

FINANCIAL CONTROLS

2016 POINTS OF FOCUS

Financial Controls

2016 Points of Focus

	Proposed Changes	FC Commitments	Background Information
SCOPING			
1/ SEC Guidance to management			X
2/ Top-down, risk-based & MMR + CFR = ICFR	X		
3/ Multiple assertion entities	X		
4/ Systems in scope	X		
5/ Materiality and reasonably possible misstatement			X
DOCUMENTATION			
1/ Standard key control wording		X	
2/ Walkthrough points of focus		X	
3/ Outside service providers			X
TESTING			
1/ Nature, timing and extent of procedures	X		
2/ Coverage period	X		
3/ Deviations	X		
4/ Sampling risk			X
REMEDIATION			
1/ SOX issues vs operational or inconsequential items	X		
2/ Standard issue wording		X	
3/ Exposure determination	X		
CERTIFICATION			
1/ 302 update			X
ADMINISTRATION			
1/ Working protocols	X		
2/ Timing			X
3/ Archer			X
4/ Reporting	X		X

SEC Guidance to Management

Principles

- 1/ Management to annually evaluate evidential matter to provide reasonable support for its assessment (*pg 2*)
- 2/ Internal controls over financial reporting cannot provide ‘absolute assurance’, rather ‘reasonable assurance’ (*pg 2-3*)
- 3/ Management and the auditor may have different testing approaches (*pg 4*)

Points of Focus

- 1/ Management should evaluate whether it has implemented controls that adequately address material misstatement risk (*pg 4*)
 - ‘If management determines that a risk of material misstatement is adequately addressed by an ELC, no further evaluation of other controls is required.’ (*pg 5*) Therefore, ‘top-down, risk-based.’ (*pg 10*)
- 2/ Management’s evaluation of evidence about the operation of its controls should be based on its assessment of risk (*pg 5*)
 - ‘This allows management to align the nature and extent of its evaluation procedures with those areas of financial reporting that pose the highest risks to reliable financial reporting.’ (*pg 5*) Therefore, align nature, timing and extent with risk assessment.
- 3/ Greater reliance on entity level controls (i.e., direct monitoring and period-end controls) – ‘If management determines that a risk of a material misstatement is adequately addressed by an ELC, no further evaluation of other controls is required.’ (*pg 5*). Further, ‘It is not necessary to identify all controls that may exist or identify redundant controls. To illustrate, management may determine that the risk of a material misstatement in interest expense . . . is adequately addressed by a control within the company’s period-end financial reporting process (that is, an entity-level control).’ (*pg 16*)
Therefore, eliminate transactional controls or reduce related evidence obtained.
- 4/ Efficiency – ‘Management may also consider the efficiency with which evidence of the operation of a control can be evaluated when identifying the controls that adequately address the financial reporting risks.’ (*pg 16*)
- 5/ Cumulative knowledge and experience – ‘After the first year of compliance, management’s effort to identify financial reporting risks and controls should ordinarily be less, because subsequent evaluations should be more focused on changes in risks and controls . . .’ (*pg 6*)

Source – SECURITIES AND EXCHANGE COMMISSION 17 CFR PART 241 [RELEASE NOS. 33-8810; 34-55929; FR-77; File No. S7-24-06]
Commission Guidance Regarding Management’s Report on Internal Control Over Financial Reporting Under Section 13(a) or 15(d) of the Securities Exchange Act of 1934.

Financial Controls – 2016 Points of Focus

Scoping – Top-Down, Risk-Based and MMR + CFR = ICFR

Material Misstatement Risk + Control Failure Risk = Internal Control Failure Risk

Top-Down, Risk-Based

Principles

1/ Identify significant financial reporting elements (pg 13)

- Multiple location considerations – For low ICFR risk locations, management may determine that evidence from self-assessments or other on-going monitoring activities combined with ELCs that monitor results of operations is sufficient. (pg 33)

2/ Identify financial statement objectives and material misstatement risks (MMR) (pg 12)

- ‘What could go wrong?’ (pg 13) Inversely, ‘what’s hard to get right?’
- Reasonable assurance (pg 12) or ~ 95% similar to SFAS5 probably/reasonably possible/remote concepts
- Consider fraudulent activity (pg 14)

3/ Identify controls that address MMR and consider those controls’ failure risk (CFR) (pg 15, 17)

- Which controls address the MMR risks ‘effectively’ (pg 15) to reduce MMR to ‘remote’ (i.e., <5%)
- Top-down (i.e., start with entity level controls), risk-based (i.e., balance effort with risk) (pg 18-19)
 - Direct monitoring (ELC) – Controls that monitor results of operation (e.g., precise business performance reviews with detailed reporting) or other controls. (pg 10)
 - Period-end reporting (ELC)
 - Transaction summary
 - Transactional
- Precise, timely ELCs may be enough (pg 19)

4/ Align nature, timing and extent (NTE) with internal control failure risk (MMR + CFR = ICFR). (pg 22 – 29)

5/ Consider cumulative knowledge from prior assessments.

