

**STATE COMPENSATION INSURANCE FUND
AUDIT COMMITTEE**

MINUTES OF OPEN SESSION MEETING

November 19, 2014

The Audit Committee met on November 19, 2014 at the 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); Robin Baker; Jack Neureuter; Steven L. Rank; and William M. Zachry.

There was a quorum.

Also present: President and CEO Vernon L. Steiner; Chief Financial Officer Peter Guastamachio; Chief of Internal Affairs Dante Robinson; Board Liaison and Interim Corporate Secretary Hilda B. Padua; Counsel and Assistant Corporate Secretary Judith D. Sapper; and Randall Keen of Manatt, Phelps & 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

- 3a. Approval of September 23, 2014 Open Meeting Minutes**
- 3b. Review and Approval of 2015 Audit Committee Schedule**
- 3c. Review and Approval of 2015 Audit Committee Agenda Items**

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

MOTION: Mr. Zachry

SECOND: Mr. Neureuter

To approve the Consent Calendar as presented.

Ms. Chalupa asked for public comment of which there was none, and called for the vote.

YES: 5

NO: 0

Motion carried.

AGENDA ITEM 4: COMPLETED CLOSED AUDITS

Ms. Chalupa noted that there were no completed audits to report and this agenda item was read only unless there were questions of which there were none.

AGENDA ITEM 5: WHISTLEBLOWER HOTLINE

Executive Vice President of Human Resources and Chief Administrative Officer Andreas Acker introduced Rory Nichols, Manager of the Labor Management Services unit. Mr. Acker reported all Ethics Hotline reports are investigated. During the 3Q 2014, there were 95 reports from all sources (Ethics Hotline – 42; Management Referral – 24; Privacy Office – 29). There were 39 substantiated violations out of 74 completed investigations. Thirty involved employees transmitting their own, their family members', relatives', policy holders', and claimants' personally identifiable information (PII) to a non-State Fund e-mail account. None of the 30 substantiated privacy allegations were material to State Fund's financial statements. The remaining 9 cases involved favoritism and unfair practices, sexual harassment, time theft, misuse/abuse of time and funds, conflict of interest, claims practices and misconduct, inappropriate and/or offensive behavior.

State Fund continues to educate its employees on the importance of protecting PII and proprietary information.

AGENDA ITEM 6: REPORT OF EXTERNAL AUDITOR: KPMG 2014 AUDIT PLAN

KPMG partner Leigh Wilson reported that the client service team who worked on the 2013 audit will be returning for the 2014 engagement, bringing the benefit of their familiarity with the complexities of workers' compensation and insurance. KPMG will use specialists on their team for review of actuarial, loss reserves, pension and IT systems for reporting. Investment evaluation specialists will do a risk assessment, price the portfolio and issue all the required letters regarding the financial statements which include loss reserves, estimated pension post-retirement benefits, investments, receivables, and premiums.

Key areas of focus for the 2014 audit in addition to loss and loss adjustment expense reserving are the impact related to tiered pricing, 2013-2014 trends, non-routine transactions that may be higher risk, regulatory matters in IT, financial reporting and controls, and remediation of deficiencies in prior years.

Ms. Wilson encouraged the Audit Committee members to log onto to KPMG's website Audit Committee Institute at www.kpmg.com/aci for more information on audit committee and board practical insights, resources, peer-exchange opportunities, and the challenges facing boards and businesses today.

AGENDA ITEM 7: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 10 THROUGH 15

Ms. Chalupa requested public comment on the appropriateness of Closed Session Agenda Items 10-15, 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 2:10 p.m.

AGENDA ITEM 16: CALL TO ORDER AND ROLL CALL

The meeting reconvened at 5:15 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: President and CEO Vernon L. Steiner; Chief Financial Officer Peter Guastamachio; Chief of Internal Affairs Dante Robinson; Board Liaison and Interim Corporate Secretary Hilda B. Padua; Counsel and Assistant Corporate Secretary Judith D. Sapper; and Randall Keen of Manatt, Phelps and Phillips.

There was a quorum.

AGENDA ITEM 17: COMMITTEE MEMBER PRESENTATIONS

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

AGENDA ITEM 18: PROPOSALS AND SUGGESTIONS FOR FEBRUARY 18, 2015 AGENDA

Ms. Chalupa requested suggestions for agenda items for the February 18, 2015 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 February 18, 2015 at the State Fund Corporate Office, 333 Bush Street, San Francisco, California unless noticed for a new date and time.

ADJOURNMENT

There being no further business before the Audit Committee, the meeting adjourned at 5:20 p.m.

Respectfully submitted,

Hilda B. Padua
Board Liaison and Interim Corporate Secretary