

CITIZENS PROPERTY INSURANCE CORPORATION  
TRANSCRIPT OF THE MINUTES OF THE  
AUDIT COMMITTEE MEETING HELD TUESDAY SEPTEMBER 27, 2016

A Board meeting of the Audit Committee of Citizens Property Insurance Corporation (“Citizens”) was held at 12pm on Tuesday September 27, 2016 in Maitland, FL.

The following members of the Audit Committee were present:

Juan Cocuy, Chairman  
Jim Henderson  
Bette Brown

The following Citizens staff members were present:

Jay Adams	Christine Ashburn
Steve Bitar	Violet Bloom
Kelly Booten	Mark Casteel
Bonnie Gilliland	Barry Gilway
Karen Holt	Joe Martins
Jennifer Montero	Michael Peltier
John Rollins	Dan Sumner
Carrie Thomas	Barbara Walker
David Woodruff	Andrew Woodward

The following persons were present:

Brian Smith, Dixon, Hughes, Goodman  
Lisa Miller, Lisa Miller & Associates  
Kapil Bhatia, Raymond James  
Travis Rosecrans, Guy Carpenter

The following persons attended by telephone:

Matt Church, Dixon, Hughes, Goodman

The following Citizens staff attended by telephone:

Candace Bunker  
Mona Markell  
Bruce Meeks  
Ray Norris  
Nancy Staff  
Michael Walton  
Janice Watts  
Brian Weaver

Call Meeting to Order

MS. WALKER: Good afternoon and welcome to Citizens September 27th, 2016, Audit Committee meeting. The Audit Committee meeting is publicly noticed in the Florida Administrative Register. Please do not place this call on hold. Press star 6 to mute your line and pound 6 top un-mute your line. Our meeting will convene at 12:00 with a roll call for quorum. Citizens’ Board and committee meetings are recorded with transcribed Minutes available at our

website. Thank you.

CHAIRMAN COCUY: Good morning. We will begin the meeting with a roll call. Barbara.

MS. WALKER: Good morning, Chairman Cocuy. For a quick roll call for the Audit Committee, September 27th to convene at noon. Chairman Juan Cocuy.

CHAIRMAN COCUY: Here.

MS. WALKER: Governor Bette Brown.

GOVERNOR BROWN: Here.

MS. WALKER: Governor Jim Henderson is not here yet, but you have a quorum of two if you would like to get started.

CHAIRMAN COCUY: Yes, let's go ahead. We will start with approval of the prior meeting Minutes held June 21st.

GOVERNOR BROWN: So moved.

CHAIRMAN COCUY: Second. All in favor.

GOVERNOR BROWN: Aye.

CHAIRMAN COCUY: The motion carries. The Minutes are approved. At this time Joe Martins will present the Office of the Internal Auditor's report. Joe.

MR. MARTINS: Good afternoon, thank you, Mr. Chairman. I would like to refer you to page 75 of the book in front of you. There we have included the Office of Internal Audit dashboard. This document highlights our execution against the plan for activity and open item status. The pie chart on top of the page shows a plan with 36 audits of which 21 are completed and in draft and 30 engagements are currently in progress. We have two advisory engagements that haven't commenced yet. Changes to the plan include the deferral of three audits. These include the audit of the procurement process, the privacy process and a follow up audit of changes to claims mitigation vendor management and legal billing processes. There are 10 audit engagements in progress plus we monitor three project developments. Of the 10 audit engagements, I would like to highlight work that we are currently doing on Citizens Insurance Suite access. For this audit we specifically focus on access control as it is rolled out and managed for the three suites involved in the Citizens Insurance Suite which is policy, claims, and billing centers. The second engagement refers to an IT governance advisory project. With this advisory we assess the current IT governance processes against industry accepted practices and we will be providing guidance to strengthen the control environment. The third one that I would like to mention is the ERP project that commenced earlier this year and they currently are developing the first finance sprint and we will continue to monitor progress and provide guidance where we can.

