



# Board of Governors Meeting, June 19, 2019

## Dashboard

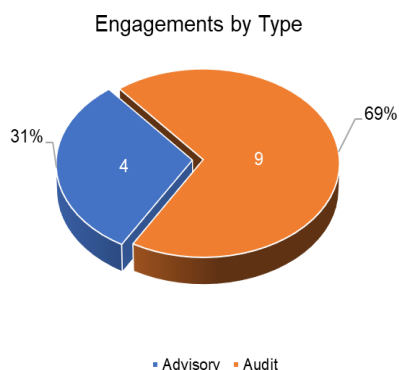
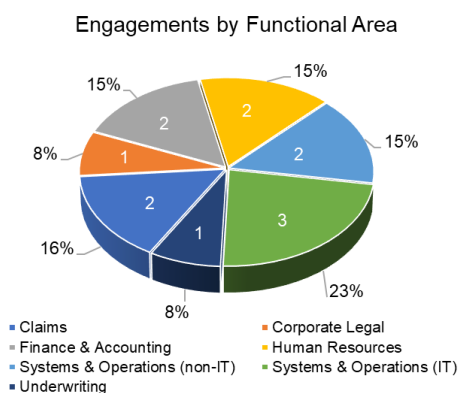
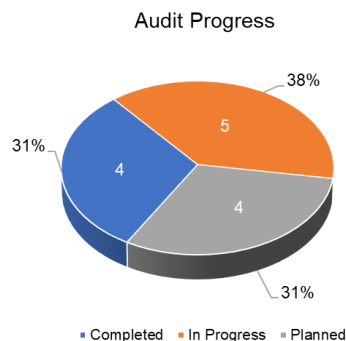
At the meeting, the Chief of Internal Audit presented progress against the 2019 plans, for audit, internal controls and enterprise risk, and noted good progress.

### Internal Audit

#### Overview of Audit Progress

Internal Audit (IA) follows a risk-based quarterly rolling plan approach in developing engagements and monitoring progress. As we review risks and consider operational challenges, we re-examine our plan and confirm that it continues to provide the expected assurance and that audit resources remain appropriately focused.

Audit Plan (Jan 1 2019 to Dec 31 2019)	
Completed	4
In Progress	5
Planned	4
<b>Total Projects</b>	<b>13</b>



#### Audit Engagements Completed

Following the last meeting we completed work on four audit engagements:

- IT Critical Security Controls Implementation** - New IT security standards were adopted and are being implemented based upon the leading practices Critical Security Controls framework. The objective of the audit was to evaluate the successful implementation of these standards. We confirmed that appropriate processes are in place to ensure that appropriate controls are established, the modified security standards included the adopted controls, and those controls



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not selected for implementation were reasonable. Our work resulted in two minor observations which were provided to IT management to refine the controls.

- **Special Investigations Unit (SIU)** - Citizens' Special Investigations Unit (SIU) investigates potentially fraudulent activity referred by the Company's Claims, Underwriting and Agency Services Department personnel. Additionally, by leveraging data from Citizens' systems and applications, SIU performs rules-based data analytics and reporting, which are reviewed by SIU Managers for indicators of potential insurance fraud. The objective of this advisory was to provide consultative advice regarding controls and leading practices for adequate oversight of Special Investigations Unit (SIU) processes designed to proactively detect insurance fraud. Internal Audit collaborated with SIU Management to develop proactive insurance fraud monitoring governance procedures and tools, including a report matrix & scorecard, which will enable tracking, consistency and accountability surrounding the creation and review of monitoring reports. Additionally, we noted opportunities to enhance monitoring and oversight of processes designed to proactively detect insurance fraud at Citizens. These opportunities are based on industry leading practices and can aid SIU to achieve its vision of effectively leveraging advanced analytics to increase the speed and efficiency of insurance fraud detection.
- **IRMA Claims Litigation Settlement** - Citizens is committed to resolving pending Hurricane Irma litigation in a fair, efficient and timely manner in order to restore policyholders' properties to pre-loss condition without the need for protracted litigation. In order to accomplish this, Citizens has offered a settlement agreement applicable to Hurricane Irma litigation brought by Citizens' policyholders for loss to residential property. The objective of this audit engagement was to evaluate the adequacy and effectiveness of the processes and controls established in order to manage the interim Irma Claims Litigation Settlement process at Citizens. Results from our audit indicate that adequate and effective processes and controls were established to manage the interim Irma Claims Litigation Settlement process. It was also determined that further audit work was not necessary, as the underlying controls were adequate to support the process and the overall risk was low, particularly in relation to the volume of accepted agreements.
- **Targeted Payroll Analytics** – Following our audit of CenterPoint HCM User Access, in which we noted challenges to effectively manage user access, we scheduled this targeted audit to validate that the vulnerabilities have not been exploited. The objective of this audit was to assess occupational fraud risks related to the payroll processes and evaluate instances where the process appears compromised to ensure no misconduct (to include misappropriation and/or occupational fraud) was committed. We considered occupational fraud risks common in the payroll process and developed thirty-three computer-aided audit techniques (“CAATs”) that were designed to identify unexpected or unexplained patterns in data that may represent potential misconduct. Results of our CAATs highlighted twenty-four anomalies that required further audit work to validate authenticity. No occupational fraud was identified; however, we did note three instances where paychecks were distributed inappropriately. Management is seeking to recover the money distributed erroneously.



