



Board of Governors Meeting, September 25, 2019

Dashboard

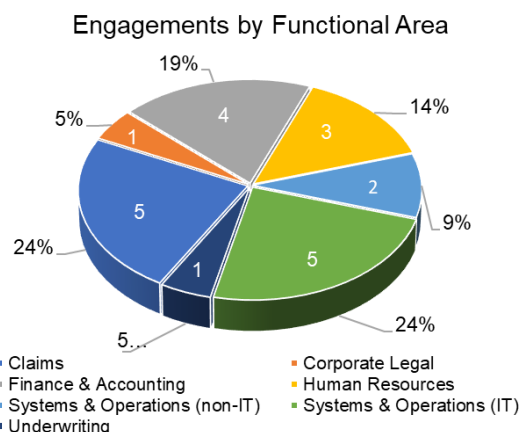
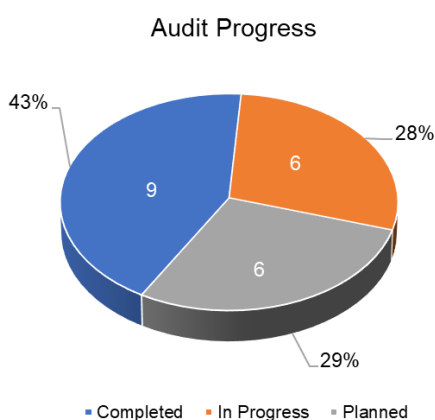
At the meeting, the Chief of Internal Audit presented progress against the 2019 plans, for audit, internal controls and enterprise risk, and noted good progress.

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.

Internal Audit Plan (April 1, 2019 to March 31, 2020)	
Completed	9
In Progress	6
Planned	6
Total Projects	21



Audit Engagements Completed

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

- AOB Reform Implementation** - Through this engagement we provided advisory services in support of the project through consultative advice related to controls of impacted business areas and project management. We observed that with the AOB reform implementation program management established critical success factors necessary to achieve an effective implementation, determined that processes are performing as expected, and KPIs are identified that forecast how the AOB Project Team expects to be performing in the future. In accordance with the provisions of HB 7065, diligent efforts to develop new processes necessary to comply with the AOB reforms have been completed by the organization. IA observed that risks were escalated as appropriate to workgroup leaders and the Steering Committee, with workgroup



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and Steering Committee meetings occurring regularly. Citizens' AOB Reform Project Team is currently focused on additional tasks to remain compliant with HB 7065.

- **Information Classification and Handling** – The objective of the audit was to validate that responsibilities are known, and appropriate controls have been applied to confidential information maintained by Citizens to ensure compliance with the Information Classification and Handling Policy. The scope included an assessment of appropriate protection measures applied within IT and business areas, Systems Development Life Cycle (SDLC) controls related to information classification and security testing, asset sanitization and disposal processes, exception processing and employee training. We confirmed that throughout the organization, management is generally well trained and knowledgeable on the requirements of the Information Classification and Handling Policy, have implemented appropriate controls where needed, are aware of policy exceptions in their areas and are working at remediating these. Our work resulted in one observation where documentation was not available to substantiate that appropriate security controls had been implemented.
- **Reinsurance Recoveries** - Following Hurricane Irma, Citizens began to submit and collect reinsurance recoveries based on underlying reinsurance treaties in place at the time of the CAT event. It has been several years since Citizens has experienced a large enough claim event to trigger reinsurance recoveries. As of August 22, 2019, Citizens submitted and received approximately \$227 million of reinsurance recoveries from the FHCF related to PLA/CLA eligible claims, as well as approximately \$82 million related to the Coastal account. The objective of this audit was to evaluate the effectiveness of processes and controls related to reinsurance recoveries. Our work indicated that there are effective processes and controls relating to the monitoring and authorization of recovery payment submissions, Citizens staff FHCF payment access, Claims Best Practices and Quality Assurance procedures related to claim tagging, oversight of third-party brokers, financial stability reviews of traditional reinsurers, and spreadsheet controls.
- **Responsible Vendor Review Scoring Model** - With this engagement we provided consultative advice to assist the Vendor Management Office in developing a scoring schema to more objectively determine the qualification or disqualification of vendors during RVR, based on the categories of financial soundness, integrity, capability, reliability and past performance. Internal Audit collaborated with VMO Management to take steps to develop an objective, consistent, and defensible RVR scoring scheme, and provided input regarding enhancements to the RVR procedure form, leveraging the expertise of Citizens' Corporate Analytics to support the project by providing scoring model leading practices, perform data modeling, and provide statistical insight into a creating a defensible weighted scoring model.
- **Support to OIG on Claims Complaint** – Following a request from Citizens' Office of the Inspector General IA conducted a targeted claims audit to support the OIG's investigation following the complaint. Results of the audit were shared with the OIG and Citizens management in a memorandum and included in a formal report provided by the OIG.

