



***Office of the  
Internal Auditor***

**Annual Report 2015**

**CITIZENS PROPERTY INSURANCE CORPORATION**  
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February 11, 2015

To: **Mr. Chris Gardner**, Citizens Chairman of the Board of Governors  
**Mr. Juan Cocuy**, Citizens Audit Committee Chairman  
**Mr. Jim Henderson**, Citizens Audit Committee Member  
**Ms. Bette Brown**, Citizens Audit Committee Member  
**Mr. Barry Gilway**, President/CEO and Executive Director

CC: **The Honorable Rick Scott**, Governor  
**The Honorable Jeff Atwater**, Chief Financial Officer  
**The Honorable Pamela Bondi**, Attorney General  
**The Honorable Adam Putnam**, Commissioner of Agriculture  
**The Honorable Andy Gardiner**, President of the Senate  
**The Honorable Steve Crisafulli**, Speaker of the House of Representatives

Members of Citizens Property Insurance Corporation Board of Governors

Dear Messrs. Gardner, Cocuy, Henderson, Brown and Gilway

I am pleased to submit our 2015 Office of the Internal Auditor (OIA) Annual Report as required by Section 627.351(6)(i).2., Florida Statutes. The report summarizes the audits, reviews and investigations conducted by the OIA during 2015. The report also describes the information related to the OIA department and the accomplishments made in 2015 toward the continued development of a credible and sustainable internal audit department for Citizens Property Insurance Corporation (Citizens).

I welcome your comments and suggestions regarding this report, and appreciate support provided by the Board of Governors, the Audit Committee and Senior Management. The OIA looks forward to serving the Board of Governors, the State of Florida and contributing to Citizens efforts to achieve the corporation's goals and objectives. Thank you for your continued support as we move into 2016.

Respectively submitted,

A handwritten signature in blue ink, appearing to read "Joe Martins", is written over a light blue horizontal line.

Joe Martins, CIA, CRMA, CFE  
Chief of Internal Audit  
Office of the Internal Auditor

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Chris Gardner, Chairman, Orange County • Gary Aubuchon, Lee County  
Bette Brown, Monroe County • Juan Cocuy, Palm Beach County • Don Glisson, Jr., St. Johns County  
Jim Henderson, Seminole County • James Holton, Pinellas County • Freddie Schinz, Okaloosa County  
John Wortman, St. Johns County • Barry Gilway, President/CEO and Executive Director

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## **Executive Summary**

The Office of the Internal Auditor (OIA) is pleased to present the 2015 Annual Report for Citizens Property Insurance Corporation (Citizens).

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 the report should include, but not be limited to; an evaluation of the effectiveness of Citizens' internal controls; recommendations for corrective action, if necessary; and summaries of the audits, reviews and investigations conducted by the office.

This report is presented to Citizens' Board of Governors, the Executive Director, 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.

### **Annual Report**

The OIA has been committed to developing a credible, sustainable and value added internal audit program to meet the statutory requirements as defined in the Citizens statute and the expectations of the Board of Governors, Audit Committee and Citizens management. In order to ensure that the OIA remains appropriately focused we develop an annual audit plan (approved by the Board of Governors) that adequately addresses risks independently assessed by OIA and confirmed with Citizens management.

The results of our audit work completed during the year indicated that Citizens has a well-established and functioning control environment. In comparison to previous years the rating impacts (high, medium, or low) and root causes of issues noted, remain relatively consistent year over year. Accordingly, results of our work do not give rise to concerns regarding audit findings and impact on the overall control environment.

In an effort to have greater oversight and insight into the efficiency and effectiveness of key controls within the organization, Citizens commenced with the rollout of an Internal Control Framework across all disciplines. This project is led by the Office of Internal Audit and follows a traditional control assessment lifecycle similar to one widely used by Sarbanes–Oxley (SOX) and Model Audit Rule (MAR) compliant entities. The Citizens Internal Control Framework (CICF) project is designed to provide Citizens stakeholders with assurances that management is conducting business within a sound and proven internal control environment. Not only is this project designed to provide ongoing assurance coverage throughout many layers of the organization but also it is done in a way that adapts to changes that occur over time.

We welcome your comments and suggestions regarding the 2015 Annual Report. The OIA looks forward to serving and supporting the Board of Governors, the State of Florida and contributing to Citizens' efforts to achieve its goals and objectives. Thank you for your continued support as we move into 2016.



## Introduction

### Background

Citizens Property Insurance Corporation (Citizens) operates according to statutory requirements created by the Florida Legislature and a Plan of Operation approved by the Florida Financial Services Commission. The corporation is subject to operational reviews and examinations by the Florida Office of Insurance Regulation and the Florida Auditor General, and its financial statements are a major component of the Florida Comprehensive Annual Financial Report. Three types of insurance coverage accounts were established when Citizens was created: personal lines (PLA), commercial lines (CLA) and coastal (Coastal). Citizens has offices in Tallahassee, Jacksonville and Tampa. Tallahassee is the corporate headquarters for the organization. The Jacksonville and Tampa offices provide policy services and underwriting, claims and customer support as well as other administrative and organizational support functions.

Citizens' management continues to focus on process improvement and strengthening the control infrastructure, which supports changes to build the needed infrastructure and operational processes to support the corporation. There are a number of ongoing projects and operational changes that are at various stages of completion to ensure Citizens has the ability to continue to support its policyholders and is catastrophe ready. Among these are continued enhancement of the Citizens Insurance Suite (CIS), the Citizens Clearinghouse and the Citizens Internal Control Framework (CICF).

