

Office of the Internal Auditor



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AUDIT REPORT

Underwriting Quality Assurance

February 14, 2017

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Executive Summary

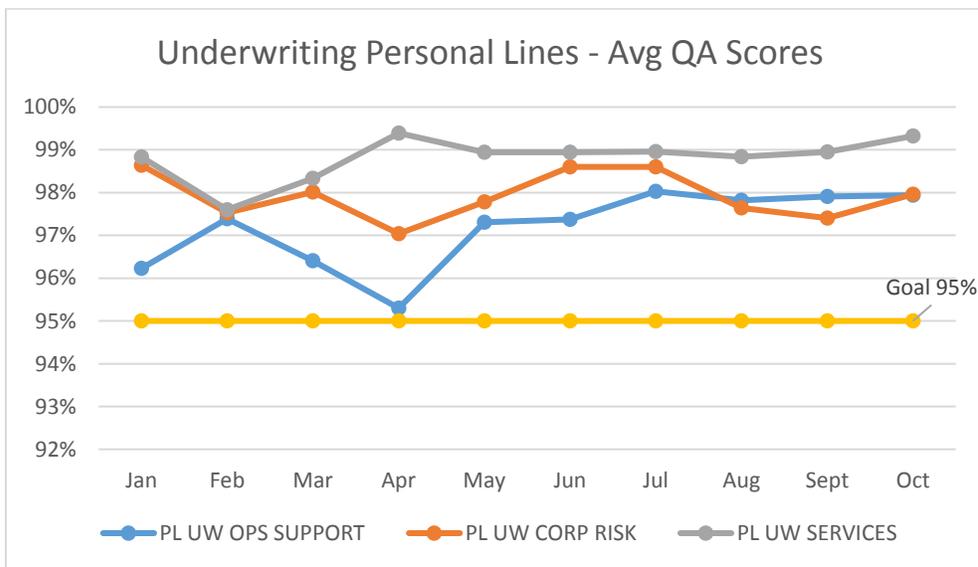
Background

An effective Quality Assurance program is designed to evaluate performance against standards, identify training opportunities, and recommend process improvements. Citizens established an Underwriting Quality Assurance program to ensure the Personal and Commercial Lines business units adhere to the highest quality standards. Through performing quality evaluations, Underwriting Quality Assurance identifies gaps or needed improvements with underwriting standards and processes, customer service, compliance with regulatory compliance, and operational efficiencies and effectiveness. The underwriting quality assurance programs measure multiple aspects of an underwriting transaction such as eligibility, data integrity, documentation, communication and customer service.