We have seven audit engagements completed and I would like to highlight three of those engagements: the effectiveness of the business continuity plan; compliance governance; as well as the network architecture and design audit. With the audit of business continuity we assessed the relevance of the current plan to Tallahassee, Tampa and Jacksonville. In Tallahassee and Tampa we noted that the plans have last been updated in 2013, and with a little updated, for Jacksonville given the move towards the Everbank Center, we noted that the

plans have not been developed. During the audit management identified the need to address business continuity planning and there has been a reorganization where business continuity transferred from reporting to Enterprise Risk Management to Systems Operations and to date there has been a concerted effort to identify the critical processes that need to be focused on first to ensure that if we have a failure in Jacksonville or an incident in Jacksonville, that these processes can continue or restart relatively soon. Mitigating action is in progress and we are feeling comfortable that there has been real action by management to address business continuity and they are really getting it sorted out. On compliance governance we support the newly appointed Ethics and Compliance Officer and completed this audit to help her identify which of the areas that need to be addressed for the sake of compliance, management and monitoring. We completed a GAP analysis based on leading practices. The GAP analysis highlighted specific areas which we could address first including developing a compliance framework within the organization, developing policies, procedures, and then also a network of support. Nancy recently presented to the executive leadership team a concept framework which she will further develop and will commence implementing relatively soon. I think the completion date for issues that were identified in this audit is September next year after which we plan to do another review to see how we succeeded in that. The next is the architecture design audit in which we noted that the design of network architecture is really appropriate and in line to what the organization needs. With this audit we noted or identified that some improvement is needed from a security posture within Citizens, specifically within the architecture design and those are currently being addressed by management.

CHAIRMAN COCUY: Joe, before we move on with that, just expand on that a little bit because it is a little concerning that such a sensitive area, the audit opinion is that it needs improvement. Particularly in this area we do have the issues of the hackers' attacks on our corporate data, personal identifiable information and those kinds of things that are so prominent in our society today.

MR. MARTINS: Certainly, sir. I think what we should remember is that the network within Citizens grew rapidly since inception of Citizens 10 years ago. With that growth some of the security design aspects have not grown as quickly as the rest of the network grew. The issues that were identified were not highlighted as high impact. All of them came through as medium impact, which is saying to me they either knew the risk, or the risk isn't that high. There were approximately eight matters that needed to be addressed which were medium and it is not a very difficult fix for the organization. We haven't gone into the details specifically with reference to the sensitivity of the matters in this report, but the issues are not serious. With this audit I think we should have focused initially mainly on the governance structure rather than go into the very detail of the symptom process management. We commented that the governance structure is relatively well designed, but there are specifically in IT security medium rated matters that need to be addressed.

CHAIRMAN COCUY: But I guess we, from the audit, Office of the Internal Audit are making the recommendations that even though they are easy fixes that they need to be high priority. Because I guess if you look at the definitions on page 70 of what the ratings are, needs improvement, which is your conclusion, it sounds pretty serious. What you are describing now, what you just described may be more a fix that needs minor improvement. So I guess there is kind of a concern there that if you are saying needs improvement based on this definition, it is, serious.

MR. MARTINS: The needs improvement is based on the number of events that we identified. So because we identified the eight matters for us, if it was three to five medium issues, we probably would have rated this as needs minor improvements. Of course, there are a few more

that need to be addressed that needs improvement itself as it would take a little bit longer for the organization to address those. If I look at the completion dates for the issues that were identified, some of them would be resolved relatively quickly. The first matter is set to be finished December 31st, and then we have October 28th, again, December 31st. So I would guess by the end of this year these matters will be resolved. There is one that is already being addressed, the item number six that we have has already been addressed. So management is really taking this as an important report. The issues are important for them and by the end of this year those issues that were identified should be resolved.

