

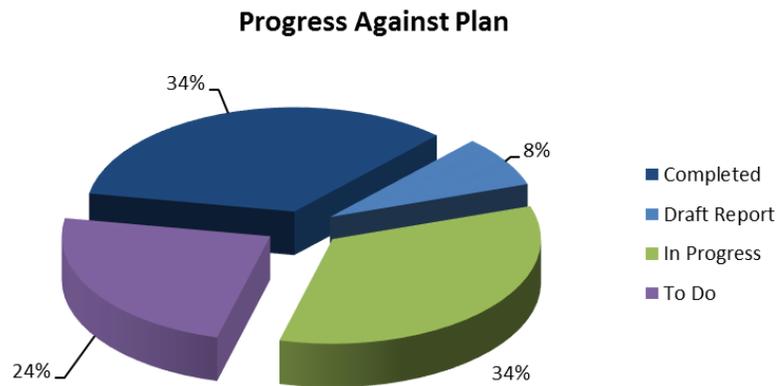
EXECUTIVE SUMMARY

Office of the Internal Auditor Update

At the meeting, the Chief of Internal Audit presented progress against the 2016 Audit Plan and noted that 76% of the plan was already in progress. Ten audit engagements were completed since the previous meeting.

Audit Plan Execution

OIA provided an update on key activities completed since the last reporting period. The update also included a review of the latest OIA Dashboard.



Audit Plan Update

Type	Original Budget Hours	Adjusted Budgeted Hours	Percentage of Total Budgeted Hours	Actual YTD	Percentage of Total Actual Hours
Direct Audit Activity	8,280	8,280	49%	3,629	55%
Forensic Audit Activity	800	800	5%	1	0%
Investigations	250	250	1%	0	0%
CICF	1,750	1,750	10%	431	7%
Continuous Auditing	900	900	5%	143	2%
Professional Development**	800	800	5%	322	5%
General Administration*	4,000	4,000	24%	2,041	31%
TOTAL	16,780	16,780	100%	6,566	100%

2016 Audit Plan	
2015 Carry Over	4
Planned	39
Audits & MAS (Unplanned)	2
Advisory (Unplanned)	0
Investigations (Unplanned)	0
Assignments (Completed)	13
Draft Issued	3
In Progress	13
Deferred/Canceled /Combined	7
Total Remaining	9

* Does not include holidays, vacation and sick time.

** Professional Development includes 80 hours of core training for the Auditors on an annual basis.

*** Based on Institute of the Internal Auditors recommended productivity ratios (average of government sector and all other sectors)

We completed 10 audit engagements and presented an interim memorandum since the last Audit Committee meeting:

- Claims Resolution Process
- Cloud Program: Software as a Service (SaaS) Implementations
- Sinkhole Managed Repair Program
- Payroll Advisory
- Benefit Plan Reconciliation
- Underwriting Advisory
- ERP Project Monitoring
- Retirement Benefits Advisory
- Budget Process Advisory
- Check Processing Media Advisory

The following represents a brief summary of the audit work completed and presented to management.

- **Claims Resolution Process (Needs Minor Improvement)** - The objective of this audit was to evaluate the adequacy and effectiveness of controls related to claims resolution for front-end claims, mediation, appraisal, and litigation triage. The scope of the audit included a review of the approval of front-end claim denials, authorization and approval of settlement agreements, receipt of releases, compliance with timeliness requirements, and access to confidential records.

Efforts to strengthen controls and the implementation of improvement initiatives for various claims resolution processes were noted throughout the audit. OIA found in general that claims resolution transactions are well managed with effective internal controls over the approval of denials, settlement agreements, timeliness, and the receipt of releases. OIA noted that minor improvements are needed to strengthen controls related to access to confidential records. The improvements noted include implementing additional system restrictions to further limit access to medical records for liability claims, improving consistency of claim adjuster documentation, and conducting periodic reviews of user access.

Strategic improvement opportunities were identified and discussed with management for consideration. Efficiency opportunities highlighted to management include analyzing litigation impacts of water mitigation vendor estimates for non-weather water claims and enhancing reporting capabilities for key metrics for the Appraisal and Mediation teams.

- **Cloud Program: Software as a Service (SaaS) Implementations (Needs Minor Improvement)** - The objective of this audit was to assess controls adequacy and effectiveness related to the procurement and governance of SaaS implementations. Areas in scope included: alignment of the SaaS Decision Framework to cloud industry guidance; review of the SaaS strategy; application of the framework to SaaS procurements; a cross-functional evaluation of SaaS viability in solicitations; contract manager training; and monitoring of SaaS vendor agreements.

The Vendor Management Office implemented a major step in strengthening Cloud SaaS procurement and governance oversight controls with the implementation of the SaaS Decision Framework during 2015. To complement the framework, we noted a need to create procedures outlining roles, responsibilities and deliverables for team activities as well as requirements associated with the performance of a vendor risk assessment and ongoing compliance program. We also found that a formal process should be documented to ensure that all SaaS procurements utilize the framework.

