

**CITIZENS PROPERTY INSURANCE CORPORATION  
FULL TRANSCRIPT OF THE MINUTES OF THE  
AUDIT COMMITTEE MEETING HELD TUESDAY DECEMBER 8, 2015**

A Board meeting of the Audit Committee of Citizens Property Insurance Corporation (“Citizens”) was held at 2.00pm on Tuesday December 8, 2015 in Maitland, FL.

**The following members of the Audit Committee attended:**

Juan Cocuy, Chairman  
Jim Henderson  
Bette Brown

**The following Board of Governors members were present:**

John Wortman

**The following Citizens staff members were present:**

Jay Adams	
Steve Bitar	Kelly Booten
Violet Bloom	Fred Deeb
John Fox	Barry Gilway
Joe Martins	Cindy McVay
Bruce Meeks	Jennifer Montero
Michael Peltier	John Rollins
Dan Sumner	Barbara Walker
David Woodruff	Andrew Woodward

**The following persons were present:**

Rick Patterson, Raymond James  
Kapil Bhatia, Raymond James  
Dave Newell, FAIA  
Brian Smith, Dixon, Hughes, Goodman  
Matt Church, Dixon, Hughes, Goodman

**The following persons attended by telephone:**

Charles Elmore, Palm Beach Post

**The following Citizens Staff attended via telephone:**

Bonnie Gilliland	Curt Overpeck
Betty Veal	Angela Smith
Candace Bunker	Mike Walton
Debby Kearney	Mark Casteel
Cindy Brunner	

**Call Meeting to Order**

CHAIRMAN COCUY: Good afternoon, I would like to call the Audit Committee meeting to order. Barbara, would you please call the roll?

MS. WALKER: Yes, Chairman Juan Cocuy?

CHAIRMAN COCUY: Here.

MS. WALKER: Governor Bette Brown?

GOVERNOR BROWN: Here.

MS. WALKER: Governor Jim Henderson?

GOVERNOR HENDERSON: Here.

MS. WALKER: Chairman, you have a quorum.

CHAIRMAN COCUY: Thank you. The first order of business is the approval of the minutes of the September 29th meeting. Do I have a motion to accept them?

GOVERNOR BROWN: So moved.

GOVERNOR HENDERSON: Second.

**A motion was made by Governor Brown to accept the Minutes of the September 29, 2015 meeting. Governor Henderson seconded, all were in favor and the motion carried.**

CHAIRMAN COCUY: Next is the report of the Office of the Internal Auditor, Joe Martins.

MR. MARTINS: Thank you, Mr. Chairman. For the record, I am Joe Martins, Chief of Internal Audit. I wish to refer you to page 11 of your books. On this page we focus on the plan progress and work completed. As of November 15, we have completed 80% of the work scheduled for this year. This represents 25 audit projects and we have six audits in progress (or about 20%). The focus of these will be on process management and finance, and likely claims and IT.

The Citizens' internal control framework project is moving steadily on plan with the completion of 14 process and control reviews to date. This represents 25% of the 56 process reviews planned throughout the three-year implementation period. Each review involves fully understanding, documenting and testing of identified key controls in line with COSO 2013, the industry standard for internal control frame works. To date 42 key controls have been reviewed and formally documented.

During the quarter, we continue to assess risks and organizational changes and adjust to the plan to focus on the areas where we could add the most value and provide our assurance. Since the previous meeting, we added the assessment of the appointment and management of contractors in the sinkhole managed repair program.

On page 12, I present for review and approval the 2016 audit strategy and plan. A full copy of the plan has been included in your packet on page 16. The plan was developed using a risk based approach to understand the necessity of Citizens' business and its inherent risks. The risk assessment completed by OIA represents our best effort in understanding the audit universe and issues that may influence the effective execution of Citizens' goals and objectives. Our assessment of risk is our own subjective opinion that was derived from input from management, Enterprise Risk Management and audit experience. The process was performed in two steps including personnel or client interviews, followed by an overall ranking of residual risks and identification of audit projects for the next three years. Citizens is best served if the plan is dynamic in nature and is continually adjusting to meet the needs of the company. Therefore the plan will be reviewed quarterly and adjusted as needed. Key events that may influence the plan include

