



Task Force on Citizens Claims Handling and Resolution

**Office of the Internal Auditor Report
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Office of the Internal Auditor (OIA) Development

➤ Audit Committee

- Identifying needs of the Audit Committee and Board of Governors
- Establishing Audit Committee Charter and checklist
- Formalizing communication processes
- Reviewing and updating audit report format
- Developing audit issue ranking
- Developing audit report ratings
- Formalizing open items process *

* OIA will include the HuffThomas audit recommendations issued 10/24/07 in the OIA open items process.

OIA Development cont.

- Office of the Internal Auditor
 - Assessing current status
 - Updated OIA charter
 - Completed 2007 OIA Annual Report
 - Recruiting for vacant positions
 - Developing internal OIA workshop
 - Conducting key discussions with management
 - Coordinating with external personnel
 - HuffThomas - third party vendor
 - Carr, Riggs & Ingram, LLC - external auditors
 - Coordinating corporate compliance initiatives
 - Complaint Policy
 - Third Party Hotline
 - Internal Investigation Unit
 - Developing 2008 Audit Plan

OIA Development cont.

➤ 2008 Audit Plan

- Flexible to adjust with current business risks and other areas of concern that may come up during the year
 - Completing risk assessment to determine audit universe to prepare plan
 - Conducting key management discussions
 - Focusing on business areas that pose the most significant risk to Citizens
 - Coordinating with other audit groups to avoid duplication of efforts (i.e., external auditors, regulatory and/or compliance areas)
 - Reviewing the HuffThomas suggestions for future internal audits
- Review and approval process
 - Executive and Sr. Team feedback
 - Audit Committee review
 - Audit Committee and Board of Governor approval