CHAIRMAN COCUIY: Okay, I don't know if Curt is here or maybe Kelly can maybe talk about that a little bit from the Department side.

MS. BOOTEN: Good morning, Kelly Booten for the record. Yes, I concur with Joe. I mean, of course, I would go with needs minor improvement as well. There were no high findings. Of the eight items all of the items have closure dates by the end of this year. Some of them have already been resolved. A few of them are process related; I don't want to go into the specifics of what the items are, but I concur. They are well managed and we will have them resolved.

CHAIRMAN COCUIY: Okay. Thank you.

MR. MARTINS: Thank you, sir. On page 72 we listed the open items. We are currently tracking 20 open items of which five were past due. On this page you will note three bullet points highlighting the five past year open items. The first two of the three bullet points have been addressed after preparing this return but have not had an opportunity to follow up on those. The last bullet is highlighting a specific matter that has not been addressed and management noted that they would request acceptance of the risk. I reassessed the issue and really what it is, it is a system coded password that they cannot address at this point in time. They need to do a system change and given the pressure on the organization with respect to all of the other projects that we have those have been pushed out a little bit later. What this access gives to the organization specifically on the rating application is a couple of administrators. I think there are eight administrators at the moment that are using one password and there is no logging in place. In further assessing the issue we are fairly certain that the administrators do not have access to the rating tables and this access does only provide them with the ability to make changes to the application itself. Should there be a failure of the application we have in mitigation the disaster recovery plan in place. Should the rating table go down then the disaster recovery plan can kick in and within a day or two or three, this system could be recovered. So in hindsight looking at the issue one of the matters has been resolved. The one that is currently still outstanding is an access control issue which is a bit of a concern, but looking deeper into it the impact to the organization is not that major, and we are relatively comfortable that this be deferred until the organization can resolve it. And they haven't given us a specific date, but they are working on that. It will probably be a year and a half until they get to it, but I don't think it is major given that the disaster recovery plan is in mitigation. There are currently no high impact issues that we are tracking.

I would like to give an update on Enterprise Risk Management. With the recent departure of the Director of Enterprise Risk Management the staffing of this function was re-evaluated. Executive management and the Chairman of the Audit Committee changed the direct reporting lines to the Chief of Internal Audit. I am currently evaluating the staffing structure for the Enterprise Risk Management function. We are evaluating the framework for which we deploy ERM throughout the organization. We are reassessing the methodology that we are using as well as the tools that we have in place, and I think once we have completed this process we should have an ERM approach that would provide facilitation to organization, the business unit management with respect to the identification of Enterprise risk or risks throughout the organization, and we

would like to enable the organization to manage and identify the risks themselves, by providing a tool through which they can do that and then provide training in respect of the process that we should be applying throughout the organization. We also would like to create aligned terminology within Citizens. There has been in the past differences between how audits would assess risk, how Enterprise Risk Management would assess risks, how some business units assess risk within projects, and we would like to develop a terminology that all of us would be comfortable with and can use to streamline the assessment of risk process, make it a little bit easier, make this rating and scoring for risks easy to understand for everyone. But the pillar around this would be to identify a well-qualified director that can lead the function for us and assist in developing the framework and methodology and spread that through the organization, and we are recruiting for that position at the moment.

GOVERNOR BROWN: Joe, what do you think the timeline is for hiring someone if you decide to and organizing the plan?

MR. MARTINS: We would like to hire that person within the next month. The position is out there. The last feedback that I had is we had 38 applications. I haven't looked at the applications, but they certainly have a desire to join Citizens as an ERM director. I am sure that we will be able to fill that position fairly quickly, and there are people around that are qualified to lead that. I think creating the framework would be relatively quick. What would take a long time, a longer time for us is not to develop the framework, but really to socialize and frame the new methodology. The methodologies are relatively easy to understand. We are going to re-procure a system. The current system that they are using or the tool they are using is expiring January 2017. So we will re-procure a tool that can be disseminated throughout the organization that will be easy to use, and then that will take a bit of time to re-procure and we hope to have that in place early next year. The framework should be created by the end of year and we will start socializing and training on that, but then really to do the assessments that is going to take us a year to work through the organization from bottom up and top down.

