AUDIT AND COMPLIANCE COMMITTEE CHARTER

A. Purpose.

The Audit and Compliance Committee (the “Committee”) will assist the Board in fulfilling its oversight responsibility relating to (1) the integrity of the company’s financial statements, (2) the company’s compliance with legal and regulatory requirements, (3) the independent auditor’s qualifications and independence, (4) the performance of the company’s internal audit function and independent auditors, (5) the accounting and financial reporting processes of the company and audits of the financial statements of the company, (6) legal and regulatory compliance systems, and (7) the anti-fraud program. The Committee shall also assist the Board in establishing a corporate culture that encourages a commitment to compliance with law.

B. Composition and Qualifications of Committee Members.

The Committee shall consist of three (3) or more members of the Board, who shall be elected by the Board and who shall continue as members of the Committee at the pleasure of the Board. The Committee shall be comprised solely of independent Directors of the Board. An independent Director for the Committee is one who:

1. Has no personal services contract or material relationship with Kaiser Foundation Health Plan, Inc., Kaiser Foundation Hospitals or any of their subsidiaries (a “Kaiser entity”) except for Board service;

2. Is not a partner, executive officer, principal shareholder or director of any entity that (a) has a contract to provide goods or services to a Kaiser entity, and (b) receives more than 1% of its gross revenues from one or more Kaiser entities;

3. Is not currently and has not been for the past three years employed by a Kaiser entity;

4. Has not during the last three years been part of an interlocking directorate in which an executive of a Kaiser entity served on the compensation committee of another company that concurrently employs the director;

5. Has not during the last one year been affiliated with or employed as a corporate officer, partner or an audit related employee by a present or former auditor of any Kaiser entity;
6. Is not a “family member”, as defined in Section 4958(f)(4) of the Internal Revenue Code, of any person described above.

7. Is free of any other relationship which would interfere with the exercise of independent judgment; and

8. Is receiving Director’s fees and related expense reimbursement as the only form of compensation from any Kaiser entity.

Notwithstanding the above, the Directors who are independent, after consideration of all of the relevant circumstances, may determine whether a relationship is material or immaterial and whether a Director would therefore be considered independent. The Board of Directors shall document the basis for such a determination.

In addition, each member of the Committee must have a working familiarity with basic finance and accounting practices, and at least one member of the Committee must be an “audit committee financial expert” as defined under the Securities Exchange Act of 1934, as amended. The Board shall determine the qualification and independence of Directors for service on the Committee.

C. Responsibilities and Duties.

In addition to the purposes set forth above, the primary responsibilities and duties of the Committee shall be as follows:

1. Audit Review.

   Relationship with the Company’s Independent Auditors.

   a. Directly hire, retain, approve compensation and oversee the company’s independent auditors;

   b. Resolve disagreements between management and the independent auditors;

   c. Review and evaluate with management all engagements between the independent auditors and the company, including approval or pre-approval of audit and non-audit services provided by the independent auditors;

1 Section 4958(f)(4) of the Internal Revenue Code defines “family member” as a person’s spouse; brothers or sisters (by whole or half blood); spouses of brothers or sisters (by whole or half blood); ancestors; children (including a legally-adopted child); grandchildren; great grandchildren; and spouses of children, grandchildren, and great grandchildren.
d. At least annually, obtain and review a report by the independent auditors describing the independent auditors’ internal quality control procedures, material issues raised by the most recent internal quality control review or peer review of such independent auditors or by any inquiry or investigation by governmental or professional authorities within the preceding five years regarding one or more independent audits carried out by such independent auditors, steps taken by such independent auditors in response, (to assess the independent auditor’s independence) all relationships between the independent auditors and the company, and all other subjects required to be disclosed by the independent auditors;

e. Meet separately on a periodic basis with the independent auditors;

f. Review with the independent auditors any audit problems or difficulties and management’s response; and

g. Set clear hiring policies for employees or former employees of the independent auditors.

Financial Reporting.

a. Review and discuss the annual audited financial statements and quarterly financial statements prior to their release with management and the independent auditors. This review includes significant adjustments, management adjustments and accounting estimates, significant new accounting policies and disagreements with management. The chair of the Committee may represent the entire Committee for purposes of this review;

b. Review with the independent auditors their reports on the annual and quarterly financial statements and all communications required of the independent auditors; and discuss with the independent auditors and management their judgment as to the quality of the company’s accounting principles, including the application of the company’s accounting principles;

c. Review management certifications required by the Board with respect to the financial statements;

d. Review independent auditor attestations with respect to internal controls and the financial statements;
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e. Review with management and the independent auditors any correspondence with regulators regarding the company’s financial statements or accounting policies; and

f. Review and discuss on a general basis the types of information disclosed in, and the types of presentations to be made for, earnings press releases, as well as updated or new material financial information or earnings guidance provided to analysts and ratings agencies.

g. Review with the independent auditors the proper reporting and audit treatment of off-balance sheet financing arrangements, related party transactions, and similar financial transactions.

h. Annually appoint a qualified opining health actuary and receive a report from the actuary.