management responses, operational redesign or improvements, legislation and storm season impact. We have devised our audit focus in three specific areas and that would be finance and operations, information technology, compliance and forensic audit. The work in the main operational areas, underwriting and claims, will focus on the areas most affected by change, year three implementation of the revised processes or implementation of defined systems. Audit work for 2016 include personal underwriting commissions, underwriting quality assurance and for claims we focus on legal billing and litigation management, claims settlement process, claims vendor assignments and vendor management of independent adjusters. Finance management continues to strengthen finance and accounting processes throughout the year. We focus our assessment on risks towards areas we have financial risk mitigation and it is important to successful continuation of operations. Our work in 2016, will therefore focus upon Citizens' financial and operational planning through an effective budget process as well as the protection of reserves with a robust reinsurance program. There are some strategically important changes that needs to be included in the Citizens' annual plan. Successful execution of these projects is essential for the achievement of the stated continued objectives and the Office of Internal Audit agree to support a number of initiatives to ensure these activities consultation and advice. We will monitor the progress with major change initiatives such as the ERP implementation, Citizens insurance redevelopment and involving consolidation. Another initiative to focus include dynamic forecasting, book of business updates and claims quality assurance. We recently updated the information technology strategy and considered IT risks. In this endeavor three themes emerged. Foundational controls, cyber security and IT vendor management where we believe we can add value to the IT function. Specific audits include network architecture and design, cloud implementations, third party access, IT governance, just to name a few. OIA continues to proactively support a company culture that embraces mitigation efforts for fraud, waste and abuse and compliance with company policies and state and federal regulation, thus reducing the cost of fraud, waste, abuse and non-compliance. Specific compliance work scheduled for 2016 included compliance governance, executive expenses, legislation and federal change compliance, privacy audit, fair labor and the Fair Labor Standards Act. We continue our proactive assessment of strength of controls designed to mitigate potential fraud and abuse and for the year 2016 we selected for review cash transfers, cost center spent and we will continue with our forensic data analytics. The 2016 audit budget on page 13 represents a total budget amount of \$2.27 million which represents a reduction of two full time positions from 14 to 12 in 2016. In addition we have agreed with the Inspector General that the audit will provide greater focus on compliance and as a result two vacancies with the Inspector General function will not be filled next year. This budget aligns with our objective of controlling operational expenses while improving the level of quality and assurance provided.

I request that the committee approve the 2016 audit strategy and plan and included in this plan the 2016 audit budget and request that this budget be approved for presentation to the Board of Governors.

CHAIRMAN COCUY: So are you asking for a motion?

MR. MARTINS: We are asking for a motion to approve the plan and the budget, sir.

GOVERNOR HENDERSON: So moved.

GOVERNOR BROWN: Second.

CHAIRMAN COCUY: Before we take a vote just a couple of questions. One, and I know it is in here, the litigation invoicing. First of all, in 2015 you completed a number of audits related to that.

And so are we continuing the monitoring and the audits of that in 2016, or are there any significant findings in 2015 that we have got to be concerned with going into 2016?

MR. MARTINS: With respect to the claims litigation, management and control. The main audit was completed in 2014. We have been monitoring progress in terms of changes within the function, but we haven't really done a full follow up of the work that we completed in 2014, and we don't foresee any major issues with the area. We just wanted to confirm that the changes that they implemented are solid and are maintained and that is really what we are going to look at when we focus on claims litigation and management again next year just to see that those areas that we addressed are actually working as they intended.

CHAIRMAN COCUY: So based on what we found in the policies that we implemented, procedures that we implemented from 2014, do you feel comfortable?

MR. MARTINS: I feel comfortable that the organization has made major change and that those changes are being embedded within Citizens. For 2016, we just want to go back and do a thorough assessment to confirm that and provide assurance to the Audit and Board that they are changes that are sustainable.

CHAIRMAN COCUY: Okay. Any other comments or questions on the 2016 audit plan?

GOVERNOR BROWN: I noticed that you had a couple of high-risk ratings. One for cyber security and one for security administration yet you are doing an audit in 2017. My question is if that is a high issue and you are concerned about it, why wait?

MR. MARTINS: I think it is a high issue. We have completed some major audits in 2015 focusing on those areas and there are currently projects underway that will address specific security areas mostly during the latter part of 2016, so this is not really the time to do an audit, but we are very close monitoring of those projects. We are in touch with them on a regular basis and we believe that 2017 would be the right time to test the implementation to see if it was successful

GOVERNOR BROWN: So you are watching it now?

MR. MARTINS: We are monitoring it now; that is right.

GOVERNOR BROWN: Thank you.

CHAIRMAN COCUY: Any other questions or comments? If not I will take a vote. All in favor.

GOVERNOR BROWN: Aye.

GOVERNOR HENDERSON: Aye.

CHAIRMAN COCUY: Motion carries.

**The motion to approve the 2016 Strategy Plan and the Budget was proposed by Governor Henderson, seconded by Governor Brown and approved by all. The motion carries.**

MR. MARTINS: Thank you, Mr. Chairman. On page 14 I mention that there are 21 remaining open items. Of the 21 open items one high, two medium impact issues are past their plan completion dates. All three issues referred to the improvement of IT security controls with the organization.