GOVERNOR BROWN: So two years.

MR. MARTINS: One year.

GOVERNOR BROWN: Okay, thank you.

MR. MARTINS: Thank you. The next section that I wanted to highlight just provides some updates on development, rolling out of the Citizens internal control framework. We have completed 54 percent of the processes which is 28. On page 22 we show a high level timeline. And you can see that we are really in the middle of development.

CHAIRMAN COCUY: Let the record show that Governor Jim Henderson just joined our meeting.

GOVERNOR HENDERSON: My apologies for being late.

MR. MARTINS: Good afternoon, Governor. We are on page 22, and I am referring to the update of the Citizens' control framework processes. 28 of the 54 processes have been addressed. On that page I also highlight 62 key controls that have been formally documented, and we are really pleased with how this project is progressing. One of the elements that hasn't been in progress that well was the COBIT 5 assessment that we intend to do. Within there we will also do an assessment of the general computer controls which really link back to the COSO 2013 assessment. And the reason that hasn't progressed was because we were short one staff, and I

would like to mention that Joseph West joined us as a Senior IT Analyst, and Joseph will assist us in the roll out of the COSO general controls, general computer control assessment based on COBIT 5. Joseph has nearly five years' experience in IT internal audit, managing audits. Also very familiar with COBIT 5. He is certified insurance information systems auditor. Apart from recruiting the director and staff for the Enterprise Risk Management function we are also in the progress of filling an audit manager forensic vacancy, and that should be finalized also before the end of the year. Mr. Chairman that concludes my presentation.

CHAIRMAN COCUIY: Thank you, Joe. Do we have any questions, Bette?

GOVERNOR BROWN: I just had one question. From the beginning of your presentation I made a note regarding the business continuity plan. You mentioned that the reason it needs improvement was because obviously the move to Everbank. What is the time frame on that, because we are a big company, we have got to get up to speed on that? And I can certainly understand with you when you are trying to downsize and put everybody in a couple of locations rather than many locations, that would be difficult to get your arms around, but what time frame do you think?

MR. MARTINS: I don't have the exact time for when they plan to have this completed. What I do know is that they have identified the critical processes that need to be addressed first and for developing, I would say a stop gap plan to be prepared should we have a failure, to address that first. Kelly is much closer to the plan than I am.

CHAIRMAN COCUIY: Kelly.

MS. BOOTEN: Morning, we started working on business continuity for one specific scenario in June, and wrapped that up in September, with a presentation of our findings. We went through from a specific focus on facilities and critical business unit response. So we collected all the needs specific to the loss of the Everbank, not the surrounding infrastructure but the Everbank facility. And we have I think come back with a reasonable way to respond to that loss, and it was without a catastrophe. So we have a combination of things that make us at our hands to be able to respond. We uncovered some things, we resolved some issues. And so with the combination of work from home from our liaisons that we have with real estate and State space we even tested our ability to get State space if we needed it. We also have now offsite storage for some of our technology equipment. So I think we have a plan in place that addresses the Everbank building for a non-catastrophe situation. Our next step is to add a catastrophe on top of that and see how our needs expand and what type of space we would need for that. Another alternative also that we have available to us is Tallahassee and Tampa. So we have a plan in place that gets us through, but we want to make it more robust. We are going to do an RFI to entertain space that is available in an on-demand capacity, or permanent, depending upon the cost and get different options from both a technology and a facilities perspective to see if we want to strengthen it even further beyond what we currently have. So I think we have done a lot in the last three months to get us in a better position and know how we will respond. We have got a very good response mechanism set up on how to respond. So it has gone from non-existent or not updated to something that we can use to respond. Did that answer your question?