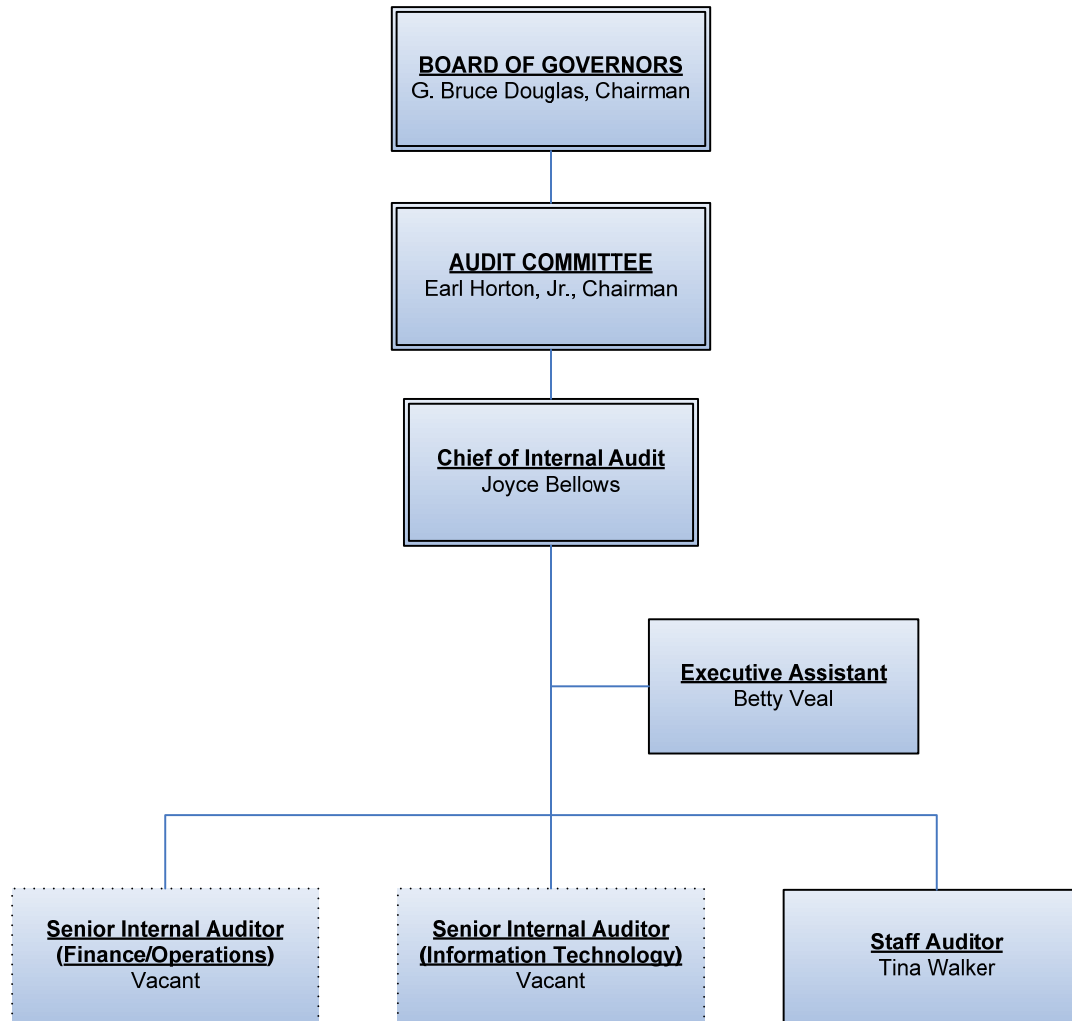
OIA Projected Timeline

➤ 02/08 – 05/08

- Finalize Audit Committee Charter
- Conduct OIA internal workshop
 - Internal audit process
 - Proposed issue ratings
 - Proposed report ratings
 - Open items process
- Complete corporate compliance initiatives
- Recruit and hire staff
- Review, compile and analyze all data gathered to support draft 2008 Audit Plan
- Target Date to complete 2008 Audit Plan – 05/2008*

* **NOTE: Timeline is based on successfully hiring two qualified Sr. Internal Auditors to support initiatives**

Office of the Internal Auditor Organization

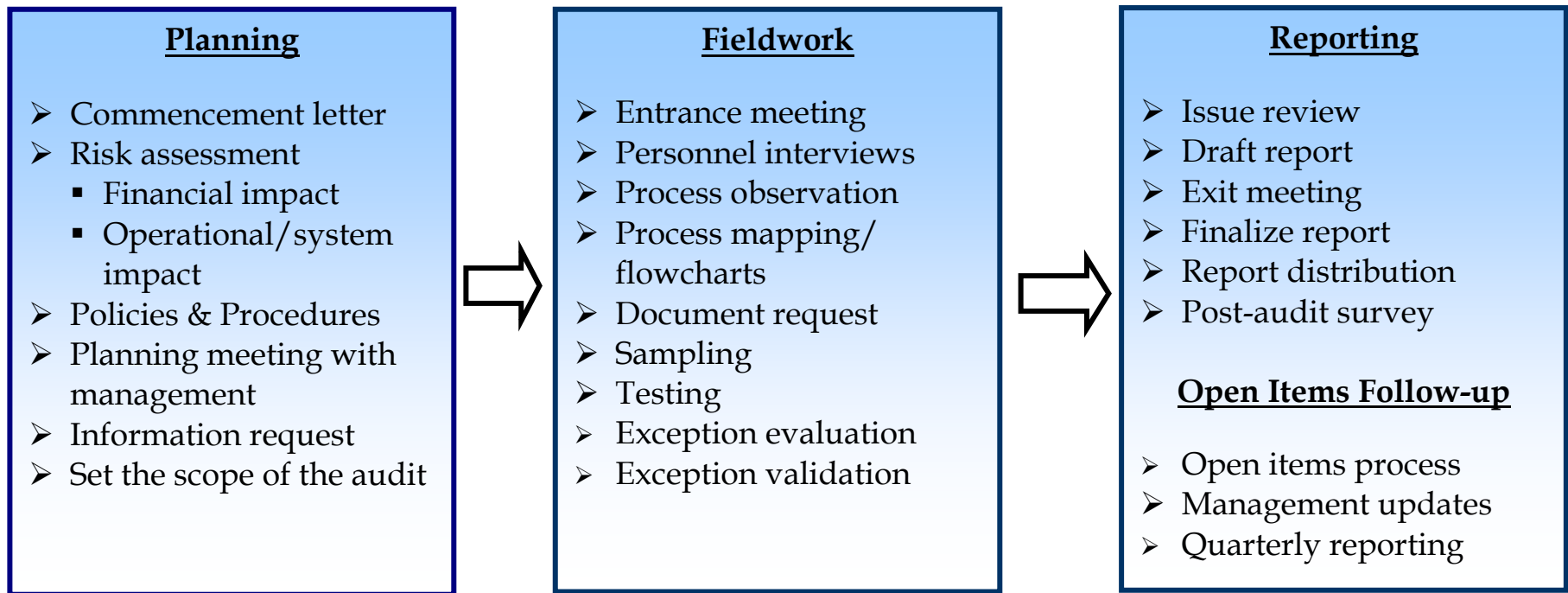


Appendix A

Office of the Internal Auditor (OIA) Process Overview

Annual Activities

- Independent risk assessment - OIA will conduct a risk assessment at least annually. See page 2.
- Walkthrough process - OIA will collaborate with external audit group to avoid duplication of efforts when possible.
- Audit plan – OIA will develop an audit plan based on the results of the risk assessment and other considerations (i.e., timing and results of previous audits, Audit Committee or management requested audits, and/or legislative concerns).



Risk Assessment Process

- The overall risk assessment will directly affect the nature, timing and extent of audit resources allocated.
- The risk assessment process is quantified when possible, but overall qualitative factors that impact the overall risk score (i.e., risk and control environment, management, systems, processes, external factors) and OIA judgment are all pivotal in the final results.
- Risk scores are used as a *guideline* to stratify business units into a high, medium or low risk ranking. The risk score is not meant to be a scientific analysis, but merely a subjective measure to provide support for the annual audit plan.