During the year, the organization continued with its depopulation program. Recent takeout efforts, legislative initiatives and an improving private market have combined to push Citizens' exposure to the lowest level substantially reducing assessment risk on all Florida policyholders.

### OIA Duties and Responsibilities

The purpose, authority and responsibility of the OIA are formally defined in the internal audit charter. This charter is consistent with the Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing as defined by the Institute of Internal Auditors. The charter further reflects authority and responsibilities assigned to the OIA under Citizens' enabling statute, Section 627.351(6).

In accordance with Section 627.351(6)(i). Florida Statutes, it is the duty and responsibility of the Chief of Internal Audit to:

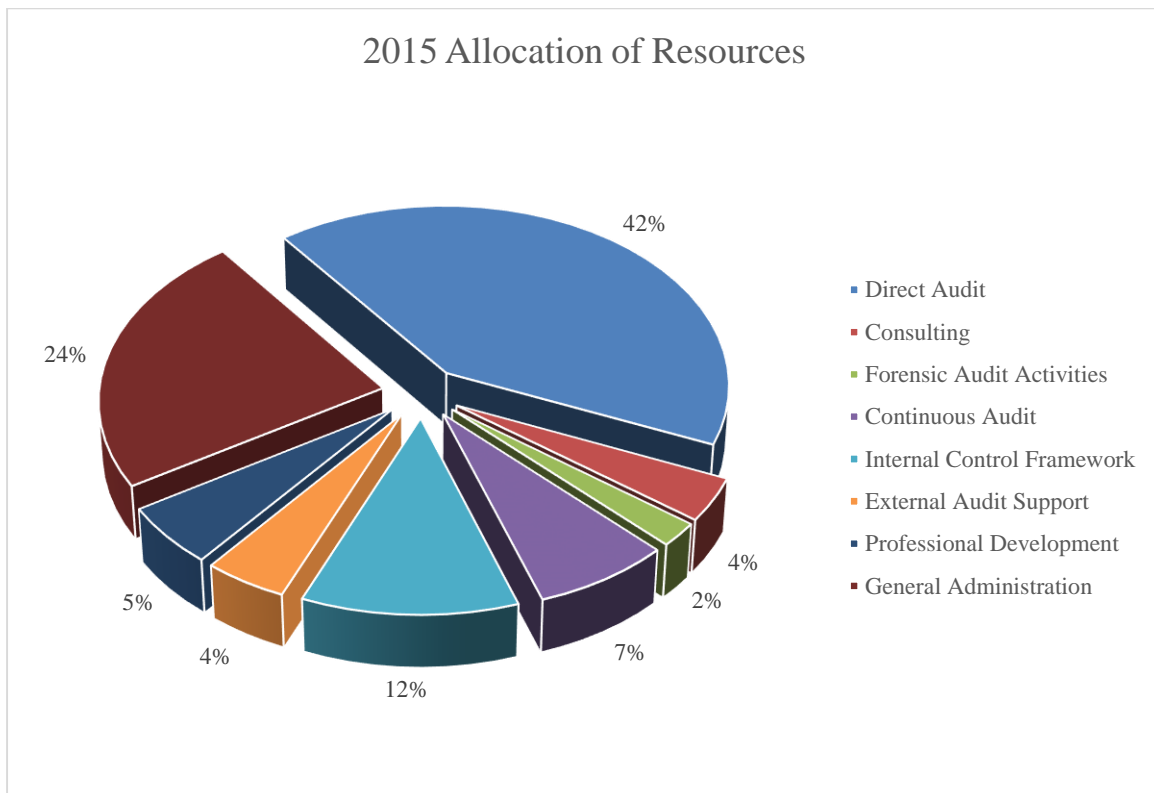
- Provide direction for the OIA including supervising, conducting and coordinating audits, investigations and management reviews relating to Citizens' programs and operations.
- Conduct, supervise or coordinate other activities carried out or financed by Citizens for promoting efficiency in the administration of, or prevention and detection of, fraud, abuse and mismanagement in its programs and operations.



- Submit final audit reports, reviews or investigative reports to the Board, the Executive Director, the members of the Financial Services Commission, the President of the Senate and the Speaker of the House of Representatives.
- Keep the Board informed concerning fraud, abuses and internal control deficiencies relating to programs and operations administered or financed by Citizens; make recommendations for corrective action; and report on the progress made in implementing corrective action.
- Cooperate and coordinate activities with the corporation's inspector general.

Additionally, the OIA works collaboratively with the external auditors to provide assistance and support for the financial statement audit. Consideration is given to other external audits to minimize the duplication of audit coverage within Citizens.

In support of its mission, OIA's main focus is to support Citizens in the achievement of its goals and ultimately, to provide independent and objective assurance over the organization's internal control environment to the Audit Committee, Board of Governors and Management. In executing the audit plan, the OIA maximized independent, objective assurance and consulting services that are designed to add value and improve Citizens' operations. The following diagram provides an overview of resource deployment:





Several noteworthy accomplishments have been completed and can be summarized into the following categories:

- Completion of a 2015 Audit Plan which provided assurance and delivered value to the organization in strengthening oversight and control
- Good progress with the roll-out of the Citizens Internal Control Framework based on COSO 2013
- Improving our audit process with the inclusion of critical thinking not only as a concept, also as a formal step.
- Revising our approach to audit engagements by including greater focus on process improvement, thereby adding more value to the organization.