GOVERNOR BROWN: Yes, I appreciate it. Thank you, Kelly. Anything from you, Governor Henderson?

GOVERNOR HENDERSON: No, I think it was a good explanation, again, on the move and I guess maybe back to Kelly. Has there been any meaningful or significant disruption of service during the move? Thank you, Kelly, for coming back up.

MS. BOOTEN: I think that the move to the Everbank building has gone terrific and I think that everyone that has been involved with it would say so. Cherie Lynn, who is our Director of Facilities and her team have been amazing. They really have done a great job. The IT folks have done a great job in responding, being available, making sure our equipment is up and running. The only thing I think that you are going to see in a consent item tomorrow is a change in the janitorial services, because we switched that and it hasn't really worked out. We are switching that vendor. That might be Tampa now that I think about it. But anyway from a Jacksonville perspective it has gone great and we just finished over the weekend the second phase of the Tallahassee consolidation. So we are going from three buildings in Tallahassee to one, and we only have one more move left of that and that will be finished. So they have rolled right from Jacksonville to Tallahassee and will have one location in each city by the end of October.

GOVERNOR HENDERSON: I guess one of the questions, given beyond the normal day-to-day hacking attempts that take place, has there been any security breaches from the move or from the transition?

MS. BOOTEN: No, none.

GOVERNOR HENDERSON: Great, thank you. Thank you.

CHAIRMAN COCUY: Thank you, Kelly, thank you, Joe.

MR. MARTINS: Thank you, sir.

CHAIRMAN COCUY: Moving on to the next item is the Chief Financial Officer's report, Jennifer Montero, please.

MS. MONTERO: Good afternoon.

CHAIRMAN COCUY: Good afternoon.

MS. MONTERO: If you will turn to tab three you will find the financial statements and the quarterly financial analysis. I will provide a high overview of the six months ending June 30th, 2016. The second quarter of 2016, marked several financial achievements, including the placement of our 2016 reinsurance program which resulted in approximately 2.5 billion of risk transfer at a combined net rate online of 7.3 percent, and the disposition of roughly half of the legacy securities that Citizens continued to hold following the 2007/2008 financial crisis which resulted in year-to-date realized gains of 13.8 million. The perceived appetite for Citizens' policies continues to face challenges as evidenced by the period over period decline in depopulation premium of roughly \$29 million or 58 percent. Likewise, declines in direct written premium have begun to dampen as the period over period reduction in premium volume was approximately \$160 million or 23 percent. In contrast, for the first half of 2015 compared to the first half of 2014, we saw a decline in direct written premium of \$444 million, or 39 percent. Simply stated, the first half of 2015, had a 39 percent decline and the first half of 2016, had a 23 percent decline. The decrease in premium volume was most pronounced within the coastal account with reduction of approximately \$100 million or 20 percent, when compared to the PLA which experienced a decline of approximately \$43 million or 15 percent. Not surprisingly, the PLA is the account in which the majority of the non-weather water losses and AOB claims reside. Since December of 2015, the combined loss in LAE ratio was increased 2.5 percent, despite an overall reduction in the combined loss ratio of five percent. Increases in LAE driven by the increase in the projected number of non-weather water claims going go into litigation year-to-date produced an increase in the LAE ratio of 7.5

