

Executive Summary

Committee Meeting, December 6, 2016
Board of Governors Meeting, December 7, 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.

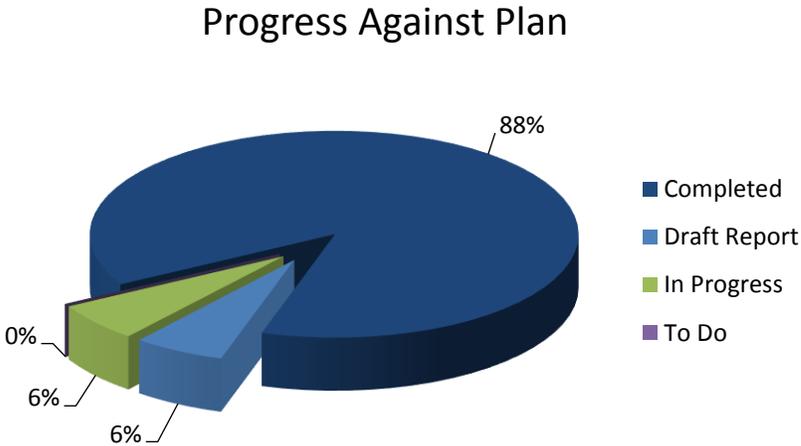
2016 Audit Plan Execution

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 re-examine 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 and opted to cancel three engagements and defer another to the first quarter of 2017. Work on two advisory engagements, assistance with Citizens Book of Business Updates and support for the Password Manager Project were cancelled as it were no longer required and we cancelled an audit of Independent Adjuster Vendor Management given resource constraints in the Claims function after Hurricane Matthew. An audit of Third Party Access has commenced during Q4 this year but completion and delivery of the report has been deferred to February 2017.

Progress Against Plan

The following graph represents progress to date on the audit plan and represents 33 engagements scheduled for completion in 2016, of which 31 engagements are completed or in draft while 2 engagements are in progress.



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Work in Progress

OIA has 2 advisory engagements in progress. These include completion of our assessment of IT Governance practices and completion of our monitoring engagement for the Building Consolidation project.

Initial justification and objectives for the work in progress were:

- IT Governance To assess current IT governance processes against industry accepted guidance and practice and provide guidance to strengthen the control environment.
- Building Consolidation To monitor governance and oversight practices deployed ensuring the success of the project. With the completion of the Tallahassee move, we are finalizing our assessment and review of financial spend and accounting practices applied.

Work Completed

We completed 9 audit engagements since the last Audit Committee meeting:

- Administrative & Executive Expenses
- Citizens Insurance Suite Monitoring
- Change Management
- SQL Database Remediation Project
- Centerpoint Project
- Traditional Reinsurance
- Legislative & Federal Change Compliance
- IT Disaster Recovery Strategy Plan Project
- Dynamic Forecasting

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.

- **Administrative & Executive Expenses (Satisfactory)** – Administrative expenses include salaries, benefits, facility expenses, depreciation, technology reallocations, travel costs and other non-travel expenses. The objective of this audit was to evaluate the effectiveness and adequacy of controls in place managing administrative and executive expenses to ensure appropriate documentation, proper approval and compliance with Citizens' policies. Results indicate that the processes and controls for the documenting, reviewing and approving both invoices and expense reports are functioning well.
- **Citizens Insurance Suite Monitoring (Advisory)** – The objective of the Citizens Insurance Suite project monitoring advisory engagement is to confer with management on new system releases, system access, and sun-setting of legacy systems and process updates and changes. OIA is participating in the recurring Citizens Insurance Suite Governance team meetings. Standing agenda

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items include presentations and discussions related to usability scorecards, statistics, trends, observations, roadmaps, and continuous improvement initiatives. The governance team is focused on resolving defects and improving system performance. Strengths noted include the overall design of the governance program, inclusion of key business areas, and timely and thorough tracking of issues through resolution.

