

OFFICE OF THE INTERNAL AUDITOR

Annual Report 2019



February 13, 2020

To: Mr. Bo Rivard, Citizens Interim Chairman of the Board of Governors
Mr. Marc Dunbar, Citizens Audit Committee Chairperson
Ms. Bette Brown, Citizens Audit Committee Member
Mr. James Holton, Citizens Audit Committee Member
Mr. Barry Gilway, President/CEO and Executive Director

CC: The Honorable Ron DeSantis, Governor
The Honorable Jimmy Patronis, Chief Financial Officer
The Honorable Ashley Moody, Attorney General
The Honorable Nikki Fried, Commissioner of Agriculture
The Honorable Bill Galvano, President of the Senate
The Honorable Jose R. Oliva, Speaker of the House of Representatives
Members of Citizens Property Insurance Corporation Board of Governors

Dear Messrs. Rivard, Brown, Dunbar, Holton, and Gilway

I am pleased to submit our Office of the Internal Auditor (OIA) Annual Report as required by Section 627.351(6)(i).2., Florida Statutes. The report summarizes the department's structure and staffing, applied audit methodology, and results from the audit work completed during 2019.

I welcome your comments and suggestions regarding this report, and appreciate the 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 2020.

Respectively submitted,



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

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Executive Summary

The Office of the Internal Auditor (OIA) is pleased to present the 2019 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 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.

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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 Management. In order to ensure that the OIA remains appropriately focused, we develop an annual audit plan that adequately addresses risks independently assessed by OIA and confirmed with management.

The results of our work completed during the year indicated that Citizens has a well-established and functioning control environment. In comparison to previous years the results from our work remain consistent year over year and do not give rise to concerns regarding audit findings and impact on the overall control environment.

To have greater oversight and insight into the efficiency and effectiveness of key controls within the organization, Citizens completed the rollout of an Internal Control Framework (ICF) across all disciplines. Citizens ICF is overseen through the Office of Internal Audit, under the direction of the Audit Committee, and follows a traditional control assessment lifecycle like the widely used Sarbanes–Oxley (SOX) and Model Audit Rule (MAR) by compliant entities. The ICF provides assurance that management is conducting business within a sound and proven internal control environment and is performed in a way that adapts to changes in the business environment, processes, and risks.

In support of a collaborative assurance approach the Chief of Internal Audit oversees Enterprise Risk Management initiative, under the direction of the Audit Committee and the Risk Steering Committee. Citizens developed an enterprise risk framework closely aligned to the new COSO ERM Framework of June 2017.

We welcome your comments and suggestions regarding the 2019 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 2020.



Introduction

Background

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). The corporate headquarters for the organization is in Tallahassee while the Jacksonville office provides 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 building needed technology infrastructure, systems and operational processes to support the corporation. There are several ongoing projects and operational changes that are at various stages of completion to ensure Citizens can continue to support its policyholders and is catastrophe ready.

OIA Duties and Responsibilities

The purpose, authority and responsibility of the Office of the Internal Auditor (OIA) are vested in Citizens' enabling Statute Section 627.351(6)(i) Florida Statutes. In addition to the statute the Board of Governors delegated oversight of the OIA to the Audit Committee who further defined the OIA's authority and responsibilities in the internal audit charter. This charter is consistent with the Citizens' enabling statute, 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 IIA Standards).

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 (Dixon Hughes Goodman LLP) to support their financial statement audit. Consideration is given to other regulatory reviews/audits to minimize the duplication of audit coverage within Citizens.

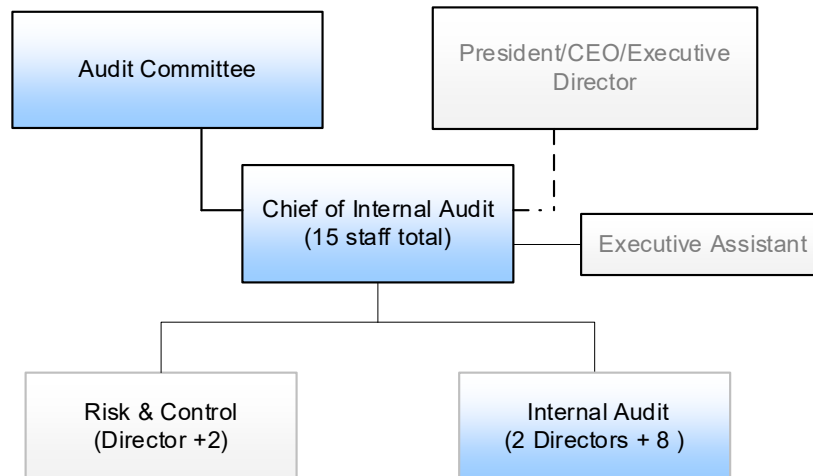
In support of its mission, the OIA's focus is to support Citizens in the achievement of its goals and ultimately to provide independent and objective assurance over the organization's enterprise risk management practices and internal control environment to the Audit Committee, Board of Governors and Management.