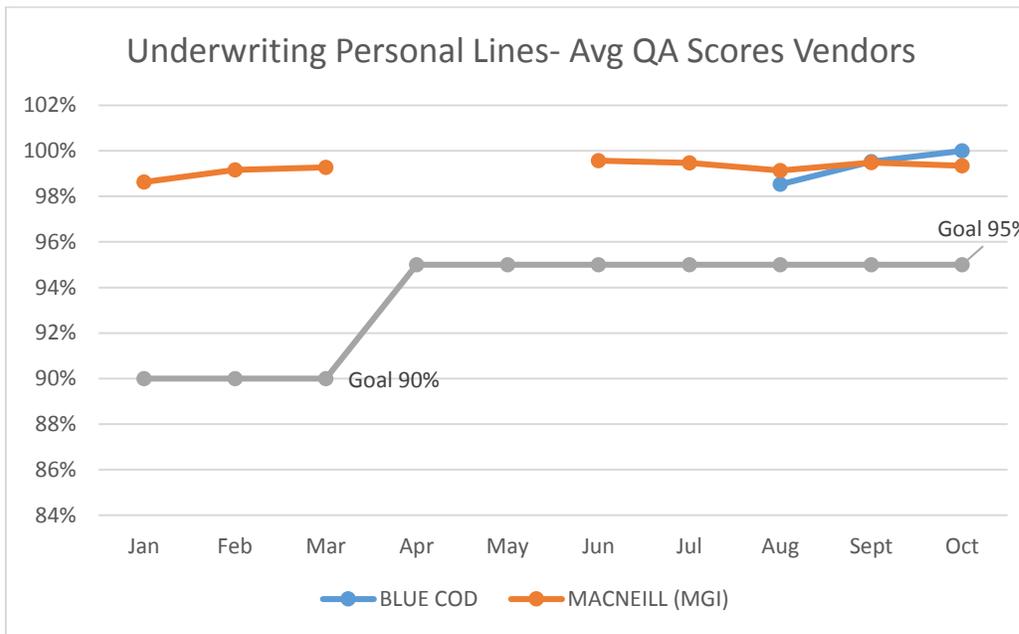
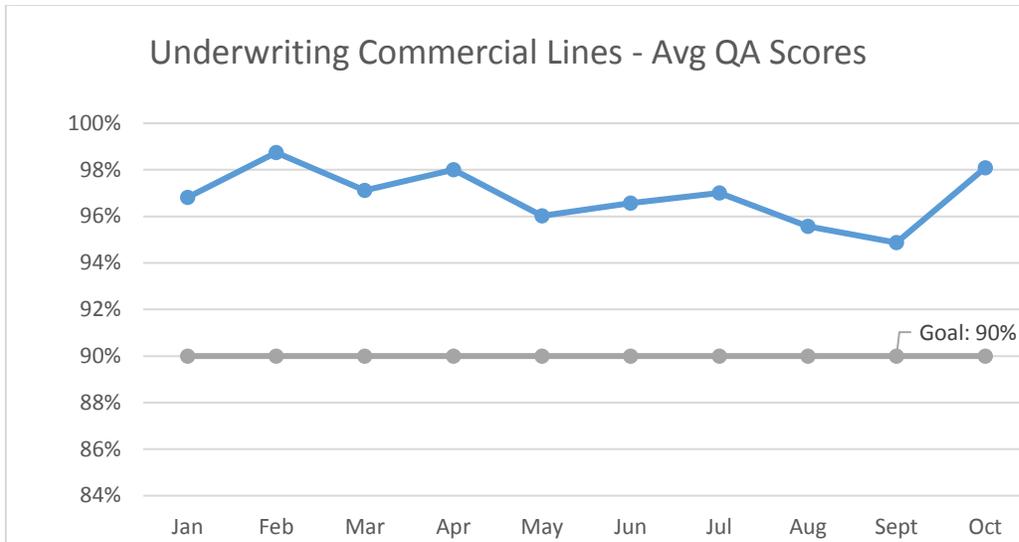
In April 2015, the Underwriting Quality Assurance functions were realigned with the Consumer and Agent Services in an effort to streamline business functions and focus on best practices. After the realignment, the underwriting quality assurance programs were redesigned to enhance the scoring methodology. Other program enhancements included new processes, goals, reporting trending and the implementation of a new quality assurance application and reporting portal. Q-Center, an internal application, is used to measure, monitor and manage the quality assurance process. The QA reporting portal which is located on Citizens Intranet, provides delivery and reporting functionality to associates and management, enabling users to view evaluations, track performance trends, and identify strengths and opportunities.

Due to the recent consolidation of the Personal Lines and Commercial Lines Underwriting into Consumer and Agent Services Division, additional enhancements are being made to the Underwriting Quality Assurance programs. The enhanced programs are expected to launch in January of 2017.

Presented below are a series of graphs that compare the average quality scores to the quality goals established for each underwriting quality assurance program. The results show that the monthly quality results remain above the overall quality goal for the different underwriting quality assurance programs.



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Audit Objectives and Scope

The objective of this audit is to assess the effectiveness of the underwriting quality assurance program to ensure that quality assurance efforts effectively meet quality goals and work in the best interest of Citizens.

