

Executive Summary

Board of Governors Meeting, September 23, 2020

THE OFFICE OF THE INTERNAL AUDITOR

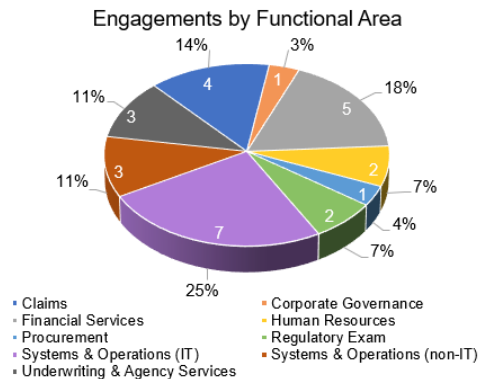
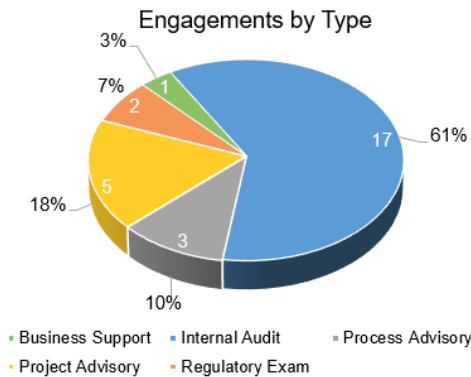
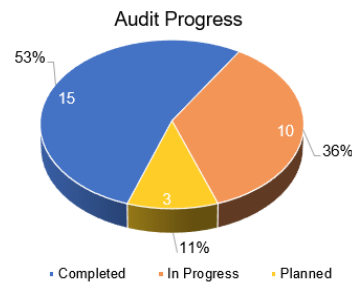
At the Audit Committee meeting, the Chief of Internal Audit noted satisfactory progress against the 2020 plans for audit, internal control, and enterprise risk.

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 |
| Total Projects | 28 |



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 the 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.

Work in Progress

There are 10 audit engagements in progress:

- **Background Checks Advisory** - Provide control advice and project support to help ensure that a comprehensive, consistent, and defensible process is in place.
- **Centerpoint Configuration Audit** - Centerpoint (Oracle Fusion) module configuration is generally complex. IA will confirm that modules are properly configured to restrict access appropriately.
- **Centerpoint Role Redesign Implementation Audit** - A consultant was engaged by the business unit to redesign and customize some of the higher risk roles. IA will validate the roles in the Citizens' production environment.
- **Co-employment Audit** - Citizens leverages temporary contingent workers as needed for a variety of operational reasons. IA will evaluate the adequacy and effectiveness of current policies, practices, and controls to ensure an effective management program is in place.
- **E-disbursements Advisory** - Provide consultative project advice during design and implementation to assess the security of ACH transactions.

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- **Identity and Access Management Advisory** - Assess project governance and progress for the multi-year implementation of an identity and access management solution and provide advice throughout the project as needed.
- **OFAC (Office of Foreign Assets Control) Audit** - Activities were transferred to Financial Services from the Legal area during the fall of 2017 because of realignment stemming from an audit. IA will evaluate the adequacy and effectiveness of controls related to the current OFAC validation process.

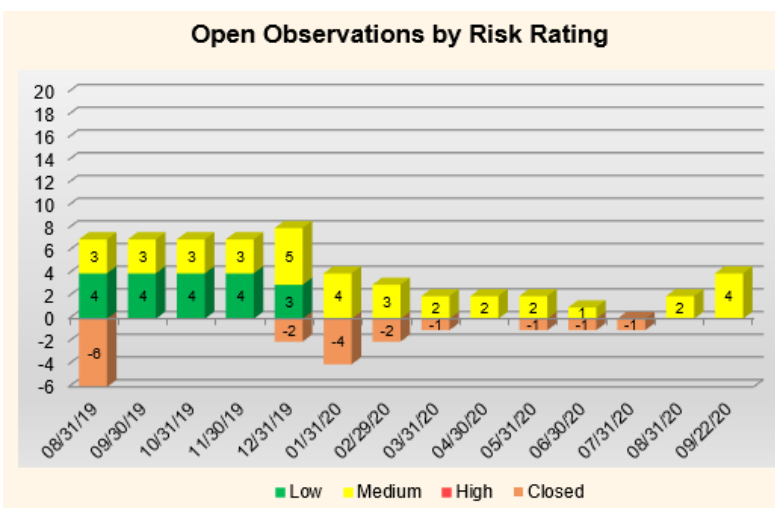
Work Planned

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

- **Commercial Underwriting Compliance Advisory** - IA will assess the adequacy and effectiveness of controls in place to meet State of Florida Statutory underwriting requirements.
- **Logging and Monitoring Audit** – IA 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 Audit** - IA will evaluate the adequacy and effectiveness of controls related management of assets and access to trust account proceeds.

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 |
| TOTAL | 4 |

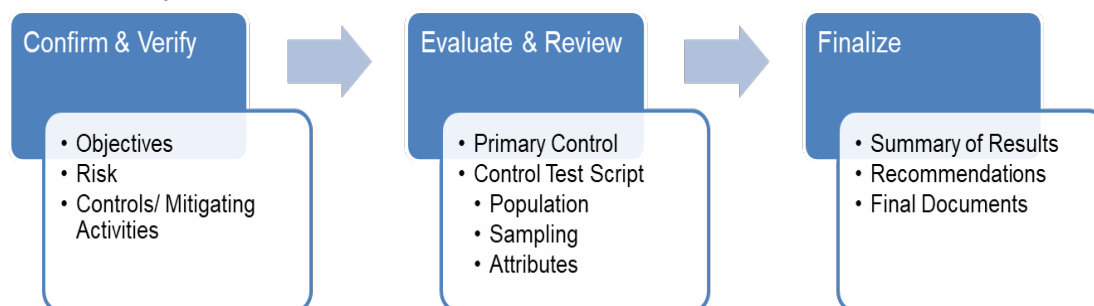
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Internal Control

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. This is accomplished through:

- **Control Self Assessments** - Annually 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 a 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:



So far for 2020 we completed 10 quality reviews:

- Purchasing
 - Claims Litigation
 - Accounts Payable
 - Claims Accounting & Disbursements
 - Vendor Management Office
 - Compliance
 - Claims Governance
 - Premiums
 - Investment Accounting
 - Special Investigations Unit
- **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. We also provide separate in-depth training on risk and control assessments as needed.

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Enterprise Risk

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. ER delivers risk identification and management support to the organization through three distinct processes:

- **Operational Risk Management** – We facilitate 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.
- **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 cross-functional risk assessments for COVID-19 & tropical cyclone risks and the myAgency implementation.
- **Strategic Risk Management** - Strategic and operational risks along with mitigating activities are recorded and periodically updated in Citizens' centralized risk registry.