percent. In contrast, the unfavorable trends in loss in LAE activity both the period over period and budget actual declines in administrative expenses of approximately six million or seven percent were achieved along with an increase in net investment income of \$18 million or 28 percent exclusive of the net realized gains of \$32 million. This increase is largely due to the December 2015, revisions to the investment policy that extended dollar weighted average maturity of certain components of the claims paying fund's portfolio by one year. Citizens ended the second the quarter with net income of \$141 million and in an increase in surplus of roughly \$180 million. New to this quarter's reporting package are three slides detailing relevant information on non-weather water losses which are located behind the last tab. These slides were taken from the 2016 rate hearing held last month and provides some insightful trends highlighting the issues that Citizens and the Florida property market in general are facing with non-weather water claims. As more data and information regarding non-weather water losses are continually assembled we will plan to bring additional analysis on the non-weather water trends back to this committee and to the Board in future meetings. The first slide identifies with alarming but not unexpected data, the impact of non-weather water losses on the rate indication. As presented on the slide at 09/30/2011, the average loss cost of water was \$367. At 09/13/2017, as indicated in the rate indication, the average loss cost for water are projected at \$2,083, marking upwards of 470 percent increase. The second slide presents various metrics isolating the financial impacts and the related percentages of litigated versus non-litigated non-weather water claims. You will note the increase in percent of water claims that are litigated from 2012 to 2015, an increase of 13.3 percent. Along with the severity of litigated versus non-litigated non-weather water claims you can see the litigated increases severity by a factor of four. The third slide is most relevant in the context of policyholder impacts. This slide shows the indicated rates using the current rate indication that incorporates the significant uptick in frequency and severity of non-weather water losses. In comparison to what that indicated rate would be using pre-2013 loss levels, had the loss trends from 2013 been used, 103,000 out of 142,000 policyholders would have seen rate decreases. However, with the current trends in non-weather water losses the indicated rate filing will mean that only 23,000 out of 142,000 policyholders will see rate decreases. Although we have moved the separate sinkhole analysis from the financial packet, a historical sinkhole loss summary can be found on page 12 of the QFA along with a lot of other useful information. And if there are no questions that completes my report.

CHAIRMAN COCUY: So sinkhole now goes to the back pages and water losses goes to the front.

MS. MONTERO: Yes, sinkhole, even now if you look at the graph on page 12 of the QFA you can see that we are not having any more issues with it at all out of the ordinary.

GOVERNOR HENDERSON: I know staff is working on it, and we are pleased with the direction you are taking to bring that coverage under control. Thanks for all of the good data.

MS. MONTERO: Thank you.

GOVERNOR HENDERSON: Looking at the continued depopulation, and if you look at the forward impact really of the point where the earned premium begins to subside. So our written would look like our earned on debt written. Maybe have you thought of any forecasting to this committee or in terms of where we go next?

MS. MONTERO: We do have a forecasting work group. We are doing scenario planning and we have dynamics forecasting being done at our corporate analytics and the accounting and finance departments and we are working on using that information towards our budget, as well

as moving forward with an eight quarter forward look so that we can be prepared for either the shrinkage or the growth of our policies.

GOVERNOR HENDERSON: Thank you, very helpful.

MS. MONTERO: Thank you.

GOVERNOR HENDERSON: Thank you for your good work on it.

MS. MONTERO: Any other questions?

GOVERNOR BROWN: You are doing a great job.

MS. MONTERO: Thank you.

CHAIRMAN COCUIY: On the first report, we indicated that the direct premiums written compared to last year are down by \$160 million, but then the net premiums written are up by almost \$51 million. I mean, I can see the raw numbers there, but can you talk a little narratively about how that is? I mean, it is great on the net side, which contributes to our income, but it is counter -

MS. MONTERO: It is because, if you look at the prior you will see the higher numbers in the Cat Fund premium in the private reinsurance are much higher than the actual that is the number that gets you to that net written premium.

CHAIRMAN COCUIY: Right.

MS. MONTERO: It is what comes out of that. Even though the prior year direct written premium was much higher, all of the ceded written premium is much higher too, which would bring it in at the lower number.

CHAIRMAN COCUIY: And what would you say caused that trend from last year to this year?

MS. MONTERO: Well, depopulation has obviously gone down. Because our size and our exposure is down, our Cat Fund premiums are down and because of becoming smaller it was less PML, we didn't need as much reinsurance. So you will see that we had \$300 million in reinsurance last year compared to \$181,000 this year. Take-out ceded premium was \$49 million compared to \$20 million, and the Cat Fund was 248 compared to 186. So that is all because of the fact that we shrunk.

