

BOARD OF DIRECTORS MEETING (OPEN)

AGENDA ITEM 13a

ATTACHMENT 13a-I

MINUTES OF JANUARY 15-16, 2009 OPEN MEETING OF THE BOARD OF
DIRECTORS

PRESENTED BY: Jeanne Cain

March 13, 2009

**STATE COMPENSATION INSURANCE FUND
BOARD OF DIRECTORS**

MINUTES OF MEETING

January 15-16, 2009

The Board of Directors of State Compensation Insurance Fund met on January 15-16, 2009 in the Milton Marks Conference Center, State Building, 455 Golden Gate Ave, San Francisco, California.

JANUARY 15, 2009

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting was called to order on January 15, 2009 at 4:30 p.m. and the following were present: Jeanne L. Cain, Chair; Sheryl A. Chalupa; Sen. Michael J. Machado; Vincent E. Mudd; Francis E. Quinlan; Steven L. Rank; and nonvoting member John C. Duncan.

Also present: President and CEO Janet D. Frank; Chief Financial Officer Jay Stewart; Carol R. Newman, General Counsel and Corporate Secretary; Judith D. Sapper, Assistant Chief Counsel and Assistant Secretary; and Randall Keen, Esq. of Manatt Phelps & Phillips.

AGENDA ITEM 2: ANTITRUST ADMONITION

Ms. Cain called attention to State Fund's Antitrust Admonition which is included in each member's agenda:

"Certain information discussed and disseminated at State Fund Board of Directors' Closed Sessions may be confidential and proprietary to State Fund. Board members should not share or discuss information pertaining to the operation of State Fund with representatives from other workers' compensation insurers, even if that information is intended to be, or is already, public. For example, Board members should not discuss rate-making or other financial information with representatives of other insurers, including proposed rates, merit rating plans, premium discounts, surcharges or dividends. Board members also should refrain from discussing broker commission payments or commission plans with other insurers. To do so may create the impression of collusion between insurers, which could result in civil and/or criminal charges being filed against the Board member and State Fund for alleged violations of state and federal antitrust laws."

AGENDA ITEM 3: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 5 THROUGH 8

Ms. Cain requested public comment of which there was none.

The meeting convened immediately into Closed Session and reconvened at 11:05 a.m. on January 16, 2009 into Open Session.

JANUARY 16, 2009

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting came to order at 8:30 a.m. and the following were present: Jeanne L. Cain, Chair; Sheryl A. Chalupa; Daniel M. Curtin; Sen. Michael J. Machado; Vincent E. Mudd; Francis E. (Frank) Quinlan; Steven L. Rank; and nonvoting member John C. Duncan.

Also present: President and CEO Janet D. Frank; Executive VP Jim Neary; Chief Financial Officer Jay Stewart; Carol R. Newman, General Counsel and Corporate Secretary; Judith D. Sapper, Assistant Chief Counsel and Assistant Secretary; and Randall Keen, Esq. of Manatt Phelps & Phillips (9:00 a.m.).

AGENDA ITEM 2: ANTITRUST ADMONITION

Ms. Cain read State Fund's Antitrust Admonition as read on January 15, 2009.

AGENDA ITEM 3: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 4 THROUGH 8

Ms. Cain requested public comment. State Fund employee Mr. Skeet Stahmer submitted written comments to attach to the minutes regarding Item 7, IT Strategy.

The meeting convened immediately into Closed Session.

AGENDA ITEM 4: REINSURANCE RENEWAL STATUS Closed Session.

AGENDA ITEM 5: CLAIMS AND LEGAL LITIGATION STRATEGY Closed Session; deferred to March Board of Directors agenda.

AGENDA ITEM 6: COMPETITIVE INVESTMENT STRATEGY Closed Session.

AGENDA ITEM 7: IT STRATEGY Closed Session.

AGENDA ITEM 8: PERSONNEL PERFORMANCE AND EVALUATION Closed Session.