NOTE: Consider PW requirements for most efficient approach (attribute work incremental to management’s approach to ‘PW support’ and not ‘SOX’).

For multiple assertion entities, execute procedures for most detailed assertion requirement and consider final results on higher-level assertions

Principles

- 1/ Align procedures with assertion** – Consider the final results of an entity's more detailed internal control evaluation requirements, as appropriate, for higher level assertion requirements (i.e., do not bring an entity's excessively detailed internal control evaluation procedures and results into the scope of higher level assertion evaluation).
- 2/ Evaluate results similar to SSAE16** – Evaluate final results of an entity's more detailed internal control evaluation requirements similar to the evaluation of procedures and results as an SSAE16 report for outsourced controls.

Examples

- 1/ VALIC SSAE16 Report** – Procedures performed for VALIC SSAE 16 are more precise than would be performed for stand-alone SOX purposes. Accordingly, review the final SSAE16 report to determine impact on SOX. Do not incorporate all SSAE16 procedures and results into SOX.
- 2/ Latin America and Caribbean (LAC)** – Procedures performed for LAC are more precise than would be performed for stand-alone SOX purposes. Accordingly, review final procedures and results to determine impact on SOX. Do not incorporate LAC procedures and results into SOX.
- 3/ South Africa** – Requests to perform an internal control evaluation on South Africa are more granular than would be required for stand-alone SOX. Accordingly, review final procedures and results to determine impact on SOX. Do not incorporate full South Africa procedures and results into SOX.

IT systems in-scope and NTE of IT work require critical evaluation in 2016 during planning and walkthroughs. TRO, FC and PW will coordinate a position and agenda on controls improvement and rationalization.

Principles

1/ Scoping and planning (top-down) – Methodical process to lead through four primary system reduction tranches:

- Eliminate entities from SOX scope
- Where non-SOX internal control assessments are required, evaluate NTE of work
- Eliminate processes from SOX in-scope entities
- For in-scope SOX entities, evaluate NTE of work based on ICFR

2/ Substantive evaluation (bottom-up) – Simultaneously, BU teams should question whether systems can be eliminated.

3/ NTE for systems – Develop methodology to determine NTE of IT work (e.g., brute force test, less than full ITGC and full ITGC).

4/ NTE of LUA procedures – Considerations:

- Controls improvements (e.g., move to monitoring controls with tolerance for transactional deviations).
- Improve testing approach
- Minimize effort to re-prove established facts.

Currently under evaluation with FC and PW

Financial Controls – 2016 Points of Focus

Documentation – Standard Key Control Wording

[Frequency] [Title] [Does What] [How's it Evidenced]

Principles

- 1/ **Economy of words** – Fewer, but meaningful words. Utilize additional description fields for contextual information.
- 2/ **Plain English** – Worded to ensure clarity for anyone from control owner to AIG's CFO, regulators or PW.
- 3/ **KC #** – Number the KCs in control title according to the order they appear in the process so that RCMs run in the proper order.

Examples

1/ XYZ claim payment

- **Control title** – KC05, Verify proper authorization of XYZ claim payments
- **Key control description** – Per occurrence, all XYZ claims with a benefit payment over a claim processors authority are reviewed and approved by Team Leaders in accordance with the XYZ standard operating procedure. The review is evidenced by the ClaimFacts Record Log, which documents the ID of the individual that approved the claim.

2/ SOD configuration

- **Control title** – KC10, ClaimFacts configured for proper segregation of duties
- **Key control description** – ClaimsFacts is configured such that the eligibility field may only be updated or modified by the Self Admin/Provide Unit (part of Group Operations). An unauthorized person (e.g., Benefit Analyst) cannot enter or review the eligibility line. This control is evidence by the on screen error message to the system user.

3/ Reconciliation of suspense accounts

- **Control title** – KC09, Reconcile PeopleSoft retained asset suspense accounts to State Street
- **Key control description** – Monthly, the suspense accounts (accounts XXXX, XXXX, XXXX, XXXX) for the retained asset accounts maintained at State Street are reconciled by a GCSA Accounting analyst and reviewed by a GCSA Supervisor. The reconciliations are signed and dated by the preparer and reviewed as evidence of completion and review.

Properly plan and execute walkthroughs

Principles

1/ Planning – Develop perspective of risks and key controls in advance of walkthrough. Ensure advance agreement with process owner.

