

# Executive Summary

Audit Committee Meeting, September 22, 2020

## THE OFFICE OF THE INTERNAL AUDITOR

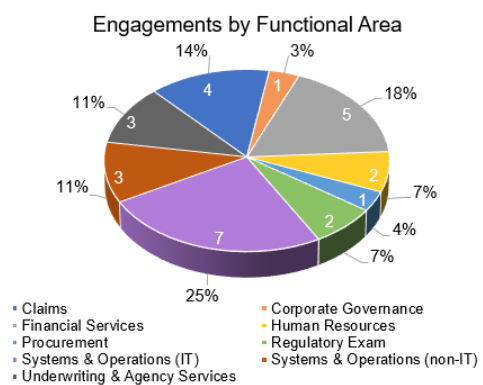
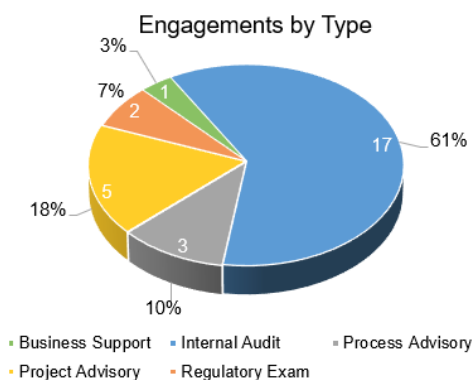
The Office of Internal Audit focuses its attention on areas where it can contribute the most by working with the organization to reduce risk, improve the control infrastructure and increase operational efficiencies. Since the last Audit Committee meeting, we focused on providing audit, risk management 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 (April 1, 2020 to March 31, 2021)	
Completed	15
In Progress	10
Planned	3
<b>Total Projects</b>	<b>28</b>



### Audit Engagements Completed

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

- Agency Management System** - With this engagement, OIA provided advice and guidance relative to phase I of the project to implement the myAgency platform. The scope of work included: facilitation of a project risk assessment to help identify and prioritize important project risks; reviewed end-to-end user acceptance testing; processes related to user access roles and permissions; automated clearing house (ACH) transactions; and the agent fee payment

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process. The risk assessment results were shared with Agency and Market Services and IT leadership as mitigating activities and recommended controls are being implemented. Internal Audit provided consultative support over areas of elevated risk prior to implementation to provide relative assurance of the design of controls for key activities.

- **CIS Disaster Recovery Exercise** - IA was asked to participate in the DR exercise and provide feedback regarding the attainment of plan objectives, the validity of management's observations from the exercise and a list of strengths and opportunities based upon the results. Following conclusion of the exercise IA reviewed the exercise results and agreed with management's conclusion that the exercise met the failover plan objectives. Several strengths and one opportunity were noted by IA: Operational procedures were executed in less time than is required by the business impact analyses; user testing was completed; reporting and change management processes were followed; and research continues for one application recently migrated to a software as a service that encountered some errors.
- **ELT Recruitment Selection Advisory** - IA performed a comprehensive analysis of the Board of Governors role in the executive recruitment, selection, promotion, and termination/separation processes for senior managers. We benchmarked Citizens practice with standards applied by comparable state entities to provide advice and guidance to the members of the Audit Committee where appropriate. Results from our work indicated that the Board has the ultimate responsibility to engage the Executive Director and Senior Managers, who serve at the Board's pleasure and are subject to engagement, suspension, or dismissal at the discretion of the Board. This ultimate responsibility may not be delegated. The Board may accomplish this engagement in any manner of its choosing and establish any other employment policies and procedures, as it deems appropriate to fulfill its public purpose. We also noted that the past recruitment and selection process relative to the Executive Director and Senior Management has conformed to Statute and Citizens Plan of Operation. The benchmark study involving similar types of state entities confirmed that the legal authority and obligations of the Board relative to the recruitment and selection process of the Executive Director and Senior Management are substantially the same as other similarly positioned entities.
- **Policyholder Claims Experience** - The objective of the audit was to evaluate the adequacy, effectiveness, and efficiency of the Claims Customer Experience processes and controls as it relates to claims customer service. Results from our audit work indicate that the key controls and processes over the Claims Customer Experience are adequate to capture customer feedback, measure customer satisfaction, and identify opportunities to improve the claims handling process. IA noted an opportunity to enhance access controls over the Voice of the Customer survey data storage. Process improvement opportunities were also noted and shared with management for consideration.
- **RFP 20-005 Audit Report** - IA periodically reviews procurements which could be considered as sole source or single-bid. For this procurement we evaluated the effectiveness of controls surrounding this single-bid procurement and noted that adequate and appropriate controls were exhibited in compliance with Company policies and Florida statute.
- **Service Organization Controls (SOC)** - The objective of the audit was to evaluate the adequacy and effectiveness of the processes, procedures, and controls over the SOC report