AGENDA ITEM 9: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 11:05 a.m. and the following were present: Jeanne L. Cain, Chair; Sheryl A. Chalupa; Daniel M. Curtin; Sen. Michael J. Machado; Vincent E. Mudd; Francis E. (Frank) Quinlan; Steven L. Rank; and nonvoting member John C. Duncan.

Also present: President and CEO Janet D. Frank; Executive VP Jim Neary; Chief Financial Officer Jay Stewart; Carol R. Newman, General Counsel and Corporate Secretary; Judith D. Sapper, Assistant Chief Counsel and Assistant Secretary; and Randall Keen, Esq. of Manatt Phelps & Phillips.

Ms. Cain introduced and welcomed the new members of the Board of Directors, Senator Michael J. Machado, Daniel M. Curtin, and Steven L. Rank.

AGENDA ITEM 10: ANTITRUST ADMONITION

Ms. Cain referred the Board Members to State Fund's Antitrust Admonition as read on January 15, 2009.

AGENDA ITEM 11: INTRODUCTIONS

Introductions of the Board were made during roll call.

AGENDA ITEM 12: CONSENT CALENDAR

The consent calendar consisted of the following items: Approval of Open Minutes of Board Meeting of November 21, 2008; and Approval of Retirement Resolutions 859-861. Retiring Executive Committee or Board Members or employees serving over 30 years were recognized in three (3) resolutions attached hereto and incorporated as a part of these minutes:

Resolution No. 859 in appreciation of James A. Santangelo, thanking him for serving State Fund at the Board Member level with distinction;

Resolution No. 860 in appreciation of David H. West, Vice President and Member of the Executive Committee, thanking him for serving State Fund with distinction for more than twenty-eight years; and

Resolution No. 861 (as amended) in appreciation of Judith A. Westfall, thanking her for serving State Fund with distinction for more than thirty years

MOTION: Mr. Quinlan Second: Ms. Chalupa

To approve the Open minutes of the November 21, 2008 Board Meeting and Retirement Resolutions 859-861.

AYES: 7 NOES: 0 Motion carried.

AGENDA ITEM 13: PRESIDENT'S REPORT

Ms. Frank introduced Christina Baker, Executive Officer of the Commission on Health and Safety and Workers' Compensation (CHSWC) and Lachlan Taylor, Workers' Compensation Judge, for a briefing on workers' compensation fraud. Ms. Baker and Mr. Taylor made a detailed and thorough presentation on the extent and varieties of workers' compensation fraud, research and current studies, and significant findings of medical payment errors, uninsured employers, underreporting of injuries to and by insurers, misreporting of payroll and split class codes, and premium avoidance. An Advisory Task Force formed by the Insurance Commissioner with a Workers' Compensation Working Group generated anti-fraud recommendations to implement or seek legislation to implement, including (i) disclosure and publication of employers' workers' compensation coverage; (ii) increased civil and criminal penalties for premium fraud and willful failure to carry insurance; and (iii) further research into medical billing practices, misuse of the independent contractor designation, and coverage fraud in temporary help and professional employment agencies. Board members asked questions about reduction of employer fraud. Ms. Cain requested public comment, of which there was none.

Mr. Neary then presented the status of State Fund's reinsurance renewal, reporting contracts were signed for renewal on January 1, 2009 for natural catastrophe and terrorism coverage with a \$300M retention per coverage, representing the same level of risk as in 2008, and a total premium cost of \$43,500,000 (equating to approximately 2.5% of State Fund's projected 2009 gross earned premium). Board members asked questions about reinsurer defaults and Mr. Neary noted that State Fund eliminated a potential reinsurer because of concerns over finances and that the A.M. Best rating of the remaining reinsurers is still greater than an A rating. State Fund was able to reduce the reinsurance rates while expanding the terms of coverage. Ms. Cain requested public comment of which there was none.

AGENDA ITEM 14: RATIFICATION OF INVESTMENT TRANSACTIONS

Mr. Stewart reported that the Investment Committee approved the investment transactions for October 1, 2008 to November 30, 2008. Ratification of Bond Transactions: Forty-two (42) bonds were purchased from October 1, 2008 to November 30, 2008, totaling \$1,209,184,373 and twenty-six (26) were sold totaling \$885,000,000. The following action was taken:

MOTION: Mr. Mudd Second: Mr. Quinlan

To ratify the October-November 2008 bond transactions.