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### Work in Progress

In the execution of our audit engagements we follow a structured process which is divided into three main categories, e.g.: the first step focuses upon engagement planning (including notification, fact finding, process risk and scope and objective setting); the second step focuses on project execution or fieldwork; and the last step in the audit process includes report delivery (agreeing results from fieldwork with management and delivering a written result of the work completed). There are five audit engagements in progress:

- **Claims Litigation and Legal Billing Audit (in planning)**  
Q3

There has been a significant increase in litigated cases given AOB and hurricane Irma resulting in increased defense cost. The objective of the audit is to ensure there are adequate controls in place to monitor and manage litigation vendors and defense related expenses.
- **Information Classification and Handling Policy Compliance (in fieldwork)**  
Q3

The Information Classification and Handling Policy provides guidance to Information Owners and employees in the proper classification, protection, handling, and disposal of all information assets in Citizens' possession. Classifications, responsibilities and protection specifications are included in the policy. This policy supports Citizens' compliance with the Gramm-Leach-Bliley Privacy Act requiring safeguarding of sensitive data and Florida's data breach notification law, section 501.171, F.S. IA will assess the design and effectiveness of processes and controls to ensure ongoing compliance with the policy.
- **Payroll Audit (in fieldwork)**  
Q3

Results from the recent CenterPoint (ERP) HCM Access audit indicated some system limitations and complexities of Oracle roles and permissions and it was decided that a detailed audit of current payroll processes would be prudent.
- **Reinsurance Recoveries Audit (in planning)**  
Q3

As a result of claims incurred related to Hurricane Irma, Citizens is positioned to begin to submit and collect recoveries based on underlying reinsurance agreements in place at the time of the event. It has been several years since Citizens has experienced a large enough claim event to trigger reinsurance recoveries, therefore the objective is to ensure processes and controls are adequate to support the recovery activities.
- **RVR Scoring Model Advisory (fieldwork)**  
Q2

With this advisory we will assist the Vendor Management Office in developing an RVR scoring schema to more objectively determine pass/fail decisions based on the broad categories of integrity, reliability, ability to perform and financial soundness.



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### Work Planned

The following audit engagements are scheduled to commence during Q3.

- Financial Services Advisory

With the implementation of the CenterPoint Financial module, there are opportunities to leverage rules-based tools within the Oracle system to provide certain efficiencies. Internal Audit will collaborate with Financial Services to explore options surrounding a risk-based methodology through utilization of industry leading practices.
- Proof of Repairs

During October 2018, Citizens began requiring proof of repairs for Hurricane Irma damage to determine renewal eligibility for policies renewing on or after March 6, 2019. Policyholders who have filed a claim for damage caused by Hurricane Irma, whether the claim exceeded the policy's hurricane deductible, must submit proof of repair to Citizens as soon as any repairs are complete. For claims with repairs not completed by the policy's renewal date Citizens will accept documentation such as a contract that demonstrates repairs are underway to process the renewal.
- System and Information Backup

A backup policy and processes are required to copy system and data files to disk or tape, including to offsite locations, to ensure recoverability in the event of accidental deletion, corrupted information or a system outage. As well, appropriate media protection is essential at offsite locations. Focus areas of the audit will include backup policies, process reliability, restore testing, replication and secure storage.
- Targeted Accounts Payable Analytics

With the completion of the CenterPoint implementation there is an opportunity for IA to evaluate occupational fraud risks and establish red flag anomaly monitoring. Leveraging computer-aided audit techniques, IA will assess occupational fraud risks related to the accounts payable processes and evaluate instances where the process appears compromised to ensure no misconduct was committed.
- Vendor Ability Tiering Design

The advisory is to assist the Vendor Management Office in developing a tiered "ability to perform" process that is intended to proactively identify reputational and operational risks to vendor performance.