### **Standards of Audit Practice**

Citizens operates according to Section 627.351(6)(i), Florida Statutes, and the *Plan of Operation* approved by the Florida Financial Services Commission. Given that the OIA statute does not include a specific requirement for auditing standards to govern the Citizens OIA program, OIA elected to follow the *International Standards for the Professional Practice of Internal Auditing* for all engagements. The Standards are principles-focused, mandatory requirements, consisting of statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance, which are internationally applicable at organizational and individual levels and include:

- Attribute Standards
  - 1000 – Purpose, Authority, and Responsibility
  - 1100 – Independence and Objectivity
  - 1130 – Impairment to Independence or Objectivity
  - 1200 – Proficiency and Due Professional Care
  - 1300 – Quality Assurance and Improvement Program Performance Standards
- Performance Standards
  - 2000: 2010 – Planning; 2020 – Communication and Approval; 2030 – Resource Management; 2040 – Policies and Procedures; 2050 – Coordination; 2060 – Reporting to Senior Management and the Board; 2070 – External Service Provider and Organizational Responsibility for Internal Auditing
  - 2100 – Nature of Work
  - 2200 – Engagement Planning
  - 2300 – Performing the Engagement
  - 2400 – Communicating Results
  - 2500 – Monitoring Progress
  - 2600 – Communicating the Acceptance of Risks



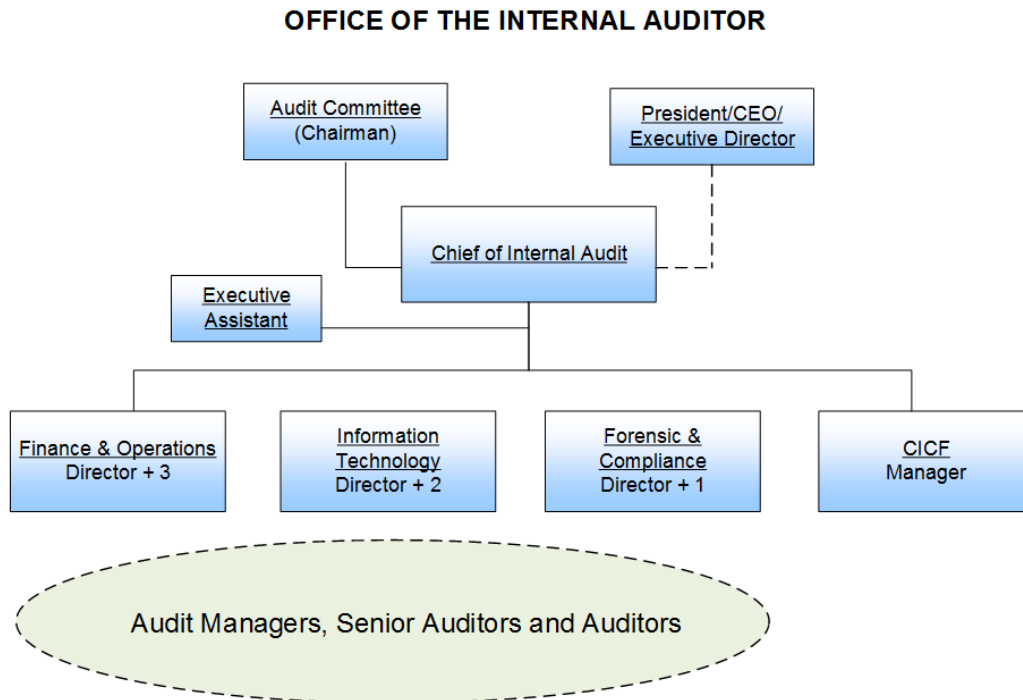
The OIA also uses the following accepted industry frameworks for guidance when conducting audits: the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework for financial/operations/compliance audits; the Control Objectives for Information and related Technology (COBIT), the Information Technology Governance Institute (ITG), the National Institute of Standards and Technology (NIST) and Information Technology Infrastructure Library (ITIL) when conducting technology audits.

During 2014, the OIA appointed Clifton Larson Allen to perform a Quality Assessment Review (QAR) and Leading Practices Review (LPR) of Citizens' internal audit activity. Results from the QAR confirmed that the OIA is in general conformance with the Standards, which is the top rating that can be assigned in a QAR. Results from a similar review conducted by the Office of the Florida Auditor General, as part of their 2015 Citizens Operational Audit, was also positive.

## Organization and Administration

### Organization Structure

The Chief of Internal Audit is appointed by the Board of Governors, reports to and is under the general supervision of the Board, and is not subject to supervision by any Citizens employee. The Chief of Internal Audit reports to the Board through the Audit Committee. The following chart details the OIA departmental structure.



During 2015, the OIA in alignment with an initiative to reduce overall administration expenses realigned resources within the department and prepared an audit plan for 2016 that allowed for the reduction of two positions with minimum impact.





## Training

In alignment with the *International Standards for the Professional Practice of Internal Auditing*, the OIA staff is required to maintain their professional proficiency through continuing education and training. Professional staff is required to receive at least 80 hours of continuing education every two years. This is accomplished by having the professional staff attend courses and/or conferences during the year.