CHAIRMAN COCUIY: So wouldn't we have anticipated that in the budgeting process I guess?

MS. MONTERO: Well, in the budget we actually thought the depopulation would be higher. So you will see a higher number in the budget compared to the actual.

CHAIRMAN COCUIY: Budget on the direct premiums written as well.

MS. MONTERO: Right, and on the Cat Fund.

CHAIRMAN COCUIY: And that trended, it makes sense, but year over year does not.

MS. MONTERO: Right.

CHAIRMAN COCUY: Okay.

MS. MONTERO: It is all because we shrunk faster than expected.

CHAIRMAN COCUY: Okay, do we have any other questions from the committee?

MS. MONTERO: Thank you.

CHAIRMAN COCUY: Thank you very much. We have item four on the agenda, external auditor's update, Brian Smith from Dixon Hughes. Good afternoon.

MR. SMITH: Good afternoon. I am Brian Smith from Dixon Hughes in charge of the external audit of Citizens and on the phone is Matt Church our audit partner. We do not have a formal report today. We are currently in our planning stage of the audit and we will present a verbal update of that status. As I noted, we are currently in the planning stage. We do plan to begin field work on November 1st of this year. In that plan we do incorporate engaging a third party actuary again this year. Part of that work we will engage them during the interim phase and do more of a qualitative review in anticipation of any changes that we need to incorporate into the plan there at year end. With that I will take any questions you have. We do plan to report our audit plan at the next Audit Committee meeting in December.

CHAIRMAN COCUY: Are you planning to use the same actuaries as last year?

MR. SMITH: We are, Merlinos and Associates. Correct.

CHAIRMAN COCUY: Any I guess high visibility concerns based on the audit, your first year audit last year that you may want to focus on for this year?

MR. SMITH: Not on the surface. I believe every year we go through the audit, we will change certain procedures to have some idea of accessibility when you go thorough and look at the audit, but nothing up to date.

CHAIRMAN COCUY: No high risk areas?

MR. SMITH: No changes in high risk, no.

CHAIRMAN COCUY: Committee members, anybody else have any questions or comments?

GOVERNOR HENDERSON: Does your engagement also include review of the, I guess IT and security there as well?

MR. SMITH: We do. We do an understanding of IT controls.

GOVERNOR HENDERSON: Yes.

MR. SMITH: In part of our audit, and that is something we will do during the interim period as well.

GOVERNOR HENDERSON: The nature of that question is just simply that seems to be the target of the world right now. It has nothing to do with our -- I think we are well positioned. Everybody wants to find a way to get into your network and do damage.

MR. SMITH: Correct.

CHAIRMAN COCUY: And I guess if I may add on that side, and Brian can probably expand on it, as far as the auditors' study of that is really a big picture. I mean, they do some detail and they do some detail testing, but in terms of really critically looking at the systems, Joe's group had an audit report prior to you getting here, and we did discuss some significant issues from the internal audit point of view, and where they are with regards to those issues, and what steps need to be taken to firm up and some of them do need improvement. And I think they have got a pretty good handle on it, but from an audit point of view I think you are talking about general controls, security access and those kinds of things, right?

MR. SMITH: Correct, we do look at that during the interim period. As a whole we look at all controls for significant risk areas, IT being one of those, general controls being one as well.

CHAIRMAN COCUY: Okay, thank you, Brian.

MR. SMITH: You are welcome.

CHAIRMAN COCUY: With that there is an item here in our workbook, complaint management statistics. It is only for information purposes only and not significant. And then after that do we have any new business? Committee or others? If not, I will entertain a motion to adjourn.

GOVERNOR HENDERSON: So move.

GOVERNOR BROWN: Second.

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

CHAIRMAN COCUY: Meeting adjourned, thank you.  
(Whereupon, the proceedings were concluded.)