The system technology unit is currently refreshing Citizens' IT security strategy and have a number of projects underway that focus on further improving Citizens' security protocols. These projects are being monitored by OIA.

I refer you to an action item on page 68. Citizens' Office of Internal Audit, together with the finance function will enter into contracts with a vendor of Wolter Kluwer Financial Services to provide the Office of Internal Audit as well as the Control Support Team, in the process of delivering the ICF project, with a software as a service administration support tool. The contract will be five years initially with the option of two, two year renewals. The Office of Internal Audit already uses TeamMate Audit Management application as an administrative tool and this contract would essentially confirm continuation of the service in a web based environment. In addition, the Office of Internal Audit will be adding TeamMate Analytic software to support its continuous audit and data analytic strategy. The AM application and analytic software will be used to streamline support and integrate every facet of the internal audit process, including risk assessment, audit planning, field work testing and four generation and issue management. The estimated cost of the contract including renewals is not to exceed \$332,000 over the estimated nine year life of that agreement. With this contract work Wolter Kluwer will also provide the Team Mate control management application to support administration and management of internal control framework functions. The same application will be used to identify, capture, analyze manage and report on evaluations of objectives, risks and controls throughout the organization in line with the COSO 2013 and COBIT 5 frame works. The estimated cost of this contract including renewals is not to exceed \$143,000 over the estimated nine year life of the agreement. I request committee's approval of the action item, audit and control management system with a total estimated contract cost of \$475,000 for presentation to the Board of Governors December 9, 2015.

CHAIRMAN COCUY: Is this a CCH package, Wolter's.

MR. MARTINS: Yes sir, Wolters Kluwer TeamMate, audit management and control management software.

GOVERNOR HENDERSON: I move for approval.

GOVERNOR BROWN: Second.

CHAIRMAN COCUY: All in favor. (Chorus of ayes).

CHAIRMAN COCUY: The motion carries.

**A motion was made by Governor Henderson, seconded by Governor Brown and unanimously approved to approve the contract with Wolters Kluwer for the Audit and Control Management System.**

MR. MARTINS: Thank you, Mr. Chairman. I have no further issues for the committee unless there are any questions.

CHAIRMAN COCUY: Just going back to your 2015, your chart and your results indicates 80% completed progress against the plan and then 10% still in progress. Out of the audits that you have completed have you uncovered or discovered any areas of, I guess first of all, let's get to the worst, anything real drastic? Any major issues, significant deficiencies, material weaknesses, or secondly, any areas that you believe from the internal audit department's recommendations to make to the organization to improve the operations?

MR. MARTINS: Sir, I think we have not found any major material failure of the control infrastructure within the organization. I think the control infrastructure is relatively strong and the internal control framework project will strengthen that over time as we implement it. We have found some high impact issues throughout the year and management has been extremely responsive through the issues that we are identifying and rectifying and try as well hard as they can to resolve that. Some of those issues, however, take time and is dependent upon system changes, and in some areas, some of the issues were not a surprise to the organization as well and project were already in progress. I think the organization is trying its best to address control failure or control enhancements where it is identified as quickly and diligently as possible. I have no specific area that I need to report that is not being addressed at this point in time that would keep us awake.

CHAIRMAN COCUY: Okay, and in the second area I see our new auditors are going to be making a presentation here shortly. Have you, in their planning phase, have you determined the scope and the level of assistance that our internal audit department is going to be giving them and what kind of, I guess credit, if you will, that we will be able to take from your work in reducing the scope of their work?

MR. MARTINS: We have not fully finalized that discussion. We have had discussions and the external auditor has come to see us as well while we were in the process of developing our audit plan and certainly we considered areas of concern that they may have had. But our plan is a fluent plan and we are certainly there to support the external auditors wherever we can. We did say to them that we would like them to rely on as many of the work that we have and we haven't had an opportunity to sit around the table and discuss how much that reliance would be with which of these projects that we would rely on. But the offer that we made to the exit auditors is that for every audit project that we have in the plan that they would place any reliance on we will give them an opportunity at the time when we do the audit to schedule it at a time which will be most suitable for their review. And secondly, to give them an opportunity to provide in our planning phase direct input in terms of the control steps or the audit steps they would like us to undertake so that that could give them as much reliance as they can, and then certainly they will have every access to all our work papers as much as they need to.

CHAIRMAN COCUY: Okay. Thank you very much. Any other questions or comments from the rest of the committee?