AYES: 7 NOES: 0 Motion carried.

There were no Short-Term Investment Transactions to ratify. The report of fourteen (14) long-term investments totaling \$220M in compliance with State Fund's investment guidelines at the time of purchase but no longer in compliance as of November 30, 2008 was presented. Ms. Cain requested public comment, of which there was none. The following action was taken:

MOTION: Mr. Mudd Second: Ms. Chalupa

To ratify the Compliance Report for October-November 2008.

AYES: 7 NOES: 0 Motion carried.

AGENDA ITEM 15: COMMITTEE REPORTS

Mr. Mudd presented the Investment Committee update, noting \$978M was budgeted for investment income and that State Fund achieved an approximate net result of \$900M, with the portfolio AA+ rated and an approximate 4.9% average book yield.

Mr. Quinlan presented the Audit Committee update, reporting that State Fund is on schedule with its audit plan and briefing members on future governance training for staff and Board Members, presentations by State Fund Executives for risk identification in their functions, and the discussions with external auditor KPMG who attend each Audit Committee meeting. Ms. Cain requested public comment of which there was none.

AGENDA ITEM 16: UPDATED YEAR-END FINANCIAL FORECAST 2008

Mr. Jay Stewart made an oral report of forecast budgeted and actual premiums, losses and expenses for 2008, noting final figures will not be available until February and will be presented at the March Board meeting. He reported 2008 direct written premium was expected to be \$1.72B versus budgeted \$1.6B, and compared to \$2.3B in 2007. Net earned premium for 2008 is forecasted at \$1.64B versus budgeted \$1.56B, and compared to \$2.28B in 2007. Net premiums charged off is forecasted at \$88M for 2008 versus budgeted \$36M, and compared to \$49M in 2007.

Loss, loss adjustment expense, and other underwriting expenses are still projected to approximate the numbers presented at the November Board meeting, with the loss ratio at 75%, tracking the budget, the loss expense ratio at 35.6% versus budgeted 30.1%, and the underwriting expense ratio of 36.2% tracking at budget. There is a projected 148% combined ratio, of which 10% is from the change in governmental accounting rules for the State of California for liability for post-retirement medical benefits that resulted in an unexpected expense to State Fund of \$165M for 2008. Without this charge, the projected loss adjustment expense and other underwriting expense would be slightly under budget. Net investment income before gains, losses, and impairments is projected to be \$990M for the year versus budgeted \$978M. Net gains, losses, and impairments are expected to result in a net reduction of net investment income of \$91M, representing less than 0.5% of State Fund's portfolio. State Fund generated nearly \$1B in investment income for the year with average portfolio credit quality at AA1/Aa+, and a projection that State Fund's assets will exceed liabilities by approximately \$5.1B.

Net income for the year is projected to be approximately \$86.5M, slightly higher than presented at the November Board meeting but below the budgeted \$341.4M. The variance from the budget resulted from the \$165M post-retirement medical benefits charge from the accounting rule change and the unexpected impairment of State Fund's investment holdings in Lehman bonds. Ms. Cain requested public comment of which there was none.

AGENDA ITEM UPDATE #17: CHAIR'S REPORT & RECRUITMENT OF NEW BOARD MEMBERS

Ms. Cain reported that Member James Santangelo had resigned from the Board effective November 19, 2008 and recognized Mr. Santangelo with appreciation for his services. The following action was taken:

MOTION: Mr. Mudd Second: Mr. Quinlan

To accept the resignation of James Santangelo effective November 19, 2008.

AYES: 7 NOES: 0 Motion carried.

