

Executive Summary

Committee Meeting, September 27, 2016
Board of Governors Meeting, September 28, 2016

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 and increase operational efficiencies. Since the last Audit Committee meeting, we focused on providing advisory support to management and the Corporation and delivering audits against the 2016 audit plan.

2016 Audit Plan Execution

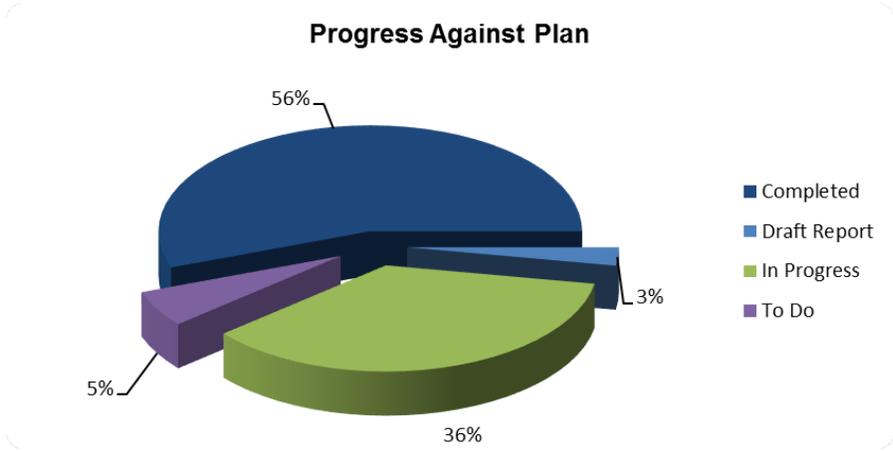
The OIA follows a risk-based approach in developing and monitoring progress for delivery of the audit plan. As we reassess our understanding of risk within the organization and consider operational challenges, we reexamine our plan, thereby confirming that it continues to provide the expected assurance and that audit resources remain appropriately focused.

Since the previous meeting, we assessed the overall plan coverage for 2016 to remain adequate and opted to defer the delivery of three audit assignments to the first quarter of 2017, given resource availability. These audits will commence in 2017 with the bulk of the work completed this year and include audits of:

- The procurement process,
- The privacy process, and
- A follow up audit on changes affected to the claims litigation vendor management and legal billing practices.

Progress against Plan

The following graph represents progress to date on the audit plan and represents 36 engagements scheduled for completion in 2016, of which 21 engagements are completed or in draft while 13 engagements are in progress.



Executive Summary

Committee Meeting, September 27, 2016
Board of Governors Meeting, September 28, 2016

Work In Progress

OIA has 10 audit engagements in progress and is actively participating in, or monitoring four development projects:

Audit Engagements

- Administrative & Executive Expenses
- Change Management
- Citizens Insurance Suite Access
- Dynamic Forecasting (advisory)
- IT Governance (advisory)
- Legislative & Federal Change Compliance
- Reinsurance
- Third Party Access
- Underwriting Quality Assurance
- Vendor Management (Independent Adjustors)

Project Monitoring:

- Citizens Insurance Suite
- Disaster Recovery & Security Privacy Projects
- Building Consolidation
- ERP Project

Initial justification and objectives for the work in progress included:

- Administrative & Executive Expenses To evaluate the effectiveness and adequacy of key business processes and control functions for executive expenses and other selected administrative expense categories and to ensure compliance with the company's expense policy.
- Change Management To evaluate the adequacy of controls to ensure that appropriate policies and procedures are in place and that scheduled changes to information systems are well managed and monitored.
- Citizens Insurance Suite Access To evaluate the adequacy and effectiveness of identity and access management for the Citizens Insurance Suite.
- Dynamic Forecasting (advisory) To provide an independent view into developing the forecasting and assurance needs of the organization.
- IT Governance (advisory) To assess current IT governance processes against industry accepted guidance and practice and provide guidance to strengthen the control environment.
- Legislative & Federal Change Compliance To review progress towards the implementation of annual changes required by relevant Florida Statutes.
- Reinsurance To evaluate risk-transfer treaties made with various reinsurers and take-out companies to verify that insurance risks were properly transferred per contractual agreements. In addition, we will review the basic

Executive Summary

Committee Meeting, September 27, 2016

Board of Governors Meeting, September 28, 2016

assumptions by which Citizens will administer reinsurance obligations to verify compliance with inforce treaties.

