

THE OFFICE OF THE INTERNAL AUDITOR STATUS UPDATE

MARCH 2016

The Office of Internal Audit focuses its attention on areas where it can contribute the most by working with the organization to reduce risk and increase operational efficiencies. Since the last Audit Committee meeting, we continued to finalize audit work in progress on the 2015 audit plan and commenced delivery results for work scheduled this year.

2015 Annual Report

Florida statutes require the Chief of Internal Audit to submit an annual report on or before February 15, summarizing the activities of the OIA during the preceding fiscal year. Per statute this report should include, but not be limited to, the following:

- An evaluation of the effectiveness of Citizens' internal controls
- Recommendations for corrective action, if necessary
- Summaries of the audits, reviews and investigations conducted by the office

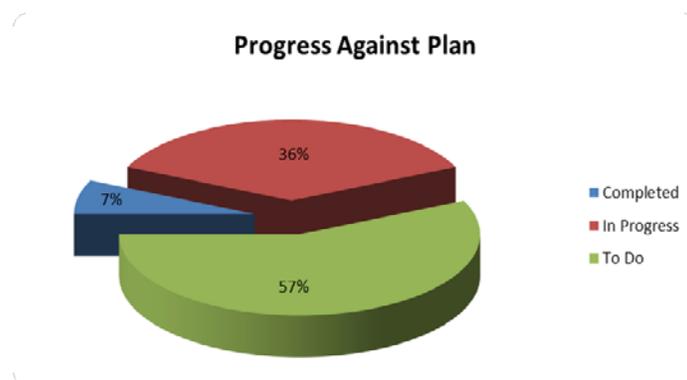
We delivered this report to Citizens' Board of Governors, the Chief Executive Officer/President, the members of the Financial Services Commission, the President of the Senate and the Speaker of the House of Representatives to comply with Florida statutes and to provide information on how the OIA accomplishes its mission. A copy of the report is included later in the Audit Committee materials.

2016 Audit Plan Execution

The OIA follows a risk-based approach in developing and monitoring progress for delivery of the audit plan. As we reassess our understanding of enterprise risks managed within the organization and consider operational challenges, we continually reexamine our plan, thereby confirming that it continues to provide the expected assurance and that audit resources remain appropriately focused. For this period, our assessment confirmed the work scheduled and there was no need to adjust the plan.

Progress against Plan

The following graph represents progress to date on the 2016 audit plan. We have 44 engagements scheduled for the year, of which three engagements have been completed while 16 other engagements are in progress.



Work In Progress

OIA has 11 audit engagements in progress and is actively participating or monitoring five development projects:

Audit Engagements

- Sinkhole Managed Repair Program
- Claims Vendor Assignments
- Claims Settlement Process
- Commissions
- Benefit Plan Reconciliation (consulting)
- Underwriting (consulting)
- Network Architecture and Design
- Cloud Program: Software as a Service (SaaS)
- Payroll (consulting)
- Dynamic Forecasting (consulting)
- Claims Quality Assurance (consulting)

Project Monitoring:

- ERP Project
- Retirement Benefits Transition
- Disaster Recovery & Security Privacy Projects
- Building Consolidation
- Citizens Insurance Suite

Work Completed

We completed five audit engagements and presented an interim memorandum since the last Audit Committee meeting:

- Underwriting/CAS Vendor Management (MacNeill & Norvitex)
- Treasury
- SDLC Compliance
- Citizens Authentication Gateway
- AP Vendor Spend
- Sinkhole Managed Repair Program (Memo)

Summary of Audit Results

The following represents a brief summary of the audit work completed and presented to management. Detailed copies of the reports and memorandums have been included in this presentation for your consideration.