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. Apart from Internal Audit (IA), the Chief of Internal audit also has leadership responsibility for Enterprise Risk (ER) and the Internal Control (IC) functions. Both ER and IC operate independently from Internal Audit with its own staff, distinct processes and individual administrative support systems. Per the IIA Standards, Internal Audit should align their efforts with assurance partners in order "to ensure proper coverage and minimize duplication of effort" (IIA Standard 2050).

The following chart details the OIA departmental structure:



Training

In alignment with the *International Standards for the Professional Practice of Internal Auditing*, the OIA staff is required to receive at least 40 hours of continuing education to maintain professional proficiency. This is accomplished by having staff attend seminars, conferences, work groups, internally offered training and webinars.



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 include:

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

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 and 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
- The Risk Management Society (RIMS)

Internal Audit

In executing the audit plan, the Internal Auditors provided independent, objective assurance through audit and advisory services that are designed to add value and improve Citizens' operations. Internal Audit managed a flexible audit plan that considers changes in business operations and ensured that audit engagements focused on areas of most importance. We completed an audit plan which included 18 engagements that provided independent assurance and delivered value to the organization in strengthening oversight and control.

- **Assurance (Audit) Engagements**

Through audits the OIA evaluates Citizens' internal controls, corporate governance and accounting processes. We provide reasonable assurance on compliance with laws and regulations and accurate and timely financial reporting and data collection, as well as helping to maintain operational efficiency by identifying problems and correcting lapses.

- Alternative Work Arrangements
- Centerpoint User Access



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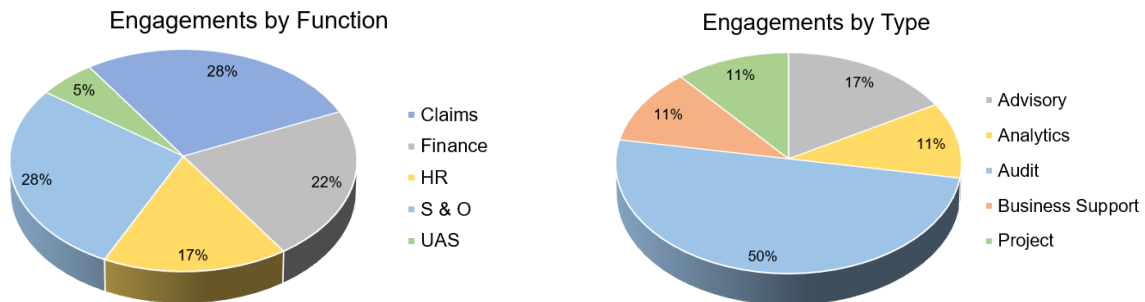
- Information Classification and Handling
- IT Critical Security Controls
- Payroll
- Support to OIG on Claims Complaint
- Targeted AP Analytics
- IRMA Claims Litigation Settlement
- Managed Repair Program
- Reinsurance Recoveries
- System and Information Backup
- Targeted Payroll Analytics

• **Consulting (Advisory) Engagements**

Through advisories the OIA, usually at management’s request, assesses current business practices and provides value added guidance to improve governance, risk management, and control processes.

- AOB Reform Implementation
- Financial Services
- Responsible Vendor Review Scoring Model
- Bulk Intake Florida Specialty
- Independent Adjuster Day Rate Invoice Review
- Special Investigations Unit (SIU)

The following diagram provides an overview of resource deployment:



Process Enhancements

We stay abreast of developments in the audit world and adopt leading practices where these will improve our service delivery. Some of the changes made to our audit approach include:

- Embedded a continuous risk assessment and rolling audit planning approach to ensure that the audit plan remains current and aligned with changing business dynamics.
- Further developed our forensic audit and data analytics capability by introducing an insight driven assurance approach.

