresentation of managers' identities. Information about competitors should be used in an ethical manner and in compliance with the law. Any proprietary or non-public information about our competitors should not be used if it is suspected such information was obtained improperly.
4. Provide a consistent level of service to policyholders and claimants without favoritism based on political or other connections.
5. Provide full, fair, accurate, timely and understandable disclosure in financial reports. All managers have a responsibility to ensure that State Fund's accounting records do not contain any false or intentionally misleading entries. We do not permit intentional misclassification of transactions as to accounts, programs or accounting periods. No payment or transfer of company funds or assets shall be made that is not authorized, properly accounted for, supported by appropriate documentation identifying the true nature of the transaction and clearly identified on State Fund's books.
6. Base employment decisions on merit, without discrimination or favoritism.
7. Maintain the confidentiality of State Fund, policyholder, claimant, and employee information, except where disclosure is authorized or legally mandated.
8. Ethically handle actual or apparent conflicts of interest between personal and professional interests.
9. Report violations of this policy to an appropriate person.

## **RESPONSIBILITIES:**

### **Executives and Program Managers:**

1. Cultivate a culture of the highest level of ethical behavior and integrity.
2. Adhere to all ethical and legal standards outlined in this policy.

# CORPORATE POLICY

3. Promote and champion this policy throughout the organization.
4. Communicate this policy to subordinate Program Managers.
5. Comply with this policy.
6. Complete annual Company ethics training.
7. Become familiar with laws and regulations that apply to their job function.
8. Recuse themselves from any selection process or purchasing decision that creates a real or apparent conflict of interest.
9. Seek guidance from executives or other experienced program managers when questions arise about the ethics of a course of action.
10. Promptly report violations of this policy to an Executive, to the Internal Audit Manager, to the Bureau of State Audits' California Whistleblower Hotline, or to the Integrity in Action reporting hotline. No retaliation against any individual who reports violations of this policy in good faith will be permitted. However, the reporting of a violation will not excuse the violation itself. State Fund will investigate any matter which is reported and will take corrective action when appropriate. Reports may be made anonymously. [The Bureau of State Audits' California Whistleblower Hotline can be contacted via the web link below, by calling (800-952-5665) or by submitting a confidential written report to: California Bureau of State Audits, 555 Capitol Mall Suite 300, Sacramento, CA 95814 Attention: Investigations.]

Designated Employees (i.e. employees who are specifically covered by the disclosure and disqualification provisions of State Fund's Conflict of Interest Code. Employees will be notified if they are considered a Designated Employee):

1. Complete mandated State Ethics training.
2. File Statements of Economic Interests as required.

## Internal Audit Manager

1. Investigate complaints related to this policy and initiate corrective action as necessary.
2. Recommend and implement training as required to support this policy.
3. Periodically assess the state of the ethical climate of State Fund and the effectiveness of its strategies, tactics, communications and other processes used in achieving a legal and ethical culture.
4. Recommend updates to this policy as necessary.

## Senior Vice President of Human Resources and Organizational Development

1. Maintain records of all corporate and State mandated ethics training programs.
2. Maintain all Statements of Economic Interests filed by State Fund's directors and employees.
3. Determine appropriate disciplinary action against employees who do not comply with this policy.

# CORPORATE POLICY

## **REFERENCES:**

State Fund's Mission, Vision, and Values

Corporate Guidelines:

- 03-20-004 Incompatible and Unethical Activities
- 03-20-006 Employment of Individuals Who are Related or Have a Close Personal Relationship
- 03-20-016 Sexual Harassment
- 03-20-017 Equal Employment Opportunity, Discrimination Counseling and Complaint System
- 50-20-007 Dispute Review Process: Customer Assistance
- 55-20-004 Information Security
- 55-20-GM5 Information Processing Resource Usage
- 55-20-001 Information Processing Systems Acquisition

Ethics Training Courses for State Officials

Office of the Attorney General web site: <http://caag.state.ca.us/ethics/index.htm>