- **Underwriting/CAS Vendor Management - MacNeill & Norvitex (Satisfactory)** - The objective of this audit was to assess processes in place to manage and monitor the efficiency and effectiveness of two vendors (MacNeill & Norvitex). With these vendor agreements, Citizens outsources processing of specific business transactions for Citizens Underwriting and Call Center operations. In our initial walkthrough assessment, we determined that the transactions processed by Norvitex are not complex and are easily monitored and focused our audit work on invoice billing and reconciliation. A more comprehensive audit was conducted on the relationship management of the MacNeill vendor with a focus on credentialing, training, vendor performance monitoring, call center operations, business continuity/disaster recovery, quality assurance, system access and invoice billing reconciliation. OIA recommended vendor underwriting quality assurance reviews be performed by an independent Citizens quality assurance function. In addition, Citizens management should perform periodic assessments of the integrity of the vendor call center performance data reported on the vendor's monthly Agent Summary Report.

- **Treasury (Satisfactory)** - The objective of this audit was to assess processes in place to manage the effectiveness of the Treasury Unit's cash management and forecasting functions and verify that statutory and regulatory obligations are appropriately achieved.

OIA made recommendations for enhancements to the manual cash forecasting process, end user computing controls and the SSAE 16 review process. Management has been pro-active in developing appropriate remediation strategies. The Treasury Unit is performing their stated responsibilities; however, we are of the opinion that there are opportunities to expand the Treasury Unit's capabilities and provide additional value to the organization through enhanced communication with revenue and expense related business areas and automate the process through an integrated Treasury Management system.

- **SDLC Compliance (Needs Improvement)** - The objective of this audit was to assess the adequacy of the Systems Development Life Cycle (SDLC) governance structure and procedures and validate that the process is well controlled and has been implemented consistently and effectively. Areas in scope included general conformance of processes with industry standards, application and compliance of the SDLC process to qualifying projects and the availability of training materials. We noted that Management has significant knowledge of SDLC methods and is committed to developing a strong process. Based upon our work, we found that the consistent application and implementation of the process to relevant projects require improvement. There is a need to strengthen selected documentation and ensure the process is applied to projects that meet criteria and is consistently followed.
- **Citizens Authentication Gateway (Satisfactory)** - We evaluated the design, implementation and operation of CAG in providing authentication for the Insurance Suite modules, ContactManager, Clearinghouse and other applications that are in process. Areas in scope included integration with source systems of record for user management; implementation and adherence to Citizens information security policies, procedures and guidelines; and validation of controls over user provisioning, modification and de-provisioning. We noted that in general, the design, implementation and operation of CAG is working well and serving the needs of the company. We further noted an opportunity to strengthen the controls associated with a shared administrative account and certain administrative account privileges.
- **AP Vendor Spend (Satisfactory)** - The audit's objective was to evaluate the effectiveness and efficiency of anti-fraud controls related to vendor spend at the cost center level. Our work did note a need to develop invoice coding guidelines to assist the VMO in tracking vendor spend at the enterprise level as well as the need to develop quantitative measures to monitor and report contract performance spend. Implementation of the two recommendations will assist the VMO in meeting its' objectives related to oversight of vendor and contract spend.
- **Sinkhole Managed Repair Program (Memorandum)** - The objective of the audit is to evaluate the SMRP program, including the Geotechnical Engineers that monitor the projects. OIA engaged Rogers, Gunther, Vaughn Insurance, Inc. as consultants to assist in reviewing the insurance coverage requirements for both the SMRP contractors and the Geotechnical Engineers. This interim report is the result of their recommendations

regarding engineers' liability coverage. A copy of their recommendations was provided to management.

Update on Citizens Internal Control Framework

The Citizens Internal Controls Framework initiative is moving steadily on plan with the completion of 18 process and control reviews to date. This represents 31% of the 59 process reviews planned throughout the 3-year implementation. Each review involves fully understanding, documenting, and testing identified key controls in line with COSO 2013, the industry standard for internal control frameworks. To date 50 key controls have been reviewed and formally documented.

Annual Charter Update and Review

- **Citizens Audit Committee Charter**

The primary function of the Citizens Property Insurance Corporation (Citizens) Audit Committee (Committee) is to assist the Board of Governors (Board) in fulfilling its oversight responsibilities for the financial reporting process, system of internal controls and risk management, Citizens' compliance with legal and regulatory requirements, the qualifications, independence, and performance of the external auditors and internal audit function.