Ms. Cain noted the appointment of the three new voting Board Members, Steven L. Rank, Sen. Michael J. Machado, and Daniel M. Curtin and reported that recruitment of new members is ongoing to fill the four remaining vacancies. The particulars of the three new appointments are as follows. Mr. Rank was appointed on January 13, 2009 by Governor

Schwarzenegger for a term expiring January 13, 2014. The oath provided by the governor was administered by a Notary Public on January 14, 2009 and submitted at the Board meeting on January 15. A second oath for State Fund was administered by Ms. Frank on January 15, 2009 before the Closed Session of the Board meeting. Senate Pro Tempore and Rules Committee Chair Darrell Steinberg appointed Sen. Machado on January 7, 2009 for a term expiring January 1, 2013. On January 15, 2009 prior to the start of the Closed Session Board meeting, Ms. Cain administered the oath provided by the Senate Rules Committee and Ms. Frank administered a second oath for State Fund. Mr. Curtin was appointed on January 15, 2009 by Governor Schwarzenegger as the member from organized labor for a term expiring January 15, 2012. The oath from the governor and a second oath for State Fund were administered by Ms. Cain and Ms. Frank, respectively, on January 16, 2009 before the start of the Board meeting.

Ms. Cain discussed the formation of a Governance Committee, required by the new legislation affecting State Fund's Board, and the need to move some of the Audit Committee's duties to the Governance Committee as determined by the Chair and the General Counsel. The Board discussed the composition of the Governance Committee and the Audit and Investment Committees, including alternate members. The Audit Committee will comprise Mr. Quinlan, Chair, Mr. Mudd, Mr. Rank, and Ms. Chalupa as alternate. The Investment Committee will comprise Mr. Mudd, Chair, Mr. Quinlan, Sen. Machado, and Mr. Rank as alternate. Ms. Cain will chair the Governance Committee, with members Mr. Curtin and Ms. Chalupa and Sen. Machado as the alternate. Ms. Cain requested public comment of which there was none. The following action was taken:

MOTION: Mr. Mudd Second: Mr. Curtin

To adopt the Committee memberships and alternates as presented.

AYES: 7 NOES: 0 Motion carried.

AGENDA ITEM 18: BOARD MEMBER REPORTS

No members presented any reports. Ms. Cain requested public comment, of which there was none.

AGENDA ITEM 19: PROPOSALS AND SUGGESTIONS FOR MARCH 2009 AGENDA

Board members requested a standing presentation on California's economic outlook and impact on State Fund and suggested topics such as responsible use of State Fund's administrative fees, a report from Conning Investment Advisors on State Fund's annual performance and the state of the market, a published study on Collective Bargaining Agreement programs, and a presentation by CHSWC or CWCI on calculating and updating experience modifications. Ms. Cain requested public comment, of which there was none.

AGENDA ITEM 20: PUBLIC COMMENT

Ms. Cain requested public comment, of which there was none.

The next regularly scheduled Board meeting will begin on Thursday March 12, 2009 at 4:00 p.m. for a Closed Session at the Milton Marks Conference Center, 455 Golden Gate Ave, San Francisco and will resume there at 8:30 a.m. on Friday March 13, 2009 with the Open Session to begin at 11:00 a.m.

ADJOURNMENT

There being no further business, upon motion by Ms. Chalupa, seconded by Mr. Mudd, and unanimously approved, Ms. Cain adjourned the meeting at 12:15 p.m.

Attachment



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Facsimile: (916) 554-1272

VIA FACSIMILE & U.S. MAIL
(415) 703-7059

January 15, 2009

YVONNE R. WALKER
President

M. CORA OKUMURA
Vice President
and Secretary-Treasurer

JIM HARD
Vice President
for Organizing/Representation

KATHLEEN B. COLLINS
Vice President for Bargaining

Janet D. Frank, President
State Compensation Insurance Fund
P.O. Box 420807
San Francisco, CA 94142-0807

Re: SCIF IT Outsourcing

Dear Ms. Frank:

This letter is to highlight the serious concerns that SEIU Local 1000 has related to the privatization of SCIF's IT work. On December 3, 2008, the Union sent SCIF a notice that the Joint Labor Management process was no longer productive and was irreparable. (See attached letter) On December 10, 2008, the Union served a request for production of contracts on SCIF pertaining to new requests for proposals to outsource millions of dollars of IT services planned in the next few months. (See attached letter) The Union believes this outsourcing violates Article VII, sections 1(a) and 1(b) of the Constitution of the State of California.