GOVERNOR HENDERSON: Good job, Joe. Perhaps in one of the meetings we are looking at today they discuss a review of controls over IT security and data. Perhaps, for a forward meeting particularly, your department could provide an overview about a review of that including your assessment of our controls. I know we do that in IT but traditionally internal audit has kind of a hand over there, review and kind of bless controls. I know some work has been done there; maybe you could kind of report back to us on that.

MR. MARTINS: Certainly, sir. I think throughout the year for most of the audits we do, within the IT arena as well as the operational area, we focus on access control, which provide a very strong insight into the management of security when we access the systems. And then secondly, we, in every IT audit that we do and every audit that we have on the schedule as well as most of them at least will have a focus on IT security. I think that is one of the most important areas within IT at this point in time, given that we also rate cyber security as a high risk from our own perspective. In every piece of work that we will do next year we will continue to focus on IT security. I do believe that the management of our information security processes has improved a lot with the employment of a director of IT security, but there is just so much work to be done about that. What

we have done late 2014, as well, is supporting the organization in doing an assessment of the risks associated with cyber security, identification of or development of an incident response plan and from there the security function then started to developing security strategies, and there are a number of projects currently running which all of this is a full time member of that project in providing advice and assisting the organization in identifying the correct process and controls that need to be implemented, but this is something that will take some time. I think we probably have 12 to 18 months before we really tackle most of the areas that need to be addressed, but certainly we in the organization are aware of the areas that need to be tackled and make sure that that is being addressed appropriately. Every now and then we identify throughout this year we have identified where some administrative, administration passwords have been shared within the IT administrator area and those have been addressed by the organization or they are trying their best to address that. So I think, yes, there is scope for improvement of IT security but it is more of a legacy issue and as we transfer the systems or close the legacy systems and transfer everything to the Citizens' insurance suite, our security environment will just improve as much as well.

CHAIRMAN COCUY: And if you look on page 22 in his org chart he has a director of information technology plus two staff under that director.

MR. MARTINS: That is correct.

CHAIRMAN COCUY: Those FTEs are devoted to auditing through and around the IT.

MR. MARTINS: That is correct. And our director of IT audit has been an IT security director for a relatively large financial service institution in the past. So she has a lot of experience and knowledge of the management of IT security in any environment and she has given a lot of attention to that and provided a lot of advice to the IT function as well.

CHAIRMAN COCUY: Okay.

GOVERNOR HENDERSON: Thank you, Joe.

CHAIRMAN COCUY: Joe, also on page 35, it says that you are asking us to recommend or request approval of the budget to go forward. Do we need, it is not a separate action item. Do we need to do that?

MR. MARTINS: I had requested that approval as part of the plan approval as audit budget is part of the plan.

CHAIRMAN COCUY: For approval, yes. All right. Okay. Thank you.

MR. MARTINS: Thank you very much, sir. Thanks for your time.

CHAIRMAN COCUY: Moving on to Chief Financial Officer's report, Jennifer.

MS. MONTERO: Good afternoon. If you will turn to tab three, you will see the September 30th, 2015, financial statements and the quarterly financial analysis in detail. I will go over a brief overview of both of the September 30th financials. Before I start I do want to point out that December 1st, 2015, marked our tenth year, consecutive year without a hurricane. It has allowed us to accumulate surplus. We have executed our risk transfer strategy and facilitated unprecedented levels of depopulation, all of which have allowed us eliminate the risk of an

assessment in a one in 100 year level. Turning to the financials, through September 30th, 2015, direct written premium decreased by approximately \$652 million or 3% as compared to the same period a year ago.

Likewise, net earned premium decreased by 515 million or 45% as compared to a year ago. These decreases are largely due to the successful depopulation efforts that have transpired over the last year. As further reflected by the year over year increases ceded premium of \$15 million or 19%.

Policies in force of approximately 574,000 reflect a decrease of more than 356,000 or 38% as compared to a year ago. Policies in force decreased by more than 24,000 during the third quarter of 2015. Although net losses and loss adjustment expenses, or LAE, incurred decreased \$89 million when compared to the same period a year ago, the loss ratio increased from 27 to 45% largely due to litigated water claims in the tri-county area. On average Citizens is receiving 800 litigated water claims per month, with an average cycle time of 740 days to close from the first notice of loss.

Although underwriting expenses to include administrative expenses decreased more than 26%, the expense ratio has increased to 22%, up approximately 4% from 18% year over year. As you may recall, unearned premium is payable to the take out company within 20 days of the date of assumption. Citizens continues to service the assumed policies until renewal. At September 30th, 2015, Citizens was servicing more than 119,000 assumed policies, which is more than 20% of the number of policies in force.