- **Change Management (Satisfactory)** – Information Technology change management is an organization’s process to manage changes to software applications and IT infrastructure. These changes arise both proactively and reactively to facilitate system enhancements, service improvements and system incidents. The objective of this audit was to evaluate the adequacy and effectiveness of controls related to change management. Results from our audit work indicate that with the development and implementation of enhanced change management policies and processes, IT has strengthened controls in several areas. The change management review committee imposes a multi-dimensional view of potential changes related to the Guidewire product suite and the Citizens data warehouse prior to moving to development. Other improvements to the operational change process reduced production implementation risks through the development of formal definitions of automatically authorized changes, a focus on emergency changes, detailed metrics and other process enhancements.
- **SQL Database Remediation Project (Satisfactory)** – Given the importance of system security and the need to apply appropriate standards with the hardening of the SQL servers, OIA has been monitoring this project and provided an assessment of the strength of project governance in place to ensure adequate consideration and implementation of a sound security infrastructure around SQL. Overall, we noted that adequate processes are in place to support and ensure the effective completion of the project and provide appropriate security controls going forward.
- **Centerpoint Project (Satisfactory)** – In support of Citizens’ strategic goal to ensure a strong financial operating environment, a long term Enterprise Resource Planning (ERP) strategy was designed. This strategy is intended to address Citizens’ financial and human resource management administrative processing needs. OIA participates in an advisory role on the project and actively participates in project meetings, process flow reviews, and sprint demonstrations throughout various stages of the project as appropriate. With this status report we highlight particular process strengths and also noted some areas that needed to be considered in the future.
- **Traditional Reinsurance (Satisfactory)** – Citizens utilizes traditional reinsurance, together with capital markets risk transfer, as an integral component of its risk transfer strategy. The objective of this audit was to review and assess processes and procedures by which traditional reinsurance agreements are administered and verify Citizens’ compliance with those agreements. Through interviews with management and examination of controls and processes we confirmed that the controls to manage and administer the traditional reinsurance processes are operating effectively, compliant with state statutes and aligns with corporate strategic objectives. Though Citizens has not experienced a storm of sufficient magnitude to trigger new traditional reinsurance activity in over 10

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years, the administration of claims from the 2005 hurricane season is performed accurately and timely.

- **Legislative & Federal Change Compliance (Satisfactory)** – The objective of this audit was to evaluate the current processes and controls surrounding the identification, evaluation, tracking and monitoring the implementation of regulatory changes which impact Citizens' operations. Through interviews with management and examination of processes and supporting documentation, we found that the controls designed to manage and administer the impact of legislative and regulatory changes are effective.
- **IT Disaster Recovery Strategy Plan Project (Satisfactory)** – IT Management requested participation by the Office of the Internal Auditor (OIA) in the IT Disaster Recovery Strategic Plan and Strategy Transition Projects as an observer. We assessed that adequate processes are in place to support and ensure the effective and efficient management of the IT Disaster Recovery Strategic Plan Project, the disaster recovery exercise and the IT disaster recovery strategy transition program. OIA provided some informal recommendations associated with the projects which have been addressed.
- **Dynamic Forecasting (Satisfactory)** – Citizens has been pursuing the need to improve financial and strategic planning forecasts. One of the resulting initiatives is the Dynamic Financial Analysis (DFA) process. The DFA team meets twice a month with a cross functional work group comprised of representatives from Budget, Financial Systems, Accounting, Treasury, Forecasting and Research and Enterprise Risk and Analytics. The objective of the collaborative effort is to provide meaningful quarterly forecasts with an eight quarter rolling forecast. OIA has attended the meetings and provided advisory consultation. Through observation we affirmed to the continued effort by the DFA team to expand the inclusion of input from other operational functions, objectively evaluate the forecasting model and enhance the quality of the analysis. The DFA process by nature will continue to evolve to address market challenges and information requirements.