Likewise, the OIA has an internal standard of 80 hours of training during each calendar year. This is achieved by attending Citizens' internal training and external courses and/or conferences during the year.

## Certifications and Advanced Degrees

The OIA brings various backgrounds of expertise to Citizens. Certifications and advanced degrees held by the Chief of Internal Audit and/or staff during the reporting period includes:

- Certified Internal Auditor
- Certification in Risk Management Assurance
- Certified Financial Services Auditor
- Certified Information Systems Auditor
- Certified Public Accountant
- Certified in Risk and Information Systems Control
- Certified Information Security Manager
- Certified in Financial Forensics
- Certified Fraud Examiner
- Chartered Global Management Accountant
- Master of Business Administration
- Masters of Accountancy
- Master of Science in Information Assurance
- Master of Science in Computer Information Systems

## Affiliations

The OIA participated in various affiliations during the reporting period, in support of the internal auditing profession, and gained insurance industry knowledge through attendance at chapter meetings or industry focused training:

- The Institute of Internal Auditors (IIA) & affiliates
- Insurance Internal Auditing Group (IIAG)
- Insurance Accounting and Systems Association (IASA)
- Information Systems Audit and Control Association (ISACA)
- Association of Certified Fraud Examiners (ACFE)
- The American Institute of Certified Public Accountants (AICPA) & affiliates
- Financial Executives International (FEI)



## Accomplishments

The OIA has continued to develop a credible and sustainable internal audit program for the organization. During 2015, the OIA achieved several key accomplishments, including:

### Audit Plan Execution

The following reports/memorandums were issued during 2015:

- AP Vendor Spend (Satisfactory)
- Citizens Authentication Gateway (Satisfactory)
- Citizens Insurance Suite Check Printing (Needs Improvement)
- Commission Payment Control (Consulting)
- Contract Administration (Satisfactory)
- Depopulation Accounting (Satisfactory)
- ERP Vendor Submission Template (Consulting)
- Financial Statement Audit Support Fin/Ops to Johnson Lambert (Memo)
- Financial Statement Audit Support General Controls to Johnson Lambert (Memo)
- General Expense Management (Satisfactory)
- IA Spend Audit (Satisfactory)
- Identity and Access Management Project (Satisfactory)
- Jacksonville Office Relocation/Consolidation Program Governance Structure (Satisfactory)
- Key Accounts (Needs Improvement)
- Legal Billing Process (Satisfactory)
- Rate Accuracy (Needs Improvement)
- Sinkhole Settlement Process (Consulting)
- SSAE 16 Project (Consulting)
- Vendor Scoring Spreadsheet (Consulting)
- VMO Contract Monitoring Tool (Consulting)
- VMWare Server Virtualization (Needs Improvement)

### Internal Control Framework Project

The Citizens Internal Controls Framework Project progressed on plan with the completion of 14 process and control reviews as of 2015 year-end. This represents 25% of the 56 processes reviews planned throughout the 3-year project implementation. Each review involves fully understanding, documenting, and testing of identified key controls in line with COSO 2013, the industry standard for internal control frameworks. To date 42 key controls have been reviewed and formally documented.

The projects' ties to Process Improvement have proven to be very effective in identifying and delivering quick and easy solutions to various process pain points. As of this report date, ICF and Process Improvement have worked together to implement two (2) process enhancements



and identified several more potential opportunities for further research and potential implementation.

There are approximately 20 planned process and control implementations planned for 2016, which consist of the following functional areas:

Commercial Underwriting	Strategy & Planning	IT Governance	General Counsel - Claims & Litigation
Network Security	Compensation	Competitive Solicitations	Application Delivery
Financial Close	Data Storage & Recovery	Claims Operations	IT Asset Management
Escheatment/ Suspense/Accounting	Security Incident Management	Complaints & Communications	Change Management
Investment Accounting	Systems Operations	Depopulation	Disaster Recovery

In addition to the 20 planned process and control implementations for 2016, the ICF team will also be transitioning a larger majority of the ownership of control assessments and documentation updates to the business functions in alignment with control awareness and accountability objectives. Furthermore, we continue to work closely with the Process Improvement department to implement solutions identified during our reviews as well as to identify new cost and time saving opportunities as we move forward.

### **Internal Complaint Handling**

During 2014, The Financial Services Commission appointed Citizens' Inspector General (IG). For 2015, the IG received and completed all internal investigations for concerns/complaints raised through the Citizens Ethics Hotline.

### **Audit Committee and OIA Administration**

- Annual review of the OIA and Audit Committee charters.
- Annual review of the *OIA Handbook, Internal Audit Policy and Open Items Policy*.
- Conducted an independent risk assessment, which was used to help define projects listed in our audit plan.

### **Quality Assurance and Improvement Program**

As outlined within the *Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing*, the chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity, including internal and external assessments. In compliance with this requirement, the OIA implemented a comprehensive peer review process, which is designed to assess our compliance with accepted audit standards and practices while executing audits. Results from these reviews are used to improve overall product quality and identify development needs.



## **Audit Process**

### **Annual Planning**

The OIA continues to refine its internal audit methodologies and process for Citizens. The audit plan is based on a risk-based methodology, and execution of this plan is in accordance with Florida Statutes and in compliance with the IIA's International Professional Practices Framework, which provides standards that delineate basic principles representing the practice of internal auditing.

