

**STATE COMPENSATION INSURANCE FUND
AUDIT COMMITTEE**

MINUTES OF OPEN SESSION MEETING

November 16, 2016

The Audit Committee met on November 16, 2016 at State Fund Corporate Office, 333 Bush Street, 7th floor, San Francisco, California.

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 2:00 p.m. and the following Members were present: Sheryl A. Chalupa (Chair); Sen. Michael J. Machado (Ret.); Scott K. Reid; and William M. Zachry.

Absent by prior arrangement: Steven L. Rank.

There was a quorum.

Also present: President and CEO Vernon L. Steiner; General Counsel and Corporate Secretary Margie R. Lariviere; Chief Financial Officer Peter A. Guastamachio; Chief of Internal Affairs Dante Robinson; Board Liaison and Assistant Corporate Secretary Hilda B. Padua; and Counsel and Assistant Corporate Secretary Judith D. Sapper.

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

- a. Approval of July 27, 2016 Open Meeting Minutes**
- b. Review and Approval of 2017 Audit Committee Meeting Schedule and Location**
- c. Review and Approval of 2017 Audit Agenda Items**

Ms. Chalupa asked whether any Committee member had any comments on the items on the Consent Calendar. Sen. Machado requested item 3c, "Review and Approval of 2017 Audit Agenda Items" to be pulled out from the Consent Calendar and requested discussion.

MOTION: Mr. Zachry

SECOND: Mr. Reid

To approve the July 27, 2016 Open Meeting Minutes and the 2017 Audit Committee Meeting Schedule and Location.

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

YES: 4

NO: 0

Abstain: 0

Motion carried.

Sen. Machado noted that Cyber Security is an enterprise-wide risk management issue and minimizing cyber risk is a key fiduciary duty for directors. Sen. Machado requested the Cyber Risk topic be on the Audit agenda at the August meeting in addition to the March 2017 meeting and be given regular and adequate time for discussion.

Board Liaison and Assistant Corporate Secretary Hilda Padua noted the change.

Ms. Chalupa called for a Motion.

MOTION: Mr. Zachry

SECOND: Mr. Reid

To amend the Consent Calendar with the Cyber Security agenda item to be included for the August 2017 meeting in addition to the March 2017 meeting.

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

YES: 4

NO: 0

Abstain: 0

Motion carried.

MOTION: Mr. Zachry

SECOND: Sen. Machado

To approve the Consent Calendar as amended.

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

YES: 4

NO: 0

Abstain: 0

Motion carried.

AGENDA ITEM 4: COMPLETED CLOSED AUDITS

Ms. Chalupa noted that this item is read only, unless questions. She asked Chief of Internal Affairs Mr. Robinson if there was any new information from the time the report was published. Mr. Robinson noted that the report is current and there are no changes.

AGENDA ITEM 5: WHISTLEBLOWER HOTLINE

Ms. Chalupa noted that this item is read only, unless questions. She asked Executive Vice President and Chief Administrative Officer Andreas Acker if there was any new information from the time the report was published. Mr. Acker noted that the report is current and there are no changes. Vice President of HR Connect Patrick Gage noted the Whistleblower activity had leveled off.

Discussion ensued on complaints received regarding activities related to the Presidential election.

AGENDA ITEM 6: REPORT OF EXTERNAL AUDITOR: 2016 AUDIT PLAN

Chief Financial Officer Peter Guastamachio noted that State Fund has a new external auditor, Ernst & Young (E&Y). He introduced Coordinating Partner Carlos Gutierrez, Jr., who presented the 2016 Audit Plan.

Mr. Gutierrez noted that with him at the meeting were client service team members Monica Monson, Engagement Partner, and Phil Boren, Senior Manager, who will be in charge of day to day activities for the 2016 Audit plan.

Mr. Gutierrez discussed the audit timeline, industry considerations (California Workers' Compensation Premium Levels, loss reserve adequacy, technology challenges, regulatory developments and cybersecurity), scope and key deliverables of the 2016 Audit Plan as presented in the Committee materials, and opining on State Fund's 2016 Statutory Financial Statements in conformity with statutory accounting practices. Key areas of focus for the 2016 audit include loss and loss adjustment expense reserving, valuation of investments (including Federal Home Loan Bank borrowing rate), State Fund's estimate of their portion of the pension and Other Postemployment Benefits (OPEB) obligation, Reinsurance, Premiums and earned but unbilled (EUBUB) premiums, Timely and Accurate Premium Payments (TAPP) deposit liability and self-insurance reserve. E&Y will then perform testing. Mr. Gutierrez noted to date there were no significant issues to report, no audit differences, significant deficiencies or material weaknesses.

AGENDA ITEM 7: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 10 THROUGH 16

Ms. Chalupa requested public comment on the appropriateness of Closed Session Agenda Items 10 through 16, of which there was none.

AGENDA ITEM 8: PUBLIC COMMENT

Ms. Chalupa requested other public comment, of which there was none. The Audit Committee immediately convened into Closed Session at 2:20 p.m.

AGENDA ITEM 17: CALL TO ORDER AND ROLL CALL

The meeting reconvened at 5:05 p.m. following the conclusion of the Closed Session and the following Members were present: Sheryl A. Chalupa (Chair); Sen. Michael J. Machado (Ret.); Scott K. Reid; and William M. Zachry.

Absent by prior arrangement: Steven L. Rank.

There was a quorum.

Also present: President and CEO Vernon L. Steiner; General Counsel and Corporate Secretary Margie R. Lariviere; Chief Financial Officer Peter A. Guastamachio; Chief of Internal Affairs Dante Robinson; Board Liaison and Assistant Corporate Secretary Hilda B. Padua; and Counsel and Assistant Corporate Secretary Judith D. Sapper.

AGENDA ITEM 18: COMMITTEE MEMBER PRESENTATIONS

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

AGENDA ITEM 19: PROPOSALS AND SUGGESTIONS FOR MARCH 1, 2017 AGENDA

Ms. Chalupa requested suggestions for agenda items for the March 1, 2017 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 March 1, 2017 at the State Fund Vacaville, California Office unless noticed for a new date and time.

ADJOURNMENT

There being no further business before the Audit Committee, the meeting adjourned at 5:10 p.m.

Respectfully submitted,

Hilda B. Padua
Board Liaison and Assistant Corporate Secretary