Audit Plans and Overall Control Environment.

a. Assist the Board's oversight of the company’s compliance with respect to its financial reporting and disclosure processes. Review (a) major issues regarding accounting principles and financial statement presentations, including any significant changes in the selection or application of accounting principles, and major issues as to the adequacy of internal controls and any special audit steps adopted in light of material control deficiencies; (b) analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative generally accepted accounting principles (“GAAP”) methods on the financial statements; and (c) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the company;

b. Regularly review the independent auditor’s report submitted to the Committee regarding the company’s critical accounting policies and practices, all alternative treatments of financial information within GAAP that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatments preferred by the independent auditor and other material written communications between the independent auditor and management;
c. Review procedures for the receipt, retention and treatment of complaints received by the company regarding accounting, internal accounting controls, auditing matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters; and receive quarterly reports regarding such complaints.

d. Review with management, the independent auditors and the Senior Vice President - Internal Audit for the company, the company’s policies and procedures, including risk assessment and risk management, to ensure the adequacy of internal accounting and financial reporting controls and management’s responses with respect to recommendations for internal control improvements;

e. Review significant reports to management prepared by the internal auditors;

f. Review the audit plans and activities of the independent auditors and the internal auditors, and the coordination of their audit efforts;

g. Approve the annual audit plan of the internal auditors, as well as subsequent changes;

h. Meet separately on a periodic basis with management;

i. Meet periodically with management to review the company’s major financial risk exposures and the steps that management has taken to monitor and control such exposures;

j. Review periodically with management significant new financial regulatory policies and rules;

k. Review with management letters from the independent auditors relating to material weaknesses and reportable conditions and any other required communications from the independent auditors;

l. Meet separately on a periodic basis with the Senior Vice President - Internal Audit for the company;

m. Review and approve the performance, appointment or replacement of the Senior Vice President - Internal Audit for the company, and review the performance of the internal audit department;
n. Review the internal audit department’s staffing, budget and responsibilities, including its independence; and

o. Review and approve the internal audit department’s charter.

Capital Budget/Expenditure Controls.

a. Review controls for capital and other major expenditures.

Other.

a. Regularly report Committee actions to the Board, with such recommendations as the Committee deems appropriate;

b. Engage and determine funding for outside legal, accounting or other advisors, as necessary and appropriate;

c. Review and reassess the adequacy of the Committee charter on an annual basis;

d. Consider such other matters with respect to internal controls and the internal and external audits as the Committee may deem advisable; and

e. Undertake such other responsibilities or tasks as the Board may delegate or assign to the Committee from time to time.

2. Legal and Regulatory Compliance Systems.

The Committee is responsible for ensuring that this company has adequate systems in place for maintaining compliance with federal, state and local laws and regulations, including but not limited to health care, health plan, labor and employment, and environmental health and safety laws and regulations. The Committee shall:

a. Periodically review the company’s compliance program, which includes the compliance infrastructure of accountabilities, plans, resources and agency relations, as well as processes to integrate compliance into operations, such as policies, procedures, controls, training, monitoring, and reporting;

b. Receive periodic reports of significant legal and regulatory audit activities and compliance risk assessments;
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c. Obtain periodic updates concerning government regulations, policies, and guidelines that provide direction to corporations regarding the management of legal and regulatory compliance;

d. Review any significant enforcement matters and reports issued by regulators;

e. Receive reports on the implementation status of compliance resolutions;

f. Meet separately on a periodic basis with the Chief Compliance Officer and regularly monitor and review performance of the Chief Compliance Officer’s functions;

g. Review significant pending litigation and the professional liability litigation portfolio; and

h. Periodically review policies developed by the Chief Compliance Officer and General Counsel, as appropriate.

3. Anti-Fraud Program.

a. Provide oversight of the company’s anti-fraud program.

D. Conduct of Business

A quorum of the Committee shall consist of a majority of the Committee members. The Committee shall report to the Board regarding its recommendations, actions and decisions. The Committee shall annually assess and report to the Board on the performance and effectiveness of the Committee.

The General Counsel and the Chief Compliance Officer shall serve as staff to the Committee.