



Audit Committee Meeting, December 10, 2019

# Dashboard

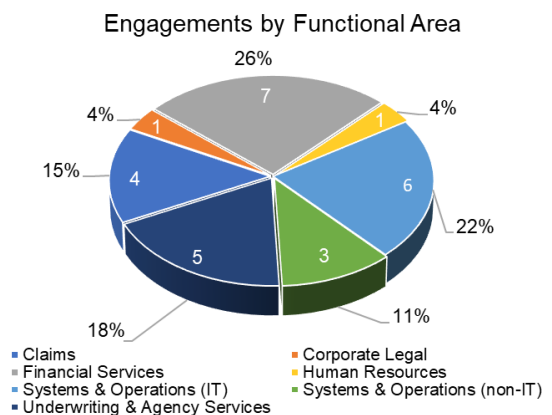
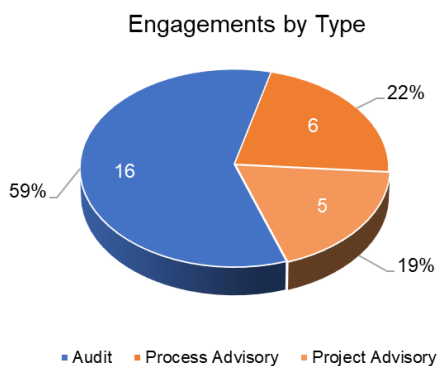
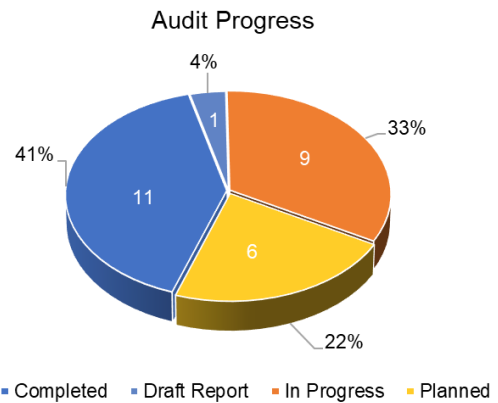
The Office of Internal Audit focuses its attention on areas where it can contribute the most by working with the organization to reduce risk, improve the control infrastructure and increase operational efficiencies. Since the last Audit Committee meeting, we focused on providing audit, risk management and internal control reviews to the corporation in alignment with our 2019 plan.

## 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 (July 1, 2019 to June 30, 2020)	
Completed	11
Draft Report	1
In Progress	9
Planned	6
<b>Total Projects</b>	<b>27</b>



### Audit Engagements Completed

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

- **Bulk Intake Florida Specialty (project advisory)** - With this advisory we provided support to the project through consultative advice related to controls of impacted business areas and



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project management upon request and confirmed the effective and timely escalation and handling of issues. We observed that the Bulk Intake program management approach established critical success factors necessary to achieve a successful outcome, to determine that processes performed as expected, and incorporated key performance indicators that denote Bulk Intake Project Team performance. Diligent efforts to develop new processes necessary to ensure readiness to offer coverage to Florida Specialty customers who cannot find private market coverage have been completed. Citizens' Bulk Intake Project Team is currently focused on additional tasks to ensure successful initiative efforts will continue. Internal Audit will continue to support the project by providing consultative advice regarding controls to the business areas and project management upon request.