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governance process. Our audit work indicated that key controls and processes over the SOC report governance process are adequate to ensure annual SOC reports are obtained from the vendors in accordance with the contractual agreement. IA noted an opportunity to enhance the SOC governance control process by implementing an exception tracking and monitoring process. Corrective action is in progress.

- Third Party Access** - IA evaluated risks associated with third-party access to the Citizens information resources and validated that third-party access policies, inventories, user account management, connections and monitoring are appropriate for the organization in mitigating these risks. We noted policy and process improvements since our last audit of third-party access. The Information Technology Security Policy, Information Technology Security Standards, the Vendor Management Office (VMO) contract template and the Vendor and Contract Management Playbook have been updated to include specific provisions concerning third-party access. IA also noted that a Third-Party IT Security Governance and Access Matrix has been developed to delineate program responsibilities. Our work indicated two areas where operational controls can be strengthened to ensure that third-party access to Citizens' information resources is properly managed. This has been discussed with management and corrective action is in progress.
- Wire Transfer/ ACH** - In late 2019, Citizens completed migration to a new vendor to provide commercial banking services, including wire transfers and ACH services. The objective of the audit was to evaluate the adequacy and effectiveness of processes and controls in place to monitor and manage the execution of both wire transfer and ACH payments. Results from our audit work indicate that there are effective processes and controls relating to the authorization of wire transfers and ACH transactions, completeness and accuracy of activity paid via ACH, oversight of third-party banking relationships, and system access controls surrounding online banking systems.

Detailed copies of audit reports are included in this presentation.

## Work in Progress

There are 10 audit engagements in progress:

- 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.
- Centerpoint Configuration**      Centerpoint (Oracle Fusion) replaced independent applications previously used by Human Resources, Finance and Procurement. Oracle module configuration is complex and proper configuration of the modules is necessary to adequately restrict and/or eliminate the ability to override controls in place to prevent inappropriate transactions. Improper application configuration may lead to unauthorized transactions that may

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- 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 enabled and business operational process needs are met with configurations that are installed.
- **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.
  - **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.
  - **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

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- governance and progress during the multi-year implementation of a comprehensive identity and access management solution and corresponding processes and provide advice throughout the project as needed.
- OFAC (Office of Foreign Assets Control) Activities were transferred to Financial Services from the Legal area during the fall of 2017 because 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 the OFAC validation process.
  - Third-party Risk Management The Vendor Management Office (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 various levels of the organization. IA will evaluate the adequacy and effectiveness of controls related to VMO's third-party risk management 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 by February 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.