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 OIA’s operational processes,



the OIA elected to follow the *International Standards for the Professional Practice of Internal Auditing (2017 edition)* for all audit engagements:

Attribute Standards

1000 – Purpose, Authority, and Responsibility
 1100 – Independence and Objectivity
 1200 – Proficiency and Due Professional Care
 1300 – Quality Assurance and Improvement Program

Performance Standards

2000 – Managing the Internal Audit Activity
 2100 – Nature of Work
 2200 – Engagement Planning
 2300 – Performing the Engagement
 2400 – Communicating Results
 2500 – Monitoring Progress
 2600 – Communicating Acceptance of Risks

The OIA further uses other accepted industry frameworks for guidance when conducting audits. These include: The Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013); the Control Objectives for Information and related Technology (COBIT), the Information Technology Governance Institute (ITGI), the National Institute of Standards and Technology (NIST) and Information Technology Infrastructure Library (ITIL) when conducting technology audits.

Annual Planning

The OIA continues to refine its internal audit methodologies and processes for Citizens. The audit plan is based on a quarterly 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 which begins with interviewing Senior Management, and Management; reviewing prior internal/external/regulatory audit results; analyzing financial statements; and considering Citizens' strategic goals and initiatives for the year and collaborating with Enterprise Risk. This information is aggregated into a detailed operational risk assessment, allowing the OIA to identify those risks that have the highest potential of adversely affecting the Company and its operations from achieving strategic goals and objectives. This "Top Down" approach allows for the proper alignment of audit activities to provide assurance and mitigate risk within the organization at the enterprise and process levels.

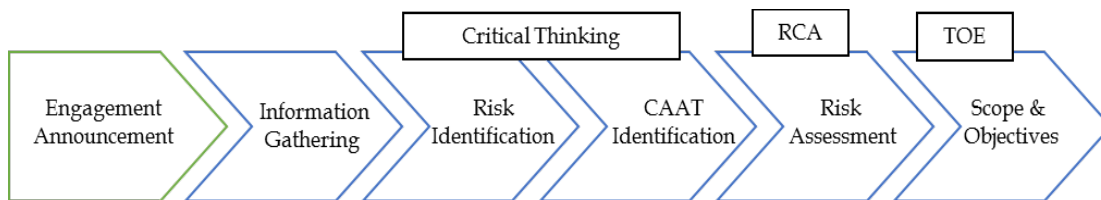
Citizens is best served by an audit plan that is dynamic in nature, and which is continually adjusted to meet the needs of the corporation. Key events that may affect the audit plan may include operational changes, legislative decisions and/or storm season impacts. During 2019, in developing the 2020 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 2020 Audit Plan was approved by the Audit Committee and is available upon request.



Assurance (Audit) Engagement

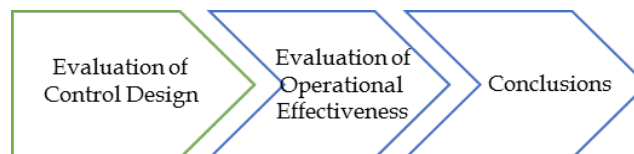
In the execution of audits, OIA developed three phases in the internal audit process. These were formalized so that we ensure that the auditor follows a process that allows for consistent execution and thorough evaluation of risks and mitigation controls. The activities performed during each phase include,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

- Engagement Notification and Planning



Information gathering focuses on understanding the business area and obtaining enough information to facilitate the efficient execution of the audit. The auditor performs an analysis of the risks noted at the engagement level in order to develop the objectives and scope of the engagement. Prior to commencing with the audit, the auditor communicates and agrees the engagement objectives, scope and timing with key stakeholders or customers in the relevant business area.

- Fieldwork



Audit engagement fieldwork is carried out to provide enough reliable and relevant evidence that provides 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 is 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.



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- Wrap-up & Reporting



Control issues identified during the engagement 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.

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. Final audit reports are issued to management, the Audit Committee, Members of the Financial Services Commission, the Speaker of the House of Representatives, and the President of the Senate 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) Engagement

In addition to internal audits, the OIA also provides consultative (advisory) services to the organization. The focus and scope are agreed with the client and are intended to add value and improve the organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training. During advisory 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 Investigation

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 enough cause or predication the OIA would, in consultation with the Inspector General, complete investigations associated with abuse, control deficiencies, misappropriation of assets, fraud, and mismanagement. For 2019, no investigations were conducted by the OIA.