- **Third Party Access** To evaluate processes developed and implemented to monitor and manage third party access to applications and devices residing within the Citizens network.
- **Underwriting Quality Assurance** To assess the adequacy and effectiveness of the underwriting quality assurance processes and controls which provide continuous improvement to the underwriting process.
- **Vendor Management (Independent Adjusters):** To ensure adequate and effective quality assurance and vendor management controls are in place for managing Independent Adjusters in alignment with corporate vendor management governance practices.

Work Completed

We completed 7 audit engagements since the last Audit Committee meeting:

- Business Continuity Plan
- Claims Quality Assurance
- Claims Vendor Assignments
- Commissions
- Commercial Co-Insurance
- Compliance Governance
- Network Architecture and Design

Summary of Audit Results

The following represents a brief summary of the audit work completed and presented to management. Detailed copies of the reports and memorandums have been included in this presentation for your consideration.

- **Business Continuity Plan (Needs Improvement)** – We evaluated the completeness and appropriateness of the business continuity planning (BCP) process for the organization as administrated by the Business Continuity Office.
Results from our audit work indicate that there are documented business continuity plans in place for the Tallahassee and Tampa office locations; however, these plans are not comprehensive and have not been updated since 2013. Discussions with management indicated that short-term contingency plans have been developed which include a telecommuting strategy where staff would work remotely in the event of a business interruption. In addition, there has not been a coordinated effort provided by the Business Continuity function to facilitate and motivate business units to refresh their business continuity plans prior to and in conjunction with the move to EverBank Center. As a result, the organization may not be able to adequately and timely recover from a business interruption. Executive Management is aware of the risk and has recently initiated a program to develop an interim plan to address immediate deficiencies that exist with the EverBank BCP.

Executive Summary

Committee Meeting, September 27, 2016

Board of Governors Meeting, September 28, 2016

- **Claims Quality Assurance (Advisory)** – With this review we provided advisory support by evaluating the design and effectiveness of the quality assurance program. Key strengths identified included overall program design as well as the implementation of processes to improve reporting of results, increase auditor consistency and accuracy, identify root causes to facilitate improvement opportunities, and ensure the timely correction of errors.
OIA suggested further strengthening of controls by adopting industry practices related to the selection of sample sizes, engaging the claims teams in validation of results, understanding vendor processes to retrieve data, validating vendor system access, recognizing outstanding quality, and leveraging best practices across all Citizens Quality Assurance programs.
- **Claims Vendor Assignments (Satisfactory)** – The objective of this audit was to evaluate key controls of the Generic Assignment Module (GAM) and assess the GAM process and procedures. Additional consideration was given to evaluate whether the GAM system module is able to effectively manage expected transaction volumes.
Through interviews with management and examination of controls and process, we found the controls to manage and administer vendor assignments through GAM are well developed and documented. Procedures and workflow automatically generate system notifications and emails at key points in GAM and ClaimsCenter providing a reliable audit trail. In addition, procedures ensure vendors submit appropriate supporting documentation of work completed for review and approval by a Claims Adjustor or Supervisor.
- **Commissions (Needs Minor Improvement)** – We assessed whether the strength of key controls associated with commission rates and calculations are efficient and effective to ensure that commissions paid to agents are accurate, authorized and timely. The scope of the audit included a review of the commission strategy alignment, validation of agent commission rates applied, access to select production databases, commission rate change control process, access to the check and electronic funds transfer (EFT) disbursement files and roles and permissions assigned to BillingCenter and PolicyCenter users.
Results from our audit work indicate that the key controls around the commission rates and calculations are adequate in ensuring that commissions paid to agents are accurate, authorized and disbursed in a timely manner. In addition, the processes and controls supporting the commission strategy are well designed and operating effectively. OIA did recommend that management review the security roles and associated permissions assigned to BillingCenter users to ensure roles are not in conflict with assigned job responsibilities. In addition, management should reduce the number of IT personnel that have full administrative access to a select group of production databases.
- **Commercial Co-Insurance (Satisfactory)** – The objective of this audit was to assess the design effectiveness of the coinsurance valuation referral process and provide assurance that the process is compliant with Florida State statutes and implemented controls across the Underwriting and Claims functions appropriately address risks and that the process is well managed.

Executive Summary

Committee Meeting, September 27, 2016

Board of Governors Meeting, September 28, 2016

Through interviews with management and examination of controls and process, we found that the controls to manage and administer the coinsurance valuation referral process between Claims and Underwriting are well designed and documented. Management has taken proactive steps to enhance and improve the coinsurance valuation referral process. The enhanced process has resulted in greater automation, coordination and improved control documentation.

