

Executive Summary

Audit Committee Meeting, June 3, 2020

THE OFFICE OF THE INTERNAL AUDITOR

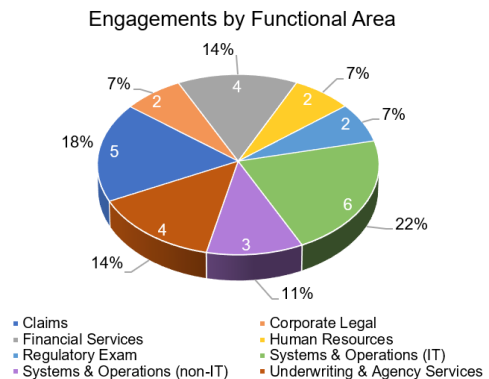
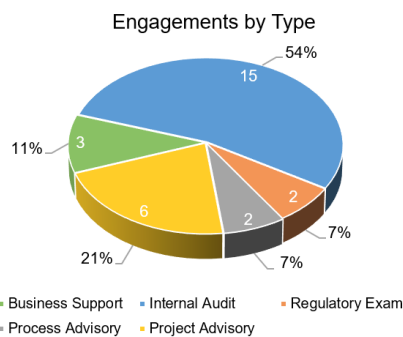
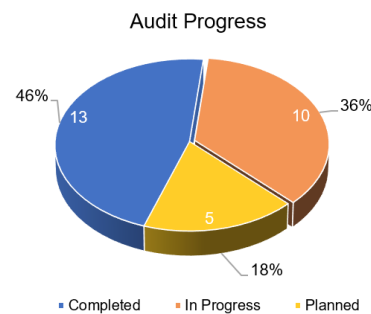
The Office of Internal Audit focuses its attention on areas where it can contribute the most by working with the organization to reduce risk, improve the control infrastructure and increase operational efficiencies. Since the last Audit Committee meeting, we focused on providing audit, risk management and internal control reviews to the corporation in alignment with our 2020 plan.

Internal Audit

Overview of Audit Progress

Internal Audit (IA) follows a risk-based quarterly rolling plan approach in developing engagements and monitoring progress. As we review risks and consider operational challenges, we re-examine our plan and confirm that it continues to provide the expected assurance and that audit resources remain appropriately focused.

Internal Audit Plan (January 1, 2020 to December 31, 2020)	
Completed	13
In Progress	10
Planned	5
Total Projects	28



Audit Engagements Completed

Following the last meeting we completed work on seven (7) audit engagements:

- AOB Implementation** - The objective of this audit was to assess the readiness, adequacy and efficiency of AOB processes, controls and oversight procedures and to ensure the program is effective and department objectives are achieved. Our audit work indicated that management's

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diligent efforts to develop and implement processes and procedures to comply with the provisions of HB7065 have been successful. Management implemented necessary processes to comply with HB7065, including a dedicated Claims AOB Project Team was created to handle AOB receipts to ensure consistent processing and overall handling; four document submission methods were implemented to ensure AOB documents and other correspondences are routed and processed in a timely manner; a Notice of Intent (NOI) Roundtable Committee was created to respond to the NOIs in order to proactively address the AOBs; and the development of an AOB quality assessment to evaluate the accuracy of the AOB file elements. Process improvement opportunities were also noted and shared with management for consideration.

- **Microsoft Teams Cloud Phase I Implementation** - With this engagement, OIA provided advice and guidance relative to phase I of the project to implement the MS Teams collaborative workspace platform. The scope of work included facilitation of a project risk assessment to ensure risks are identified, prioritized and managed, evaluation of IT security governance and compliance processes, participation in user acceptance testing and controls recommendations where needed. While no significant issues have been observed since the phase I implementation in April, OIA suggested that continued focus be given to specific risks identified in the assessment.
- **Proof of Repairs** - In October 2018, Citizens began a proactive approach to communicate the need for proof of damaged property repairs for hurricane Irma impacted policyholders. Agents and policyholders were reminded to retain receipts as evidence of the repairs and as a requirement for policy renewal. The objective of the audit was to evaluate the adequacy and effectiveness of controls in place for the Hurricane Irma proof of repairs process for Personal and Commercial Line Policies focusing on timeliness and adequacy of agent and policyholder notification, documentation, renewal eligibility and the non-renewal process. Results from our audit work indicate that there are adequate and effective processes and controls in place over Hurricane Irma proof of repairs for Personal and Commercial Line Policies.
- **Remittance Processing** - The objective of this audit was to evaluate the effectiveness of processes and controls related to remittance processing. Results from our audit work indicate that there are effective processes and controls relating to the authorization of premium refund and suspense disbursements, completeness and accuracy of premium payments received from policyholders and adequate system controls surrounding premiums paid on behalf of agents.
- **Software Asset Management** - Internal Audit provided advice and guidance relative to Software Asset Management program enhancements. The scope of work included benchmark results for a Software Use Policy and Software Asset Management Committee Charter, leading practice standards, potential maturity models to benchmark program development and a checklist that includes third party software audit preparation, notification and process details. We requested that management consider the materials provided to enhance the program and best serve the needs of the organization.
- **Support to the OIG on Claims Complaints** - Following a request from Citizens' Office of the Inspector General, IA conducted two (2) targeted claims audits to support the OIG's investigation following complaints received by the OIG. Results of the audits were shared with the OIG management in memorandums and included in their investigation.