Detailed copies of the reports are included in this presentation.



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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 six audit engagements in progress:

- **Claims Litigation and Legal Billing Audit** (in fieldwork) 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.
- **Financial Services Advisory** (in fieldwork) 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.
- **Payroll Audit** (in fieldwork) 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.
- **Proof of Repairs** (in planning) 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** (in planning) 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** (in reporting) 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.



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Work Planned

The following audit engagements are scheduled to commence during Q4.

- Assignment of Benefits
Q1 2020

On April 24, 2019, the Florida Senate passed HB7065 addressing AOB Reform with the law becoming effective July 1, 2019. The measure bolsters consumer protections by tightening policy language requirements for the execution, validity and effect of assignment of benefits agreements. The law also creates a formula to determine the award of attorney fees in cases between insurers and third parties in assignment of benefits litigation following very strict timelines. AOB was quickly designed and implemented to meet the 7/1/2019 statutory implementation date. IA should review the process to ensure it is operating as intended and in compliance with statute.
- Cloud Readiness
Q1 2020

Migration to cloud services and solutions means reliance upon service providers for proper information security and privacy, legal compliance, disaster recovery and maturity of technology and business viability. With this audit we will assess Citizens cloud migration program to ensure that adequate plans, processes, contract language, and cost models have been developed and appropriate risk mitigation activities are incorporated to minimize or avoid business disruption.
- Employee Background Checks
Q1 2020

The organization performs background checks during the preemployment phase of the hiring process and is looking into expanding to include periodic staff and agent background checks. These background checks are important to ensure Citizens does not employ anyone in violation of Florida Statutes or laws.
- Software Asset Management
Q1 2020

IT software assets are inventoried and tracked to avoid redundant purchases and allow operations personnel to proactively replace outdated software that is nearing the end of its life cycle. Citizens can face licensing fines if adequate controls are not in place to validate installed software against licenses. As part of an operational initiative IA was approached to provide consultative advice through a validation of frameworks, policies and processes associated with the ongoing development work to enhance the software asset management program.
- Remittance Processing
Q1 2020

In late 2018, remittance processing completed the migration of the remittance systems to RT Lawrence. It was noted that there have been some "bumps" post implementation, specifically with training, reporting, and system capabilities. In addition, there was a change in the Assistant Controller position during 2019 who was responsible for project oversight. Due to the changes in systems and senior leadership, there is an increased risk related to remittance process supported by the new system.