- **Compliance Governance (Needs Improvement)** – With this audit we compared the current organization, structure and objectives of the Citizens compliance function with the components common in other widely used compliance management frameworks, and provided guidance in the development of any additional processes and procedures.

Through interviews with senior management and others, reviews of corporate policies and examination of internal documentation, OIA identified compliance practices currently employed by Citizens. Based on this information, including an evaluation of common market practices, OIA completed a gap analysis, which identified opportunities for growth. This gap analysis was shared with management who has evaluated the suggestions and formulated relevant corrective action.

- **Network Architecture and Design (Needs Improvement)** – The objective of this audit was to assess the network architecture and design from a security perspective and to determine if adequate security mechanisms were in place and operating effectively. Results from our work indicated that the network is operating well, serving the needs of the organization and no significant deficiencies in the architecture or design were noted. In particular, there is ample capacity for current needs and peak demands, and there is an on-going effort to improve performance and reduce costs. The network team appears to be well qualified and committed to process improvement. During the audit, we found a number of security related controls requiring improvement to strengthen the security posture of the network environment. Management has begun work on corrective actions.

Audit Dashboard

The OIA August 2016 audit dashboard reporting statistics are included in the Audit Committee materials for review.

Control Deficiency Resolution

As of August 31, we are tracking 20 open items. Since the last Committee meeting eight new items were added while two medium items and one low item were resolved and closed. Overall, open items receive adequate business focus and implementation of agreed corrective action is well managed. Of the 20 open issues, five were past due:

- The action plans for two medium and one low rated observations from the 2015 Treasury Cash Management audit have passed the agreed due dates. These observations are related to improvements in spreadsheet controls, cash forecasting, and SOC & SSAE 16 report review.

Executive Summary

Committee Meeting, September 27, 2016
Board of Governors Meeting, September 28, 2016

Status: Management continues to work on developing cash forecasting processes. Management indicated that the corrective action on the SOC & SSAE 16 report review and the spreadsheet controls observations has been completed and documentation will be provided to OIA for verification and closure.

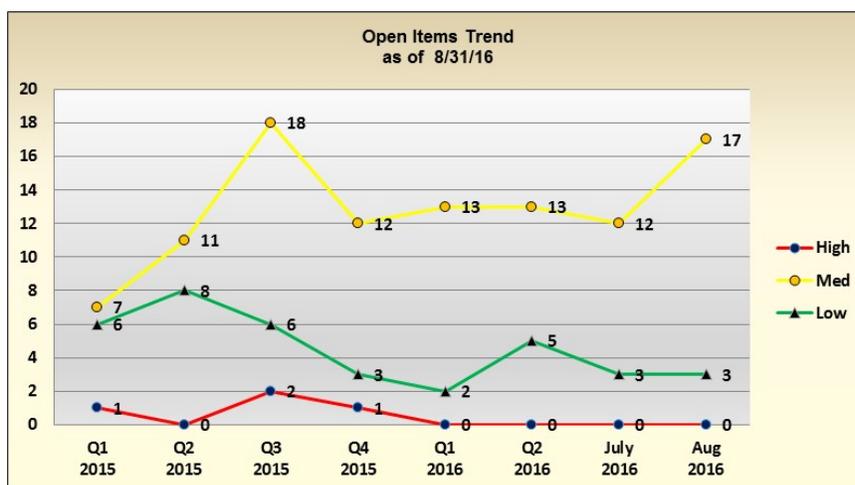
- The action plan for one medium rated observation from the 2014 General Computer Controls audit has passed its agreed due date of April 30, 2016. This observation relates to excessive access to the Citizens Insurance Suite Job Scheduler.

Status: Management indicated that the corrective action for this item is completed. OIA is reviewing the supporting documentation for closure.

- The action plan for one medium rated item from the 2015 Rate Accuracy audit was not resolved by its August 31, 2016 planned completion date. This item relates to restricting shared access to the Rating Application production servers.

Status: Management indicated that the planned application upgrade (which would have addressed this item) is delayed due to reallocation of resources and operational priorities. However, some mitigating controls have been implemented with other controls pending. IT indicated some portions of the risk cannot be effectively mitigated and will submit a formal request for approval for an acceptance of the remaining risk.