Ethical Restrictions on Government Officials and Employees

Fair Political Practices Commission web site: [www.fppc.ca.gov](http://www.fppc.ca.gov)

California Whistleblowers' Hotline

[California State Auditor - The California Whistleblower Protection Act](#)

Integrity in Action Hotline Program

**Code of Conduct**  
**For All**  
**State Compensation Insurance Fund**  
**Employees**

DRAFT



CODE OF CONDUCT FOR ALL  
STATE COMPENSATION INSURANCE FUND EMPLOYEES

**Message from the President**

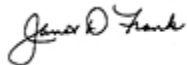
*Dear Fellow Employees,*

*This document outlines a personal responsibility, Code of Conduct for all State Compensation Insurance Fund employees. This Code generally describes the laws, principles and guidelines employees must follow to meet State Fund's expectations regarding honesty, integrity and responsible corporate behavior.*

*The role of each State Fund employee begins with understanding and adhering to State Fund's values and this Code. If any ethical or legal compliance issue occurs that raises a question in your mind, you have a responsibility to share your concern with your supervisor, manager or Human Resources.*

*State Fund encourages the responsible reporting of potential violations of either the law or this Code by all employees, so retaliation of any kind against an employee for making such reports in good faith is prohibited regardless of whether the matter reported ultimately proves to be a violation.*

Sincerely,



Janet D. Frank  
President & CEO

CODE OF CONDUCT FOR ALL  
STATE COMPENSATION INSURANCE FUND EMPLOYEES

**Our Mission**

State Fund exists to provide California's businesses a strong and stable choice for their workers' compensation insurance while making California's workplaces safer and helping injured employees return to work – all with no financial obligation from the public.

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**Our Vision**

To be recognized by our customers, regulators, and the insurance industry as the gold standard of workers' compensation carriers; to underwrite the California dream by providing services that are responsive to our clients' evolving needs.

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**Our Values**

- ◆ Honesty
- ◆ Integrity
- ◆ Accountability
- ◆ Excellence in customer service
- ◆ Long-term commitment in California

CODE OF CONDUCT FOR ALL  
STATE COMPENSATION INSURANCE FUND EMPLOYEES

**Our Guide is to Maintain Trust and Credibility**

The success of our business is dependent on the trust and confidence we earn from our employees, customers, and stakeholders. We gain credibility by adhering to our commitments, displaying honesty and integrity, and reaching company goals solely through honorable conduct.

State Fund's policy on ethics requires that all employees treat their jobs as a public trust, avoid real and apparent conflicts of interest, and set a good example of public service.

It is easy to *say* what we must do, but the proof lies in our *actions*. Ultimately, we will be judged on what we do.

**Create a Culture of Open and Honest Communication**

At State Fund everyone should feel comfortable to speak his or her mind, particularly with respect to ethics concerns. Managers set the tone at the top. They have a responsibility to create an open and supportive environment where employees feel comfortable raising such questions. We all benefit tremendously when employees exercise their power to prevent mistakes or wrongdoing by asking the right questions at the right times.

**Uphold the Law**

State Fund's commitment to integrity begins with complying with laws, rules, and regulations that govern our business. Further, each of us must understand the company policies, laws, rules and regulations that apply to our specific roles. If we are unsure if a contemplated action is permitted by law or State Fund policy, we should seek advice from an appropriate resource. We are responsible for preventing violations of law and for speaking up if we see possible violations.

As a market of choice, as well as the safety net for California's workers' compensation market, State Fund is dedicated to ethical, fair, and responsible competition. We sell workers' compensation insurance products and services based on their merit, superior quality, functionality and competitive pricing. We will make independent pricing and marketing decisions and will not improperly cooperate with or coordinate our activities with our competitors. We will not offer or solicit improper payments or gratuities in connection with the purchase of goods or services for State Fund or the sales of its products or services, nor will we engage or assist in unlawful boycotts of particular customers.

State Fund also complies with the collective bargaining legislation affecting State Fund employees. It is State Fund's policy to engage in cooperative efforts with the State's Department of Personnel Administration and union representatives to negotiate terms and conditions of employment for State Fund employees and to work with union stewards in the proper administration of the [labor contracts](#).