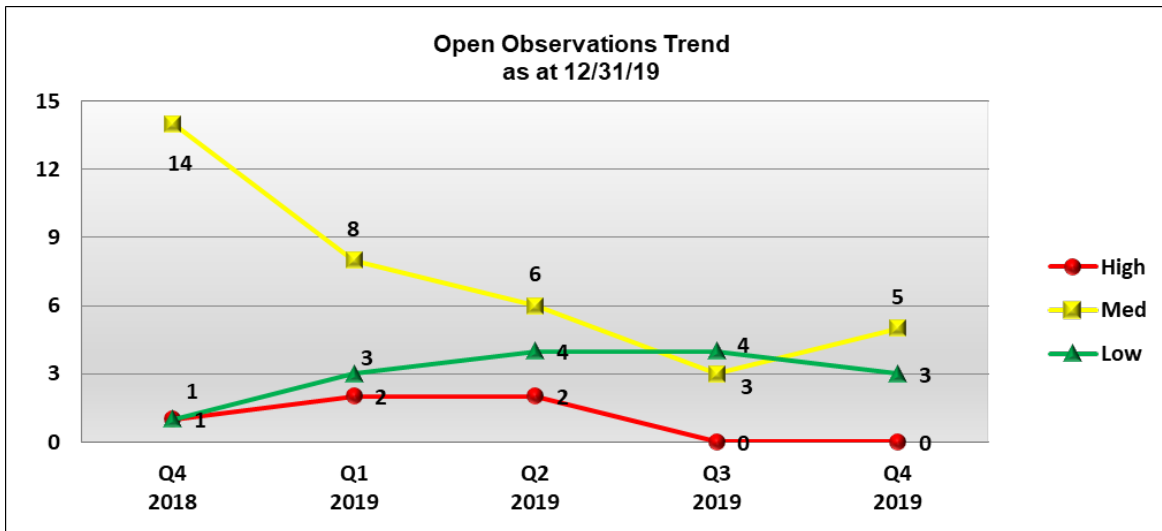
Open Items

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 and recommendations. The process has been established to ensure that management action plans have been effectively implemented or that management has accepted



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the risk of not acting 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.

Internal Control Framework (ICF)

The Internal Control Framework (ICF) is designed to strengthen the governance, oversight, and accountability of Citizens' control environment. Based on the COSO - Internal Control Integrated Framework, the ICF provides internal control principles that Citizens can utilize to enhance operational, financial, and compliance goals and objectives. ICF enables management, with guidance, to identify and self-assess on the strength of the top primary controls for their respective business areas. With the successful implementation of ICF, the internal controls team is continuing to maintain the ICF program, assisting management with control evaluations and assessments, and improving the maturity level of the internal control environment.

ICF 2019 Highlights

- Completed the multi-year project to implement ICF for 71 business processes. Utilizing this framework, the Internal Controls team (IC) will continue to guide and assist management to enhance internal controls, while also helping Citizens transform with the changing and complex insurance environment.
- Achieved 100% participation from all divisions in the completion of the annual management control self-assessments.

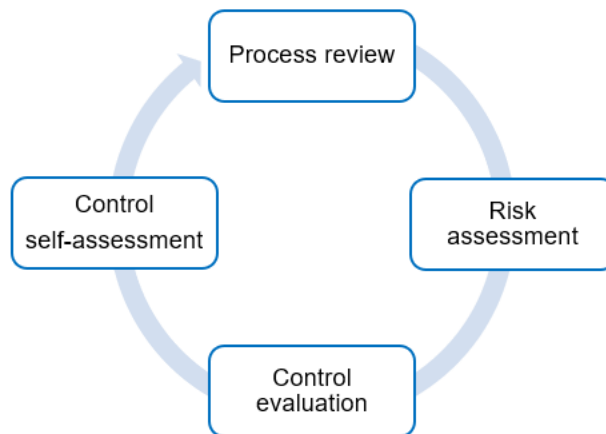


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- Increased educational efforts and a more collaborative approach between management and IC ensured that the control self-assessments were designed to add value to the business areas.

Process Methodology

The ICF defined four phases in the internal control management process to ensure a consistent approach to the evaluation of business process risks and the identification and monitoring of primary controls.