Article VII, section 1(a) of the Constitution of the State of California provides: "The civil service includes every officer and employee of the state except as otherwise provided in this Constitution." Article VII, section 1(b) of the Constitution of the State of California provides: "In the civil service permanent appointment and promotion shall be made under a general system based on merit ascertained by competitive examination."

Article VII of the Constitution generally provides the parameters for a merit system in which the selection and promotion of state employees is based on merit ascertained by competitive examination. These counterpart protections ensure that State functions cannot be performed outside the state civil service system unless it is done in a manner which complies with established precedent and the statutory procedures found under the State Personnel Board's jurisdiction. (*State Comp. Ins. Fund v. Riley* (1937) 9 Cal.2d 126, 134-135; *Professional Engineers v. Dept. of Transportation* (1997) 15 Cal.4th 543.)

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Janet D. Frank, President
January 15, 2009
Page 2

In 2007, SCIF, through its then IT Department Head Jeffrey Gershaneck, reduced the contractor count by 100 in 2007 from approximately 300 to 200 consultants. SCIF further agreed to additional cuts of 113 consultants in 2008, and to transition contracted IT management and key consultants positions to newly created employee positions. Unfortunately, the implementation of these positions has been frozen.

It is readily apparent that SCIF's original commitment to outsourcing reductions, has now stopped. The Union believes that instead, SCIF is engaging in a massive outsourcing drive. This level of outsourcing is acceptable. The Union will have no alternative but to seek to challenge all illegal IT contracts at the State Personnel Board.

The Union is seriously disappointed with the change in direction by SCIF. Please feel free to advise me of any response you may have to this letter. It is critical that SCIF act quickly to respond to the Union's request for contracts, as we are legally entitled to receive them.

Sincerely,



YVONNE R. WALKER
President, SEIU Local 1000

Attachments

cc: Margarita Maldonado, Chair, Bargaining Unit 1
SEIU/SCIF IT JLMC members (via e-mail)
Carol Newman, SCIF Chief Counsel
Vera de Martini, SCIF Counsel



Telephone: (916) 554-1279
Facsimile: (916) 554-1292

VIA FACSIMILE & U.S. MAIL
(415) 703-7059

December 10, 2008

Carol Newman
General Counsel
State Compensation Insurance Fund
P.O. Box 420807
San Francisco, CA 94142-0807

Re: SCIF IT JLMC
INFORMATION REQUEST

YVONNE R. WALKER
President

M. CORA OKUMURA
Vice President
and Secretary-Treasurer

JIM HARD
Vice President
for Organizing/Representation

KATHLEEN B. COLLINS
Vice President for Bargaining

Dear Ms. Newman:

SEIU Local 1000 submits the following request for copies of current and proposed IT services and IT consulting contracts pursuant to the Memorandum of Understanding section 14.8 and the Dills Act.

This request sought to obtain the following information:

Copies of all current IT services contracts, agreements and purchase orders, pursuant to Article 14.8 (D)(1) of the MOU relating to IT services and consulting services. This includes a copy of the contract, agreement or purchase order with attachments, including, but not limited to the Statement of Work (SOW), Government Code section 19130 justifications and the appropriate Standard Forms 65, 213, 215 or their equivalents. The comprehensive copies of contracts will include current, amended and extended contracts. If any of these contracts have been terminated please indicate so in your response.

1. General Services

Request for Proposals (RFP), Request for Quotes (RFQ), contracts, award and evaluation sheets issues and other documents used by State Fund and IT Department for contracts related to, but not limited to divisions for CISO Enterprise Security, Global Infrastructure Management, Enterprise Software Test, Enterprise Software Development, Global Infrastructure, IT Business Services and Support, Contracts Department, Business Value Consulting, etc.