Primarily as a result of the number of policies serviced driven principally by the volume of depopulation our expense ratio has increased. Simply stated, the denominator which is written premium is decreasing at a faster rate than our numerator, which is underwriting expenses.

While the consolidated net income at September 30th, 2015, was \$55.9 million, the coastal account reflects a net loss of \$14 million. Several factors contribute to the coastal account's net loss, including depopulation, reinsurance and an increase in the loss and LAE ratios. We anticipate based on forecasted depopulation through the end of the year that the coastal account will end in 2015, with a net loss of approximately \$60 million. Finally, cash invested assets remain constant over the year at approximately 14 billion and policyholder surplus remain constant at approximately 7.4 billion, reflecting significant claims paying capabilities heading into 2016. And with that I will take any questions.

CHAIRMAN COCUY: Just curious, how did interest expense decline from 2014 to 2015?

MS. MONTERO: We have had a lot of our bonds mature.

CHAIRMAN COCUY: Okay.

MS. MONTERO: And tomorrow when we go over the budget you will see not only the projected 2015, you will also see the budgeted 2016, and a forecasted 2017.

CHAIRMAN COCUY: Okay. Page 86 is kind of a summary for the nine months. And other, other income it is a negative number, 18 million, what is that made up of mostly.

MS. MONTERO: The 18 million other income?

CHAIRMAN COCUY: Yes.

MS. MONTERO: I do not know that off the top of my head. I will look into that.

CHAIRMAN COCUY: And it is a negative number.

MS. MONTERO: Right.

CHAIRMAN COCUIY: So it is really other expenses.

MS. MONTERO: And it may very well be explained in the QFA. I can't recall if we did or not. If not I will find out definitely by tomorrow's meeting.

CHAIRMAN COCUIY: Thank you. Any other questions?

GOVERNOR HENDERSON: I think you mentioned that the budget review, you talk about the impact of the coastal segment of this and going into a negative due to take out, and also reinsurance costs there. So we look forward to your discussion and the CEO's report on that.

MS. MONTERO: Okay.

GOVERNOR BROWN: I have one quick question.

MS. MONTERO: Sure.

GOVERNOR BROWN: So you didn't budget for line of credit fees and no issuance cost?

MS. MONTERO: We don't have any, we don't have any lines of credit.

GOVERNOR BROWN: I didn't think so.

MS. MONTERO: No.

GOVERNOR BROWN: Okay, there is a number, a negative number there and I just –

MS. MONTERO: Which, I am sorry?

GOVERNOR BROWN: I am on page 86, I am sorry. Juan got me to page 86 and now I was looking at that and I notice there is a negative number there. Under the actual budget right above the other income that we were talking about, the loss of \$18 million, there is also a –

CHAIRMAN COCUIY: Line of credit fees.

GOVERNOR BROWN: Line of credit fee of \$5 million, yes, \$5 million.

CHAIRMAN COCUIY: Five million two hundred.

MS. MONTERO: Those would have been for the note issuance. Don't forget, we did pre-event financing, we did issue a billion dollars.

GOVERNOR BROWN: Okay.

MS. MONTERO: That is what that is, it rolls into that.

GOVERNOR BROWN: All right.

CHAIRMAN COCUY: But no line of credit.

MS. MONTERO: No line of credit fees, we haven't had that in many years.

GOVERNOR BROWN: I was looking for the balance sheet to see if there was one. I didn't think there was.

MS. MONTERO: No.

GOVERNOR BROWN: Thanks.

CHAIRMAN COCUY: Okay. Thank you.

MS. MONTERO: If there are no other questions I would like to invite up our external auditors from Dixon Hughes Goodman. We have Matt Church with us and Brian Smith and they are going to go over the audit plan update.

CHAIRMAN COCUY: Okay, thank you.

MS. MONTERO: Thank you.

MR. CHURCH: Good afternoon.

CHAIRMAN COCUY: Good afternoon, gentlemen.

MR. CHURCH: And thanks for having us today. I am Matt Church. I will be the engagement partner on the Citizens audits this year and will talk about those are momentarily.

CHAIRMAN COCUY: Would you please repeat your name? I am sorry.

MR. CHURCH: Matt Church.

CHAIRMAN COCUY: Church.

MR. CHURCH: And this is Brian Smith.

MR. SMITH: Brian Smith, I am the audit manager for the Citizens audit.

MR. CHURCH: And you guys should have a copy of our audit plan.

CHAIRMAN COCUY: Yes.