## CODE OF CONDUCT FOR ALL STATE COMPENSATION INSURANCE FUND EMPLOYEES

### **Our Responsibilities**

We all deserve to work in an environment where we are treated with dignity and respect. State Fund is committed to maintaining such an environment because it helps bring out the full potential in each of us, which, in turn contributes directly to our business success. We cannot afford to let anyone's talents go to waste.

As an organization we expect that all employees and associates treat one another with respect and dignity. Each employee has a role in making State Fund a better and more rewarding place to work. Our values are richly embedded in this commitment and are backed by our philosophy as outlined in this guide.

Management has the added responsibility to role model, through their actions, the importance of this Code. In any business, ethical behavior does not simply happen; it is the product of clear and direct communication regarding behavioral expectations, modeled from the top and demonstrated by example. Again, ultimately, our actions are what matters.

Managers must promptly address ethical questions or concerns raised by employees and take the appropriate steps to deal with them. Managers should not consider employees' ethics concerns as threats or challenges to their authority, but rather as another encouraged form of business communication. At State Fund, we want the ethics dialogue to become a natural part of daily work.

State Fund will address all reported instances of questionable or unethical behavior. In every instance where improper behavior is found to have occurred, State Fund will take appropriate action. We will not tolerate retaliation against employees who raise genuine ethics concerns in good faith.

State Fund employees at all levels are vital members of our organization. Management has provided employees several avenues through which they can relay suspicions or concerns about unethical behavior. In addition to the Integrity in Action Program, the California Whistleblower Protection Act, and the State Fund Fraud Hotline, employees are authorized to question and escalate any transactions that do not meet established guidelines, policies, or procedures. Employees should direct any encountered internal control weaknesses and/or violations and any findings to any of the following: Direct Supervisor; Unit Manager; Program Manager; Executive Management; or directly to the Board of Directors. Employees are assured of freedom from retaliation or reprisal for reporting their concerns in good faith.

### **Media Inquiries**

State Fund is a high-profile organization, and from time to time, reporters and other members of the media may approach employees. In order to provide a consistent and unified message and to provide accurate information about State Fund, employees should direct all media inquiries to the [Communications Manager](#). The Communications Center will coordinate and issue all State Fund press releases.

CODE OF CONDUCT FOR ALL  
STATE COMPENSATION INSURANCE FUND EMPLOYEES

**Reporting Concerns**

Employees are encouraged to address issues with their managers or the Human Resources Manager, as most problems can be resolved swiftly. If for any reason that is not possible or if an employee is not comfortable raising the matter with their manager or Human Resources, State Fund's Executive Office does operate with an open-door policy.

**•Integrity in Action**

State Fund implemented the Integrity in Action program to promote a transparent and open organization. With Integrity in Action, our customers and employees can have confidence that State Fund will continue to provide the highest level of service; the program serves as a statement of our common commitment to a high standard of ethical conduct in all our business practices.

This toll-free reporting hotline provides callers an additional avenue to report their concerns or to relay suspicions about unethical activity directly to our Board of Directors. Customers, claimants, staff, and our business partners can call (866) 294-1742 anytime—24 hours a day, 7 days a week—and may remain anonymous. The Integrity in Action hotline is operated by an independent company and staffed by specially trained interviewers.

**•The California Whistleblower Protection Act**

The California Whistleblower Protection Act protects against reprisal for reporting improper activities. Such improper activities might include theft, fraud, conflicts of interest, misuse or abuse of state property, gross misconduct, and incompetence or inefficiencies by state employees. The Act also protects the identity of a reporting individual unless disclosure to a law enforcement agency conducting a criminal investigation is required. [GC8547 Whistleblower Protection Act](#). [Updated Whistleblower Notices](#) are distributed annually to all employees about the California Whistleblower Protection Act. This information is displayed in each State Fund department in locations where other employee notices are maintained. Call the Whistleblower Hotline at (800) 952-5665 to file a report under the Whistleblower Protection Act.