- **Sinkhole Managed Repair Program (Needs Improvement)** - The objective of this audit was to provide assurance that the Sinkhole Managed Repair Program (SMRP) is properly functioning and to offer guidance for future managed repair programs. The scope of the audit included review of related solicitations and contracts, assignment, credentialing and management of contractors, subcontractors and monitoring engineers, evaluation of liability insurance requirements for contractors and subcontractors and the monitoring of stabilization projects.

The SMRP was a direct result of a series of global sinkhole settlement agreements and was Citizens first managed repair program. The extensive lessons learned during this program will provide a foundation for future similar programs. Based on our work we found that there is a need to strengthen the management of subcontractors and to increase onsite inspections. In addition, more detailed liability insurance requirements for vendors would ensure appropriate coverage and reduce potential risk for future managed repair programs or other contracted services
- **Budget Process Advisory (Memorandum)** - The scope of the advisory engagement was to compare the current and planned financial budgeting and forecasting practices, as compared to practices suggested by insurance industry and other whitepaper guidance. Management has taken a major step in strengthening financial planning processes with the development and implementation of Scenario planning during 2015 and forecasting income and expenses for a rolling eight quarters. Overall, OIA noted that fundamental, as well as some advanced elements of a financial planning & analysis function are present, under development or refinement for 2016. Following our analysis of current best practices, we advised management to consider formally assigning leadership over all the Financial Planning & Analysis activities to establish consistent processes, methodologies and deliverables while at the same time maintaining cross-departmental participative collaboration. In addition, management may well contemplate quarterly meetings between CFO and Chiefs to discuss business unit variances, rolling expense reforecast, budget management and financial expectations in response to changing conditions.
- **Benefit Plan Reconciliation (Memorandum)** - At the request of Human Resources management, OIA reviewed the benefit invoice reconciliation process and provided input regarding report validation, invoice reconciliation, and payment. We noted that processes are in place to ensure the benefit invoice reconciliations are performed timely and accurately.
- **Check Processing Media Advisory (Memorandum)** - The objective of the work was to review the process associated with the receipt and retention of media devices from policyholders containing pictures or videos of property damage associated with a claim to ensure proper controls have been applied.

We noted a few minor opportunities for improvement in the process related to security of the media devices to strengthen compliance with the Information Classification and Handling Policy and best practices.
- **ERP Project Monitoring (Memorandum)** - The Office of the Internal Auditor (OIA) provided Advisory support for the Solution Selection Services portion of the ERP project, which included requirements gathering, formal solicitation and vendor selection for the product and implementation partner and formalization of the business case return on investment (ROI). OIA participated through process and project observation, meeting

involvement, clarification requests and suggestive enquire. Overall OIA noted that adequate processes are in place to support and ensure the effective and efficient execution of the Solution Selection Services portion of the ERP project.

- **Payroll Advisory (Memorandum)** - At the request of Human Resources management, OIA reviewed the payroll audit process and checklist used to perform the bi-weekly payroll audit and provided suggestions to increase efficiency and still maintain adequate controls. In addition, OIA reviewed the HR procedures used to perform the payroll audit to ensure they were accurate and complete. OIA found the bi-weekly, payroll review process is well developed and sufficient to validate all transactions processed during the payroll period are correct.
- **Retirement Benefits Advisory (Memorandum)** - The objective of the audit work was to provide independent advisory for the Employee Retirement Plan Administrator transition from Lincoln Financial Group to Mass Mutual Financial Group. Overall OIA noted that adequate processes and due diligence were in place and performed to support the transition of approximately \$68 million in assets between retirement plan administrators. In addition, the plan reconciliations performed by Citizens are complete and appropriate to ensure all assets moved from Lincoln were received by Mass Mutual.
- **Underwriting Advisory (Memorandum)** - The audit work was performed at the request of Underwriting Services Management due to the recent realignment of underwriting responsibilities, system changes and process streamlining. The objective of the advisory work was to review the expedited underwriting process to provide input regarding potential gaps or unidentified risks, and possibly identify opportunities for efficiency improvements. Overall OIA noted that adequate processes are in place to ensure Expedited Underwriting responsibilities are performed timely and accurately and that proper controls have been implemented to mitigate significant underwriting risks.

Work In Progress

OIA has 13 audit engagements in progress and is actively participating or monitoring three development projects:

Audit Engagements

- Business Continuity
- Citizens Insurance Suite Access
- Claims Quality Assurance (advisory)
- Claims Vendor Assignments
- Commercial Co-Insurance
- Commissions
- Compliance Governance
- Dynamic Forecasting (advisory)
- Executive Expenses & Cost Center Spend
- Network Architecture and Design
- Reinsurance
- Vendor Management (Independent Adjustors)
- Underwriting Quality Assurance

Project Monitoring:

- Citizens Insurance Suite
- Disaster Recovery & Security Privacy Projects
- Building Consolidation

Update on Citizens Internal Control Framework

The Citizens Internal Controls Framework initiative is progressing well with the completion of 21 process and control reviews, and 3 reviews in progress. This represents 41% of the 58 process reviews originally planned for the 3-year rollout. Given organizational changes and new developments, we are currently revisiting the original plan and reassessing the total number of processes required for inclusion in the ICF project. This may influence the size of the project and the original timeline. This assessment will be completed by the end of June. Each review involves fully understanding, documenting, and testing identified key controls in line with COSO 2013, the industry standard for internal control frameworks. To date 54 key controls have been formally documented.