### Control Deficiency Resolution

Internal Audit (IA) maintains a database containing reported audit observations, recommendations, management action plans and target completion dates originating from IA audits, reviews performed by the external auditors and regulatory exams conducted by the Office of Insurance Regulation and the Auditor General. We are currently tracking fourteen open observations of which two new observations were added and one observation was closed since the last Committee meeting. There are currently two high rated observations of which both refer to audits performed on CenterPoint user access. There are currently no past due action plans.



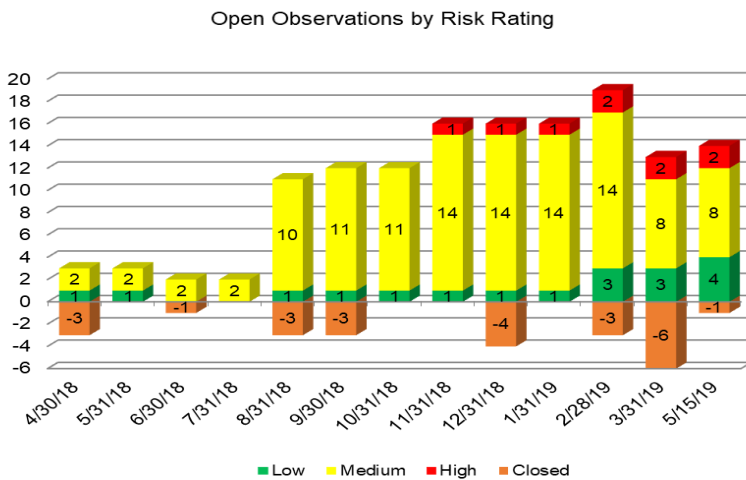
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### Status of High Open Observations

Audit	Observation	Target Date	Latest Status Update
Centerpoint HCM User Access	HCM roles and permissions are not clearly defined, resulting in instances of inadequate segregation of duties and excessive permissions that are not adequately monitored. Activities performed by these users are not specifically logged or monitored.	5/31/19	Testing of the new roles is in progress and scheduled for completion on 5/17/19.
Centerpoint User Access (Financial and Procurement)	Centerpoint roles and permissions are not clearly defined resulting in instances of inadequate segregation of duties and excessive permissions that are not adequately monitored. Additionally, activities performed by these users are not specifically logged or monitored.	8/30/19	The Oracle Audit (user logging) functionality has been enabled for HCM, Finance and Procurement on 2/11 and specific user transactions can now be tracked. Role redesign is being evaluated.

The following charts provide additional information related to the number of open observations over the previous thirteen months including the observation ratings, source of observation and year reported of the currently open observations.



Observations by Year Reported		
2018	2019	TOTAL
9	5	14

Observation Source	
IA	12
External Auditor	0
Market Conduct - OIR	0
Auditor General	2
<b>TOTAL</b>	<b>14</b>

### Resources

Following the promotion of two audit staff members to Enterprise Risk, IA has vacancies for an Audit Manager as well as an Internal Auditor Senior. We are actively recruiting to fill these positions.



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### Internal Controls

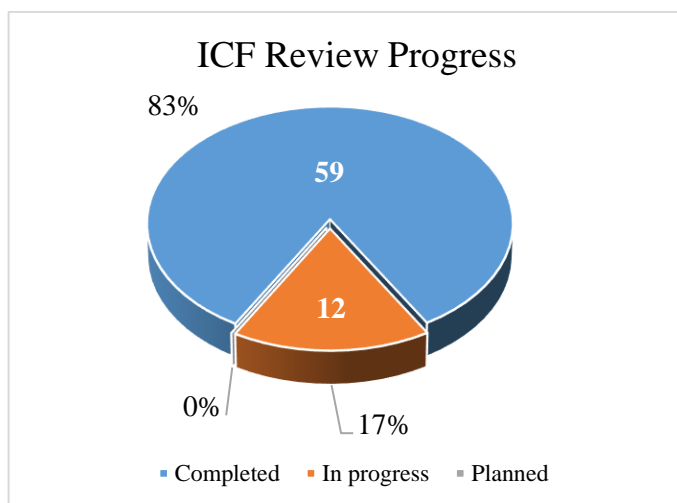
In 2014 Citizens Audit Committee approved the roll-out of an Internal Control Framework (ICF), throughout the organization, which is aimed at strengthening and improving the organization's overall control and operating environment. As a basis for designing Citizens' ICF, the organization selected COSO 2013 (developed by the Committee of Sponsoring Organizations of the Treadway Commission), which provides an Internal Control-Integrated Framework that enhances fundamental concepts of what defines an effective system of internal controls. The following graph shows the project timeline:



The Internal Controls Office (IC) facilitates, enables and monitors the performance of control assessments across Citizens' financial, operational and information technology environments. There are two primary initiatives led by the IC. The first is the initial roll-out of the ICF through facilitated workshops throughout Citizens.