**•Insurance Frauds Prevention Act (IFPA)**

To report suspected improper activities of State Fund policyholders, injured workers, and vendors file an [Electronic Tip Report](#), contact your local district/department Investigative Liaison or call the State Fund's [Special Investigation Unit](#) at (323) 266-5138.

CODE OF CONDUCT FOR ALL  
STATE COMPENSATION INSURANCE FUND EMPLOYEES

**Diversity**

Our diverse workforce is a tremendous asset. Your importance and contributions as a unique and talented individual lead to a more productive and fulfilling work environment for all.

• **Equal Employment Opportunity**

State Fund will ensure that all applicants for employment and all employees at State Fund are afforded equal employment opportunity and a workplace free of discrimination or harassment.

Equal opportunity and fair treatment extend to all at State Fund. Employees and applicants will not be discriminated against or harassed based on their protected group status, specifically: race, color, religious creed, national origin, ancestry, physical disability, mental disability, medical condition, marital status, sex, age, political affiliation, or sexual orientation.

• **Harassment**

Everyone at State Fund has the right to work in an environment free from illegal harassment and discrimination, where privacy and dignity are respected and all are protected from offensive or threatening behavior.

State Fund views such conduct as offensive and highly inappropriate, and individuals found to have engaged in harassment will be subject to disciplinary action up to and including termination.

In addition to covering all State Fund employees, State Fund's harassment-free workplace policy extends to outside vendors, customers, professionals, and other providers of goods or services to any State Fund location. Note that this policy applies to both work-related settings and State Fund-organized activities outside the workplace.

State Fund's commitment to take all steps necessary to prevent and correct harassment and discrimination includes offering appropriate training to all employees on a biennial basis.

• **Safe and Healthy Workplace**

State Fund is dedicated to maintaining a safe work environment. To promote a healthy workforce and a safe work environment, employees are expected to follow health and safety guidelines, and make management aware of potential safety hazards or threats of violence.

CODE OF CONDUCT FOR ALL  
STATE COMPENSATION INSURANCE FUND EMPLOYEES

**•Threat Management Program**

State Fund is committed to a workplace free of violence or threats. To provide for the safety and security of all State Fund personnel, State Fund established a threat evaluation process by which employees can report any perceived threat.

**•Domestic and Workplace Violence**

State Fund does not tolerate violence or threatening behavior of any kind including domestic violence that might impact the workplace. State Fund adheres to statutes in the Labor Code, Family Code and collective bargaining legislation affecting State Fund employees who are victims of domestic violence. State Fund also participates in programs on Workplace Violence Prevention.

**•Substance Abuse-Free Workplace**

Substance abuse – whether alcohol or drug abuse – poses a serious threat to the safety, health, and productivity of our organization, employees, and customers.

It is the policy of the State of California (Refer to Title 2, Article 29, Rule 599.960 of the California Code of Regulations) that the State workplace be free from the effects of drug and alcohol abuse. This is to avoid the dangers arising from substance abuse in the workplace. These dangers include death and injury to the employee, co-workers, or the public resulting from accidents, dereliction of duty, poor judgment, and carelessness. Substance abuse also results in lost productivity, reduced efficiency, and increased absenteeism by the substance abuser and interferes with the job performance of employees who do not use illegal or unauthorized substances.

**•Functions involving Alcohol**

There may be State Fund-sponsored events where alcoholic beverages are available. In these cases, all appropriate liquor-related laws must be followed. Intoxication and excessive drinking at these events are prohibited.

CODE OF CONDUCT FOR ALL  
STATE COMPENSATION INSURANCE FUND EMPLOYEES

•**Employee Assistance Program**

You are a part of the large and diverse workforce at the State Fund that every day puts tremendous effort into the work necessary to accomplish its mission and goals. From time to time a personal issue or problem may possibly get in the way of your workplace performance.