The OIA conducts an independent risk assessment of Citizens' business units each year. The process begins with interviewing clients (Citizens' Board, senior management and external auditors), reviewing prior internal and external audit reports, and analyzing financial statements. In developing its 2015 audit plan the OIA aligned the Company's objectives and goals into its audit strategy utilizing information derived from OIA's Annual Enterprise Risk Assessment and in consultation with Management. Additionally, the OIA assessed risk at operational levels and performed detailed risk assessments on specific risks (i.e. Occupational Fraud, Information Technology, Finance/Operations) to understand their likelihood and impact on the Company and the effected business units. This information was aggregated, allowing OIA to identify the risks that have the highest impact and likelihood to adversely affect the Company from achieving its' strategic goals and objectives. This "Top Down" approach allowed for the proper alignment of audit activities to provide assurance and mitigate risk within the organization at the enterprise and process levels.

Citizens is best served by an audit plan that is dynamic in nature – continually adjusted to meet the needs of the corporation. Key events that may affect the audit plan include, but are not limited to, operational changes, legislative decisions and/or storm season impacts. During 2015, OIA's primary objective related to the 2015 Audit Plan was to complete the scheduled audits and defined consulting services, and other direct audit support (executive and senior management team participation, key project meetings, etc.).

During 2015, in developing the 2016 audit plan, we revisited our risk identification and analysis process to better understand the Audit Universe (i.e., number of total processes) and improve audit coverage.

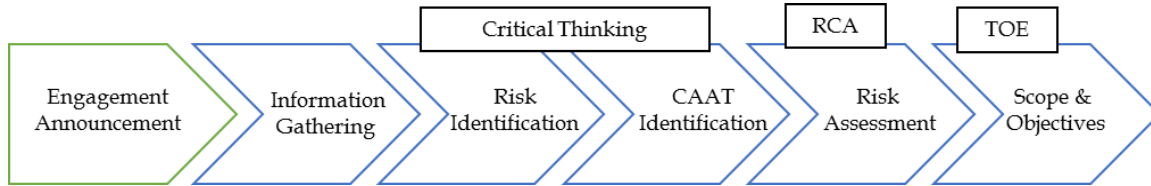
The 2016 Audit Plan was approved by the Citizens Audit Committee and is available upon request.

### **Audits**

In the execution of audits, OIA developed three phases in the internal audit process. These were formalized so that we ensure that the auditor follows a framework that allows for consistent execution and provides for thorough preparation for the audit, thorough evaluation of risks and mitigation controls and meaningful resolution of identified control failures. The activities performed during each phase include, but are not limited to, the following:

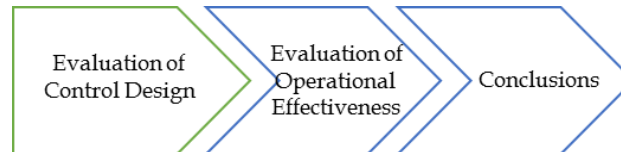


- Engagement Notification and Planning



During information gathering, the auditor obtains sufficient information to facilitate the efficient execution of the audit. Information gathering activities typically consist of interviews/discussions with key individuals and reviews of background information/associated documentation. Auditors typically document a high-level process overview/narrative relevant to the area under review (incorporating processing/information flows, control type – manual/automated control activities, decision points, inputs/outputs, etc.). Thereafter, the auditor performs an analysis of the risks identified at the engagement level. This enables the auditor to confirm whether the risks are sufficient for the engagement to proceed (i.e. “Go”/”No Go”), and if so, determine the objectives and scope of the review. This risk assessment process will establish the primary focus, objectives and scope of the audit. Prior to commencing with the audit, the auditor communicates and agrees the defined audit objectives and scope to key stakeholders or customers in the relevant business area.

- Fieldwork



Audit engagement fieldwork is carried out to provide sufficient, reliable and relevant evidence, which provides the auditor the basis for an opinion on control design and operational effectiveness. The Auditor first assesses whether controls in place are appropriately designed to address the risks they were designed to mitigate. In instances where there are no controls, or where controls are inappropriately designed, these findings can be turned into recommendations for improvement with limited further testing to quantify the exposure (likely impact /consequences and materiality of poor design). Following the assessment of control design, further assurance should be sought through sample based testing of the operation of identified key controls. The decision on whether to proceed to test operational effectiveness will depend on the significance of that control and whether more relevant compensating controls exist. Again, in instances where it is found that controls are not executed as designed, these findings are turned into recommendations for improvement. Fieldwork steps are documented in accordance with the OIA’s Workpaper Standards.



- Wrap-up & Reporting



Control issues identified during and following completion of engagement fieldwork are documented and communicated to stakeholders/customers. Our principal product is the final report in which we express our opinion, present the audit findings, and discuss recommendations for improvement. For this reason alone, wrap-up and reporting are perhaps the most important parts of the audit process. It is important because the report is typically the only product of our work that management and the Audit Committee receive.

Every issue identified and documented in the course of an audit is rated either *high*, *medium* or *low* depending on the assessed impact of the issue upon the efficiency and effectiveness of the control structure being assessed. The audit issue ratings help determine the audit report rating, which is either *unsatisfactory*, *needs improvement* or *satisfactory*. Final audit reports are issued to management, the Audit Committee, as required by s. 627.351(6)(i)1.c., F.S. After the conclusion of each audit, the OIA monitors the implementation of management's action plans, using the open-items process described in the Open Items Process section.