There are currently no high rated issues outstanding. Excluding the past due items above, there are eight action plans scheduled to be completed by the end of October 2016.



Update on Citizens Enterprise Risk Management (ERM)

With the recent departure of the Director - ERM, Carol McBrier Williams and a Senior Risk Analyst, Ashley Jones, the positioning of ERM within Citizens was re-evaluated. Executive management in conjunction with the Chairman of the Audit Committee concluded that for Citizens a direct reporting line to the Chief of Internal Audit would help the development of an enterprise risk management framework

Executive Summary

Committee Meeting, September 27, 2016
Board of Governors Meeting, September 28, 2016

and methodology that fosters an environment, which brings the various internal assurance providers closer in aligning terminology and risk assessment processes.

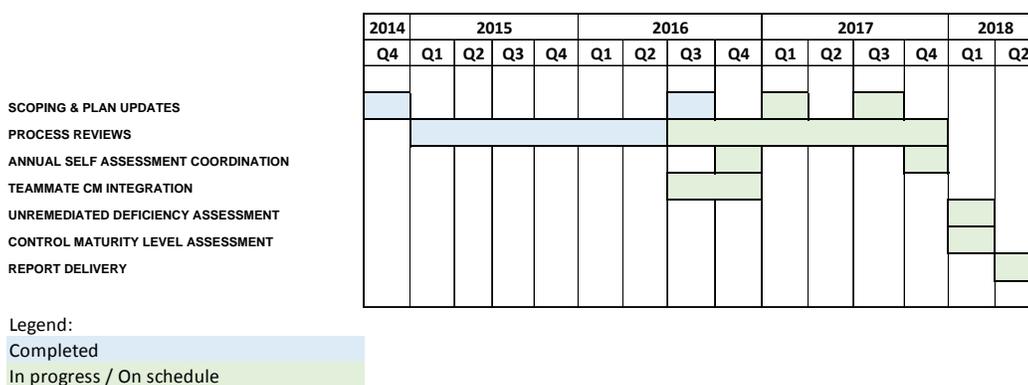
The Chief of Internal Audit is currently assessing departmental structure, role descriptions, Citizens ERM methodology and the use of the ERM system solution to determine the strength of processes. A business plan will be developed for fully embedding a well-developed ERM framework that will facilitate the management of risks throughout the organization in a similar format and enable management to self-identify, record and manage risks in a similar fashion.

Update on Citizens Internal Control Framework (CICF)

The Citizens Internal Controls Framework initiative is progressing well with the completion of 284 process and control reviews, and 2 reviews in progress. This represents 54% of the 52 process reviews planned for the 3-year rollout. Given organizational changes and new developments, we re-evaluated the original plan and reassessed the total number of processes required for inclusion in the ICF project. The impact of the reassessment caused a net reduction of 10 process and control reviews, including one previously completed process review merging with another. Each review involves fully understanding, documenting, and testing identified key controls in line with COSO 2013, the industry standard for internal control frameworks. To date, 62 key controls have been formally documented.

A high-level timeline of the Internal Control Framework plan rollout is shown in the diagram below. Attached in the documentation supporting this summary is a Framework plan in more detail.

CITIZENS INTERNAL CONTROL FRAMEWORK PLAN TIMELINE



In addition to completing process and control reviews, the Controls Support Team (“CST”) is currently administering and coordinating the annual business self-assessment with responsible business units for process and control reviews that were completed in the prior year. Furthermore, the CST is finalizing migration to Teammate CM, the Framework’s control management system, which is expected to be completed by the end of October.

Executive Summary

Committee Meeting, September 27, 2016

Board of Governors Meeting, September 28, 2016

The ICF project team has been short staffed from the inception of the project; however, we have successfully recruited Joseph West as a Sr. IT Analyst. Joseph will assist with the rollout of a COBIT 5 assessment, in addition to leading the reviews of IT General Control areas as part of the COSO assessment. Joseph has nearly 5 years' experience in IT internal audit, most recently with FedEx Services in Memphis, where he led critical information systems audits and special projects while utilizing control and compliance frameworks that included COBIT 5 and COSO. He is a Certified Information Systems Auditor (CISA), and has a MS in Information Studies and a BSc in Business Administration.

Staffing Update

Apart from recruiting a Director and staff for ERM, we are in the process of filling the Audit Manager – Forensic vacancy. We are dedicated to the professional development of staff to ensure continuous growth of knowledge, skills and other competencies throughout the year.