



SAIF CORPORATION

BOARD OF DIRECTORS AUDIT COMMITTEE

**Wednesday
August 30, 2017
10:00 a.m.**

**SAIF Corporation
1500 SW 1st. Ave.
Portland, Oregon**

After determining a quorum was present, the meeting was called to order at 9:58 a.m.

Roll call:

Kevin Jensen
Maurice Rahming

SAIF Corporation personnel present:

Kerry Barnett, President and CEO
Bill Barr, Chief Operating Officer
Ken Collins, Chief Information Officer
Kathy Gehring, Vice President of Claims
Gina Manley, Chief Financial Officer
Bridgette Matthews, Assistant Vice President of Claims
Cathy Pollino, Chief Internal Auditor
Joe Nhem, Actuarial Research Director
Todd Graneto, Controller
Marsha Malonson, ASD Director
Kambra Hinman, Corporate Internal Auditor
Robert Johnson, IT Internal Auditor
Shelby Fleming, Corporate Internal Auditor
Ricardo Becerril, Day CPM Consultant
Kelly Miller, Assistant to the Board

Other Attendees:

Michelle Rock, Secretary of State Audits Division
Tony Andrade, Moss Adams
Scott Simpson, Moss Adams
Ashley Osten, Moss Adams

Approval of Audit Committee minutes

Upon motion duly made and seconded, the minutes from the March 15, 2017, meeting were unanimously approved.

External financial audit

Scott Simpson, Tony Andrade, and Ashley Osten, with Moss Adams, presented their audit results on SAIF Corporation's 2016 financial statements. The Secretary of State Audits Division reviewed the work performed by Moss Adams prior to issuance of their report.

Moss Adams performs an audit of the financial statements prepared in accordance with statutory accounting practices and an audit of SAIF's financial statements prepared in

accordance with generally accepted accounting principles (GAAP). In addition, Moss Adams issues a report on internal control over financial reporting. Moss Adams identified no material misstatements or significant deficiencies in the course of the audit. There were no changes in significant accounting policies, significant accounting estimates, or financial statement disclosures that impacted the financial statements. SAIF staff was well organized and responsive to Moss Adams' requests, and Moss Adams staff had access to all records needed for the audit.

Gina Manley reported that Oliver Wyman conducted its annual actuarial evaluation of SAIF's financial viability and loss and loss adjustment expense reserves as of December 31, 2016. Oliver Wyman concluded that SAIF has sufficient surplus and the reserves are within a reasonable range.

The audited financial statements and Oliver Wyman report were made available for the Audit Committee.

The Audit Committee then met with the representatives of Moss Adams and the Oregon Secretary of State without SAIF employees present, and met with SAIF's financial reporting staff (Gina Manley, Joe Nhem, and Todd Graneto) without other SAIF employees present. Internal audit staff also met with the committee members without management present.

Review of Performance Incentive Measures

Ms. Pollino presented a review of corporate and executive incentive measures. The purpose of this audit was to review the accuracy and reliability of the data used for the corporate and executive incentive measures for 2017, and evaluate the established goals to see if they align with the overall objectives of the incentive program. The audit found the return-to-work measure needed to be revised and the claim frequency measure needed further evaluation to ensure the measure captures what management intends.

Ms. Pollino and Mr. Barr responded to questions from the Directors regarding incentive measure communications to staff.

Review of Return to Work Communication

Ms. Hinman presented findings on the return-to-work (RTW) communication audit. The purpose of this audit was to evaluate the communication and coordination between SAIF's RTW consultants and their internal and external partners. The reporting relationships changed due to an April 1 reorganization, moving RTW from policyholder services to claims. The audit found opportunity to improve coordination and communication between SAIF's internal and external partners. Three recommendations have been made to management which they agree with.

Ms. Hinman, Ms. Gehring, and Ms. Matthews responded to questions from the Directors regarding communications with injured workers.

Review of Managed Care Organization Enrollments

Ms. Hinman presented a review of the controls over managed care organization (MCO) enrollments. The audit found claims were enrolled into MCO's when appropriate and opportunities exist to improve the timing of enrollments and the compliance with

documentation rules. Internal audit made two recommendations to management which they agree with and will take steps to correct.

Review of Salem Campus Renovation Audits, (Change Orders, Contingency Funds, Equipment)

Ms. Fleming reported on three audits on the Salem Campus Renovation project. The audit on change orders found the current process to monitor and approve change orders to be appropriate. The contingency fund audit found SAIF's use of contingency and reserve funds to be reasonable and properly approved. Finally, the audit on Salem Campus Renovation equipment management (rental vs. purchase) found the project staff have done well in recognizing errors in billings pertaining to tools and equipment and have worked to remedy the process and make retroactive changes as needed. Internal audit made one recommendation to staff which they agree with.

Review of Corporate Governance Audits (ERM, ORSA, MAR)

Ms. Fleming briefly commented on the three corporate governance audits: enterprise risk management, own risk solvency assessment and model audit testing program. These are important reporting requirements which look at the financial health of the organization, identify risks, and implement controls to monitor those risks. Mr. Barr commented that an additional staff member has been added to strategy to oversee the day-to-day requirements of enterprise risk management.

Review of System Development Lifecycle Audits (agile projects and system implementations)


Mr. Johnson provided a report on the two system development lifecycle audits: agile projects and system implementations. These audits address internally developed systems and those we purchase off the shelf. Both were found to align with industry standards and best practices. Internal audit made two recommendations which management agrees with.

Management's Report of Internal Control over Financial Reporting

Ms. Pollino briefly reviewed the audit on internal control over financial reporting. Internal audit concluded SAIF's internal controls over statutory financial reporting is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of statutory financial statements as of December 31, 2016.

Adjournment

There being no further business, the meeting was adjourned at 11:16 a.m.



Kelly Miller, Executive Assistant to the Board