State Fund's Employee Assistance Program (EAP) provides problem solving and referral services to employees and their family members with alcohol, drug, or other personal problems that may be affecting job performance. Support is also offered to State Fund management and supervisory staff with expert consultation and training on motivational strategies dealing with personnel problem-solving methods and the development of organizational practices which enhance employee performance.

[EAP](#) is available to all State Fund employees. Their services are confidential and free of charge. Their toll-free telephone number is (800) 339-2099.

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CODE OF CONDUCT FOR ALL  
STATE COMPENSATION INSURANCE FUND EMPLOYEES

**State Fund Compliance**

Because of our size and role in the marketplace, State Fund serves as a stabilizing force in the California economy. We value our reputation and position in the California marketplace and we will not compromise. We incorporate our values in each transaction we conduct and in each relationship we build.

• **Statement of Economic Interests**

All State Fund SEI filers must complete the initial Ethics Orientation within six months of appointment to a position that requires SEI filing, and must complete a reorientation every odd calendar year thereafter.

• **Code of Ethics or Rules of Professional Conduct for Professional Associations**

State Fund employees who are members of professional associations in the course of their employment with State Fund are to adhere to their association's published Code of Ethics or Rules of Professional Conduct. The fact that specific associations are not mentioned does not prevent the member, certification holder, or candidate from governance from State Fund's Code of Conduct or their professional association's published code of ethics or rules of professional conduct.

• **California Public Records Act**

State Fund is committed to full compliance with the letter and spirit of law under the California Public Records and Bagley-Keene Open Meetings Act. The Public Records Office (PRO) will manage State Fund's public record requests and employees should transmit these requests immediately, in whatever form they are made, to the PRO.

• **Proprietary and Confidential Information**

Integral to State Fund's business success is our protection of confidential company information, as well as nonpublic information entrusted to us by employees, customers, injured workers and other business partners. Confidential and proprietary information includes such things as pricing and financial data, customer names and addresses or nonpublic information about other companies, including current or potential suppliers and vendors. We will not disclose confidential and nonpublic information without a valid business purpose and proper authorization.

CODE OF CONDUCT FOR ALL  
STATE COMPENSATION INSURANCE FUND EMPLOYEES

**•Accurate Public Disclosures**

We will make certain that all disclosures made in financial reports and public documents are full, fair, accurate, timely and understandable. This obligation applies to all employees, including all financial executives, with any responsibility for the preparation for such reports, including drafting, reviewing and signing or certifying the information contained therein. No business goal of any kind is ever an excuse for misrepresenting facts or falsifying records.

Employees should inform the Communications and the Human Resources departments if they learn that information in any filing or public communication was untrue or misleading at the time it was made or if subsequent information would affect a similar future filing or public communication.

**•Business Records and Financial Reporting**

All State Fund employees must comply with all laws, rules, and regulations. All information must be recorded and reported accurately and honestly. This includes reporting of hours worked, legitimate business expenses incurred, claims adjusted, and all other activities related to State Fund business.

Financial reports and records must accurately reflect real transactions and conform to State Fund's policy. No entry may be made on the company's books that hides or disguises the true nature of any transaction. Undisclosed or unrecorded accounts, funds or assets are not allowed.

We must not improperly influence, manipulate or mislead any authorized audit, nor interfere with any auditor engaged to perform an internal or independent audit of State Fund books, records, processes or internal controls.

**•Records and Information Management**

Business records and communications often become public, and we should avoid exaggeration, derogatory remarks, guesswork, or inappropriate characterizations of people and companies that can be misunderstood. This applies equally to e-mail, internal memos, and formal and informal reports. Records and information will be retained to assure that State Fund's legal, regulatory, financial, operational, and archival requirements are met. Records and information will not be retained longer than necessary. Records and information will be maintained in an efficient, effective, and secure medium and location. Records and information shall be recoverable or reconstructed in the event of a disaster or catastrophe, to the extent necessary for business continuity.

CODE OF CONDUCT FOR ALL  
STATE COMPENSATION INSURANCE FUND EMPLOYEES

•**Use of State Fund Resources**

State Fund resources, including time, material, equipment, and information, are provided for State Fund business use.