The Audit Committee Charter is the formal written document that defines the authority and responsibility of the Committee as delegated by the Board. The Audit Committee Charter was originally approved during the March 13, 2008 Board of Governors meeting with subsequent approvals annually thereafter. This year's review of the Charter did not reveal any specific need for revision. If there are no changes from the Committee, I recommended that the Committee approve the charter in its current form.

- **Citizens OIA Charter**

The Office of the Internal Auditor departmental Charter is the formal written document that defines the OIA purpose, authority and responsibility. The charter establishes the OIA position within the organization, authorizes access to records, personnel and physical property relevant to the performance of engagements, and further defines the scope of the OIA activities. The Audit Committee last reviewed the charter in March 2015.

This year's review of the Charter did not reveal any specific need for revision. If there are no changes from the Committee, I recommended that the Committee approve the charter in its current form.

Staffing, Development and Training

Michael Walton has joined OIA as an Audit Manager and will take charge of the Citizens Internal Control Framework initiative and together with the Finance Control Support Team complete the rollout of this framework. Michael has nearly 10 years' experience in audit and consulting, with a strong knowledge of SOX implementation and compliance auditing, internal auditing standards and the updated COSO framework. Most recently, Michael was the Internal Sr. Financial Analyst – Internal Controls with Citizens Finance, being responsible for most of the Internal Control

Framework (ICF) project documentation. Michael is a Certified Public Accountant licensed in the state of Florida (CPA) and a Certified Fraud Examiner (CFE).

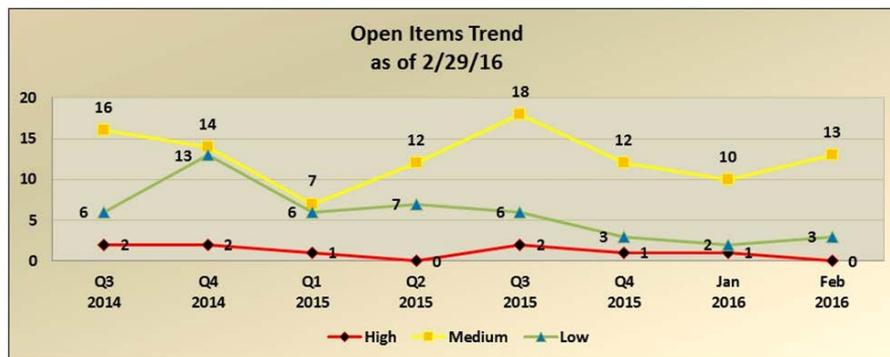
The department has one vacancy, with the departure of the Audit director - Forensics and we are evaluating the position given current industry best practice. OIA is dedicated to the professional development of audit staff to ensure continuous growth of knowledge, skills and other competencies throughout the year. In support of staff development and growth we developed a very comprehensive Auditor Competency Model, which will not only identify skill gaps but will also map out a career path for the audit staff members.

OIA Administration

OIA is continuously refining its audit processes and procedures (standards) in order to ensure that its' work product aligns to acceptable audit practice and it remains a credible and sustainable internal audit function for Citizens. These standards are used to deliver audit engagements efficiently, effectively and in accordance with professional standards. Our engagement standards align with The Institute of Internal Auditors (The IIA's) International Professional Practices Framework (IPPF).

Control Deficiency Resolution

As of February 2016, there are 16 remaining open items. There are no issues overdue; overall open items receive adequate business focus, and implementation of agreed corrective action is managed well.



Audit Dashboard

The OIA February 2016 audit dashboard reporting statistics are included in the Audit Committee materials for review. We are currently refining our reporting statistics, following the recent rollout of the SaaS supported TeamMate module, and will update the dashboard as the data becomes available.

Recommendations

The Chief of Internal Audit recommends that the Audit Committee approve both the Audit Committee and the Office of the Internal Auditor Charters.