### Consulting/Advisory Services

In addition to internal audits, the OIA also provides consultative service to the organization. These engagements are usually advisory in nature. The focus and scope of which are agreed with the client and are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training. During consulting engagements, OIA reviews specific aspects of a function, system or activity and provides expertise, opinions and/or suggestions for courses of action. The nature of the engagement will determine the result, which may range from oral presentations or discussions to memos summarizing the project results. An audit opinion is not rendered on the adequacy of the control environment, due to limited test work and scope of project.

### Internal Investigations

The OIA developed the *OIA Inquiries and Investigations Policy and Procedures* to document its standardized methodology for evaluating, investigating, documenting and reporting findings. Where there is sufficient cause or predication the OIA would, in consultation with the IG, complete investigations associated with:

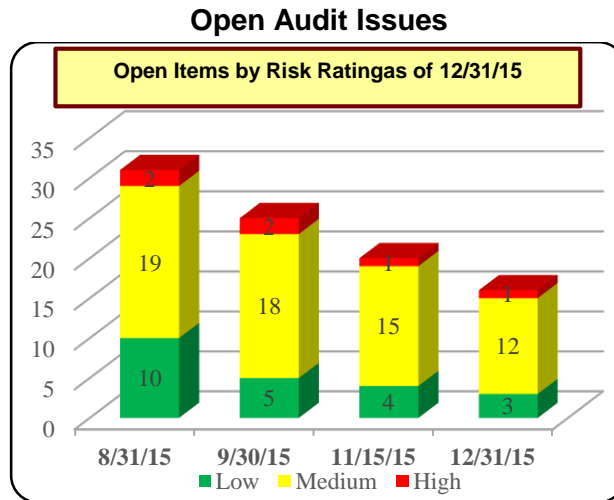
- Abuse
- Financial reporting concerns
- Fraud
- Internal control deficiencies
- Misappropriation of assets
- Mismanagement



The OIA performs due diligence in its evaluation and validation of each concern and conducts an investigation with due care. The final OIA investigation report is issued as required by s. 627.351(6)(i)1.c., F.S., and sent to the appropriate members of management.

### Open Items

The OIA developed the Open Items Process, Corporate Policy 802. The Open Items Policy addresses the process administered by OIA for follow-up, escalation, and resolution of audit observations & recommendations. The process has been established to ensure that management action plans have been effectively implemented or that management has accepted the risk of not taking action on audit results. This process was established in accordance with the International Standards for the Professional Practice of Internal Auditing Standards 2500.



Open Items statistics and those that are rated *high* or *past due* are provided to the Audit Committee on a quarterly basis. Management is taking appropriate action on the issues reported and the OIA monitors progress on the implementation of corrective action.



## Appendix 1 – Audit Engagement Summaries

During the course of the year, the OIA's risk-based approach covers many elements of the corporation's internal control systems; it is not intended to cover all areas of the corporation, nor all possible areas of risk. Instead, we focus our resources on those areas that were evaluated as the highest priority in terms of greatest risks and where our work could be most valuable, either by providing assurances through information or by effecting positive change.

Citizens' management is responsible for establishing and maintaining an effective internal control structure. The OIA evaluates and reports on the design and effectiveness of that internal control structure. Areas of audit coverage include internal audits, consulting/advisory services and financial statement audit support.

### Internal Audits

Internal audits are designed to provide reasonable assurance to the Board of Governors and senior management that the controls designed and implemented by management can be relied upon to mitigate the risk within the organization to an acceptable level. There are various types of audits including operational, financial, forensic, compliance and information technology.

### Consulting/Advisory Services

Consulting services are generally less formal than audits, and as a result, an opinion is not being expressed as to the effectiveness of the controls and an audit rating is not applied. However, due consideration should be given by management to adoption of internal control recommendations, to enhance the efficiency and effectiveness of the existing internal control environment under review.

### External Audit Support (a.k.a. Client Assistance)

OIA coordinates audit engagements in order to maximize the reliance External Audit places on our work product. We further provide the External Auditors an opportunity to influence audit scope and audit procedures, for relevant projects, in an attempt to increase reliance and reduce audit time and duplication.

### Audit Engagement Summaries

The following internal audit summaries reflect reported audit results (including investigations) for areas in scope for 2015. All executive reports were issued to the Citizens Board of Governors (Audit Committee) and, in accordance with Florida Statutes, to the Financial Services Commission, Speaker of the House and President of the Senate. Detailed management reports are provided directly to the applicable management group.

- **AP Vendor Spend (Satisfactory)** - Our objective was to evaluate the effectiveness and efficiency of anti-fraud controls related to vendor spend at the cost center level. Results from our work confirmed that oversight processes related to accounts payable vendor





spend are satisfactory. We 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.