Employees and those who represent State Fund are trusted to behave responsibly and use good judgment to conserve company resources. Managers are responsible for the resources assigned to their departments and are empowered to resolve issues concerning their proper use.

In order to protect the interests of the State Fund network and our fellow employees, State Fund reserves the right to monitor or review all data and information contained on an employee's State Fund-issued computer or electronic device, the use of the Internet or State Fund's intranet. We will not tolerate the use of company resources to create, access, store, print, solicit or send any materials that are not related to State Fund business. Nonetheless, minimal and incidental use is permissible as long as it does not affect job performance or cause a disruption to the workplace. Under no circumstances will State Fund tolerate materials that are harassing, threatening, abusive, sexually explicit or otherwise offensive or inappropriate.

Employees are to comply with, and should refer to the [State Fund Systems User Information Notice](#). Questions about the proper use of State Fund resources should be directed to management.

CODE OF CONDUCT FOR ALL  
STATE COMPENSATION INSURANCE FUND EMPLOYEES

**Conflicts of Interest**

At State Fund, we must have the courage to tackle the tough decisions and make difficult choices secure in the knowledge that State Fund is committed to doing the right thing. At times this will mean doing more than simply what the law requires. Pursuing a course of action merely because we can does not mean we *should* do so.

Although State Fund's guiding principles cannot address every issue or provide answers to every dilemma, they can define the spirit in which we intend to do business and should guide us in our daily conduct.

Your position at State Fund cannot be used for personal gain or advantage to you or a member of your family. Any situation that may create, or even appear to create, a conflict between personal interests and the interests of State Fund must be avoided. Disclose any questionable situation to management and to Human Resources as soon as the situation arises.

*Here are some ways in which conflicts of interest could arise and should be evaluated:*

1. Being employed (yourself or a close family member) by, or acting as a consultant to a competitor or potential competitor, supplier or contractor, regardless of the nature of the employment, while you are employed with State Fund.
2. Employment of individuals who are related or who have a close personal relationship.
3. Serving as a board member for an outside commercial company or organization.
4. Owning or having a substantial interest in a competitor, supplier or contractor.
5. Having a personal interest, financial interest or potential gain in any State Fund transaction.
6. Placing company business with a firm owned or controlled by a State Fund employee or his or her family.
7. Accepting gifts, discounts, favors or services from a customer/potential customer, competitor or supplier, unless equally available to all State Fund employees.

This list is not all inclusive and determining whether a conflict of interest exists is not always easy to do. Employees with a conflict of interest question should seek advice from management.

**•Gifts and Favors**

Giving or receiving gifts, gratuities and entertainment that are reasonable complements to a business relationship and are of modest value is generally permissible. We expect all of our stakeholders to respect our Corporate Guideline on Incompatible Activities and Corporate Guideline on Business Ethics in any State Fund transaction.

State Fund is committed to competing solely on the merit of our products and services. We should avoid any action that creates a perception that favorable treatment was sought, received, or given in exchange for personal business courtesies. Bribes and kickbacks are unacceptable and illegal.

CODE OF CONDUCT FOR ALL  
STATE COMPENSATION INSURANCE FUND EMPLOYEES

• **Accepting Business Courtesies**

Most business courtesies offered to us in the course of our employment are offered because of our positions at State Fund. We should not feel any entitlement to accept and keep a business courtesy. Although we may not use our position at State Fund to obtain business courtesies, and we must never ask for them, we may accept unsolicited business courtesies that promote successful working relationships and goodwill with firms with which State Fund maintains or may establish business relationships.

We may accept occasional meals, refreshments, entertainment and similar business courtesies that are shared with the person who has offered to pay for the meal or entertainment, provided that: they are not inappropriately lavish or excessive as to influence objective judgment and they are not frequent and do not reflect a pattern of frequent acceptance of courtesies from the same person or entity.