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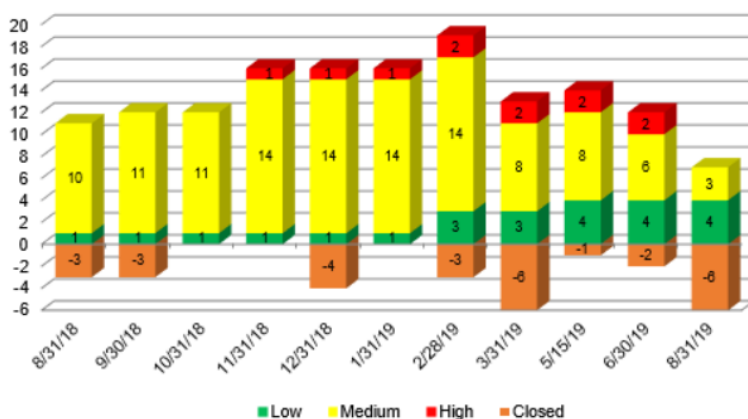
Citizens' IT Security and Risk department is in the process of implementing an enterprise wide strategy to consolidate and centralize user identity and access management processes and technology capabilities. Complexity will continue to increase as new cloud solutions, systems and applications are adopted and integrated into the current environment. These complexities should be understood and appropriate controls for authentication and authorization should be implemented to mitigate risks associated with user access/privileged access, segregation of duties, oversight and monitoring and reporting capabilities. IA will assess project governance and progress during the multi-year implementation of a comprehensive identity and access management solution and corresponding processes and provide advice throughout the project as needed.

- Identity and Access Management
Q1 to Q4 2020

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 seven open observations of which one new observation was added and six observations were closed since the last Committee meeting. There are currently no high rated observations or any past due action plans. The following chart provides additional information on 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.

Open Observations by Risk Rating



Observations by Year Reported		
2018	2019	TOTAL
3	4	7

Observation Source	
IA	6
External Auditor	0
Market Conduct - OIR	0
Auditor General	1
TOTAL	7

Resources

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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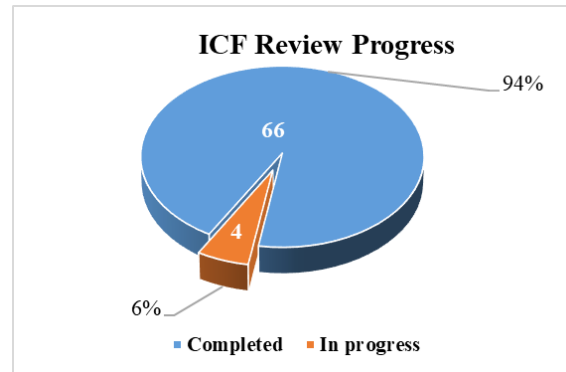
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Internal Controls

The Internal Controls Office (IC) facilitates, enables and monitors the performance of management’s 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. This initial phase will be completed by the end of October this year and the graph below shows the remaining ICF process reviews:

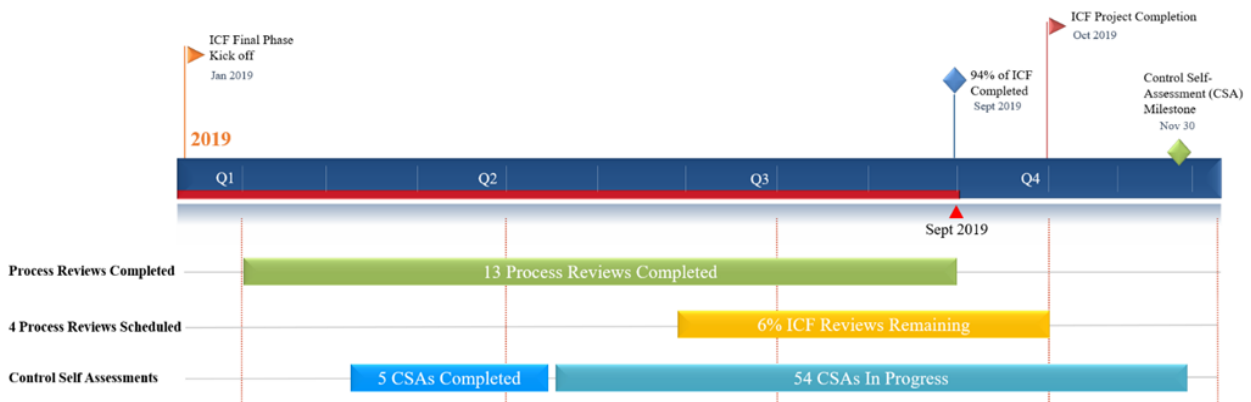
Process Reviews in Progress:

1. Consumer & Policy Services
2. Corporate Analytics
3. Financial Planning & Analysis
4. Public/External Relations & Outreach



The second initiative is the enablement and monitoring of management Control Self-Assessments (CSAs). CSAs are performed annually by management, after the initial IC process reviews are implemented, to ensure ongoing evaluation of design and operating effectiveness of management’s primary controls. The following graph shows the project timeline for the 2019 period, along with the control self-assessments performed by management:

ICF 2019 Timeline



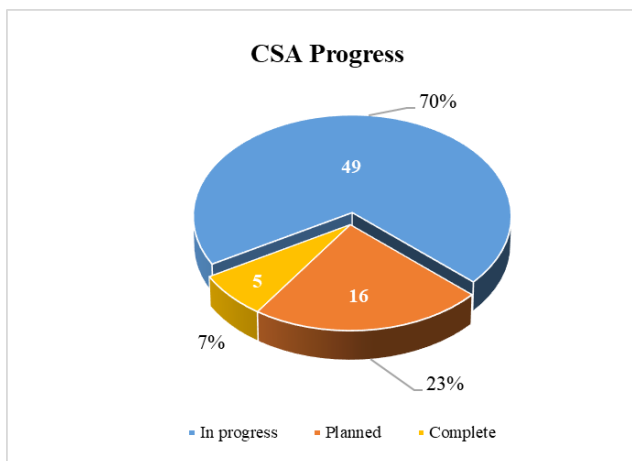
The Internal Controls Office is continuing to coordinate, monitor, and provide guidance to management as they work towards completing their CSAs. For the 2019 year, there are 54 recurring CSAs to be evaluated by management. The 2019 control self-assessments are currently in progress and expected to be completed by management. As of Q3, about 7% of the CSAs have been completed, with 70% on track to be delivered by the end of the year in Q4 2019. The remaining



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23% refers to ICF reviews completed this year and for these CSA's will be included in next year's cycle.



In addition to the two primary initiatives, the Internal Controls Office continues to focus on increasing organizational awareness about the Internal Control Framework, educating and strengthening management's understanding of internal controls across their departments. Through these educational efforts, the IC Office received positive feedback from management and the business areas. The items listed below are some examples of IC's contribution and management's response:

- Citizens' Internal Website: Leader's Corner Article - Take the Lead on Controls. This article increased awareness on how every employee within each department takes the lead on performing control activities on a regular basis.
- The IC team provides support to business areas in re-evaluating control self-assessments as needed or requested by management.
 - Business areas have leveraged the control self-assessment templates and concepts to conduct other types of internal assessments.

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. The ER team is focused on creating and maintaining a collaborative and engaging risk identification and assessment environment across the organization.

Strategic Risk Management

During the 2019 strategic risk assessment with the Executive Leadership Team (ELT), 17 key strategic risks were identified. ER worked with the ELT Risk Owners to develop summaries of current and future mitigation activities. The 2020 strategic risk assessment is planned for 1st quarter.



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Operational Risk Management

The ER continues to facilitate interactive and engaging inherent (IRA) and residual (RRA) operational risk assessments to enable management to self-identify and assess risks that may impact the ability to achieve business objectives and to determine the effectiveness of mitigation plans in place to reduce the risks. The Q4 and Q1 ORM plan includes:

- Facilitation of 5 remaining operational inherent risk assessments
- Refresh of operational risk assessments
- Implementation of Resolver, the SaaS based ERM administration system, designed to provide a holistic view and insight into Citizens' risks and mitigation plans
- Resolver training to Risk Champions to enable management to self-identify, evaluate, record and manage risks