- **Citizens Authentication Gateway (Satisfactory)** - We evaluated the design, implementation and operation of CAG in providing authentication for the Insurance Suite modules, Contact Manager, 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.
- **Citizens Insurance Suite Check Printing (Needs Improvement)** - The objective of the audit was to evaluate the adequacy and effectiveness of the security access controls associated with the Citizens Insurance Suite application check processing workflow. The scope included a review of logical security access within all workflow steps including automated and manual procedures, batch jobs, output files, file storage systems, servers and databases as well as physical security of the printers. We observed that Accounting personnel responsible for check printing have a strong knowledge of the process, which is invaluable in recognizing anomalies that may present a financial risk to the company. Our work also highlighted a need to encrypt check processing output files, which is being addressed by management.
- **Commission Payment Control (Consulting)** - This engagement focused on the controls surrounding agency commission payments. Specifically, the objective was to identify and evaluate any circumstances that would allow the diversion of payments or the creation of fictitious commissions. Based upon the results of our work, we have concluded that there was inadequate segregation of duties, excessive systems access and inadequate independent monitoring within the department, which could allow agent commission payments to be diverted. However, our data analysis did not provide any indication that commission payments were diverted. Management developed action plans to revise access roles, reassign job responsibilities, develop monitoring processes and develop an appropriate quality assurance process.
- **Contract Administration (Satisfactory)** - With the audit we assessed whether the Contract Administration function transferred to, and operated effectively within the Vendor Management Office organization (VMO). We further assessed whether processes deployed aligned with Florida statutes 287.057 and 287.058 and industry best practices. OIA focused on five distinct elements of the Contract Administration Process: contract administration compliance with Statue 287.057 and 287.058; contract administration process ownership and accountability; VMO process implementation as of May 15, 2015;



VMO project implementation plan and strategy; and contract administration alignment with VMO strategy. Our assessment of the VMO Vendor Management Strategy confirmed that the governance and controls are consistent with industry contract administration best practices. Recent achievements include refreshed contract terms and conditions, the implementation of a vendor classification model, a procedure to address vendors who are not complying with contracts, the development of a vendor risk tool and the establishment of Contract and Vendor Management Guidelines.

- **Depopulation Accounting (Satisfactory)** - With this audit we focused on the adequacy and effectiveness of processes used to manage and account for financial transactions related to assumptions of Citizens' policies by takeout companies. Overall, the Accounting department has effective controls in place and adequately manages the depopulation accounting process. Specifically, based upon testing of the approval of wire payments, calculation and recording of journal entries, performance of reconciliations, and monitoring of receivables, OIA noted the Accounting department's controls were adequately designed and operating effectively.
- **ERP Vendor Submission Template (Consulting)** - Purchasing asked OIA to review the functionality and mechanics of the ERP Vendor Submission spreadsheets to ensure vendor responses could be accurately captured, quantified and scored. Our review found that all formulas, cell-to-cell references, conditional formatting and data validation criteria, macros and hidden cells or tabs are working properly with no exceptions identified. There were observations related to cell protection and management has made the appropriate corrections.
- **Financial Statement Audit Support Fin/Ops to Johnson Lambert (Memo)** - In support of Johnson Lambert LLP and their annual financial attestation we completed specific audit procedures. Our work focused primarily on assessing the adequacy and effectiveness of key controls related to depopulation wire transfers, cash disbursements and loss reserves processes. We noted that controls associated with the processes audited are generally well designed and operating effectively. In addition, management and staff members are very knowledgeable and embodied a strong culture of ethics and control awareness. OIA has provided the testing work papers and results to Johnson Lambert LLP.
- **Financial Statement Audit Support General Controls to Johnson Lambert (Memo)** - With this audit we primarily focused on the adequacy and effectiveness of pervasive technology controls for selected key IT areas that support the financial reporting process. The areas selected and scope of work completed were delegated to OIA by Johnson Lambert as per the client assistance agreement. Based upon the results of our work, we have concluded that controls tested within several functional areas are working as intended. As a positive we also noted that: user access management documentation and approvals have been properly completed for the test sample of new and terminated users; Systems Development Life Cycle (SDLC) policies and process flows were well documented and included components that align with industry best practices; data center



physical access processes were solid and access was limited to a small group of individuals; and production application and database server back-up procedures are executed appropriately and back-ups are stored securely offsite. Results from the audit further highlighted opportunities for process improvement in logical security access management. A number of exceptions that were similar in nature were noted within the underlying systems that support the applications in scope for the audit. Evaluated holistically, the findings indicated a need to implement a sound identity and access management framework and associated processes for servers, system software and databases to ensure adequate asset protection and processes align with a defense-in-depth security strategy. These observations were discussed and agreed by management.

- **General Expense Management (Satisfactory)** - The objective of the audit was to evaluate the effectiveness and adequacy of the key processes and control functions of administrative expense categories and to ensure compliance with the corporation's expense policies. Based on our examination of invoices, expense reports and other supporting documentation, we noted that administrative, travel and meal expenses were properly documented and authorized within the expense policy guidelines. OIA recommended reinstatement of the fuel consumption-monitoring program and provide minor clarifications to the business expense policy. Management agreed to implement these corrective measures.
- **IA Spend Audit (Satisfactory)** - With this audit we evaluated the strength of controls mitigating potential vendor fraud when processing Loss Adjustment Expense ("LAE"), Adjusting & Other Services ("A&O") payments. The OIA reviewed the anti-fraud controls and performed data analysis to identify potential unusual patterns and anomalies. OIA focused on four distinct sub-processes within the claims IA spend process: vendor on-boarding; due diligence; invoice submission and payment; and periodic payment monitoring. OIA further assessed the validity of vendor and IA credentials, ensured system controls (Citizens ClaimsCenter and Contract Manager) are in place to only allow assignment and payment to approved vendors, reviewed the vendor invoice approval process to ensure anti-fraud controls are operating effectively, analyzed data from Citizens to identify if discrepancies, unusual patterns or anomalies exist and assessed the overall effectiveness of the periodic payment monitoring process to ensure that current resources are appropriately utilized and effective in identifying and deterring vendor fraud and abuse to accomplish the audit's objective. Our work did not highlight any anomalies and it appears that fraud preventative controls are operating as intended.
- **Identity and Access Management Project (Satisfactory)** - We assessed the governance structure and management processes associated with this project, in accordance with project management best practices as defined in the Global Technology Audit Guide 12, Auditing IT Projects and the Control Objectives for Information and related Technology (COBIT) 4.1. We also evaluated compliance to the Citizens Enterprise Project Management Methodology. Results from our work indicated that a sound project



governance has been established, objectives have been clearly defined and communicated and a clear escalation path is implemented.

