



INTERNAL AUDIT

Wire Transfers & ACH
Audit Report

August 28, 2020



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Executive Summary

Background

The Treasury Department, a unit within Citizens Financial Services, is responsible for implementing and maintaining banking relationships and services. Part of this responsibility is managing wire transfers and monitoring ACH payments in accordance with Company guidelines. Wire transfers are generally performed by Treasury employees to pay vendors, reinsurance premiums, assumption companies, and facilitate transfers between the Company's bank accounts. ACH credit payments are executed by various internal parties on behalf of the organization for such disbursements as agent commissions, payroll, employee travel and expense reimbursement, and independent adjusting firm vendor payments.

In late 2019, Citizens completed migration to a new vendor to provide commercial banking services, including wire transfers and ACH services. As Citizens periodically has the need to wire large sums of money, the Company must ensure the processes, controls, and authorities to execute such transactions are set up correctly and securely at the new Financial Institution. In 2019, Citizens completed 68 external wires and 388 internal wires, totaling \$254,003,270 and \$6,097,031,411, respectfully. Also, in 2019, Citizens completed 322 ACH transactions totaling \$141,545,166.

Automatic Clearing House ("ACH") transfers and wire transfers are methods of moving funds from one bank account to another. During ACH transfers, information is sent in a batch to the automated clearinghouse, which clears the payments and then sends them onto the bank. In this instance the clearinghouse is essentially the middleman in this process. Wire transfers also transfer funds from one account to another, but instead of using a clearinghouse, banks are acting as middlemen. An ACH transfer can often take two to three business days to complete, whereas wire transfers send the funds along almost immediately.

Audit Objectives and Scope

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. Our scope included a review of the following areas:

- System Access
- Segregation of Duties
- Authorization of wire transfer and ACH transactions
- Third-party banking processes and controls

Our scope also included looking at fraud prevention processes and controls surrounding ACH payments in response to a recent attempt on one of Citizens bank accounts.

Processes and controls related to payroll and employee travel and expense reimbursement ACH payments are not in scope as recent Internal Audit engagements covered these areas.



Executive Summary

Audit Results

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.

Specifically, we observed:

- Effective reconciliations are in place to ensure the completeness and accuracy of financial transactions that involve ACH payments – namely commissions to agents and vendors
- Wire Transfer and ACH transactions were properly authorized in accordance with the Company's established authorization hierarchy in each respective online banking system
- Safeguards are in place to prevent potential misappropriation surrounding agent or vendor unauthorized ACH payments
- Citizens management performs periodic reviews to ensure the operating effectiveness of processes and controls of third-party banking services, through inspection of vendor respective Service Organization Controls (SOC) reports
- System access in the online banking systems are properly restricted to appropriate Citizens personnel
- Adequate segregation of duties was observed with Citizens representatives' access to online banking systems when considering processes that utilize wire transfers and/or ACH transfers
- Effective fraud prevention controls are in place to prevent unauthorized ACH debit attempts made by third parties from Citizens bank accounts.

During the audit we also noted a minor observation and process improvement opportunity which was shared with Management.

We would like to thank management and staff for their cooperation and professional courtesy throughout the course of this audit.



Appendix 1

Issue Classifications

Control Category	High	Medium	Low
<i>Financial Controls (Reliability of financial reporting)</i>	<ul style="list-style-type: none"> Actual or potential financial statement misstatements > \$10 million Control issue that could have a pervasive impact on control effectiveness in business or financial processes at the business unit level A control issue relating to any fraud committed by any member of senior management or any manager who plays a significant role in the financial reporting process 	<ul style="list-style-type: none"> Actual or potential financial statement misstatements > \$5 million Control issue that could have an important impact on control effectiveness in business or financial processes at the business unit level 	<ul style="list-style-type: none"> Actual or potential financial statement misstatements < \$5 million Control issue that does not impact on control effectiveness in business or financial processes at the business unit level
<i>Operational Controls (Effectiveness and efficiency of operations)</i>	<ul style="list-style-type: none"> Actual or potential losses > \$5 million Achievement of principal business objectives in jeopardy Customer service failure (e.g., excessive processing backlogs, unit pricing errors, call center non responsiveness for more than a day) impacting 10,000 policyholders or more or negatively impacting a number of key corporate accounts Actual or potential prolonged IT service failure impacts one or more applications and/or one or more business units Actual or potential negative publicity related to an operational control issue An operational control issue relating to any fraud committed by any member of senior management or any manager who plays a 	<ul style="list-style-type: none"> Actual or potential losses > \$2.5 million Achievement of principal business objectives may be affected Customer service failure (e.g., processing backlogs, unit pricing errors, call center non responsiveness) impacting 1,000 policyholders to 10,000 or negatively impacting a key corporate account Actual or potential IT service failure impacts more than one application for a short period of time Any operational issue leading to injury of an employee or customer 	<ul style="list-style-type: none"> Actual or potential losses < \$2.5 million Achievement of principal business objectives not in doubt Customer service failure (e.g., processing backlogs, unit pricing errors, call center non responsiveness) impacting less than 1,000 policyholders Actual or potential IT service failure impacts one application for a short period of time



Appendix 1

Control Category	High	Medium	Low
	significant role in operations • Any operational issue leading to death of an employee or customer		
<i>Compliance Controls (Compliance with applicable laws and regulations)</i>	<ul style="list-style-type: none"> Actual or potential for public censure, fines or enforcement action (including requirement to take corrective actions) by any regulatory body which could have a significant financial and/or reputational impact on the Group Any risk of loss of license or regulatory approval to do business Areas of non-compliance identified which could ultimately lead to the above outcomes A control issue relating to any fraud committed by any member of senior management which could have an important compliance or regulatory impact 	<ul style="list-style-type: none"> Actual or potential for public censure, fines or enforcement action (including requirement to take corrective action) by any regulatory body Areas of non-compliance identified which could ultimately lead to the above outcomes 	<ul style="list-style-type: none"> Actual or potential for non-public action (including routine fines) by any regulatory body Areas of noncompliance identified which could ultimately lead the above outcome
<i>Remediation timeline</i>	<ul style="list-style-type: none"> Such an issue would be expected to receive immediate attention from senior management, but must not exceed 60 days to remedy 	<ul style="list-style-type: none"> Such an issue would be expected to receive corrective action from senior management within 1 month, but must be completed within 90 days of final Audit Report date 	<ul style="list-style-type: none"> Such an issue does not warrant immediate attention but there should be an agreed program for resolution. This would be expected to complete within 3 months, but in every case must not exceed 120 days



Appendix 2

Distribution

Addressee(s) Andrew Woodward, Sr. Director - Controller

Addressee(s) **Business Leaders:**
Barry Gilway, President/CEO/Executive Director
Jennifer Montero, Chief Financial Officer
Christine Turner Ashburn, Chief, Communications, Legislative & External Affairs
Mark Kagy, Acting Inspector General
Michael Sills, Director – Assistant Controller
Long Yang, Manager – Treasury & Investments

Audit Committee:
Marc Dunbar, Citizens Audit Committee Chair
James Holton, Citizens Audit Committee Member
Bette Brown, Citizens Audit Committee Member

Following Audit Committee Distribution:
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

The External Auditor

*Audit performed by Michael Walton, Internal Audit Manager
Under the Direction of Joe Martins, Chief of Internal Audit*