2/ Execution – Understand process, including (see PW Checklist):

- Risks, including fraud risks
- Key controls
- Transaction flows from inception to G/L posting
- IT systems and related information
- Automated controls and related information
- Process and key control changes
- Complexity and judgment
- Third parties

3/ Working protocols – For walkthroughs:

- FC to timely develop and communication walkthrough schedule to PW.
- FC to provide documentation to PW a minimum of 3 days, but ideally 5 days, in advance.
- FC to utilize PW Team Connect to track walkthrough status.
- FC and PW subject to walkthrough execution standards.
- FC to provide completed and reviewed walkthrough documentation to PW on walkthrough date + 2 weeks.
- PW to provide completed and reviewed walkthrough documentation to FC on walkthrough date + 3 weeks.
- FC and PW to adhere to 'completion and review' standards.

Increase consistency of SSAE16 reviews and oversight of OSPs

Principles

- 1/ Primary Responsibility** – Management responsible for OSP oversight.
- 2/ Standard controls** – Utilize standard controls for review of SSAE 16 and oversight of OSPs.
- 3/ Implementation** – FCU to work with management on implementation of standard controls.
- 3/ Checklist** – Management completes standard SSAE 16 checklist with assistance from FCU.
- 4/ Type of Report** – SOC 1 Type 2 report that provides most assurance. Work with management where alternate reports.
- 5/ Guidance** – Refer SSAE 16 Guidance, which includes the checklist

Standard Controls

Review of SSAE 16 (control ID CTRL-4487) – Management obtains and reviews SSAE 16 reports over material account balances to determine whether the controls that exist at the third party and are relied on by management were addressed and tested. Exceptions should be assessed for impact on the overall control environment.

Oversight of OSP (control ID CTRL-4486) – Management has an appropriate level of oversight over the activities that are performed by the Outside Service Provider.

Financial Controls – 2016 Points of Focus

Testing – Nature, Timing and Extent of Procedures

Align nature, timing and extent of procedures based on ICFR, considering top-down controls and cumulative knowledge from prior assessments

Principles

1/ Align nature, timing and extent (NTE) with internal control failure risk (MMR + CFR = ICFR). (pg 22 – 29)

- Nature – Inquiry, observation, inspection and reperformance. Use of self-assessment or quality assurance processes.
- Timing – Coverage (e.g., for low ICFR Jan 1 to June 30 with inquiry-based rollforward)
- Extent – Sample sizes

2/ Consider ‘top-down’ (e.g., ELCs) and cumulative knowledge from prior assessments.

NOTE: Consider PW requirements for most efficient approach (attribute work incremental to management’s approach as ‘PW support’ and not ‘SOX’).

Example

1/ See Nature, Timing and Extent Illustrative Example template

Process ICFR	STEP 1 - Evaluate assurance from ELCS and approach to evaluation			STEP 2 - Determine assurance from transactional controls		STEP 3 - Determine nature, timing and extent of transactional design and operating control evaluation				
	Indirect	Monitoring ⁽¹⁾	Period-End Reporting ⁽¹⁾	Transaction Summary ⁽³⁾	Transaction-Specific ⁽³⁾	Design Effectiveness ⁽⁴⁾	Nature ⁽⁵⁾	Timing ⁽⁵⁾	Operating Extent ⁽⁵⁾	Year-End Roll-Forward
Low	Yes	Direct and precise	Precise	None	None	Inquiry-based update to process documentation	None	None	None	Inquiry to update ELCs and process design and operating effectiveness
Medium		Design effectiveness walkthrough (end-to-end)	Design effectiveness walkthrough (end-to-end)	Limited	Limited	Walkthrough (limited to changes) and update process documentation	Observation to inspection; on-going monitoring (e.g., self-assessment or peer quality review) ⁽⁶⁾	Lower: Jan 1 to June 30 Higher: Jan 1 to Sept 30	Smallest sample sizes	Inquiry and observation/inspection to update ELCs. Inquiry update for design and operating effectiveness.
High		Operating effectiveness Inspection or reperformance direct testing	Operating effectiveness Inspection or reperformance direct testing	Moderate	Moderate	Walkthrough (end-to-end) and update process documentation	Inspection or re-performance; objective on-going (e.g., self-assessment or peer quality review) ⁽⁶⁾	Lower: Jan 1 to Sept 30 Higher: Jan 1 to Sept 30, plus limited Q4 or 12/31	Lower: Smallest size Higher: Medium sample size	Inquiry and inspection or reperformance to update ELCs. Limited transactional control testing. Inquiry update for design and operating effectiveness.