At the meeting, Michael Walton provided a detailed presentation of the processes deployed in the documentation of controls and the annual self-reviews.

Staffing Update

The ICF project team has been half staffed from the inception of the project. We have, to date, not been successful in hiring the IT resource that will assist with the rollout of a COBIT 5 assessment, and as such, this part of the ICF project is currently on hold. Every effort is being made to find a suitable candidate. In the meantime, we were successful in recruiting Justin Mahé as the new Sr. Financial Analyst for the Internal Control Framework project. Justin has nearly 8 years' experience in external and internal audit, most recently with Pan-American Life Insurance Group in New Orleans, where he prepared Statutory and GAAP financial statement exhibits. He is a Certified Public Accountant (CPA) and Certified Internal Auditor (CIA) and has a BSc in Accounting.

The department also has one forensic audit vacancy and we are evaluating the position given current industry best practice. OIA is dedicated to the professional development of audit staff to ensure continuous growth of knowledge, skills and other competencies throughout the year. In support of staff development and growth we developed a very comprehensive Auditor Competency Model, which will not only identify skill gaps but will also map out a career path for the audit staff members.

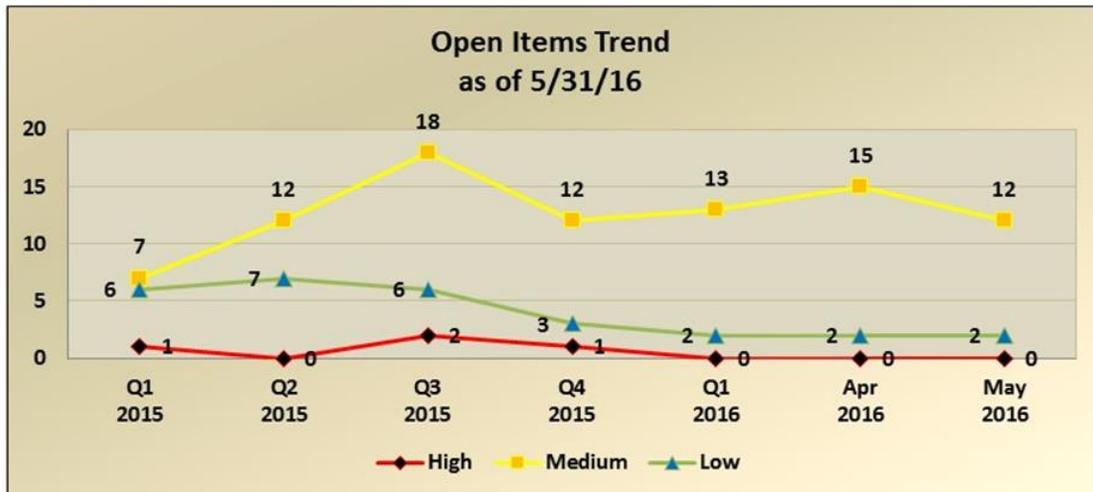
Control Deficiency Resolution

As of the end of May, there are 14 remaining open items. Of the fourteen open issues, two were past due:

- A medium rated issue from the 2015 Treasury Cash Management audit has passed the agreed due date of March 31, 2016. This issue was related to the controls over critical spreadsheets used by the Treasury Unit.
Status: Treasury Management has secured the critical spreadsheets by adding password protection. They continue to work with IT to limit the number of Citizens employees that have access to the Finance drive, which contains the spreadsheets.
- Another medium rated issue from the 2014 General Computer Controls audit has passed its agreed due date of April 30, 2016. This issue was related to excessive access to the Citizens Insurance Suite Job Scheduler.

Status: Work on this project has been delayed due to project re-prioritization within IT. A revised target date is forthcoming from IT.

There are currently no high rated issues outstanding and we expect seven issues to be resolved in June.



Revised Audit Report Rating

At the meeting, we discussed changes to the report-rating model that has been in operation for many years without change. In assessment of the current model, we determined that the assessment of "Needs Improvement" could be further developed to delineate between results that indicate some minor areas of weakness in the control environment as opposed to findings that require meaningful enhancement of the control environment before it can be considered as fully satisfactory. The revised model has been applied for the audit results presented in this meeting. An explanation of the ratings applied are attached at the back of every report distributed.

Chief Financial Officer Update

Chief Financial Officer, Ms. Montero presented the March 31, 2016 Financial Report, Quarterly Financial Analysis and the Sinkhole Analysis. Results from the 2015 Financial Audit were presented

External Auditors Update

Matt Church and Brian Smith from Dixon, Hughes Goodman LLP presented an update on the 2015 Financial Statement Audit.

Enterprise Risk Management Update

The Chief Risk Officer, Mr. Rollins, presented an update on ERM activities.