- Review and update process narratives and flowcharts* - Management performs a review of their current process narratives/flowcharts and provides updates as necessary
- Evaluate and update inherent risks to the business process* - Management evaluates their documented inherent risks and provides updates to reflect current environment
- Evaluate the primary control design and procedures* - Management and IC evaluate the control design to ensure appropriate procedures are in place
- Perform the primary control self-assessment* - Management performs the annual control self-assessment and evaluates overall operating effectiveness

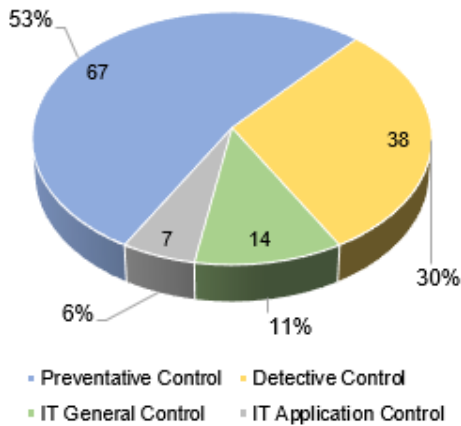
Annual Control Self-Assessment

IC and management identified 126 primary controls across 71 business processes. Shown in the graph below, the primary controls consist of 38 detective controls, 67 preventative controls, 14 IT general controls, and 7 IT application controls. Annually, the management control self-assessments (CSA's) are performed by each business unit to ensure ongoing evaluation of control design and operating effectiveness. During 2019, 81 primary controls were self-assessed, and it was found that these controls are designed appropriately and that the controls are effectively in place and operates as designed. The remaining 26 primary control tests were deferred and are being refreshed. Results from the CSA's noted 19 control improvement opportunities which are being addressed.

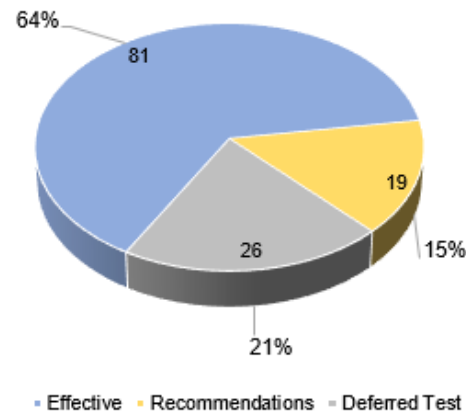


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Primary Controls by Type



Primary Control Effectiveness



Enterprise Risk Management (ERM)

Enterprise Risk (ER) delivers a forward-looking and insightful risk perspective that enhances the decision-making process and strategic performance of Citizens. ER is focused on enabling the achievement of Citizens' strategic objectives, goals, and business initiatives by coordinating, developing and monitoring Citizens' Enterprise Risk Management (ERM) framework. The established ERM framework supports and challenges the business with the identification, assessment, and mitigation of current or emerging risks. Citizens' management and business leaders have the primary responsibility for identifying, mitigating, and monitoring the risks within their processes.

Risk Assessments

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

- **Strategic Risk** - In 2019 the Executive Leadership Team (ELT), in a risk workshop identified, documented and prioritized 17 key strategic risks. ER worked with the assigned Risk Owners to develop mitigation plans.
- **Operational Risk** - Our operational risk management approach is intended to foster a culture where the organization embraces incorporating risk management decisions into daily decision making within and across functional areas. Throughout 2019, ER continued 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. ER designed and facilitated operational risk training to promote a more comprehensive understanding of risk concepts and related tools to improve the business areas' ability to proactively manage risks and strengthen controls. In the 4th quarter, ER initiated a phased approach to expand the use of



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Resolver, a SaaS solution, to establish and maintain a centralized enterprise risk repository which will enable management across all levels of the organization to self-identify, evaluate, record and manage risks.

- *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 the Enterprise Risk Management Framework and related methodology where possible.

Alignment of Enterprise Risk & Internal Control

The ER & IC are focused on three key goals that align with Citizens' strategic goals and objectives in order to provide high quality risk and control services:

- Strengthen and maintain Enterprise Risk and Internal Control frameworks by creating and maintaining a collaborative and engaging risk and control identification and assessment environment across the organization.
- Promote a more comprehensive understanding of risk and controls concepts and related tools to improve the business areas' ability to proactively manage risks and strengthen controls.
- Leverage technology to provide a holistic view of risks and controls. Enable management across all levels of the organization to self-identify, evaluate, record and manage controls and risks through the provision of guidance and training of software solutions.

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 on an ongoing basis, and co-facilitate certain business area meetings to ensure a cohesive roll out of both frameworks are executed.