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2. Software Services

Request For Proposals (RFP), Request for Quotes (RFQ), contracts, award and evaluation sheets issues and other documents used by State Fund and IT Department for contracts related to, but not limited to divisions for Off the shelf software, customized software, for existing State Fund applications and new proposed software including but not limited to SFO, PowerComp, ECF, Mainframe Applications, New Business, ePayroll, PBS, Call Center, AIMS, RAPIDS, ESec specific Applications/Interface, Data Classification Interface software, Enterprise Security' MAUI Application, UA Database, SSO/TIM/TAM, EDSS, Universal Reinsurance System, Fiscal Software Systems, Banking Systems, and other contract work performed in MIB, Imageline and Archival systems software or hardware, Electronic Signatures, etc.

3. General Services

Request For Proposals (RFP), Request for Quotes (RFQ), contracts, award and evaluation sheets issues and other documents used by State Fund and IT Department for contracts related to, but not limited to Design, development, testing, implementation and maintenance or architecture and infrastructure design services, software development services including but not limited to databases, database technology and products, service-oriented architecture (SOA), messaging, application integration, and event-driven SOA suite of products, enterprise service bus, business process management (BPM), complex event processing, business activity monitoring, business optimization, predictive business applications, electronic decision support systems, performance, scalability, reliability, and manageability, Mainframe Integration, Business Intelligence, Business-to-Business (B2B) Integration, Electronic Payment, Virtualization, Java EE and web services, Training and Educational Services etc.

4. IT Services

Request For Proposals (RFP), Request for Quotes (RFQ), contracts, award and evaluation sheets issues and other documents used by State Fund and IT Department for contracts related to, but not limited to divisions Governance, Management, Business Process Management, Transitions and Transformational Services, etc.

5. Capacity Management Services

Request For Proposals (RFP), Request for Quotes (RFQ), contracts, award and evaluation sheets issues and other documents used by State Fund and IT Department for contracts related to, but not limited to System Monitoring and Management monitor and administer distributed applications and information sources, etc.

6. Web Based Applications Services

Request For Proposals (RFP), Request for Quotes (RFQ), contracts, award and evaluation sheets issues and other documents used by State Fund and IT Department for contracts related to, but not limited to Rich Internet Applications, Ajax-aware components, Reusable rich portlets, components, and gadgets build and provision rich user interfaces. Smart portlets wizards, delegated administration, and self-service desktops, etc.

7. Data Management and Database Services

Request For Proposals (RFP), Request for Quotes (RFQ), contracts, award and evaluation sheets issues and other documents used by State Fund and IT Department for contracts related to, but not limited to:

1. Data Management Services including, but not limited to Logical Data Modeling, Metadata Management, Physical Database, Data Quality, Data Security and Privacy, Data Integration, etc.
2. Strategic Intelligence Services including, but not limited to Operational Intelligence, Data Mining, Enterprise Architecture, etc.
3. Research Services including but not limited to Data Mart Consolidation, Assessment Services, Data Warehouse Migration, Data Warehouse Maturity, Active Enterprise, Intelligence and Scoping, etc.
4. Data Management Services including but not limited to Logical Data Modeling, Metadata Management, Physical Database, Data Quality, Data Security and Privacy, Data Integration, etc.
5. Decisioning Services including but not limited to Strategic Intelligence, Operational Intelligence, Data Mining, Enterprise Architecture.
6. Performance Services including but not limited to Application Performance Management, Workload Management, Capacity Management, Managed Services, Employee Education and Certification, etc.
7. Business Continuity Services including but not limited to Availability and Recovery Assessment, Backup, Archive and Restore, Recovery Centers, Dual Active Systems, Disaster Recovery Systems, Test and Development Systems

8. Lifecycle Support Services including but not limited to Enterprise System Support, Operational Mentoring, System Installation, Data Migration, Software Implementation, System Performance, Deployment and Relocation, Production Monitoring and Control, Operational Support, etc.

Under the Union's obligation to represent its members and enforce the MOU and pursuant to the Dills Act, this is a reasonable and necessary request. For the Union to adequately review the use of contracts to outsource Information Technology (IT) Services by your department, it must be provided the aforementioned information including copies of purchase orders.

