



***Office of the  
Internal Auditor***

**Annual Report 2016**

**CITIZENS PROPERTY INSURANCE CORPORATION**  
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February 11, 2017

To: **Mr. Chris Gardner**, Citizens Chairman of the Board of Governors  
**Mr. Juan Cocuy**, Citizens Audit Committee Chairman  
**Mr. Jim Henderson**, Citizens Audit Committee Member  
**Ms. Bette Brown**, Citizens Audit Committee Member  
**Mr. Barry Gilway**, President/CEO and Executive Director

CC: **The Honorable Rick Scott**, Governor  
**The Honorable Jeff Atwater**, Chief Financial Officer  
**The Honorable Pamela Bondi**, Attorney General  
**The Honorable Adam Putnam**, Commissioner of Agriculture  
**The Honorable Joe Negron**, President of the Senate  
**The Honorable Richard Corcoran**, Speaker of the House of Representatives  
Members of Citizens Property Insurance Corporation Board of Governors

Dear Messrs. Gardner, Cocuy, Henderson, Brown and Gilway

I am pleased to submit our 2016 Office of the Internal Auditor (OIA) Annual Report as required by Section 627.351(6)(i).2., Florida Statutes. The report summarizes the department's structure and staffing, applied audit methodology, and results from the audit work completed during 2016.

I welcome your comments and suggestions regarding this report, and appreciate the support provided by the Board of Governors, the Audit Committee and Senior Management. The OIA looks forward to serving the Board of Governors, the State of Florida and contributing to Citizens efforts to achieve the corporation's goals and objectives. Thank you for your continued support as we move into 2017.

Respectively submitted,

A handwritten signature in blue ink, appearing to read "Joe Martins".

Joe Martins, CIA, CRMA, CFE  
Chief of Internal Audit  
Office of the Internal Auditor

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Chris Gardner, Chairman, Orange County • Gary Aubuchon, Lee County  
Bette Brown, Monroe County • Juan Cocuy, Palm Beach County • Don Glisson, Jr., St. Johns County  
Jim Henderson, Seminole County • James Holton, Pinellas County • Freddie Schinz, Okaloosa County  
Barry Gilway, President/CEO and Executive Director

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## **Executive Summary**

The Office of the Internal Auditor (OIA) is pleased to present the 2016 Annual Report for Citizens Property Insurance Corporation (Citizens).

Florida Statutes require the Chief of Internal Audit to submit an annual report on or before February 15, summarizing the activities of the OIA during the preceding fiscal year. Per Statute the report should include, but not be limited to: an evaluation of the effectiveness of Citizens' internal controls; recommendations for corrective action, if necessary; and summaries of the audits, reviews and investigations conducted by the office.

This report is presented to Citizens' Board of Governors, the Executive Director, the members of the Financial Services Commission, the President of the Senate and the Speaker of the House of Representatives to comply with Florida Statutes and to provide information on how the OIA accomplishes its mission.

### **Annual Report**

The OIA has been committed to developing a credible, sustainable and value added internal audit program to meet the statutory requirements as defined in the Citizens statute and the expectations of the Board of Governors, Audit Committee and Citizens management. In order to ensure that the OIA remains appropriately focused, we develop an annual audit plan (approved by the Board of Governors) that adequately addresses risks independently assessed by OIA and confirmed with Citizens management.

The results of our audit work completed during the year indicated that Citizens has a well-established and functioning control environment. In comparison to previous years the rating impacts (high, medium, or low) and root causes of issues noted, remain relatively consistent year over year. Accordingly, results of our work do not give rise to concerns regarding audit findings and impact on the overall control environment.

In an effort to have greater oversight and insight into the efficiency and effectiveness of key controls within the organization, Citizens commenced with the rollout of an Internal Control Framework across all disciplines. This project is led by the Office of Internal Audit and follows a traditional control assessment lifecycle similar to one widely used by Sarbanes–Oxley (SOX) and Model Audit Rule (MAR) compliant entities. The Citizens Internal Control Framework (CICF) project is designed to provide Citizens stakeholders with assurances that management is conducting business within a sound and proven internal control environment. Not only is this project designed to provide ongoing assurance coverage throughout many layers of the organization but also it is done in a way that adapts to changes that occur over time.