Generally, employees may not accept compensation, honoraria, or money of any amount from entities with whom State Fund does or may do business. Tangible gifts (including tickets to a sporting or entertainment event) that have a market value greater than \$50 may not be accepted unless approval is obtained from management.

If declining a gift or courtesy would cause undue embarrassment to State Fund, the recipient may accept it on behalf of the company and turn it over to management for appropriate disposition.

Receipt of gifts totaling \$50 or more from a single covered source during the reporting period may need to be disclosed on a [Statement of Economic Interests](#).

Employees who award contracts or who can influence the allocation of business, who create specifications that result in the placement of business, or who participate in negotiation of contracts must be particularly careful to avoid actions that create the appearance of favoritism or that may adversely affect the company's reputation for impartiality and fair dealing. The prudent course is to refuse a courtesy from a supplier when State Fund is involved in choosing or reconfirming a supplier or under circumstances that would create an impression that offering courtesies is the way to obtain State Fund business.

It is the personal responsibility of each employee to ensure that his or her acceptance of such meals, refreshments, or entertainment is proper and could not reasonably be construed as an attempt by the offering party to secure favorable treatment. Employees with questions about accepting business courtesies should talk to their supervisors or managers.

CODE OF CONDUCT FOR ALL  
STATE COMPENSATION INSURANCE FUND EMPLOYEES

**•Offering Business Courtesies**

Any employee who offers a business courtesy must assure that it cannot reasonably be interpreted as an attempt to gain an unfair business advantage or otherwise reflect negatively upon State Fund. An employee may never use personal funds or resources to do something that cannot be done with State Fund resources. Accounting for business courtesies must be done in accordance with approved company procedures.

Other than to our government customers, for whom special rules apply, we may provide non-monetary gifts (i.e., company logo apparel or similar promotional items) to our customers. Further, management may approve other courtesies, including meals, refreshments or entertainment of reasonable value provided that:

- The practice does not violate any law or regulation or the standards of conduct of the recipient's organization.
- The business courtesy is consistent with industry practice, is infrequent in nature and is not lavish.
- The business courtesy is properly reflected on the books and records of State Fund.

**•Outside Work by Employees**

State Fund employees may wish to take on additional part-time work with organizations that are not our competitors, customers, or suppliers. They may wish to accept a voluntary, elected or appointed position with a political entity. Such work in itself does not constitute a conflict of interest. However, the second job or position must be strictly separated from the employee's job at State Fund.

- Outside work must not be done on State Fund time and must not involve the use of State Fund resources.
- Employees should not attempt to sell products or services from the outside job to State Fund.
- Performance of the off-duty work must not interfere with or prevent the employee from devoting the time and effort needed to fulfill the employee's primary duties and obligations as a State Fund employee.

If you are uncertain whether your outside work could represent a conflict of interest, advise your manager in writing and obtain approval before starting the outside work.

CODE OF CONDUCT FOR ALL  
STATE COMPENSATION INSURANCE FUND EMPLOYEES

**A Final Word**

All State Fund employees are responsible for knowing and adhering to the values and standards set forth in this Code and for raising questions if we are uncertain about State Fund policy.

All State Fund employees have a duty to report any violations of this Code of Conduct. All reports of violations will be taken seriously, and promptly investigated.

State Fund takes seriously the standards set forth in the Code, and violations are cause for disciplinary action up to and including termination of employment.

When in doubt, ask for guidance. If you have questions, wish to discuss an individual situation, or want to report a possible violation of this guide, talk to a supervisor or Human Resources, or contact any of the established Programs cited in this document.

When you encounter a situation where the best decision is not clear, test your potential decision and ask yourself:

- Is it illegal?
- Could my action give the impression or be interpreted as being inappropriate or unethical?
- Would I be proud to tell my spouse, parents, children or trusted friends about my action?
- Will it comply with State Fund's guiding principles, Code of Conduct and company policies?

**Annual Acknowledgement**

All State Fund employees will be required to sign a statement annually that they have read and understand State Fund's Code of Conduct. This statement also requires them to state that they agree to act in accordance with the Guide. This statement must be returned to the Human Resources Department.