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Detailed copies of audit reports are included in this presentation.

Work in Progress

There are ten (10) audit engagements in progress:

- Agency Management System

The current agency management system, that supports agent distribution relationship management, is being replaced with the Salesforce Service Cloud Platform. This platform will support the tracking and monitoring of agent licenses, commission, performance, investigations, complaints, and key performance indicators. We will provide control advice and project support during the system configuration and implementation.
- Centerpoint Role Redesign Implementation

During the Centerpoint User Access audits of the HCM, Financial and Procurement modules, instances of inadequate segregation of duties and excessive user account permissions that were not being adequately monitored, were noted. After the audit, mitigation plans were implemented. An external consultant was engaged to redesign and customize several of the higher risk roles. Internal Audit (IA) validated the new roles for adequate segregation of duties in the test environment and will re-validate the roles in the Citizens production environment, currently targeted for June.
- Background Checks

The organization performs background checks during the pre-employment phase of the hiring process and is evaluating expanding the process to include periodic checks. These background checks are important to ensure Citizens does not employ anyone in violation of Florida Statutes or laws. IA will provide control advice and project support to help ensure that a comprehensive, consistent and defensible process is in place.
- E-disbursements

Citizens is seeking a solution which leverages debit card and Automated Clearing House (ACH) technology for two types of claims payments: Additional Living Expense payments to policyholders via vendor issued debit card and/or ACH options; and ACH payments to policyholders and/or other parties for claim related disbursements, including multi-party payment options and multiple external approvals (both in the event of a catastrophe and in usual operations). IA will provide consultative project advice during design and implementation to assess the security of ACH transactions.
- Identity and Access Management

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

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- management solution and corresponding processes and provide advice throughout the project as needed.
- Policyholder Claims Experience
There are many facets to the different types of claims losses which drive claims to be handled through various business models and rely on Citizens staff and independent adjusters to meet policyholder claim processing needs. IA will evaluate the adequacy and effectiveness of controls related to Policyholder Claims Experience.
 - Service Organization Controls
The Vendor Management Office has implemented new processes and procedures to obtain third party vendor Service Organization Controls (SOC) reports during the solicitation process and has centralized the ongoing SOC review process as of Q2 2019. IA will evaluate the adequacy and effectiveness of controls related to the SOC process.
 - Third-party Access
Third-party security access, visibility and monitoring controls are key to safeguarding the network and data from nefarious/malicious external users. Absent appropriate control of external connections and user activities, the number of IT incidents and corresponding business impact may rise. IA will evaluate risks associated with third-party access to the Citizens network and validate that third-party policies, inventories, user account management, connections and monitoring are appropriate for the organization in mitigating those risks.
 - Third-party Risk Management
The VMO has established guidelines and tools for managing vendor relationships. Each third-party relationship brings with it several risks that need to be identified and assessed. These risks are often multi-dimensional as they extend across suppliers, vendors, contractors, service providers, and other parties, and can have an impact on different levels of the organization. IA will evaluate the adequacy and effectiveness of controls related to VMO's third-party risk management process.
 - Wire Transfer/ACH
Citizens has recently completed the migration to a new vendor to provide all Company banking needs, including wire transfers and ACH services. Since Citizens periodically has the need to wire large sums of money, the Company must ensure the processes, controls, and authorities to do so are set up correctly and securely. The most significant risk of transferring to the new bank is to ensure the wire process is set up correctly with the appropriate access, segregation of duty controls and monitoring. IA will evaluate the adequacy and effectiveness of controls related to the wire transfer and ACH processes.