We welcome your comments and suggestions regarding the 2016 Annual Report. The OIA looks forward to serving and supporting the Board of Governors, the State of Florida and contributing to Citizens' efforts to achieve its goals and objectives. Thank you for your continued support as we move into 2017.



## Introduction

### Background

Citizens Property Insurance Corporation (Citizens) operates according to statutory requirements created by the Florida Legislature and a Plan of Operation approved by the Florida Financial Services Commission. The corporation is subject to operational reviews and examinations by the Florida Office of Insurance Regulation and the Florida Auditor General, and its financial statements are a major component of the Florida Comprehensive Annual Financial Report. Three types of insurance coverage accounts were established when Citizens was created: personal lines (PLA); commercial lines (CLA); and coastal (Coastal). Citizens has offices in Tallahassee, Jacksonville and Tampa. Tallahassee is the corporate headquarters for the organization. The Jacksonville and Tampa offices provide policy services and underwriting, claims and customer support as well as other administrative and organizational support functions.

Citizens' management continues to focus on process improvement and strengthening the control infrastructure, which supports changes to build the needed infrastructure and operational processes to support the corporation. There are a number of ongoing projects and operational changes that are at various stages of completion to ensure Citizens has the ability to continue to support its policyholders and is catastrophe ready. Among these are continued enhancement of the Citizens Insurance Suite (CIS), the Citizens Depopulation processes and Centerpoint (an ERP/Enterprise Resource Planning solution).

During the year, the organization continued with its depopulation program. Recent takeout efforts, legislative initiatives and an improving private market have combined to push Citizens' exposure to the lowest level, substantially reducing assessment risk on all Florida policyholders.

### OIA Duties and Responsibilities

The purpose, authority and responsibility of the OIA are formally defined in the internal audit charter. This charter is consistent with the Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing as defined by the Institute of Internal Auditors. The charter further reflects authority and responsibilities assigned to the OIA under Citizens' enabling statute, Section 627.351(6).

In accordance with Section 627.351(6)(i). Florida Statutes, it is the duty and responsibility of the Chief of Internal Audit to:

- Provide direction for the OIA including supervising, conducting and coordinating audits, investigations and management reviews relating to Citizens' programs and operations.
- Conduct, supervise or coordinate other activities carried out or financed by Citizens for promoting efficiency in the administration of, or prevention and detection of, fraud, abuse and mismanagement in its programs and operations.

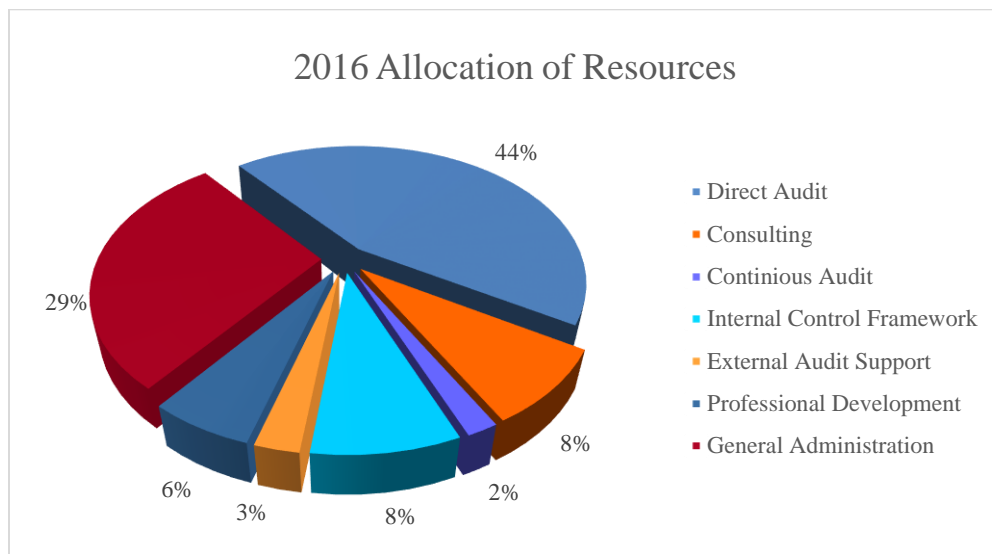


## Office of the Internal Auditor Annual Report 2016

- Submit final audit reports, reviews or investigative reports to the Board, the Executive Director, the members of the Financial Services Commission, the President of the Senate and the Speaker of the House of Representatives.
- Keep the Board informed concerning fraud, abuses and internal control deficiencies relating to programs and operations administered or financed by Citizens; make recommendations for corrective action; and report on the progress made in implementing corrective action.
- Cooperate and coordinate activities with the corporation's inspector general.