- Strategy/plans are in place, which clearly articulate the selected method(s) of quality assurance and management review
- Guidance is in place, which defines key aspects of underwriting review processes such as frequency, sample size selection, use of questions sets, reporting actions follow up and trending analysis.

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- Roles and responsibilities are clearly established, with a resource pool staffed with a mix of skills/competency and experience
- Reviews are executed in accordance with standards
- Management information and key performance standards are in place which are reliable and relevant
- Adherence to internal procedures

Management's Assessment and Reporting on Controls

The Office of the Internal Auditor provided Underwriting Agent Services Quality Assurance management an opportunity to share known control weakness and their plans to remediate them. This process is intended to foster an environment whereby management and staff conduct periodic proactive reviews of controls and are aware of the risks to the business. It also enables OIA to focus its audit efforts on areas where it can add value to the organization.

At the start of the Underwriting Quality Assurance audit, Underwriting Agent Services Quality Assurance management shared the following control weaknesses and remediation plans with OIA:

Underwriting Quality Assurance department continues to report recurring errors over the past 5 years. However, it appears that the Business Unit has not completed the appropriate corrective action to resolve the outstanding errors. As a result of recent organizational realignments the Quality Assurance department will be able to more effectively partner with the Business Units and Learning and Development to create a long-term strategy to effectively address root causes and correction of errors. OIA noted that Quality Assurance Management plans to meet with the Personal Lines and Commercial Lines Underwriting management during the 1st quarter of 2017 to develop an action plan to effectively address the top three recurring errors.

Audit Opinion

OIA noted several strengths in the Underwriting Quality Assurance program redesign efforts which included the implementation of processes and procedures to improve the reporting of QA results, increase auditor consistency and accuracy, identify root causes to facilitate improvement opportunities, ensure the timely correction of errors and collaborating with the Underwriting teams to utilize the QA results to improve the efficiency and effectiveness of the business areas. The audit indicated sound controls are in place to ensure the underwriting quality assurance programs effectively identify gaps, training opportunities and process improvements.

The overall effectiveness & efficiency of the procedures and related processes associated with underwriting quality assurance programs is **Needs Minor Improvement**. This rating is driven by the need to ensure that the Q-Center application development, implementation and ongoing management is in compliance with internal IT Policy Standards.

Our work indicated specific areas where opportunities for improvement were noted:

- **The need to engage IT department to review the Q-Center application and related controls, processes and documentation.** The Q-Center application, used to measure, monitor, and manage

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the quality assurance process, was developed and implemented by the business area without input and guidance from the IT department in accordance with the Information Technology Resources Corporate Policy (401) and the System Development Life Cycle (SDLC) policy. As a result, the application may not have all the necessary application and IT general controls in place. Although the existence and operation of IT General and application controls were not fully evaluated, OIA noted some IT General controls that were not in place such as application documentation, version control, segregation of duties, audit logging, change management, and backup and recovery. Without effective controls, reliance on Q-Center may be impaired as the Q-Center application may not provide the five elements of high quality information; accuracy, completeness, consistency, uniqueness, and timeliness which are necessary for successful operation of the business.

We would like to thank management and staff for their cooperation and professional courtesy throughout the course of this audit.

Appendix 1

Definitions

Audit Ratings

Satisfactory:

The control environment is considered appropriate and maintaining risks within acceptable parameters. There may be no or very few minor issues, but their number and severity relative to the size and scope of the operation, entity, or process audited indicate minimal concern.

Needs Minor Improvement:

The number and severity of issues relative to the size and scope of the operation, entity, or process being audited indicate some minor areas of weakness in the control environment that need to be addressed. Once the identified weaknesses are addressed, the control environment will be considered satisfactory.

Needs Improvement:

The audit raises questions regarding the appropriateness of the control environment and its ability to maintain risks within acceptable parameters. The control environment will require meaningful enhancement before it can be considered as fully satisfactory. The number and severity of issues relative to the size and scope of the operation, entity, or process being audited indicate some noteworthy areas of weakness.