Update on Citizens Internal Control Framework (CICF)

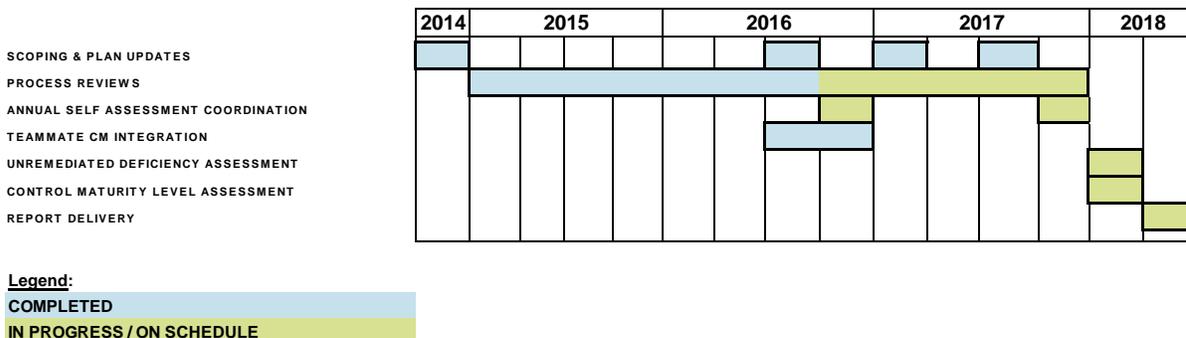
The Citizens Internal Controls Framework initiative is progressing well with the completion of 26 process and control reviews, with 4 reviews in progress. Given recent organizational changes and new developments, we reevaluated the delivery schedule and plan and reassessed the total number of processes required for inclusion in the ICF project. Following this assessment we now have 55% of the 47 reviews completed. 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 66 key controls have been formally documented.

A high-level timeline of the Internal Control Framework plan roll-out is shown in the diagram below.

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ICF Timeline

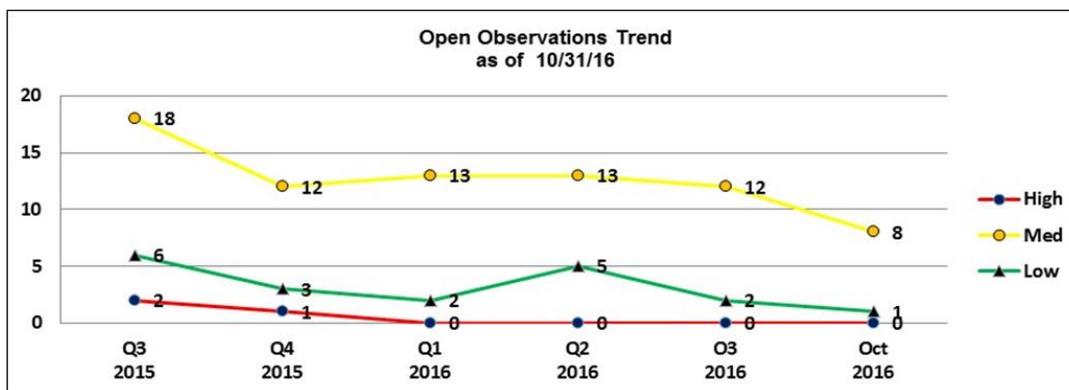


In addition to completing process and control reviews, the Controls Support Team (“CST”) has substantially completed administering and coordinating the annual business self-assessment with responsible business units for process and control reviews that were completed in the prior year. Furthermore, the CST has completed integration to Teammate CM, the Framework’s control system.

Control deficiency resolution

As of November 1, we are tracking 9 open observations. Since the last Committee meeting no new observations were added while eight medium/low observations were resolved and closed. Overall, open items receive adequate business focus and implementation of agreed corrective action is well managed.

There are currently no high rated observations outstanding. There is one action plan scheduled to be completed in November while another 7 are scheduled to be completed by year-end.



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.