- **Jacksonville Office Relocation/Consolidation Program Governance Structure (Satisfactory)** - For the initial phase of our participation on the Jacksonville office relocation/consolidation project we evaluated the adequacy of the governance structure implemented to assist with the management of the program. Our work concluded that the governance structure is well designed, thoroughly implemented and appears to be operating effectively.
- **Key Accounts (Needs Improvement)** - The objective of this audit was to evaluate the adequacy and effectiveness of the processes used to record and reconcile select general ledger key accounts to ensure financial transactions are reflected completely and accurately in the financial statements. Results from our work indicated that controls were generally well designed and operating effectively. Specifically, we found that sound controls are in place to ensure that account reconciliations are complete and accurate and are performed in a timely manner. We further noted areas requiring additional attention including: a need for adequate segregation of duty controls around the escheatment process; and for the development of written reconciliation policies and procedures, thereby ensuring the embedded process remains consistent.
- **Legal Billing Process (Satisfactory)** - The objective of this targeted audit was to assess whether the use of external resources would add value to, or could replace the existing Claims Legal Compliance function based on the performance of the department and available alternatives. OIA assessed the roles and functions performed by Legal Compliance, the Acuity Billing Management application, participation of outside counsel with the billing process, and results of a Request for Information from outside vendors. OIA did not rate the Legal Compliance function because the objective of this audit was to provide an independent appraisal of the potential impacts of outsourcing the department. As such, we noted that outsourcing Legal Compliance will most likely not add distinct value to Citizens as: external resources do not provide a cost or operational advantage, established knowledge of legal firm behavior will not transfer to external resources, outside counsel relationships must still be managed and maintained, external resources will require oversight and monitoring, and improved management reporting will enable better management of outside counsel billing issues. Based upon the results of our work, we have identified opportunities for improvement regarding enhancements to the automated compliance review process and management reporting. These observations were discussed with management.
- **Rate Accuracy (Needs Improvement)** - This audit focused on the evaluation of the adequacy and effectiveness of controls supporting the accurate implementation of OIR established rates into the rating engine. Based on our examination of the pre-implementation testing, management approval and post-implementation testing, we determined that appropriate controls were in place and working effectively to ensure the



OIR established rates are correctly reflected in the system. We however noted that the implementation and administration of information security controls over the production servers and production database related to the rating process needs to be strengthened.

- **Sinkhole Settlement Process (Consulting)** - The objective of this review was to evaluate adequacy of the control design for the processes specifically developed to handle the claims covered by the global sinkhole settlement agreements. We confirmed that adequate procedures were developed and appropriate controls are in place to manage the intake and validation of settlement agreement participants, pay policyholder's attorney fees, set appropriate reserves, and provide communication with policyholders and external stakeholders. In addition, we noted that development began on a Quality Assurance program, with the objective to assess samples of claim files to ensure compliance with the settlement agreements.
- **SSAE 16 Project (Consulting)** - Management requested assistance developing a job aid that could assist contract managers in evaluating Service Organization Controls (SOC) reports as part of the vendor performance monitoring function. OIA provided support through the development of an excel-based job aid with example links that would provide guidance to employees unfamiliar with the SOC report. The job aid was designed to be short and focus on the main essentials in evaluating an SOC report. OIA also provided a whitepaper to management on SOC reports to serve as a reference for additional support of the developing process.
- **Vendor Scoring Spreadsheet (Consulting)** - The Purchasing function asked OIA to review the functionality and mechanics of the Excel spreadsheet (RFP 14-0019 – MasterBidTabSheet) to ensure individual and cumulative scores, including vendor ranking, are accurately calculated. The spreadsheet was developed to be used in the scoring of vendor responses during the solicitation process. A minor spreadsheet exception was noted and some enhancement recommendations that would improve the mechanics of the spreadsheet have been discussed the requestor.
- **VMO Contract Monitoring Tool (Consulting)** - With this consultation engagement we evaluated the functionality of the recently created Contract Monitoring Tool and provided the Vendor Management Office input regarding statutory compliance and best practices. OIA focused on compliance with Florida Statutes 287.057 & 287.058, contract administration best practices and the tool's ability to effectively manage and track contact manager responsibilities.
- **VMWare Server Virtualization (Needs Improvement)** - We evaluated the strength of key IT processes and controls in place for the configuration, support, management, security and monitoring of the virtual server environment. Areas in scope included logical security access, change management, network security, segmentation & logging, and monitoring. We noted that in general, the design, implementation and operation of the VMware infrastructure is working well and serving the needs of the company. We further noted that the implementation and administration of information security controls protecting the VMWare environment are inadequate and require improvement.