

# State Compensation Insurance Fund STATUS REPORT

## *Executive Summary*

The State Fund Board of Directors initiated an independent review of State Fund's group administrative fee program and related internal controls nearly a year ago. In March the results of that review convinced the State Fund Board that a leadership change was in the best interest of the organization and its policy holders, leading them to take the unprecedented action of terminating the appointment of the organization's President and an Executive Vice President.

In late June the independent team hired by State Fund to conduct that review determined they had taken the matter as far as they could and that it should be referred to the California Highway Patrol (CHP), which has jurisdiction over state agencies like State Fund. As a result of the referral the California Highway Patrol, the California Department of Insurance, and the San Francisco District Attorney's Office formed a task force to investigate allegations of potential misconduct by the former employees. State Fund does not want to jeopardize the ongoing CHP investigation in any way. For that reason this report does not provide details of State Fund's independent internal review or the work being done by task force.

This report does provide an overview of the changes underway at State Fund and what has been accomplished since the organization began to set a new course in late March. It is not intended to be an exhaustive list of all of the changes we have employed but should make clear the magnitude and pace of positive change at State Fund. Since the internal review was initiated last year, the Board has worked tirelessly to steadfastly and persistently probe State Fund and its programs to ensure all facets of the organization can withstand the greatest scrutiny. As a result, State Fund has begun a significant transformation.

In the past five months State Fund has made great progress in its efforts to:

- ***Restructure and bolster its leadership team*** by making changes that include selecting Janet Frank as State Fund's new permanent president and hiring a temporary Chief Financial Officer and elevating the oversight of the management of information technology.
- ***Tighten the organization's internal controls*** by closing gaps in procedures for administering contracts and approving expenditures and creating rigorous new systems.
- ***Reformulate the administrative fee program*** to carefully define expectations and performance metrics, and institute mandatory audits to tighten control over the program to preserve its benefits to the organization such as balancing State Fund's business portfolio and improving workplace safety.
- ***Strengthen its corporate governance*** to increase transparency and accountability. This includes rebuilding the Internal Audit Department that will oversee the new employee whistleblower hotline, among other responsibilities, and will report directly to the Board's newly created Audit Committee. A code of ethics also is being developed for board members, officers and employees.

- ***Retooled management operations*** to create clear lines of authority, emphasize training and performance metrics, and provide professional oversight for its investment managers.

Many of the changes and new initiatives were developed with the help of top industry experts hired by the Board to ensure the standards developed for the organization keep pace with the industry's evolving best practices. Most notable among them is Larry Mulryan who has very ably served as interim president during this critical time. State Fund also has worked cooperatively over the past few months with the Department of Insurance, particularly on the review of its administrative fee program.

State Fund also is working to enact legislation that will allow the organization to make the changes necessary to attract top talent – internally and externally - and to expand the board to strengthen the fund's corporate governance to continue to provide the excellent customer service its policy holders expect and deserve.