MR. CHURCH: Perfect. So if you go over to page 2 I am going to go over the audit scope and then Brian is going to kind of talk about our audit methodology, some of the higher risk areas that we have identified in our approach, and then there will be some house cleaning type things on the back end just to kind of keep the committee aware. So engagement scope, as I mentioned there is going to be three financial statements that we will be opining on that will be the statutory Citizens that is filed with the State. There will be the GAAP or GASBY audit of Citizens and then there will be the GAAP audit of the Florida Market Assistance Plan, and we are really here to sort of present the plan on all three of those in accordance with auditing standards.

MR. SMITH: On the next page pages here I want to walk you through just a high level of our approach to tackling the audits here. The first step we take is the planning and understanding of control phase. This has mostly been performed in our interim phases in the months of October and November. On the list here you will see some areas we looked at for controls where we felt there were more significant areas of the audit, looking at things such as internal controls of our IT, claims management, IBNR, premium recognition, reinsurance and cash management. The next phase we go for the audit is really our audit testing phase. This is where we are going to spend some time obtaining evidence and working with management to support their position. Most of these areas are going to be testing specific detail accounts. We have gone through a scoping exercise to identify higher risk accounts where we would spend more time. Also working with the company to identify things such as related parties, significant transactions, et cetera, which we will test on a detailed basis. The next slide here is really just the third phase of our audit is really the completion and wrap up phase, working with management to conclude and report, as well as coming to the end and we are reporting to the Audit Committee on any findings or significant issues we have determined during the audit. Walking into the next slide here is really looking at more significant areas of the audit where we feel there is significant management estimates or significant risks to the financial statements. The first one is reserves. This is really around IBNR. So we will focus on testing the details that are provided to actuaries as well as Dixon Hughes Goodman will hire an external third party actuary to review and do a peer review of the actuary methodologies utilized by the company. The next approach is going to be around premium recognition. We feel this is a significant risk for the purpose of presumed risk for revenue recognition. After that we will look at another significant area is investment valuation. Dixon Hughes Goodman has an internal evaluation team we will utilize to test the fair value of investments, but only for the balance sheet fair value, but also for OTTIF if there is any that needs to be recognized. After that we will spend time on reinsurance. The significant risk around reinsurance is around accounting policies specifically risk transfer of accounting recognition for reinsurance contracts. After that we will spend time on a presumed risk for management override with any entity there is a presumed risk for management override of controls. We have specific procedures designed around detecting areas of fraud risk as well as looking at management bias for management estimate.

MR. CHURCH: Going over to slide 11, the use of specialists. I just wanted to let the committee be aware, make the committee aware of where we will use specialists in the audit and Brian touched on some of those as we went through, but we will be using an internal specialist for IT and I think they have been out, they completed about 85% of what they need to do for the audit to kind of get things wrapped up before we sign off on planning and actually commence the field work in March.

GOVERNOR HENDERSON: Who is the third party actuary you used on reserves?

MR. CHURCH: We are down to two. We are going to work with management to make sure there are no conflicts, but it is typically as a firm we have outsourced.

GOVERNOR HENDERSON: Who is the selected?

MR. CHURCH: Probably Marlenose & Associates or Pinnacle would be the two and we will work with management to determine if there are any conflicts, if they have done any pricing or anything like that that we would need to be aware of.

GOVERNOR HENDERSON: From an independent standpoint?

MR. CHURCH: Yes.

GOVERNOR HENDERSON: Great, thank you, Matt.

MR. CHURCH: Sure. The other internal specialist that we will use is on investment and Brian will about that, that is really if we can't get pricing from an external party for confirmation of paring value we will use internal specialists there. And then I know you asked the question of Joe and we are still sort of figuring that out with it being a first year audit. We are 90% through planning, just trying to figure out where we are going to utilize them. Right now it is probably a lot of knowledge share at this point to help us sort of understand and we do have access to the inventory of audits that they have used so we can sort of pick that up and leverage that, we will, and agree with the comments that he made.

CHAIRMAN COCUY: And I would say unlike any other organization that I have ever worked with or been involved I think we have got a pretty darn strong internal audit department. So to the extent that you can utilize their work or take credit for it or whatever, however you want to call it.

MR. CHURCH: Absolutely.

CHAIRMAN COCUY: I would encourage you to do that.

MR. CHURCH: Certainly. Going over to page 12 that will be the deliverables. As I mentioned before, we will have the three independent audit reports and we will have communication of those charged with governance which would be the Audit Committee which we will go over with you guys in May. We will have some filing letters that are unique to the statutory world and with the OIR. We will have those and then any ad hoc reporting requests that the committee may have. Slide 13 talks about timing. We have done most of our planning which was off site. We did come down interim, as I noticed or noted we are 85% of the way through getting all of that locked down and finalized so that we can report the plan that you see here. We will start final field work 3/28 and we expect that to be four weeks, and then once that finished we will kind of have a three week allotment for reporting and making sure everything is good there. With an estimated completion date of May 15, 2016.

