

**STATE COMPENSATION INSURANCE FUND
AUDIT COMMITTEE**

MINUTES OF OPEN SESSION MEETING

December 9, 2015

The Audit Committee met on December 9, 2015 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); Sen. Michael J. Machado (Ret.); Steven L. Rank; and William M. Zachry.

There was a quorum.

Also present: President and CEO Vernon L. Steiner; General Counsel and Corporate Secretary Margie R. Lariviere; Chief of Internal Affairs Dante Robinson; Board Liaison and Assistant 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 August 18, 2015 Open Meeting Minutes**
- 3b. Review and Approval of 2016 Audit Committee Schedule and Location**
- 3c. Review and Approval of 2016 Audit Committee Agenda Items**

Ms. Chalupa asked whether any Committee member had any comments on the items on the Consent Calendar of which there were none. Ms. Chalupa called for a Motion.

MOTION: Mr. Zachry SECOND: Sen. Machado

To approve the Consent Calendar as presented.

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 requested a brief update from Chief of Internal Affairs Dante Robinson. Mr. Robinson noted that on the four non-

proprietary completed closed audits, eleven issues were identified, of which five management has closed and are being validated and six remain open and on schedule.

AGENDA ITEM 5: WHISTLEBLOWER HOTLINE

Ms. Chalupa noted that this item is read only, unless questions.

AGENDA ITEM 6: REPORT OF EXTERNAL AUDITOR: 2015 AUDIT PLAN

KPMG partner Jennifer Austin reported that the client service team who worked on the 2014 audit with the exception of the engagement audit partner will be returning for the 2015 engagement, bringing the benefit of their familiarity with the complexities of workers' compensation and insurance. Prior engagement audit partner Leigh Wilson has been replaced by Jennifer Austin due to the National Association of Insurance Commissioners (NAIC) Model Audit Rule, five year lead audit partner service period requirements.

Ms. Austin discussed the scope and key deliverables of the 2015 Audit Plan as presented on the Committee materials, opining on 2015 Statutory Financial Statements of the company in conformity with the statutory accounting practices. Key areas of focus for the 2015 audit include loss and loss adjustment expense reserving, valuation of investments, and State Fund's estimate of their portion of the pension and Other Postemployment Benefits (OPEB) obligation. There was discussion of the extent of review of cyber security risks.

Discussion ensued on the review and approval of the engagement contract and fees for 2015. Ms. Chalupa noted that staff will check on the status of the signed engagement letter and will report back to the Audit Committee. Sen. Machado requested discussion of the engagement at the next Audit Committee meeting.

Ms. Austin encouraged the Audit Committee members to utilize KPMG's online Audit Committee Institute, a resource designed exclusively for Audit Committee members. She also invited the Audit Committee members to attend KPMG's 12th Annual Audit Committee Issues Conference to be held on February 1-2, 2016 in San Francisco, where audit committee members from around the country discuss challenges, practices, and priorities shaping audit committees and board agendas.

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 2:15 p.m.

AGENDA ITEM 16: CALL TO ORDER AND ROLL CALL

The meeting reconvened at 4:55 p.m. following the conclusion of the Closed Session and the following Members were present: Sheryl A. Chalupa (Chair); Sen. Michael J. Machado (Ret.); Steven L. Rank; and William M. Zachry.

Also present: President and CEO Vernon L. Steiner; General Counsel and Corporate Secretary Margie R. Lariviere; Chief of Internal Affairs Dante Robinson; Board Liaison and Assistant 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.

Ms. Chalupa recalled item 3c, "Review and Approval of 2016 Audit Committee Agenda Items" to include "Approval of Engagement of External Auditor: Review contract, fees and role". Ms. Chalupa called for a Motion.

MOTION: Sen. Machado

SECOND: Mr. Zachry

To amend the Audit Committee Agenda Items to add, at a time to be determined, a review of the External Auditor engagement including a review of the contract, fees, and role of the External Auditor.

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 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 17, 2016 AGENDA

Ms. Chalupa noted that the Audit Committee will hold a meeting in January 2016 at State Fund Stockton office. Ms. Padua will work with the Committee members on their availability in January 2016.

Ms. Chalupa requested suggestions for agenda items for the February 17, 2016 Audit Committee meeting other than the standing agenda items, of which there were none. Ms. Chalupa requested public comment, of which there was none.

ADJOURNMENT

There being no further business before the Audit Committee, the meeting adjourned at 5:00 p.m.

Respectfully submitted,

Hilda B. Padua
Board Liaison and Assistant Corporate Secretary