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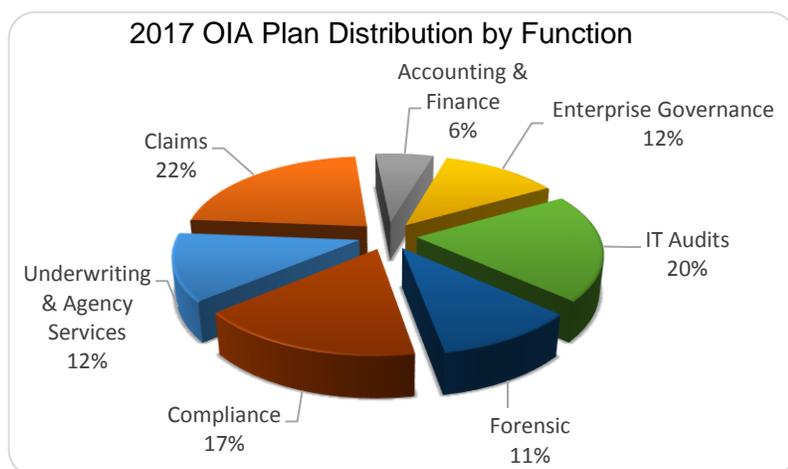
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2017 Audit Plan

The OIA presents, for review and approval, the 2017 Audit Strategy and Plan (Plan). The Plan was developed using a risk based approach to understand and assess Citizens Property Insurance Corporation (Citizens) and its' inherent risks. Additional consideration was given for future work to be conducted by the Auditor General, Market Conduct Examinations, and planned strategic initiatives.

The risk assessment completed by OIA represents our best effort in understanding the audit universe and issues that may influence the effective execution of Citizens' goals and objectives. Our assessment of risk is our own subjective opinion. Our opinion was derived from client input, ERM input, the risk and control environment (inherent and residual risk) and date of last audit. The process was performed in two steps including personnel or client interviews followed by an overall ranking of residual risk and identification of audit projects, which will either assist the organization with its effort to manage and mitigate the risk exposure or provide assurance to the Board and Audit Committee that the effective and efficient measures are in place.

The OIA audit plan represents a listing of audit projects identified through our analysis of risk. Citizens is best served if the plan is dynamic in nature and continually adjusting to meet the needs of the company. Therefore, the plan will be reviewed quarterly and adjusted as needed. Key events that may influence the plan include, but are not limited to, management response, operational re-designs/improvements, legislation, and storm season impacts.



2017 OIA Budget

The 2017 budget for Citizens' OIA presented hereunder is \$2.405 million as compared to \$2.272 million budgeted for 2016. As we continue to develop our staff and hire more business qualified individuals we improve upon the type and quality of audits we complete but this has a direct impact upon cost. For

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2017 we plan to provide guidance support with the roll-out and implementation of the ERP initiative, specifically focused to the development of appropriate governance, control and compliance processes.

2017 Budget Analysis					
OIA Expense Categories	2015 Approved Budget	2016 Approved Budget	2017 Proposed Budget	\$ Change	% of Total Proposed Budget
Salaries & Benefits	1,925,491	1,902,767	1,951,788	49,021	3%
Contingent Staffing	0	0	109,200	109,200	100%
Professional Services	120,000	50,000	75,000	25,000	50%
Training	24,200	30,000	29,800	-200	-1%
Operating Expenses	52,545	40,000	84,065	44,065	110%
Legal	72000	55,950	40,000	-15,950	-29%
Technology Chargeback	160422	193,727	96,000	-97,727	-50%
Total	2,354,658	2,272,444	2,405,853	113,409	5%
Number of Audit Staff	14	12	12		

- Salaries & benefits: Salaries & Benefits reflect the annual inflationary merit.
- Professional Services & Contingent staffing: Traditionally this amount is a placeholder should the department need external support. In respect of contingent staff we expect to utilize consulting support on the Centerpoint project and our advisory engagements where we lack leading practice guidelines.
- Training: Training is based on a dollar allocation per staff member to upkeep professional CPE requirements. Every member of staff is required to include at least 80 hours of productive training (combination of external and internal) in their individual development plans.
- Legal: Traditionally this amount is a placeholder should the department need to use external legal services.
- Operating expenses: Year on year operating expenses are stable. The increase reflect annual licensing fees for an application acquired during 2016.

Recommendations

1. Chief of Internal Audit requests Committee approval of the 2016 Audit Strategy and Plan which includes the 2017 Audit Budget.