## Work Planned

The following audit engagements are scheduled to be completed during Q1 2021:

- Commercial Underwriting Compliance There are various State of Florida Statutory underwriting requirements which Citizens needs to follow for properties to be eligible for coverage under specific product types. An example would be coverage eligibility for properties with transient public lodging. We plan to assess the adequacy and effectiveness of controls in place to meet State of Florida Statutory underwriting requirements.
- Logging and Monitoring System and application logging is required to provide an audit trail of business and system transactions to monitor access and correlate events

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that may require additional research and follow-up. Absent appropriate logging practices being implemented, there is a risk for lack of accountability for system changes and potentially an inability to surface information to detect or reconstruct system events and/or possible threats when required. We will assess the implementation of system and application logging and monitoring to ensure that operational and security risks have been identified, corresponding logging practices have been implemented and appropriate event monitoring is occurring. We will also validate that logging fully supports the incident response process.

- Pre-event Bond Assets

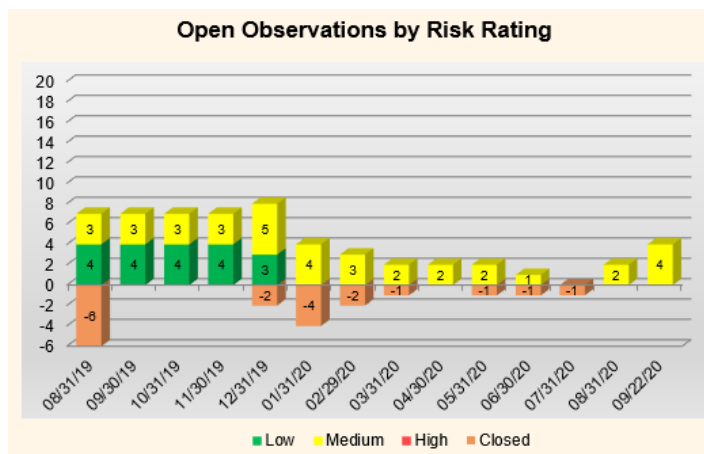
Citizens has issued multiple senior secured bonds for the purpose of funding losses in the event of future catastrophe. If a claims catastrophe should occur, Citizens would access the proceeds of these bonds held within secured trust accounts. It is critical that there is appropriate management of these assets and proper controls exist surrounding the ability to access the proceeds located in the trust account to pay out claims to the Company's policyholders. We will evaluate the adequacy and effectiveness of controls related management of assets and access to trust account proceeds.

## Resources

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

## 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 4 new medium rated 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
0	4	4

Observation Source	
IA	4
External Auditor	0
Market Conduct - OIR	0
Auditor General	0
<b>TOTAL</b>	<b>4</b>





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## Internal Control

Through various touchpoints with the business areas, the Internal Controls (IC) team continues to ensure that the Citizens' Internal Control Framework (ICF) standards are followed and that control assessments continually add value and strengthen Citizens' control environment.

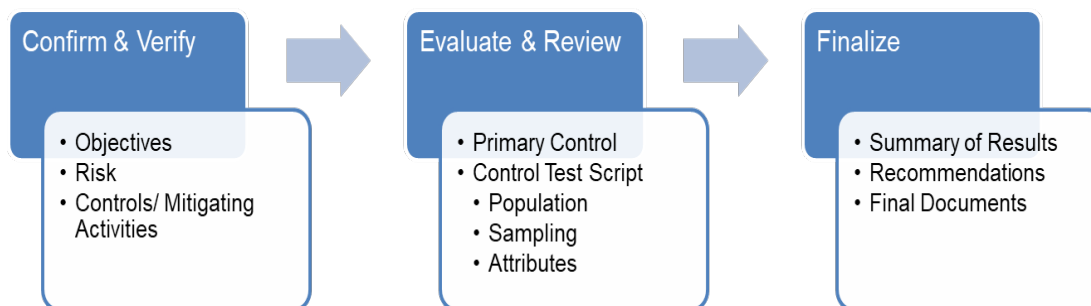
As of August, 128 primary controls have been recorded across 71 business processes.

### 2020 Control Self Assessments

Annual control self-assessments (CSAs) are performed by management to validate the effectiveness of primary controls. The CSA results are utilized to continuously improve processes and enhance the control environment. IC has periodic meetings with management to ensure that the CSAs are progressing and to provide consultative advice as needed. All business areas are on track for timely completion of the 2020 CSAs by the end of November.