Work Planned

The following audit engagements are scheduled to commence during Q3/Q4:

- Centerpoint Configuration
Centerpoint (Oracle Fusion) replaced independent applications previously used by Human Resources, Finance and Procurement. Oracle module



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configuration is complex and proper configuration of the modules is necessary to adequately restrict and/or eliminate the ability to override controls in place to prevent inappropriate transactions. Improper application configuration may lead to unauthorized transactions that may impair business operations or allow nefarious transactions. IA will confirm that Centerpoint modules are properly configured to ensure that security is adequate and prevents the override of key controls, appropriate logging is turned on and business operational process needs are met with configurations that are installed.

- **Co-employment** Citizens leverages temporary contingent workers as needed for a variety of operational reasons. Advantages of using contingent workers include scalable staffing flexibility, enabling access to broad talent pools, as well as reduced costs and increased operational efficiencies in some cases. While substantial practical benefits often accompany such arrangements, equally substantial legal and practical pitfalls can occur if risks surrounding contingent staffing are not fully understood and/or properly managed including misclassification and the unintentional creation of an employer-employee relationship between Citizens and a contingent worker. IA will evaluate the adequacy and effectiveness of current policies, practices, and controls surrounding contingent staff management to ensure an effective program is properly managed and executed.
- **OFAC (Office of Foreign Assets Control)** Activities were transferred to Financial Services from the Legal area during the fall of 2017 as a result of realignment stemming from an audit. Follow-up is needed to ensure compliance with the Federal Regulation. IA will evaluate the adequacy and effectiveness of controls related to OFAC validation process.
- **Regulator Support – Auditor General Audit** Internal Audit in its liaison role is responsible for coordinating with the State of Florida Auditor General auditors who will be conducting their triennial operational audit commencing in September and is expected to be completed within 12 months. Most of the coordination efforts constitutes meeting planning, information request tracking and delivery, and overall ensuring the examiners/auditors receive the correct information timely.
- **Regulator Support – Market Conduct Exam** Internal Audit in its liaison role is responsible for coordinating with the Florida Office of Insurance Regulation (OIR) Market Conduct examiners who perform their biennial exam beginning in September and is expected to be completed mid-2021. As with the Auditor General audit, most of the coordination efforts constitutes meeting planning, information request tracking and delivery, and overall ensuring the examiners/auditors receive the correct information timely.

Resources

Internal Audit is currently recruiting to fill a vacancy for an Internal Auditor Senior.

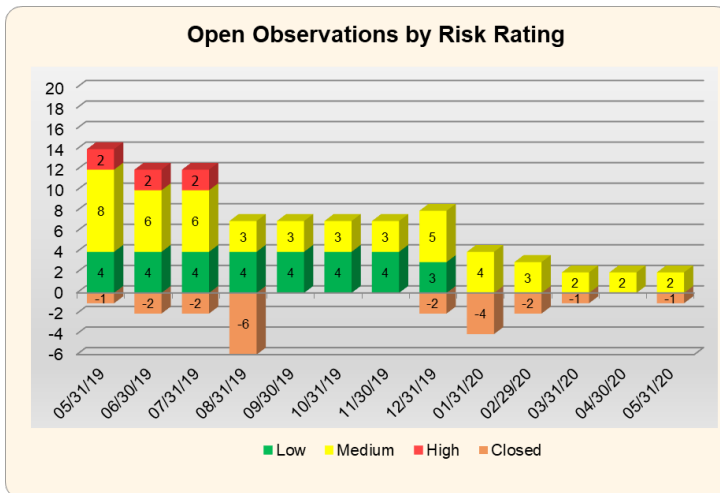


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Control Deficiency Resolution

Internal Audit (IA) maintains a database containing reported audit observations, recommendations, management action plans and target completion dates originating from IA audits, reviews performed by the external auditors and regulatory exams conducted by the Office of Insurance Regulation and the Auditor General. We are currently tracking two (2) open observations. The following chart provides additional information on the number of current open observations over the previous thirteen months including the observation ratings, source of observation and year reported.



Observations by Year Reported		
2019	2020	TOTAL
1	1	2

Observation Source	
IA	2
External Auditor	0
Market Conduct - OIR	0
Auditor General	0
TOTAL	2

Internal Control

Citizens' Internal Control Framework (ICF) provides governance, oversight, and accountability of Citizens' control environment. Based on the COSO Internal Control Integrated Framework, Citizens' internal control principles have enhanced our operational, financial, and compliance goals and objectives throughout the organization.