Unsatisfactory:

The control environment is not considered appropriate, or the management of risks reviewed falls outside acceptable parameters, or both. The number and severity of issues relative to the size and scope of the operation, entity, or process being audited indicate pervasive, systemic, or individually serious weaknesses.

Appendix 2

Issue Classifications

Control Category	High	Medium	Low
<i>Financial Controls (Reliability of financial reporting)</i>	<ul style="list-style-type: none"> Actual or potential financial statement misstatements > \$10 million Control issue that could have a pervasive impact on control effectiveness in business or financial processes at the business unit level A control issue relating to any fraud committed by any member of senior management or any manager who plays a significant role in the financial reporting process 	<ul style="list-style-type: none"> Actual or potential financial statement misstatements > \$5 million Control issue that could have an important impact on control effectiveness in business or financial processes at the business unit level 	<ul style="list-style-type: none"> Actual or potential financial statement misstatements < \$5 million Control issue that does not impact on control effectiveness in business or financial processes at the business unit level
<i>Operational Controls (Effectiveness and efficiency of operations)</i>	<ul style="list-style-type: none"> Actual or potential losses > \$5 million Achievement of principal business objectives in jeopardy Customer service failure (e.g., excessive processing backlogs, unit pricing errors, call center non responsiveness for more than a day) impacting 10,000 policyholders or more or negatively impacting a number of key corporate accounts Actual or potential prolonged IT service failure impacts one or more applications and/or one or more business units Actual or potential negative publicity related to an operational control issue An operational control issue relating to any fraud committed by any member of senior management or any manager who plays a significant role in operations Any operational issue leading to death of an employee or customer 	<ul style="list-style-type: none"> Actual or potential losses > \$2.5 million Achievement of principal business objectives may be affected Customer service failure (e.g., processing backlogs, unit pricing errors, call center non responsiveness) impacting 1,000 policyholders to 10,000 or negatively impacting a key corporate account Actual or potential IT service failure impacts more than one application for a short period of time Any operational issue leading to injury of an employee or customer 	<ul style="list-style-type: none"> Actual or potential losses < \$2.5 million Achievement of principal business objectives not in doubt Customer service failure (e.g., processing backlogs, unit pricing errors, call center non responsiveness) impacting less than 1,000 policyholders Actual or potential IT service failure impacts one application for a short period of time
<i>Compliance Controls (Compliance with applicable laws and regulations)</i>	<ul style="list-style-type: none"> Actual or potential for public censure, fines or enforcement action (including requirement to take corrective actions) by 	<ul style="list-style-type: none"> Actual or potential for public censure, fines or enforcement action (including requirement to 	<ul style="list-style-type: none"> Actual or potential for non-public action (including routine fines) by any regulatory body

Appendix 2

Control Category	High	Medium	Low
	<p>any regulatory body which could have a significant financial and/or reputational impact on the Group</p> <ul style="list-style-type: none"> • Any risk of loss of license or regulatory approval to do business • Areas of non-compliance identified which could ultimately lead to the above outcomes • A control issue relating to any fraud committed by any member of senior management which could have an important compliance or regulatory impact 	<p>take corrective action) by any regulatory body</p> <ul style="list-style-type: none"> • Areas of non-compliance identified which could ultimately lead to the above outcomes 	<ul style="list-style-type: none"> • Areas of noncompliance identified which could ultimately lead the above outcome
<i>Remediation timeline</i>	<ul style="list-style-type: none"> • Such an issue would be expected to receive immediate attention from senior management, but must not exceed 60 days to remedy 	<ul style="list-style-type: none"> • Such an issue would be expected to receive corrective action from senior management within 1 month, but must be completed within 90 days of final Audit Report date 	<ul style="list-style-type: none"> • Such an issue does not warrant immediate attention but there should be an agreed program for resolution. This would be expected to complete within 3 months, but in every case must not exceed 120 days