#### Process Reviews in Progress:

1. Agency Management
2. Consumer & Policy Services
3. Corporate Analytics
4. Financial Planning & Analysis
5. HR Strategic Services
6. IT Application Quality Assurance
7. IT Configuration Management
8. IT Infrastructure
9. IT Knowledge Management
10. IT Operations
11. Public/External Relations & Outreach
12. Underwriting & Agency Governance



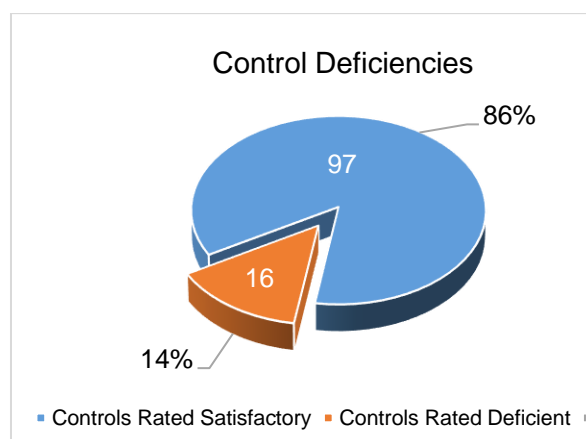
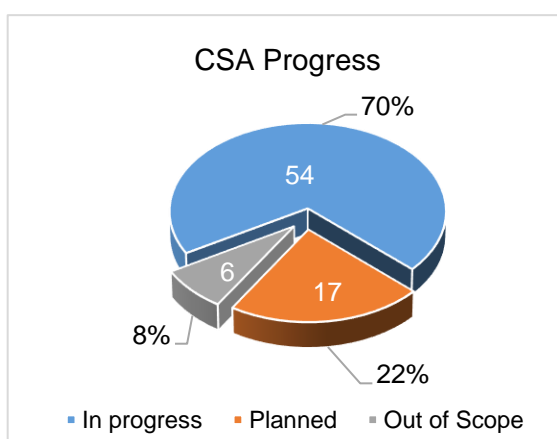


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The second initiative is the enablement and monitoring of management Control Self-Assessments (CSAs). CSAs are performed annually by management, after IC process reviews are completed, to ensure ongoing control design and operating effectiveness.

To date 113 primary controls were identified and recorded through the process reviews and we expect some control deficiencies being identified as the process reviews are being performed. To date 16 controls were identified as being deficient and corrective actions for each are in progress. The 2019 control self-assessment is currently in progress and is expected to be completed by Q4 2019.



## Enterprise Risk

The Enterprise Risk Office (ER) continues to facilitate and embed Citizens Enterprise Risk Management Framework within the organization through facilitated risk identification and assessment workshops and the implementation of a risk management administration system.

### Strategic Risk Management

During the 2019 strategic risk assessment with the Executive Leadership Team (ELT), 17 key strategic risks were identified. ER continues to work with the ELT Risk Owners to develop summaries of current and future mitigation activities. (*Refer to Appendix 1 for list of 17 strategic risks*)

In addition, 2-4 of these key strategic risks will be presented at each Audit Committee meeting. For this meeting Jennifer Montero, Chief Financial Officer, will present the Financial Services risks and related management action to the Committee.

### Operational Risk Management

The ER continues to coordinate completion of the operational risk assessments with the roll-out of the Internal Control Framework (ICF). In addition, the ER started implementing independent Operational Risk Management processes. The Q3-Q4 ORM plan includes:

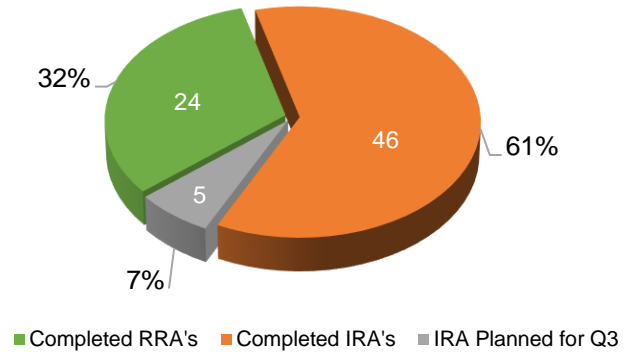


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- The completion of the 5 remaining operational inherent risk assessments (IRA).
- Completion and refresh of operational residual risk assessments (RRA) as ER implements and provides training on Resolver, the SaaS based ERM administration system.