2020 Control Self Assessments

As part of the ICF, management performs an annual control self-assessment to evaluate the overall operating effectiveness of their primary controls. Through the performance of CSAs, management validates whether their controls are working as intended or identifies areas that may need improvement. The self-assessment results are utilized to continuously improve processes and enhance the control environment.

Beginning in the first quarter, the Internal Controls team continues to meet with control owners for the 2020 control self-assessments to communicate the ongoing ICF assessments and establish expectations for the year. The discussion includes:

- ICF overview for individuals new to the process
- Confirmation or update of business objectives and primary controls
- Feedback from the business area on their prior year CSA experience to ensure the control assessment tests remain efficient and continue to add value
- Control consultation as needed

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There are currently 126 primary controls for 71 business processes. Management's annual updates to process narratives and the completion of the 2020 CSAs are due in November. Depending on the type of primary control and sample necessary to confirm the effectiveness, the CSAs may be completed early or may need to be assessed through the November due date. During Q2, Facilities Management completed the 2020 CSAs for their primary controls.

ICF Quality Reviews

The Internal Controls team performs quality reviews to assess and enhance the current control environment. Four quality reviews are currently in progress:

- Purchasing
- Compliance
- Vendor and Contract Management
- Special Investigations Unit

Staffing

The function is currently recruiting for a Senior Internal Controls Analyst who will support both the enterprise risk and internal controls management programs.

Enterprise Risk

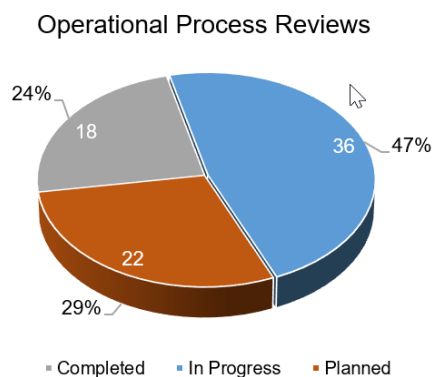
The Enterprise Risk (ER) team continues to facilitate and embed Citizens' Enterprise Risk Management (ERM) Framework within the organization through facilitated risk identification and assessment workshops and the maintenance of a centralized risk registry, Resolver. ER is focused on creating and maintaining a collaborative and engaging risk identification and assessment environment across the organization.

Operational Risk Management

ER facilitates operational risk assessments that enable management to self-identify and assess risks that may impact the ability to achieve business objectives and to determine the effectiveness of mitigation plans in place to reduce the risks.

As of the end of April, a total of 387 operational risks have been identified across 76 business processes. Enterprise Risk is working with all business areas to refresh their risks, improving overall quality and alignment of risks with business process objectives.

- 24% (18) of the operational risk assessments have been completed. There were no residual risks with a high-risk rating.
- 47% (36) of the operational risk assessments are in progress. The remaining risk assessments will be completed by the end of 2020.



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Project and Scenario-Based Risk Assessments

Enterprise Risk, in partnership with IT Security and Risk and the Strategic Evaluation Group (SEG), is making significant progress in leveraging the ERM framework to support risk informed decision making. At the request of business area leaders, Enterprise Risk facilitated the following cross-functional risk assessments in April:

- *Emerging Threats*: A scenario-based risk assessment focused on several emerging or present threats considering the state of COVID-19 occurring concurrently with the upcoming tropical cyclone season.
- *Microsoft (MS) Teams*: A project risk assessment focused on the timely and secure implementation of Phase 1 of MS Teams.

Both risk assessments included participants from various divisions across Citizens. Risk assessment results are being utilized to assist with decision making and to ensure additional mitigating activities are designed and implemented where needed.

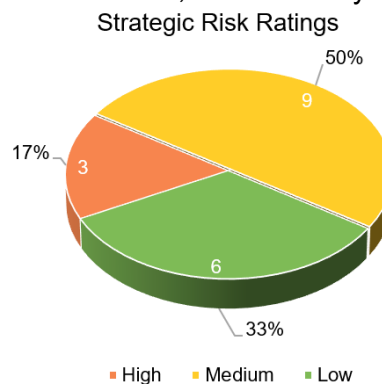
In May, Enterprise Risk plans to facilitate risk assessments for MS Teams Phase 2 and a pre-implementation risk assessment for the new agency management system, myAgency.

Strategic Risk Management

Citizens' ERM Framework defines strategic risk as the uncertainty of an event, or action, leading to a consequence which may result in an adverse impact on Citizens' ability to achieve the Strategic Objectives and Key Strategic Initiatives over the next 12-18 months. Risks may occur from external and/or internal events leading to complexity in mitigating the risks.