### ICF Quality Reviews

Quality assurance reviews are performed by IC to ensure that business areas with primary controls adhere to Citizens' ICF standards when performing the CSAs. Since May, the quality review program has evolved to more structured approach while remaining focused on ensuring that the CSA process continues to add value to the business areas. The quality review consists of three phases:



During 2020, 10 quality reviews were completed for the following processes in the divisions of Claims, Legal, Financial Services and Enterprise Operations:

- Purchasing
- Claims Litigation
- Accounts Payable
- Claims Accounting & Disbursements
- Vendor Management Office
- Compliance
- Claims Governance
- Premiums
- Investment Accounting
- Special Investigations Unit

ICF quality review recommendations are intended to strengthen the management control self-assessment process and Citizens' control environment. Recent results and recommendations included updated objectives and risks; added primary controls and/or mitigating activities; shared leading practices on performing CSAs; and adjusted sample sizes per control frequency to improve efficiencies.

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## Risk & Control Training

The Enterprise Risk (ER) and IC teams continually enhance and expand the types of training offered on risk and control concepts. Recently, an Introduction to Risk and Controls training was delivered to individuals that are new to Citizens' risk and control frameworks prior to their participation in any type of risk assessment or their performance of a control self-assessment. The introductory training is a collaborative effort by both the ER & IC teams to provide an overview of each separate function while explaining how risk and controls align. The teams also continue to provide separate in-depth training on risk and control assessments as needed.

## Staffing

Effective August 24<sup>th</sup>, Meagan Rector joined OIA as Senior Analyst Internal Controls supporting the enterprise risk and internal controls management programs. Meagan has ten years of property and casualty insurance experience at Citizens in various operational, audit, and training roles. Meagan earned her Bachelor of Science degree in Risk Management and Insurance and a Bachelor of Science in Marketing from Florida State University. Meagan obtained the professional designation of Associate in Risk Management (ARM) and a 2-20 Resident General Lines License (Property & Casualty).

## Enterprise Risk

ER continues to mature the ERM framework by engaging cross-functional groups in collaborative, forward-thinking and insightful risk assessments that enhance decision-making in all aspects from daily activities through the strategic performance of Citizens.

## Operational Risk Management

ER facilitates interactive operational risk assessments to enable Risk Champions and management to self-identify and assess risks that may impact the ability to achieve business objectives and to determine the effectiveness of mitigation plans to reduce risks. As of August, a total of 385 operational risks have been identified and assessed across the organization. Risks are updated periodically throughout the year as needed.

### Status of the 2020 Operational Risk Assessments:

- 30% (23) of the operational risk assessments have recently been updated. There are no operational residual risks with a high-risk rating.
- 34% (26) of the operational risk assessments are currently being updated.
- The remaining risk assessments are planned for updates beginning in the 4<sup>th</sup> quarter.





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## Project and Scenario-Based Risk Assessments

ER, in partnership with various business areas, continues to make progress in leveraging the ERM framework to support risk informed decision making. At the request of business area leaders, ER facilitated the following cross-functional risk assessments:

- *COVID-19 & Tropical Cyclone*: Facilitated an August refresh of the scenario-based risk assessment conducted in April focused on several emerging or present threats considering the state of COVID-19 occurring concurrently with the tropical cyclone season.
- *myAgency*: Facilitated pre-implementation and post launch risk assessments for the new agency management system, myAgency, with Agency and Market Services, IT, and Internal Audit. The risk assessment discussions assisted management with identifying risks that should be monitored and additional controls to be implemented.

## Strategic Risks

Comprehensive mitigation plans are in place, closely monitored and executed as appropriate for each of the 18 strategic risks. The 2021 strategic risk assessment is planned for the 1<sup>st</sup> quarter.