Financial Controls – 2016 Points of Focus

Testing – Coverage Period

Coverage period for procedures should align with risk

Principles

1/ **‘Risk-based’** – Modify period of coverage based on ICFR. Timing is considered in conjunction with nature and extent of procedures.

2/ **Sample selection** – Utilize an appropriate sample selection methodology to cover the period.

Example

1/ Coverage illustration

Frequency	ICFR	Q1	Q2	Q3	Q4
Annual	L, M, H				✓
Quarterly (select 2 Qs)	L	✓	✓		
	M	✓	✓	✓	
	H - Option 1	✓	✓	✓	✓
	H - Option 2	✓	✓	✓	Test 100% on Q1 - Q3 and perform observation or inspection on Q4 during rollforward procedures ⁽¹⁾
Monthly, Weekly, Daily & Multiple Times per Day	L	✓	✓		
	M	✓	✓	✓	
	H - Option 1	✓	✓	✓	5 - 10% to complete sample
	H - Option 2	✓	✓	✓	Test 100% from Q1 - Q3 and perform observation or inspection on a few additional Q4 items during rollforward procedures ⁽¹⁾
Automated	L, M, H	✓	✓	✓	

(1) While completing 100% of testing during Q1 to Q3 requires some additional procedures performed on Q4, the benefits are:

- Testing completed, reviewed and signed off earlier in the year, which preserves time for essential year-end procedures.
- With testing complete, deficiencies are identified earlier and then potentially remediated and retested by year-end.
- Additional procedures to review Q4 items are documented in the rollforward procedures (not in testing documentation).

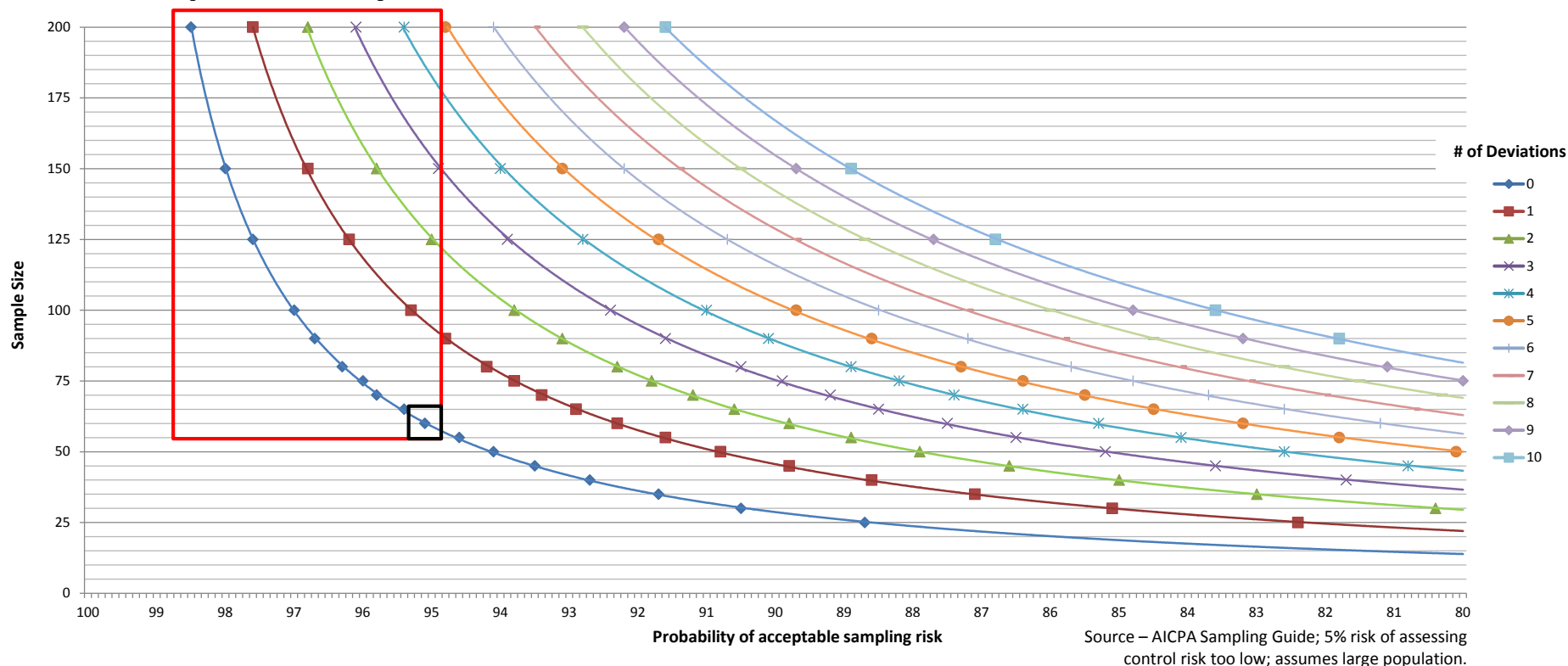
Controls do not necessarily have to operate without deviation to be effective