The 2020 Strategic Risks were identified and assessed in February. At the time, COVID-19 was an emerging risk; however, was recently added to Citizens' 2020 Strategic Risks. COVID-19 continues to create significant organizational, economic, and societal impacts for our employees, policyholders, agents, and vendors. During the upcoming storm season, these risks may become even more pronounced with the combination of a hurricane and COVID-19. In addition, COVID-19 may add complexity to the other 17 strategic risks. Mitigating activities including business continuity and catastrophe response plans are in place, closely monitored and executed, as necessary.

With the addition of COVID-19, a total of 18 strategic risks were identified and assessed. The risks were assessed by estimating the potential impact or severity level the risk event may have to Citizens if the event occurs and considering the probability of occurrence. The updated list of 2020 Strategic Risks along with specific ratings for each risk is included in Appendix 1 and the overall strategic risk ratings are depicted in the following graph. The overall risk rating results are 17% (3) rated high, 50% (9) medium and 33% (6) low. As of April, comprehensive mitigation plans have been developed or updated for all strategic risks.



Strategic and operational risks along with mitigating activities are recorded and periodically updated in Citizens' centralized risk registry, Resolver.

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Appendix 1 – Strategic Risk

2020 Strategic Risks		
Risk Title	Risk Description	Rating
Rate Differential	Citizens' competitive position in the market may be impacted by the combination of the statutory rate glide path of 10%, increasing litigation and approved rate increases for other Florida insurers leading to repopulation.	High
Claims Abuse	Failure to identify and stay in front of claims abuse schemes that increase litigation costs for Citizens.	High
External Influences	Uncertainty related to external events, including new or changing laws and regulations, and changing market conditions that require rapid adjustments where Citizens' mission and operations are disrupted resulting in a potentially significant financial impact.	High
COVID-19	COVID-19 continues to create significant organizational, economic, and societal impacts for our employees, policyholders, agents, and vendors.	Medium
Litigation Management System	The outcome of the solicitation of the mission critical litigation management system, which is required to effectively manage litigation cases, may result in data conversion challenges and significantly impact internal and external resources.	Medium
Market Dependence on Reinsurance	The financial model of the Florida domestic property insurance market has a high dependence on the pricing and capacity available in the reinsurance market.	Medium
CAT Response	Failure to have adequate resources to respond to a major catastrophic event.	Medium
Data Security and Privacy	The growing sophistication and variety of cyberattacks may adversely impact the organizations' performance and reputation.	Medium
Talent Management	Ability to acquire, retain and develop critical talent to achieve strategic objectives.	Medium
Vendor Management/Oversight	Given Citizens' reliance on vendors, it is critical to ensure an appropriately right-sized vendor base, validate a vendor's capability to fully perform the contract, and adequately monitor vendor relationships, performance, and contract compliance.	Medium
Managed Repair Program	Failure to fully implement the Managed Repair Program as an acceptable alternative customer solution in support of the insurance contract.	Medium

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Appendix 1 – Strategic Risk (continued...)

2020 Strategic Risks		
Risk Title	Risk Description	Rating
Product Offerings	Failure to have insurance products that balance the needs of the market, consumers, and Citizens.	Medium
Leveraging Data and Technology	The ability to leverage data and new technology in pace with market demands and expectations of Citizens by its stakeholders to ensure delivery of strategic initiatives.	Low
Assignment of Benefits	Failure to be fully responsive to House Bill 7065, AOB Reform, may result in reputational damage as Citizens is in the forefront of this effort.	Low
Ability to Adapt to Changing Revenue	Ability to recalibrate and reprioritize administrative expenses to adjust to premium fluctuations, while maintaining required capabilities.	Low
Compliance with Laws & Regulations	Unintentional acts or decisions by the company that are not in accordance with rules and regulations may result in regulatory, civil or criminal penalties and reputational damage.	Low
Ethics, Integrity, Conflicts of Interest	Violation of Citizens' code of ethics, commitment of illegal and unauthorized acts, management fraud, employee fraud or situations where multiple, conflicting interests could possibly corrupt motivation or decision-making may result in criminal charges, reputational damage or financial loss.	Low
Underwriting Data Integrity	Inaccurate assessment or classification of the risk caused by either out of date or inaccurate underwriting information, or not reviewing renewal risks periodically resulting in incorrect underwriting decisions or unintended consequences on depopulation.	Low