- **Financial Services (process advisory)** - We provided Citizens' Financial Services business unit with a comparative gap analysis that benchmarked current travel & employee expense audit practices to those of Florida state agencies, and to that of the private market. This was accomplished in part through discussions with audit representatives from the Department of Financial Services and the State Board of Administration of Florida. We also provided process improvement recommendations to facilitate enhanced data collection and analysis, as well as those aimed at efficiency of review, based on leading practices.
- **Independent Adjuster Day Rate Invoice Review** - We reviewed the spreadsheet templates used for the revised Adjusting Services Day Rate Invoice to ensure the formulas function correctly and the allocation of expenses supports more detailed reporting. We observed that the templates are well constructed and provide accurate allocation of catastrophe event expenses. All spreadsheet formulas were consistent and accurate and all cell formatting, data validation parameters and internal links were adequate. In addition, the spreadsheets were appropriately protected from unauthorized alteration with locked cells and spreadsheet password protection. It was also noted that the templates provide for reasonable expansion as the number of catastrophe events or the number of adjusters deployed increases.
- **Payroll (audit)** - The objective of this audit was to evaluate whether key controls related to the payroll processes are adequate and ensure that authorized payroll transactions are processed in a complete, accurate, and timely manner within applicable laws, regulations and company policies. Results from the audit indicate that Human Resources implemented the Centerpoint Human Capital Management (HCM) system to replace disparate human resources technologies that relied heavily on manual processes and controls. The HCM system allowed HR to automate and integrate most of its business processes to provide greater access to HR and Payroll information and to enhance the user experience. However, the implementation of the Centerpoint HCM system, specifically payroll, has created some unique challenges and it has not achieved all the benefits envisioned by HR management given the level of manual intervention and oversight required to ensure that payroll payments are accurate and timely. Human Resources management has initiated a solicitation to procure a vendor for professional consulting services to address the ongoing issues with Centerpoint. Two vendors have been selected to complete proof of concepts as a part of the solicitation to determine which vendor



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will be selected for the contract. Process improvement opportunities were also noted and shared with management for consideration.

- **System and Information Backup (audit)** - The objective of the audit was to evaluate the effectiveness of processes and procedures associated with system and information backups. The scope included an assessment of business-critical systems and information backups, access controls, backup job monitoring, offsite tape library controls and backup restore testing. We confirmed that staff responsible for managing the processes are knowledgeable and adequate controls have been implemented for monitoring of the backup jobs and restoration testing from the data storage system. Our testing indicated that improvements are needed to strengthen manual processes associated with the implementation of new and changed backup files, testing of physical tape restorations and accountability assigned for work performed using system accounts. IT has corrected the system accounts and has developed plans to remediate the other risks.
- **Targeted AP Analytics (audit)** - In response to IA's Centerpoint Financial and Procurement User Access report issued earlier this year, IA created 15 computer-aided audit techniques to assess occupational fraud risks related to the vendor management, purchasing and accounts payable processes and to identify potential misconduct related to payment transactions. IA evaluated all accounts payable disbursement transactions from January 2018 to March 31, 2019. IA found no instances of fraud, waste, or abuse.

Detailed copies of the reports are included in this presentation.

### **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 ten audit engagements in progress:

- **Agency Management System (in planning)** The current agency management system, that supports agent distribution relationship management, is being replaced with the Salesforce Service Cloud Platform. This platform will support the tracking and monitoring of agent licenses, commission, performance, investigations, complaints, and key performance indicators. We will provide control advice and project support during the system configuration and implementation.
- **Assignment of Benefits (in planning)** AOB legislation passed during 2019, resulting in the quick design and implementation of processes and procedures to meet the 7/1/2019 statutory implementation date. OIA will validate that the processes developed are operating as intended and in compliance with the statute.



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- Automated Underwriting (in planning)

Underwriting management is working on a project to redesign the current automated underwriting process, as staff currently touch 80% of automated underwriting files. The purpose of the project is to gain efficiency in the underwriting effort for evaluating personal lines new business applications. IA will provide control advice and project support to the automated underwriting redesign.
- Claims Litigation and Legal Billing Audit (draft report)

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.
- Cloud Readiness (in planning)

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.
- Identity and Access Management (in planning)

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.
- 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 are required to submit proof of repairs 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.
- Rate Override Technology Development (in planning)

Technology changes are under development to allow rate override functionality for specific underwriting circumstances in PolicyCenter. The ability to adjust rates, for specific parameters, is a widely accepted industry practice. Currently, Citizens management performs rate override adjustments



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- manually. IA will provide control advice and project support during the application development and pilot.
- In late 2018, remittance processing completed the migration of the remittance systems to the RT Lawrence software. It was noted that there have been some post implementation challenges, 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 processing supported by the new system.
- 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 may 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 (in planning)

- Software Asset Management (in planning)

### Work Planned

The following audit engagements are scheduled to commence during Q1:

- Centerpoint Configuration Centerpoint (Oracle Fusion) replaced independent applications previously used by Human Resources, Finance and Procurement. Oracle module configuration is complex and proper configuration of the modules is necessary to adequately restrict and/or eliminate the ability to override controls in place to prevent inappropriate transactions. Improper application configuration may lead to unauthorized transactions that may impair business operations or allow nefarious transactions. IA will confirm that Centerpoint modules are properly configured to ensure that security is adequate and prevents the override of key controls, appropriate logging is turned on and business operational process needs are met with configurations that are installed
- E-disbursements Citizens is seeking a solution which leverages debit card and Automated Clearing House (ACH) technology for two types of claims payments: Additional Living Expense payments to policyholders via vendor issued debit card and/or ACH options; and ACH payments to policyholders and/or other parties for claim related disbursements; including multi-party payment options and multiple external approvals (both in the event of a catastrophe and in usual operations). IA will provide consultative advice during design and implementation to assess the security of debit cards and ACH transactions.



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- Policyholder Claims Experience

There are many facets to the different types of claims losses which drive claims to be handled through various business models and rely on Citizens staff and independent adjusters to meet policyholder claim processing needs. IA will evaluate the adequacy and effectiveness of controls related to Claims Customer Experience.
- Third Party Access

Third party security access, visibility and monitoring controls are key to safeguarding the network and data from nefarious/malicious external users. Absent appropriate control of external connections and user activities, the number of IT incidents and corresponding business impact may rise. IA will evaluate risks associated with third party access to the Citizens network and validate that third-party policies, inventories, user account management, connections and monitoring are appropriate for the organization in mitigating those risks.
- Third Party Risk Management

The VMO has established guidelines and tools for contract managers to use to manage vendor relationships. Each third-party relationship brings with it several risks that need to be identified and assessed. These risks are often multi-dimensional as they extend across suppliers, vendors, contractors, service providers, and other parties, and can have an impact on different levels of the organization. IA will evaluate the adequacy and effectiveness of controls related to VMO's third-party risk management process.
- Wire Transfer/ACH

Citizens is migrating to a new vendor to provide all Company banking needs, including wire transfers and ACH services. Since Citizens periodically has the need to wire large sums of money, the Company must ensure the processes, controls, and authorities to do so are set up correctly and securely. The most significant risk of transferring to the new bank is to ensure the wire process is set up correctly with the appropriate access, segregation of duty controls and monitoring. IA will evaluate the adequacy and effectiveness of controls related to the wire transfer and ACH processes.

### [Resources](#)

IA has a vacancy for an Internal Auditor Senior. We plan to recruit for this position early in 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. The following chart provides additional information on the number of current open observations over previous thirteen months including the observation ratings, source of observation and year reported.



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Observations by Year Reported		
2018	2019	TOTAL
4	3	7

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

## Enterprise Risk

ER continues to facilitate and embed Citizens' ERM 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 1<sup>st</sup> quarter.

### 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.

In Q3 ER completed the facilitation of the 5 operational inherent and residual risk assessments for the following areas:

- Consumer & Policy Services
- Financial Planning & Analysis
- Human Resources Strategic Services
- Corporate Analytics
- Public/External Relations & Outreach

The ER team is currently focused on working with the business areas to enhance risk assessment skills, improve alignment of risks and mitigating activities to business and process objectives, enhance the use of the Resolver application as the centralized risk repository tool and strengthen ER's relationship with the business areas. To accomplish this goal ER designed a new educational risk program. In October ER completed training for seven functional areas and will continue the initiative into the first quarter of 2020.

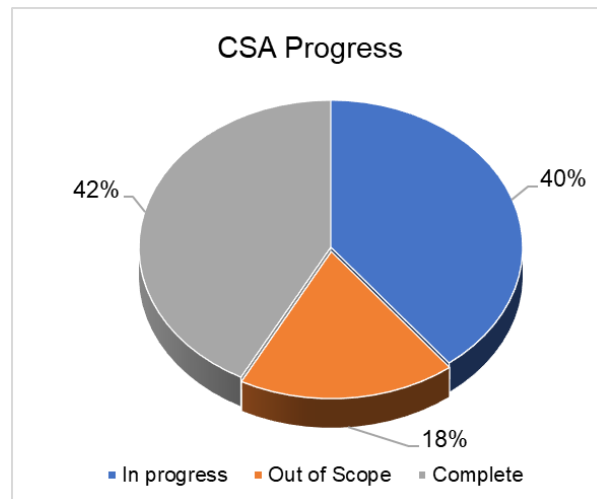


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### **Internal Control**

IC is responsible for maintaining and monitoring the Citizens Internal Control Framework (ICF). The ICF program leverages the COSO 2013 Integrated Internal Control Framework to maintain and enhance Citizens' internal control environment. The initial roll-out of the ICF was performed for 71 business processes across Citizens, in which IC facilitated workshops to document the business processes and identify primary controls. As of October 2019, the ICF initiative was successfully implemented and completed for the 71 business processes.

