

**STATE COMPENSATION INSURANCE FUND
AUDIT COMMITTEE**

MINUTES OF OPEN SESSION MEETING

May 14, 2014

The Audit Committee met on May 14, 2014 at the State Fund Corporate Office, 333 Bush Street, San Francisco, California 94104.

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 2:05 p.m. and the following Members were present: Sheryl A. Chalupa (Chair); Robin Baker; Jack Neureuter; Steven L. Rank; and William M. Zachry.

There was a quorum.

Also present: Acting President and CEO Carol R. Newman; Acting Chief Financial Officer and Chief Investment Officer Peter Guastamachio; Chief of Internal Affairs Dante Robinson; Board Liaison and Interim Corporate Secretary Hilda B. Padua; and Randall Keen of Manatt, Phelps and Phillips, LLP.

AGENDA ITEM 2: ANTITRUST ADMONITION

Ms. Chalupa called attention to and requested confirmation that the Audit Committee members read State Fund's Antitrust Admonition, which is included in each Committee member's meeting materials.

AGENDA ITEM 3: CONSENT CALENDAR

Ms. Chalupa noted that the Board uses a Consent Calendar on the Board agenda. Since the Audit Committee has a number of matters that require more time for discussion, the Audit Committee will also begin to use a Consent Calendar.

- a. Approval of February 19, 2014 Open Meeting Minutes**
- b. Annual Review of Audit Committee Charter**
- c. Annual Review of Internal Audit Charter and Compliance with International Internal Audit Standards**

Ms. Chalupa asked whether any Audit Committee member had any comments on the items listed on the Consent Calendar of which there were none.

MOTION: Mr. Zachry

SECOND: Mr. Rank

To approve the Consent Calendar as presented.

Ms. Chalupa requested public comment of which there was none. Ms. Chalupa called for the vote.

YES: 5

NO: 0

Motion carried.

AGENDA ITEM 4: COMPLETED CLOSED AUDITS

Chief of Internal Affairs Dante Robinson reported on the completed report on the two closed audits, the Public Records Office (PRO) and Customer Service Center (CSC). Public Records Office has an adequate internal control framework in place with no findings requiring action plans. The Customer Service Center audit resulted in twelve findings which relate to vendor contracts, accuracy of reports, performance management and management oversight.

Mr. Robinson also noted all of the issues identified in closed audits are correctible in the normal course of business and do not represent significant risk to State Fund. Management has provided their corrective action plans and Internal Audit monitors the completion of the corrective action plans.

A question was posed regarding the volume of requests received by the Public Records Office. Over the course of a year that was audited, there were 72 Public Records Act requests. It was noted that there has been an increase in requests this year due to the re-routing of media requests received by Communications to the PRO.

AGENDA ITEM 5: WHISTLEBLOWER HOTLINE

Mr. Robinson and Mr. Andreas Acker, Senior VP of Human Resources and Chief Administrative Officer reported on the Whistleblower/Ethics Hotline activity for the 1st quarter of 2014. Mr. Robinson reported all Ethics Hotline reports are investigated.

During the 1st quarter of 2014, there were 52 reports from all sources (Ethics Hotline – 20; Management referral – 9; Privacy Office – 23). There were 37 substantiated violations of the Code of Conduct. Most of these were related to employees transmitting their own personal identifying information (PII) to a non-State Fund email account using a State Fund email account. None of the 37 substantiated allegations were material to State Fund's financial statements.

Privacy related issues are relatively new to State Fund. State Fund continues to educate its employees on the importance of protecting personally identifiable information (PII) as well as State Fund's proprietary information.

Mr. Acker noted that Human Resources continues to take an active role in determining and administering the appropriate level of discipline when an employee commits a security breach. Management works with Human Resources and the Programs to implement corrective actions and to execute disciplinary action. Since the 37 violations were all first offenses, and involved the employee's own PII, the employees were not disciplined. Management will continue to educate State Fund's employees on their responsibility for preventing the improper disclosure or use of private or confidential information.

AGENDA ITEM 6: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 9 THROUGH 14

Ms. Chalupa requested public comment on the appropriateness of Closed Session Agenda Items 9-14, of which there was none.

AGENDA ITEM 7: PUBLIC COMMENT

Ms. Chalupa requested other public comment, of which there was none. The Audit Committee immediately convened into Closed Session at 2:15 p.m.

AGENDA ITEM 15: CALL TO ORDER AND ROLL CALL

The meeting reconvened at 5:00 p.m. following the conclusion of the Closed Session and the following Members were present: Sheryl A. Chalupa (Chair); Robin Baker; Jack Neureuter; Steven L. Rank; and William M. Zachry.

Also present: Acting President and CEO Carol Newman; Acting Chief Financial Officer and Chief Investment Officer Peter Guastamachio; Chief of Internal Affairs Dante Robinson; Board Liaison and Interim Corporate Secretary Hilda B. Padua; and Randall Keen of Manatt, Phelps and Phillips, LLP.

There was a quorum.

AGENDA ITEM 16: COMMITTEE MEMBER PRESENTATIONS

Ms. Chalupa requested presentations from the Committee members of which there were none.

AGENDA ITEM 17: PROPOSALS AND SUGGESTIONS FOR SEPTEMBER 23, 2014 AGENDA

Ms. Chalupa requested suggestions for agenda items for the September 23, 2014 Audit Committee meeting other than the standing agenda items, of which there were none.

Ms. Chalupa requested public comment, of which there was none, and she noted that the next Audit Committee meeting is scheduled for September 23, 2014 at the Hyatt Regency Hotel, Monterey, California unless noticed for a new date and time.

ADJOURNMENT

There being no further business before the Audit Committee, the meeting adjourned at 5:05 p.m.

Respectfully submitted,

Hilda B. Padua
Board Liaison and Interim Corporate Secretary