Principles

1/ Effective ICFR and exceptions:

- **PCAOB** – ‘Because effective ICFR cannot, and does not, provide absolute assurance of achieving the control objectives, an individual control does not necessarily have to operate without any deviation to be considered effective.’ (AS5.48)
- **SEC** – While SEC Guidance is not explicit in re deviations as AS5, the fundamental principle of ‘reasonable assurance’ is consistent:
 - *The objective of ICFR is to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. (SEC Guidance, I.A.)*
 - *Management should evaluate whether it has controls placed in operation that adequately address the company’s financial reporting risks. The determination of whether an individual control, or a combination of controls, adequately addresses a financial reporting risk involves judgments about whether the controls, if operating properly, can effectively prevent or detect misstatements that could result in material misstatements in the financial statements.’ (SEC Guidance, II.A.1.b)*
 - *Management evaluates the evidence it gathers to determine whether the operation of a control is effective. This evaluation considers whether the control operated as designed. It also considers matters such as how the control was applied, the consistency with which it was applied, and whether the person performing the control possesses the necessary authority and competence to perform the control effectively. If management determines that the operation of the control is not effective, a deficiency exists that must be evaluated to determine whether it is a material weakness. (SEC Guidance, II.A.2.b)*
- **COSO** – Consistent with the concept of ‘reasonable assurance’ and inherent limitations in effective internal controls systems:
 - *Internal control is a process, effected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance. (para 14)*
 - *Because of the inherent limitations discussed above, there is no guarantee that, for example, an uncontrollable event, mistake, or improper incident could never occur. In other words, even an effective system of internal control may experience failures. Reasonable assurance is not absolute assurance.’ (para 479)*

95% probability that actual deviation is lower than tolerable deviation rate



Principles

- 1/ Tolerable deviations** – For tests of controls, generally the auditor is concerned only that the actual rate of deviation in the population does not exceed the tolerable rate.
- 2/ Deviations** – While control deviations increase the risk of material misstatements such deviations do not necessarily result in misstatements. Accordingly, auditors usually assess a tolerable rate for tests of controls greater than the tolerable rate of dollar misstatement (because deviations would result in misstatements in the accounting records only if the deviations and the misstatements occurred on the same transactions).

Financial Controls – 2016 Points of Focus

Remediation – SOX issues vs operational or inconsequential items

Not all operating control deviations are issues

Principals

- 1/ Categorize** – Distinguish between inconsequential and operational findings and reportable SOX Issues.
- 2/ Documentation** – Clearly inconsequential and minor operating deviations are disposed of in the workpapers. For items where inconsequential nature is not clear or the items or these are worth reporting, deviations are documented in Archer and noted as 'non-SAD'.
- 3/ Alignment on conclusions** – PW and FC should strive to be aligned but reasonable discrepancies are permissible.

Examples

Scenarios that may be inconsequential or operation:

- Sign and date issues.
- Gross exposure less than SAB 99 posting threshold.
- Policy compliance vs financial statement impact (e.g., reconciliation not completed within 2 days of SI filing but completed in advance of earnings release).
- Operational vs financial (e.g., process efficiency but risk is sufficiently mitigated).
- Deviations within tolerable rate.
- Historical item (e.g., transaction processed in the prior period under superseded controls).
- Mitigated by other controls where key controls are changed.

Financial Controls – 2016 Points of Focus

Remediation – Standard Issue Wording

[How identified][What failed, include quantitative data][Root cause][Implications][Conclusion]

Principles

1/ Economy of words – Fewer, but meaningful words. Utilize additional description field or workpapers for lengthy descriptions.

2/ Plain English – Worded to ensure clarity for anyone from control owner to AIG's CFO, regulators and PW.

3/ Issue title – Summarize the issue in a handful of words.

Example (includes standard key control wording)

1/ Reinsurance accounting – Inaccurate certified reinsurer ratings (operating exception that is an issue and not a deficiency)

- **Key control title** – KC03 – Review Schedule F, Part 6 reinsurance ratings and resultant collateral sufficiency
- **Key control** – Quarterly, the reinsurance analyst reviews the Schedule F, Part 6 certified reinsurer ratings by agreeing them to the state websites, computes the required collateral and prepares the journal entries to make necessary adjustments. The rating schedule, state website screenshots [SUGGESTED UPGRADE], collateral calculations and journal entries are provided to the reinsurance supervisor for review as evidenced by sign-off.
- **Issue title** – Schedule F, Part 6 reinsurer ratings were incorrect for 1 of 100 ratings
- **Issue description** – During year-end testing we reviewed the population of 100 reinsurer ratings on Schedule F Part 6. For the rating of ACE Overseas Insurance Company LTD the Schedule stated a rating of Secure-3, requiring 20% collateral, however, according to the PA state website this reinsurer had been upgraded to rating Secure-2, requiring 10% collateral. From inquiry and available evidence showing changes from prior year, we believe the review of ratings was performed on all 100 reinsurer ratings but human error missed the ACE rating. This exception and root cause was confirmed by Melvin Shleifer, Divisional VP.