ICF enables management to perform self-assessments on primary controls of their business processes. Control Self-Assessments (CSA) are performed annually by management to ensure ongoing evaluation of design and operating effectiveness of identified and documented primary controls. The IC coordinates, monitors, and provides guidance to management as they work towards completing their CSAs. The 2019 control self-assessments are currently in progress and expected to be completed by November 29, 2019. The following graph shows the progress of CSAs performed by management:



In addition to business unit CSA's, the IC performed four (4) quality reviews to assess and enhance selected control self-assessments. The IC evaluated new inherent risks, documented updated process narratives/flowcharts, enhanced current primary control design, and recommended new primary controls to the business units. Quality reviews were performed for the following business processes:

- Claims Legal Services
- Claims Special Investigations Unit (SIU)
- Human Resources - Compensation
- Human Resources - Talent Acquisition

### **Resources**

IC has a vacancy for an Internal Controls Senior. We plan to recruit for this position early in 2020.





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### **2020 OIA Strategy & Plan**

The OIA presents, for review and approval, its 2020 Strategy and Plan (Plan). The Plan was developed using a risk-based approach to understand and assess Citizens' operations and associated risks. Additional consideration was given for future work to be conducted by the Auditor General, Market Conduct Examinations, and planned strategic initiatives.

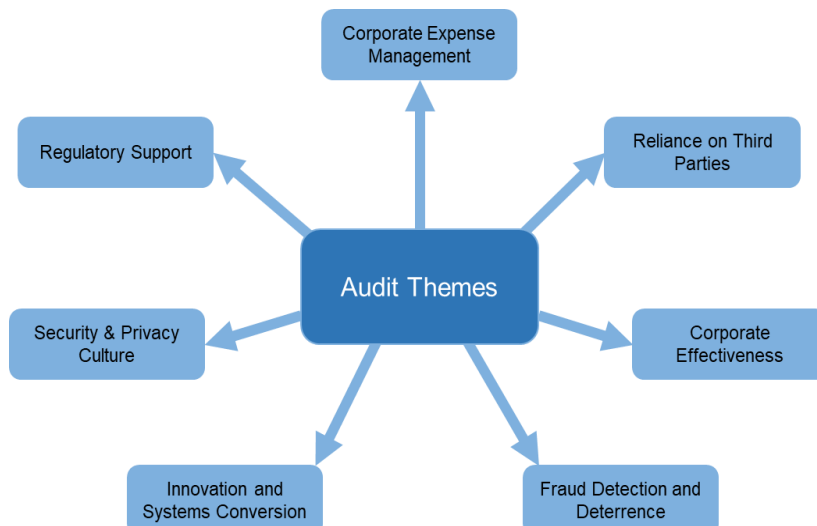
The objective of this plan is to provide the most timely and comprehensive scope of audit, risk and control coverage by using resources available to the OIA. Since it is impractical to provide risk and control coverage to the entire corporation on an annual basis, we collaborated with business unit leadership to determine the best focus areas for Internal Audit, Enterprise Risk and Internal Control given current circumstances.

#### **Internal Audit**

The internal audit plan was developed to continuously evolve as the organization changes to support our dynamic risk environment, focusing on current and emerging reputational, compliance, operational, information technology and financial risks. To achieve the greatest impact, IA "rebalances" internal audit activities in a rolling audit plan to ensure adequate focus is given to Citizens' strategic issues and critical processes.

Following the completion of a detailed analysis of the Citizens' strategic goals and objectives, considering management's concerns and Internal Audit's risk assessment, IA developed specific audit themes in identifying planned audit activities and audit coverage. Themes-based audit planning is a value-add approach that helps the IA to determine, consolidate, and provide high-level insights into the following periods' audit focus areas.