### Operational Risk Assessment Status



### Resources

In April the Assistant Director of ER retired and the ER Manager left the company to pursue other opportunities. The open positions have been filled with current Citizens employees with extensive insurance experience. Deena Harrison, Director of Risk & Controls, is responsible for both the ER and IC teams. Her leadership experience includes risk management, internal control frameworks and the implementation of an enterprise governance, risk and compliance system. Anthony Huebner, ER Manager, has significant experience in the facilitation of operational risk assessments and the administration of risk and control systems.





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### APPENDIX 1: STRATEGIC RISKS

Risk Title	Risk Description	Risk Owner
Claims Abuse	Failure to identify and stay in front of claims abuse schemes that increase litigation costs for Citizens.	Jay Adams
Ability to Adapt to Changing Revenue *	Ability to recalibrate and reprioritize administrative expenses to adjust to premium fluctuations, while maintaining required capabilities.	Jennifer Montero
CAT Response	Failure to have adequate resources to respond to a major catastrophic event.	Jay Adams
Data Security and Privacy	Ability to secure and protect the privacy of the data and computing assets from unauthorized access resulting in the unintentional disclosure of confidential, private, proprietary or sensitive information.	Kelly Booten
Data Quality and Availability	Lack of complete and accurate data available to support management decisions.	Kelly Booten
External Influences	Failure to fully understand, anticipate, plan for and react quickly to external events, including new or changing laws and regulations, that require rapid adjustments and Citizens either isn't ready to make or have a significant financial impact.	Christine Ashburn
Managed Repair Program *	Failure of the Managed Repair Program to be an effective customer alternative and implemented in support of the insurance contract.	Jay Adams
Market Dependence on Reinsurance *	The financial model of the Florida domestic property insurance market has a high dependence on the pricing and capacity available in the reinsurance market.	Jennifer Montero
Rate Differential *	The statutory rate glide path of 10%, combined with both increasing litigation, and approved rate increases for other Florida insurers, is impacting the availability of private market coverage and could lead to re-population of Citizens.	Jennifer Montero

\* Risk added following the 2019 Strategic Risk Assessment



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### APPENDIX 1: STRATEGIC RISKS (continued.....)

Risk Title	Risk Description	Risk Owner
Reinsurance Program	Failure of Citizens reinsurance strategy and associated program to provide adequate risk transfer and the expected protection of Citizens' surplus at an acceptable cost.	Jennifer Montero
Succession Planning	Ability to identify and develop key senior leadership talent, minimizing the loss of institutional knowledge, and negative impact associated with turnover in senior leadership roles.	Violet Bloom
Vendor Management / Oversight	Given Citizens' reliance on vendors, it is critical to maintain adequate monitoring of third-party/vendor relationships, performance and contract compliance on an ongoing and periodic basis.	Kelly Booten
Compliance with Laws & Regulations	Unintentional acts or decisions by the company that are not in accordance with rules, regulations, ethical standards, professional code of conduct and policies and procedures, resulting in non-compliance, penalties, criminal charges, reputational damage or financial loss	Dan Sumner
Ethics, Integrity, Conflicts of Interest	Violation of Citizens' code of ethics, execution of illegal and unauthorized acts, management fraud, employee fraud or situations where multiple, conflicting interests could possibly corrupt motivation or decision-making. Any or all of which may result in non-compliance, penalties, criminal charges, reputational damage or financial loss.	Dan Sumner
Product Offerings	Failure to have insurance products that balance the needs of the market, consumers, and Citizens.	Steve Bitar
Systems Implementations	The ability to effectively scope requirements, prioritize, implement and measure the return on technology solutions, both internally developed and external solutions.	Kelly Booten
Underwriting Data Integrity	Inaccurate assessment or classification of the risk caused by either out of date or inaccurate underwriting information, or not reviewing renewal risks periodically resulting in incorrect underwriting decisions or unintended consequences on depopulation.	Steve Bitar