CHAIRMAN COCUY: How did the interim work go?

MR. CHURCH: Good.

CHAIRMAN COCUY: Yes. Any preliminarily findings or anything to discuss?

MR. CHURCH: No, no, we are still in the process of locking down a few of the sort of accounting policies. That was probably the things that we kind of carried forward to this point. I met with the team this morning and I think we will have that locked down in the next two weeks with no issues at this point.

CHAIRMAN COCUY: Have you had a chance to review the predecessor auditor's work papers for the balances?

MR. CHURCH: Yes.

CHAIRMAN COCUY: No problems there?

MR. CHURCH: No.

CHAIRMAN COCUY: Okay.

MR. CHURCH: No, and then lastly, you have mine and Brian's contact information and then some additional information for others on the engagement. And I know we went through that pretty quick, but if you guys have any questions or comments or, you know, would like for us to sort of go back over anything, we are more than happy to do that.

GOVERNOR HENDERSON: It is a good report, Matt. I guess one of the more prevalent buzz words around audit committees today is related party transactions. So I guess we can get into this and perhaps see that committee about it would be interesting our definition within Citizens of that.

MR. CHURCH: Right.

GOVERNOR HENDERSON: And obviously your view of that in terms of our making sure that if there are such transactions we are aware of those.

MR. SMITH: Sure, and I can take that. I think to answer your question in the audit world there is some impact on special and management teams as well as the audit firms of identifying related parties. I think the onus really there is on the management team to identify related parties and our role is to understand what management's process is to identify related parties. So we can work with the management team going forward for the 2015 audit to be sure that they are identifying those and disclosing those appropriately in the financial statement.

GOVERNOR HENDERSON: All right, thank you.

CHAIRMAN COCUY: Do you have anything? I guess, you know, in the past, you know, the high visibility areas, you know, obviously the actuarial, the estimations there that everything that goes into that. I think there was some accounting treatment of some deferred that were an issue before. So, you know, I am sure you will work with Jennifer to make sure that we cover all of those areas.

MR. CHURCH: Correct.

CHAIRMAN COCUY: And are up to date with that.

MR. CHURCH: Yes, sir.

CHAIRMAN COCUY: Thank you guys.

MR. CHURCH: Thank you.

CHAIRMAN COCUY: Appreciate it. Now we have the ethics and compliance officer's report.

MS. MONTERO: Can I step in and answer your question?

CHAIRMAN COCUY: Yes.

MS. MONTERO: The \$18 million, that was the cost of the defeasance of the post event bonds for the emergency assessment we did at the beginning of the year. It was a budgeted item. We came in a little under budget.

CHAIRMAN COCUY: Okay, thank you very much. One less thing to have hanging over your head, huh?

MR. SUMNER: Good afternoon, Mr. Chairman, members of the committee, Dan Sumner, Citizens General Counsel. I will be presenting the ethics complaint report. Debbie Kearney is available by phone if she is needed. If you will turn to tab five and look at the third quarter complaint report, I think what you will see is that Citizens continues to trend toward much more baseline type incidences of complaints. During the last quarter there were four new complaints.

But again, we are trending for Citizens with regard to internal complaints much more along industry baselines for the third quarter of 2015. There were four new complaints, two of which were referred really as grievances to Human Resources and two complaints were referred to the Inspector General for investigation. If you go over to the final page you can see that the topics involved were a gift policy violation, one of harassment and two of inappropriate behavior. I would note that with regard to the harassment that that particular complaint resulted in a substantiated report by the Inspector General and personal action has already been taken on that. Otherwise, the issues that were addressed during this quarter were largely matters that had to do much more with personal grievances than complaints. If you look at this overall in terms of the cycle time that we are moving these complaints through on a timely basis and I believe if you will look at the report in its entirety what you will see is, is both a frequency and severity of internal complaint reports which are trending in the right direction. Certainly if you look at it as opposed to prior years we are certainly moving in the right direction, and these would be statistics again that would be in line with industry baselines. Are there any questions? I would make one, one point, a privilege if I could. I would like to mention to you all that Debbie Kearney will be retiring at the end of the year. I would like to thank her for her contribution to the very close knit team of herself, the Office of Internal Audit, the Inspector General and Human Resources, all of whom have really coalesced, very much I think with a lot of her leadership to really make sure that they are a well-functioning group and I think that thanks are due to her for really I think personifying what we were looking for in an ethics officer during her tenure and we are now recruiting for replacement and are in midstream on that.