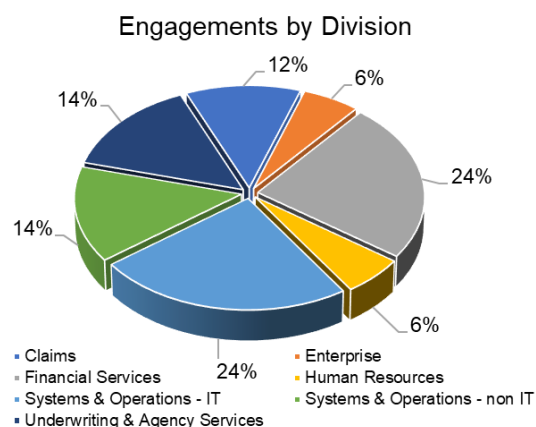
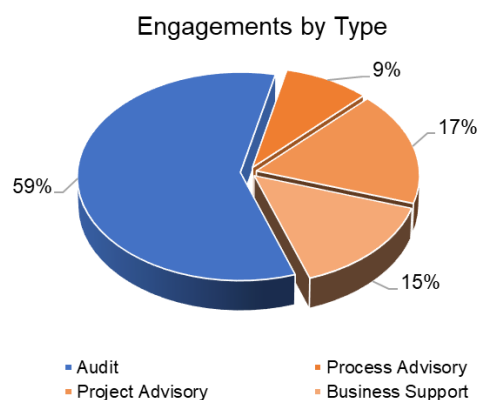
IA documented seven (7) specific audit themes which highlight planned audit focus and coverage in 2020. For every one of the themes we provide a description with a listing of potential audit engagements identified and agreed with business unit management.





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In identifying the types of audit engagements for 2020 Internal Audit invited management requests for consultative support and ensures that there is a healthy balance between assurance (audit) engagements and consulting (advisory) engagements. For 2020 the plan includes 59% audit and 41% advisory type engagements. We also focus on every division within the organization and ensures that there is a healthy spread throughout Citizens as a whole.



### Enterprise Risk & Internal Control

By closely aligning the ER & IC processes we will provide a comprehensive approach to embed the Enterprise Risk and Internal Control frameworks throughout Citizens. As both ER and IC collaborate and assist the organization to achieve its business and strategic objectives through the ERM and IC frameworks, the team will coordinate key risk and control touch points and co-facilitate some business area meetings to ensure a cohesive roll-out of the frameworks is executed. This alignment will enhance operational effectiveness by strengthening controls in the mitigation of risks.

- **Inherent Risk** refers to the natural level of risk that exists in a process in the absence of any action management might take to alter the risk's impact or probability. Identified through an inherent risk assessment.
- **Primary Controls** are controls that have a significant impact on the ability to achieve key business objectives. Primary key controls are identified through both IC and management process reviews.
- **Other Mitigating & Compensating Controls** refers to activities in place to reduce risk. Identified through IC and management process reviews as well as ER risk assessments.
- **Residual Risk** is the risk remaining after management has taken actions to alter the risk's impact or probability by establishing primary key controls and/or other mitigating and compensating controls. Determined by management in a residual risk assessment facilitated by ER.





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### 2020 ER Planned Deliverables

Risk management assessments are conducted from three different perspectives: top-down (strategic risk); bottom-up (operational risk); and project risk.

- *Strategic Risk* - In 2019 the ELT, in a facilitated risk workshop, documented and prioritized 17 key strategic risks. During 2020, ER will continue to work with the assigned Risk Owners to further develop risk mitigation activities and where appropriate develop key risk indicators (KRIs) that can be used to monitor the efficiency and effectiveness of mitigation efforts. In addition, a refresh workshop will be held during the first quarter of 2020.
- *Operational Risk* - During 2020, ER will continue to introduce business unit management and their delegates, to Citizens' operational risk management methodology with the primary objective to enhance Citizens' risk culture within operational management, business units and functional areas. Our operational risk management approach is intended to foster a culture where the organization embraces incorporating risk management decisions into their daily decision making within and across functional areas.
- *Project Risk* - Project risk management has been in place within the project life cycle for many years at Citizens. During 2019, ER and the Project Portfolio Management and Standards team collaborated to begin to align the project risk management process to Citizens' Enterprise Risk Management Framework and related methodology where possible. During 2020, ER will continue to assist project management in redefining and enhancing the project risk assessment and recording process.