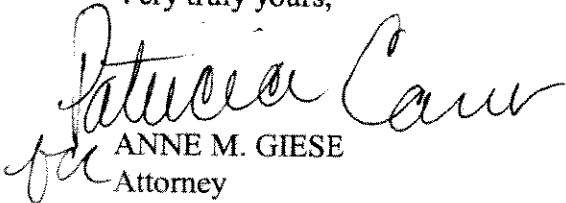
In order for a department to use consultant services, they must have the legal authority to do so. That legal authority is normally granted under Government Code 19130. Purchases can be made via STD 65 using a CMAS contract held by the Department of General Services. In such cases, the purchase is still controlled by the contract law.

We respectfully ask for a thorough response to our request within ten (10) days. Failure on the part of SCIF to fulfill this request will result in an appropriate enforcement action. The Union maintains that the above requested information is necessary and relevant to SEIU Local 1000 in order to exercise rights and fulfill duties codified in the Dills Act.

The documents can to be delivered to:

Anne M. Giese
SEIU Local 1000
1808 14th St., 1st Floor
Sacramento, CA 95811

Very truly yours,


ANNE M. GIESE
Attorney

AMG/mm

cc: Vera de Martini, SCIF



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VIA FACSIMILE & U.S. MAIL
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December 3, 2008

YVONNE R. WALKER
President

M. CORA OKUMURA
Vice President
and Secretary-Treasurer

JIM HARD
Vice President
for Organizing/Representation

KATHLEEN B. COLLINS
Vice President for Bargaining

Vera De Martini
State Compensation Insurance Fund
P.O. Box 420807
San Francisco, CA 94142-0807

Re: SCIF IT JLMC - Cooling Off Letter

Dear Ms. De Martini:

This letter is to initiate the cooling off process discussed in relation to the IT JLMC. The Union believes that the current JLMC process is no longer productive and is irreparably broken. In 2007, SCIF, through its IT Department Head Jeffrey Gershaneck, reduced the contractor count by 100 in 2007 from approximately 300 to 200 consultants. SCIF further agreed to additional cuts of 113 consultants in 2008, and to transition contracted IT management and key consultants positions to newly created employee positions. Unfortunately, the outsourcing reductions to which SCIF originally committed has now stopped.

Now, SCIF plans to reverse course by engaging in a massive outsourcing drive. The apparent new outsourcing surge is now planned to exceed hundreds of millions in the next several years. This level of outsourcing is untenable, and is likely to be systematically overturned at the State Personnel Board.

State Fund has also not complied with commitments to fix the excesses identified in the CDI Audit and has not cut wasteful outsourcing costs by replacing them with civil service employees. Some of the specific recommendations in the CDI Audit were as follows:

- The CDI reported that the Contracts for IT consultants used for operational purposes have been extended years beyond the original contract term. The consultants have been used to augment the existing IT operational staff on a long-term basis, and not necessarily to fill temporary needs.

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VERA DE MARTINI

December 3, 2008

Page 2

- The CDI reported that the use of IT consultants to fill long-term operational needs circumvents the HR hiring process and may not be cost beneficial. Additionally, this practice distorts the true IT departmental staffing needs in the budgetary process, and may increase security issues.
- The CDI reported that IT consultants that perform project development work are contracted over six-month periods, and are not contracted by project. Using the IT consultants in this method circumvents both the HR hiring process and the vendor bid and selection process. By not requesting project bids, SCIF may not be receiving the best rates possible.
- The CDI reported arrangements between at least one vendor and former SCIF executives where the vendor would pre-bill SCIF for a specific amount and then use these funds to obtain goods and services from third parties as directed by former SCIF executives. The funds that SCIF paid to this vendor were used for items such as sponsorships, donations, golf tournaments and gifts.

The Union is gravely disappointed with the change in direction by SCIF. By sending this letter, the Union does not intend to waive any rights it has to commence legal challenges to any IT contracts initiated by SCIF. Please feel free to advise me of any response you may have to this letter.

Very truly yours,



ANNE M. GIESE

Attorney

AMG/mm