CHAIRMAN COCUY: How long has she been with us?

MR. SUMNER: Three years.

CHAIRMAN COCUY: Wish her our best and I would echo your sentiments there and to see the very, very small amount of complaints and call-ins for an organization this size with 1,200 employees or so is pretty phenomenal.

MR. SUMNER: Thank you very much.

CHAIRMAN COCUY: Thank you. Moving on to the Chief Risk Officer, John Rollins.

MR. ROLLINS: Good afternoon, members of the committee and Mr. Chairman. I am John Rollins, Chief Risk Officer for the record. I don't have any action items for you today. So this is going to be very brief, just an update on activity. First just a personnel note. You know March Fisher is our director of corporate analytics and you know Carol Williams as our director of Enterprise Risk Management. We have consolidated the departments there into a new unit, Enterprise Risk and

Analytics and March Fisher has been promoted to senior director of that unit. So you will be hearing from Carol as you always have, she is still on the job doing great work, and you also may be hearing from March for action items in the future. The general update on ERM, we had some discussion back in September about top risks for the organization and visibility of top risks. As you may recall, we have four on that list right now with language relating to ability to achieve rate adequacy, ability to properly balance and control claims litigation, general language about reputational risk and the public reputation of Citizens and IT security. It is kind of the top four top of mind. You asked about scoring improvements for those top risks and those are well under way. We vetted a new format for that with the ELT in November. We think it needs a little bit of work so we are going to workshop this in January to predetermine the top risks based on the assessment results that Carol has conducted over the past few months and we would expect to perhaps want to speak to you about this, the results in March of 2016. Another thing we have been spending a lot of time on is supporting the annual plan for Citizens. There are upwards of 70 projects budgeted and tracked in our Enterprise project portfolio. Many of them involve primarily solicitations, other involve stabilizations and enhancements for the insurance suite and so on. ERM has a role in the annual plan and we are bringing the annual plan for 2016 to completion right now. We are also spending a lot of time integrating Enterprise Risk Management capabilities in with our dynamic financial analysis build out that we plan for 2016. What you have seen over the past couple of months is CEO Gilway has prepared the President's report for you which he will deliver tomorrow as you have seen some extension in our forecasting capabilities for the first time. For the first time we are going to talk about not only the 2016 budget, but we are going to talk about a two year horizon, talk about 2017 forecasts. There has been a tremendous amount of technical work under the hood behind the scenes to equip us to properly scenario a plan for that two year horizon rather than the traditional one year, and there are some quantitative work going on which we intend to formalize and ultimately create a dynamic financial analysis that gives us a full bell curve of scenarios. What you are going to see tomorrow, of course, is really our first cut, sort of version 1.0, where we are discussing specific scenarios and Enterprise Risk Management and the new Enterprise Risk Analytics department part of the rationale for joining those departments was to make the forecasting process more quantitative and to deliver a more robust deliverable in that process so that we are not just talking about budgeting and forecasting one year ahead. On the business continuity side, I will mention briefly that we are as I said in September revamping the business continuity program at Citizens and aligning it more closely with the disaster recovery program that is already in place in information technology. The activity set right now is we are conducting some what we call work around workshops to see how each business unit is handling interruptions in service and then there are timeframes for restoring to full service and how they are managing their business impact so that we can finish the process of prioritizing which units need to come online first after an interruption event, whether civil or human cause. And in line, the ultimate goal there is to take a step to draft a complete corporate recovery strategy recommendation for the ELT and then to conduct a table top exercise based on that strategy in 2016, and then I would also remind you that business continuity plan is on the schedule for internal audit attention in later in 2016. So we will be working on those as well. That is all I have for an activity update, Mr. Chairman, if you have any questions.

CHAIRMAN COCUIY: Do you have any questions?

GOVERNOR HENDERSON: None here, thank you John.

CHAIRMAN COCUIY: Thank you, John.

MR. ROLLINS: Thank you.

CHAIRMAN COCUY: We will hear more tomorrow.

MR. ROLLINS: Appreciate it.

CHAIRMAN COCUY: Any new business? No public comment or nothing?

GOVERNOR HENDERSON: None here.

CHAIRMAN COCUY: I guess I move to adjourn.

GOVERNOR HENDERSON: Motion to move.

CHAIRMAN COCUY: Second?

GOVERNOR BROWN: Second.

CHAIRMAN COCUY: All in favor.

GOVERNOR HENDERSON: Yes.

CHAIRMAN COCUY: Thank you, the meeting is adjourned, thank you.

(Whereupon, the meeting was concluded.)