### IC Planned Deliverables

- *Maintain Consistent & Sustainable Program* - As of year-end 2019, IC and management identified 128 primary controls across the 71 business processes. The primary controls consist of 39 detective controls, 68 preventative controls, 14 IT general controls, and 7 IT application controls. During 2020, IC will continue to maintain the ICF program and assist management with the evaluation and enhancement of their current processes, procedures, and controls. Through our monitoring process, we will continue to improve the internal control maturity level of the organization.
- *Evaluate New Business Processes* - IC continues to assess and evaluate the current ICF business process universe. As the internal control maturity level evolves, IC will focus on identifying additional business processes that may need to be incorporated within the scope of the ICF program. Based on our evaluation, we identified additional business processes in four (4) divisions to include in ICF: Human Resources; Legal Services; Underwriting & Agency Services; and Financial Services. IC will collaborate with ER to identify inherent risks and will work with the respective business units to identify primary controls and other mitigating activities.
- *Evaluate & Enhance Control Self-Assessments* - IC works toward continuous improvement, assesses the effectiveness of Citizens' system of internal controls, and identifies opportunities to enhance Citizens' internal control environment. Our efforts will add value to the business and improve control design and operating effectiveness. During 2020, IC will review and enhance selected control self-assessments within five (5) of the divisions. The enhancements will include



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evaluating new inherent risks, documenting updated process narratives/flowcharts, enhancing current primary control design, and recommending new primary controls.

- *Develop & Report Internal Control Metrics* - As we leverage the leading industry standards for the Internal Control Framework (ICF) as a benchmark, IC will develop ICF scorecards to provide awareness of controls throughout Citizens and for each division.

## 2020 OIA Budget

The 2020 budget for Citizens' OIA presented is \$3.08 million as compared to \$2.88 million budgeted for 2019. As we continue to develop our staff and hire more business qualified individuals we improve upon the type and quality of audits we complete, which has a direct impact upon cost:

OIA Budget Analysis					
2020 Summary Budget Analysis	2019 Budget	2019 Projection	2020 Budget	Variance \$	Variance %
Salaries & Benefits	2,410,738	2,155,184	2,516,322	105,584	4%
Employee Training	41,600	58,278	35,600	(6,000)	-14%
Operating Expenses	19,258	16,449	17,865	(1,393)	-7%
Legal Fees	40,000	-	-	(40,000)	-100%
Travel	43,357	44,105	43,315	(42)	0%
Professional Service	198,000	272,423	230,000	32,000	16%
Software Maintenance & Licensing	121,146	122,898	233,728	112,582	93%
<b>Total Admin Expenses</b>	<b>2,874,099</b>	<b>2,669,337</b>	<b>3,076,830</b>	<b>202,730</b>	<b>7%</b>

- **Staffing** will remain static for Internal Audit (12) and Enterprise Risk (2) with the addition of one resource to Internal Controls (2). For 2019 IC did not fill the Sr Analyst IT role and was supported in its IT process assessments using a contracted resource and one of the IT Audit staff. We plan to fill this vacancy in 2020.
- **Salaries & benefits** growth indicates filling current IA and IC vacancies during the first half of the year.
- **Training** is based on a dollar allocation per staff member to upkeep professional CPE requirements and develop professionally. During 2019 additional training was necessary following the rollout of an upgrade to the IA TeamMate + Audit and IC TeamMate + Controls modules.
- **Operating expenses** reflect a small variance in operating expenses due to a reduction in professional subscriptions and dues.



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- **Legal Services** is traditionally a placeholder should the department need to use external legal services. We have opted not to budget this amount for 2020 and will bring any unforeseen legal cost to the Audit Committee for approval prior to expenditure.
- **Professional Services & Contingent staffing** reflects an amount towards further development of the OIA's data analysis capability. We will work closely with Systems and Operations data analytics initiative and plan to support and leverage systems and technology they develop or procure.
- **Software Maintenance and Licensing** reflects a substantial growth for 2020. The TeamMate application which is also the Internal Audit and Internal Control administration platform is reaching its 5<sup>th</sup> contract year. Although we have two (2) more two-year renewal options for this contract, we opted to consider replacing the TeamMate as well as the Resolver (ERM) platforms with one single GRC application that will bring synergy, reduction in duplication, better reporting and a simpler user interface.