Appendix 1 – Audit Engagement Summaries

During 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, 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.

Advisory Services

Advisory 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 the 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 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, to increase reliance and reduce audit time and duplication.

Audit Engagement Summaries

The following internal audit summaries reflect reported audit results for areas in scope for 2019. All 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.

- Alternative Work Arrangements (AWA) - The audit focused on the adequacy of processes deployed to ensure the effectiveness of Citizens' AWA program. Results of the audit indicated that the AWA program was successfully implemented. During the audit, a sample



of 105 employees and 50 managers was selected to participate in surveys designed to assess various aspects of the program including performance management, productivity, and employee engagement. The employee response from the survey was 53% (55 employees) while 27 (54%) of the managers surveyed responded. Overall both employees and managers have embraced the program and results reflect the positive impact the AWA program has on employee morale and engagement. OIA identified opportunities to strengthen oversight effectiveness of the AWA program and employee education to further mitigate risks. Process improvement opportunities were also noted and shared with management for consideration.

- AOB Reform Implementation - Internal Audit provided support to the AOB project team through consultative advice related to controls of impacted business areas and project management. Audit results confirmed that, with the AOB reform implementation program, management established critical success factors necessary to achieve an effective implementation, determined that processes are performing as expected, and KPIs are identified that forecast how the AOB Project Team expects to be performing in the future. In accordance with the provisions of HB 7065, diligent efforts to develop new processes necessary to comply with the AOB reforms have been completed by the organization. IA observed that risks were escalated as appropriate to workgroup leaders and the Steering Committee, with workgroup and Steering Committee meetings occurring regularly.
- Bulk Intake Florida Specialty - Internal Audit provided support to the Florida Specialty bulk intake project team through consultative advice related to controls of impacted business areas and project management and confirmed the effective and timely escalation and handling of issues. Our observations confirmed that management 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.
- Centerpoint User Access (Finance and Procurement) - The objective of this audit was to evaluate the adequacy and effectiveness of user access controls deployed within the Centerpoint Financial and Procurement modules. Results from our audit work indicated that Finance, Procurement, VMO, IT and the Centerpoint Project Team proactively collaborated in the design and implementation phases of the Centerpoint project to develop appropriate user access controls. However, system limitations and the complexity of Oracle roles and permissions contributed to challenges in effectively managing user access. OIA noted that improvements are needed to strengthen controls related to ensuring users are assigned roles with the least privilege necessary to perform their job functions, monitoring of transactions performed by privileged users, and oversight of the provisioning process including external users. Finance, Procurement, VMO and IT implemented remediation plans to mitigate the risks identified.

Appendix 1

- Financial Services -Internal Audit 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. Internal Audit 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 – Internal Audit 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.
- Information Classification and Handling - The objective of the audit was to validate that responsibilities are known, and appropriate controls have been applied to confidential information maintained by Citizens to ensure compliance with the Information Classification and Handling Policy. The scope included an assessment of appropriate protection measures applied within IT and business areas, Systems Development Life Cycle (SDLC) controls related to information classification and security testing, asset sanitization and disposal processes, exception processing and employee training. Internal Audit confirmed that throughout the organization, management is generally well trained and knowledgeable on the requirements of the Information Classification and Handling Policy, have implemented appropriate controls where needed, are aware of policy exceptions in their areas and are working at remediating these. Results from the audit indicated that documentation was not available to substantiate that appropriate security controls had been implemented.
- IRMA Claims Litigation Settlement - Citizens is committed to resolving pending Hurricane Irma litigation in a fair, efficient and timely manner in order to restore policyholders' properties to pre-loss condition without the need for protracted litigation. In order to accomplish this, Citizens has offered a settlement agreement applicable to Hurricane Irma litigation brought by Citizens' policyholders for loss to residential property. The objective of this audit engagement was to evaluate the adequacy and effectiveness of the processes and controls established in order to manage the interim Irma Claims Litigation Settlement process at Citizens. Results from our work indicated that adequate and effective processes and controls were established to manage the interim Irma Claims Litigation Settlement process.