As the error was an upgrade in the reinsurer rating there is no impact to the provision for reinsurance as the collateral balance exceeds the requirement from the state and the change in collateral for ACE was 10% or approximately \$125,000 of approximately \$372 million in collateral. Even in the case of a missed downgrade, the parent company's collateral of \$5 billion would compensate.

Given the control was performed, the operational deviation rate for a manual control is nominal and the risk of a material misstatement due to significant, simultaneous changes in many or all reinsurers ratings is remote, we believe this control operated effectively. However, we suggest management improve the control to include the state website screenshots in the supervisory review.

Financial Controls – 2016 Points of Focus

Remediation – Exposure Determination

Exposure is the reasonably possible financial misstatement

Principles

- 1/ **Reasonably possible** – Consider SFAS 5 probably/possibly/remote.
- 2/ **Exposed vs exposure** – ‘Exposed’ balances and transactions is different than reasonably possible financial statement ‘exposure’.
- 3/ **Actual deviation** – Consider actual deviation to determine reasonably possible deviation.
- 4/ **Actual deviation rate** – Consider actual deviation rate to determine reasonably possible deviation rate.
- 5/ **Probability** – Do not stack multiple independent events without considering impact on probability.
- 6/ **Double entry accounting** – Do not base exposure on one-sided accounting entries.
- 7/ **Net exposure** – Determine net asset, liability, revenue and expense exposure.
- 9/ **Below SAB99 threshold** - Gross exposure \leq \$20M no further effort required to determine net exposures (i.e., gross = net).

Example

- 1/ See standard Exposure Determination worksheet

AIG - Financial Controls Exposure Determination	
BACKGROUND	
1. Key control	
2. Key control type and nature	
3. Nature of testing	
4. Population and sample size	
5. Deviation, including if it resulted in misstatement	
6. Deviation quantity and rate	
7. Root cause	
8. Client and PW agree with deviation and root cause?	
LIKELIHOOD OF REASONABLY POSSIBLE MISSTATEMENT	
9. Deviation related to evidence of control operation?	
10. Evidence critical to prevent a misstatement?	
11. Reasonably established control operated without evidence?	
12. Deviation resulted in a misstatement?	
13. Event(s) and risk factors result in reasonable possibility of misstatement?	
14. Deviation rate for relevant given control frequency and ICFR?	
15. Prudent official conclude a deficiency?	
16. Remote, negligible or operational exception	Proceed to determine magnitude

AIG - Financial Controls Exposure Determination	
MAGNITUDE OF REASONABLY POSSIBLE MISSTATEMENT	
17. \$ value of balances or transactions exposed?	Note, "exposed" balances and transactions is different than reasonably possible financial statement "exposure".
18. \$ value of activity in account balance or class of transactions exposed?	
19. Exposure from actual deviation(s)?	
20. Exposure from reasonably possible deviation?	
21. Reasonably possible deviation rate?	
22. What is gross exposure? (consider reasonably possible deviation and deviation rate)	
23. Is gross exposure negligible?	
24. What is net exposure? (consider compensating controls)	
25. Prudent official conclude a deficiency?	
26. Negligible exception	Proceed to net exposure conclusion
NET EXPOSURE CONCLUSION	
27. Considering likelihood and magnitude, is it reasonably possible that a material misstatement of the financial statements would not be prevented or detected on a timely basis?	
28. What is the adjusting journal entry that would result from the reasonably possible exposure?	
29. What is the net asset, liability, revenue and expense exposure?	

Financial Controls – 2016 Points of Focus

Certification – 302 Certification

302 certification process has been streamlined

Principles

- 1/ 44 sub-certifications to 34 executives – Reduces sub-certifiers by more than 50%.
- 2/ Recommend further streamlining – Suggest that supporting sub-certifications be reduced.
- 3/ Reflects organizational changes – Assignees asked to provide representations for executives no longer with AIG or in different roles.
- 4/ Legacy Portfolio – Added to specific representations for the Legacy Portfolio.
- 5/ Aligns to internal management rep – 2Q16 to evaluate whether combination with regulatory reporting and internal representation.

Example

1/ See 302 Certification email and representation worksheet

NOTE: The 302 sub-certification representations set forth at the left of this schedule (i.e. items A1 through E3) are designed to support, and are cross-referenced to, the AIG CEO and CFO certifications that will be included in the 1Q16 Form 10-Q. X = request for affirmation of the specific sub-certification representation - or a request to advise why unable to provide the specific sub-certification representation			
302 SUB-CERTIFICATION REPRESENTATION (and cross-reference to the categories that will be certified by AIG's CEO and CFO and included in Exhibit 31 to the March 31, 2016 Form 10-Q)		Rob Schimek Kevin Hogan Doug Dachtler Geoff Cornell Charlie Shamieh Donna DeMaio Phil Fasano Mike Brady Don Allers Jeff Hurd Tom Russo Alexa Quane Martha Gallo Elias Habayeb James Bracken Tom Diemer Don Cummings Jesus Zaragoza James Pettito Steve McIntyre Mark Balfan Craig Buck Chip Compton EJ Jackson Kathlene Carbone Paul Karr Brian Smith Rich Brasington Mike Harwood Joe Reali Angela Bekker David Junius Dorey Largey Ian Stuart	ASSIGNEE
REVIEW OF MARCH 31, 2016 FORM 10-Q (Exhibit 31 - Certification #1)			
I confirm that I have reviewed the following section(s) of the March 31, 2016 Form 10-Q Report:			
A1 All Sections (includes Financial Statements - Item 1, and MD&A - Item 2)			Habayeb, Cummings, Jackson, Carbone, Karr
A2 Commercial Insurance (included in MD&A - Item 2)	X		Schimek, Bracken, Zaragoza, Cummings
A3 UGC Results included in Commercial Insurance (included in MD&A - Item 2)		X	DeMaio, Compton
A4 Consumer Insurance (included in MD&A - Item 2)		X	Hogan, Diemer, Cummings, Zaragoza
A5 Legacy Portfolio (included in MD&A - Item 2)		X	Dachtler, Shamieh, Buck
A6 Insurance Reserves (included in MD&A - Item 2)	X	X	Schimek, Hogan, Shamieh, Quane, Bracken, Diemer, Buck, Brasington, Harwood
A7 Investments (included in Financial Statements - Item 1; and MD&A - Item 2)		X	Dachtler, Cornell, Pettito, McIntyre, Balfan
A8 Income Taxes (included in Financial Statements - Item 1; and MD&A - Item 2)		X	Reali, Bekker
A9 Liquidity and Capital (included in MD&A - Item 2)		X	Junius
A10 Legal, Regulatory & Compliance (included in Financial Statements - Item 1; and MD&A - Item 2)		X	Russo
A11 Enterprise Risk Management (included in MD&A - Item 2)		X	Quane
A12 Controls and Procedures (Item 4)		X	Stuart

Working protocols standardized to improve planning and reduce rework

Principles

- 1/ **Standard working protocols** – Implemented in certain high volume interaction areas where planning is critical and rework is costly and negatively effects client service. Facilitates management by exception.
- 2/ **Project management** – FC to take greater role in planning and status tracking.
- 3/ **Reporting** – FC and PW to determine issues to escalate (pedestrian BU status will not be escalated).

Working Protocol	FC	PW
Planning		
1/ Develop walkthrough schedule	X	
2/ Walkthrough planning documentation provided	WT -3 days	
3/ Develop control test schedule by month	X	
Status		
1/ Walkthrough on-going tracking	X	
2/ Testing on-going tracking	X	
Execution		
1/ Weekly FC and PW BU team meetings	X	X
2/ Walkthrough execution	X ⁽¹⁾	X ⁽¹⁾
3/ Walkthrough documents completed and provided	WT +2 wks ⁽²⁾	WT +3 wks ⁽²⁾
4/ Testing documentation completed and provided	T +2wks ⁽²⁾	T +3 wks ⁽²⁾
Reporting		
1/ FC and PW manager status and deficiency review	Monthly ⁽³⁾	
2/ FC management and PW partner status and deficiency review	Quarterly ⁽³⁾	
3/ AIG management status reporting	X ⁽⁴⁾	X ⁽⁴⁾