Appendix 1

- IT Critical Security Controls Implementation - New IT security standards were adopted and are being implemented based upon the leading practices Critical Security Controls framework. The objective of the audit was to evaluate the successful implementation of these standards. Internal Audit confirmed that appropriate processes are in place to ensure that adequate controls are established, the modified security standards included the adopted controls, and those controls not selected for implementation were reasonable. Our work resulted in two minor observations which were provided to IT management to refine the controls.
- Managed Repair Program - The audit focused on the readiness, adequacy and efficiency of internal MRP processes, controls and oversight procedures to ensure the program is effective and department objectives are being achieved. Results of our work indicated that Citizens Management established well-defined and thorough processes to support the MRP. Communication and training to internal and external stakeholders has been very comprehensive to ensure consistency in service across the program. Some opportunities for improvement were noted and shared with management for consideration.
- Payroll - The objective of this audit was to evaluate whether key controls related to the payroll processes are adequate and ensure 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. Process improvement opportunities were also noted and shared with management for consideration.
- Reinsurance Recoveries - Following Hurricane Irma, Citizens began to submit and collect reinsurance recoveries based on underlying reinsurance treaties in place at the time of the CAT event. It has been several years since Citizens has experienced a large enough claim event to trigger reinsurance recoveries. As of August 22, 2019, Citizens submitted and received approximately \$227 million of reinsurance recoveries from the Florida Hurricane Catastrophe Fund (FHCF) related to Personal Lines (PLA)/Commercial Lines (CLA) Accounts eligible claims, as well as approximately \$82 million related to the Coastal account. The objective of this audit was to evaluate the effectiveness of processes and controls related to reinsurance recoveries. Our work indicated that there are effective processes and controls relating to the monitoring and authorization of recovery payment submissions, Citizens staff FHCF payment access, Claims Best Practices and Quality

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Assurance procedures related to claim tagging, oversight of third-party brokers, financial stability reviews of traditional reinsurers, and spreadsheet controls.

- Responsible Vendor Review Scoring Model - With this engagement Internal Audit provided consultative advice to assist the Vendor Management Office in developing a scoring schema to more objectively determine the qualification or disqualification of vendors during RVR, based on the categories of financial soundness, integrity, capability, reliability and past performance. Internal Audit collaborated with VMO Management to take steps to develop an objective, consistent, and defensible RVR scoring scheme, and provided input regarding enhancements to the RVR procedure form, leveraging the expertise of Citizens' Corporate Analytics to support the project by providing scoring model leading practices, perform data modeling, and provide statistical insight into a creating a defensible weighted scoring model.
- Special Investigations Unit (SIU) - Citizens' Special Investigations Unit (SIU) investigates potentially fraudulent activity referred by the Company's Claims, Underwriting and Agency Services Department personnel. Additionally, by leveraging data from Citizens' systems and applications, SIU performs rules-based data analytics and reporting, which are reviewed by SIU Managers for indicators of potential insurance fraud. The objective of this advisory was to provide consultative advice regarding controls and leading practices for adequate oversight of Special Investigations Unit (SIU) processes designed to proactively detect insurance fraud. Internal Audit collaborated with SIU Management to develop proactive insurance fraud monitoring governance procedures and tools, including a report matrix & scorecard, which will enable tracking, consistency and accountability surrounding the creation and review of monitoring reports. Some opportunities were noted to enhance monitoring and oversight of processes designed to proactively detect insurance fraud at Citizens. These opportunities are based on industry leading practices and can aid SIU to achieve its vision of effectively leveraging advanced analytics to increase the speed and efficiency of insurance fraud detection.
- Support to OIG on Claims Complaint - Following a request from Citizens' Office of the Inspector General IA conducted a targeted claims audit to support the OIG's investigation following the complaint. Results of the audit were shared with the OIG and Citizens management in a memorandum and included in a formal report provided by the OIG.
- System and Information Backup - 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. Internal Audit 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

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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 - 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.
- Targeted Payroll Analytics - Following our audit of CenterPoint HCM User Access, in which challenges to effectively manage user access were noted, Internal Audit scheduled an audit to validate that the vulnerabilities have not been exploited. The objective of this audit was to assess occupational fraud risks related to the payroll processes and evaluate instances where the process appears compromised to ensure no misconduct (to include misappropriation and/or occupational fraud) was committed. We considered occupational fraud risks common in the payroll process and developed thirty-three computer-aided audit techniques ("CAATs") that were designed to identify unexpected or unexplained patterns in data that may represent potential misconduct. Results of our CAATs highlighted twenty-four anomalies that required further audit work to validate authenticity. No occupational fraud was identified; however, three instances were noted where paychecks were distributed inappropriately. These related to very minor financial loss and management is seeking to recover the money distributed erroneously.