NOTES

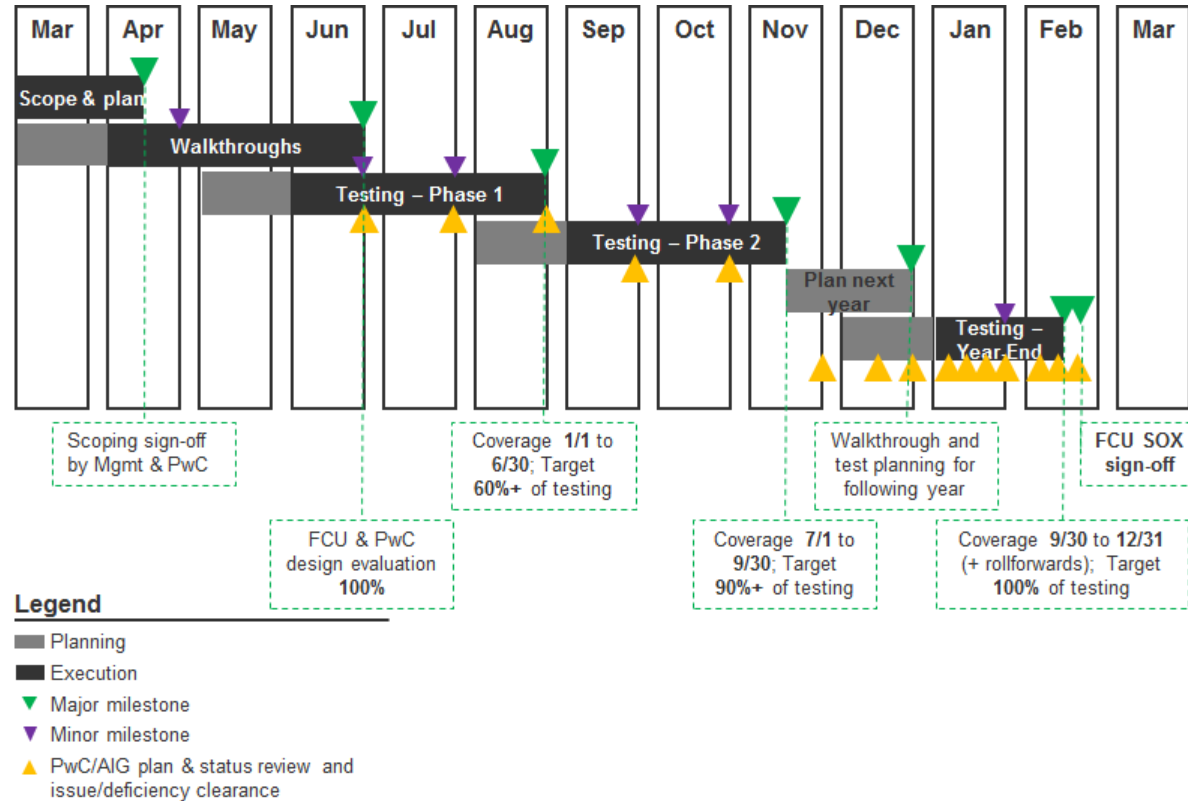
- 1/ Walkthrough execution is subject to separate expectations.
- 2/ Walkthroughs and testing are subject to separate expectations of review levels.
- 3/ Meetings may become more frequent at year-end.
- 4/ FC and PW to determine consolidated list of reportable issues and ensure status is up-to-date.

Scoping and planning, walkthroughs and testing to be accelerated

Principles

1/ Schedule – Acceleration achieved over 2016 and 2017.

2/ Purpose – Acceleration allows greater focus on risk and issues at year-end, an opportunity to remediate and retest deficiencies and appropriate workload balance for FC and PW during Q4 and Q1.



Archer went ‘live’ April 20 and will be source for 2016 assessment

Principles

1/ Governance

- FCU Governance Team leads effort with participation from a cross-FC work group.
- Work group members are Archer users.
- Issues encountered and system enhancement requests immediately directed to FCU Governance Team.

2/ Training

- Archer System Training has been provided and is available for replay.
- Ongoing 30 minute training sessions being held as system changes occur or requests are made.
- Training to be provided to PW on Archer functionality and reports.

3/ PW access

- PW access to Archer through AIG laptops.

4/ FCM

- Program Governance Unit (owns Archer) working on approach to access historical FCM data.
- FCM data frozen as of June 30 but until long-term access solution determined historical data accessed directly through FCM.

Monthly status reports run from Archer at standard times

Approach

- 1/ Continuous updating** – Archer should be updated near real-time with the status of the work.
- 2/ Standard report run time** – Reports run from Archer as of 10am on the 1st business day of month.
- 3/ No top-side reporting adjustments** – Late status updates included as exception explanations.
- 4/ FC BU review** – Status reports distributed to BU teams for comment on 2nd business day of month.
- 5/ FC BU analysis** – FC BU Teams report back with comments by close of business on 4th business day of month.
- 6/ Status compilation** – Central team compiles comments and provides to Ian on 5th business day of month.
- 7/ Distribution to key stakeholders** – Reports distributed to key stakeholders by 10th business day of month.