Additionally, the OIA works collaboratively with the external auditors (Dixon Hughes Goodman LLP) to support their financial statement audit. Consideration is given to other regulatory reviews/audits to minimize the duplication of audit coverage within Citizens.

In support of its mission, OIA's main focus is to support Citizens in the achievement of its goals and ultimately, to provide independent and objective assurance over the organization's internal control environment to the Audit Committee, Board of Governors and Management. In executing the audit plan, the OIA maximized independent, objective assurance through audit and advisory services that are designed to add value and improve Citizens' operations. The following diagram provides an overview of resource deployment:



Several noteworthy accomplishments have been completed and can be summarized into the following categories:

- Completion of a 2016 Audit Plan which provided assurance and delivered value to the organization in strengthening oversight and control.
- Progressing well with the roll-out of the Citizens Internal Control Framework based on COSO 2013 & COBIT 5.
- Improving our audit process with the inclusion of a more collaborative auditing concept.
- Revising our approach to audit engagements by including greater focus on process improvement, thereby adding more value to the organization.



## Standards of Audit Practice

Citizens operates according to Section 627.351(6)(i), Florida Statutes, and the *Plan of Operation* approved by the Florida Financial Services Commission. Given that the OIA statute does not include a specific requirement for auditing standards to govern the Citizens OIA program, OIA elected to follow the *International Standards for the Professional Practice of Internal Auditing* for all engagements. The Standards are principles-focused, mandatory requirements, consisting of statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance, which are internationally applicable at organizational and individual levels and include:

- Attribute Standards
  - 1000 – Purpose, Authority, and Responsibility
  - 1100 – Independence and Objectivity
  - 1130 – Impairment to Independence or Objectivity
  - 1200 – Proficiency and Due Professional Care
  - 1300 – Quality Assurance and Improvement Program Performance Standards
  
- Performance Standards
  - 2000: 2010 – Planning; 2020 – Communication and Approval; 2030 – Resource Management; 2040 – Policies and Procedures; 2050 – Coordination; 2060 – Reporting to Senior Management and the Board; 2070 – External Service Provider and Organizational Responsibility for Internal Auditing
  - 2100 – Nature of Work
  - 2200 – Engagement Planning
  - 2300 – Performing the Engagement
  - 2400 – Communicating Results
  - 2500 – Monitoring Progress
  - 2600 – Communicating the Acceptance of Risks

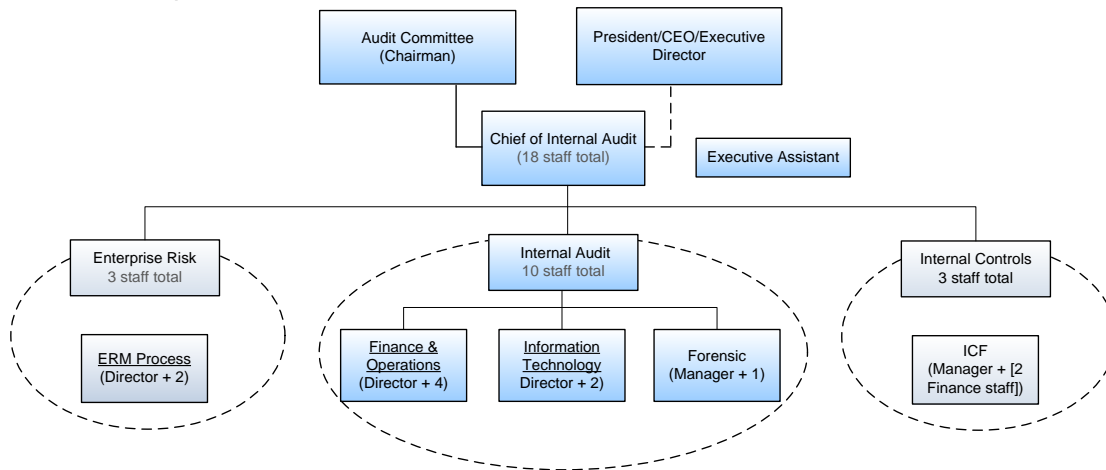
The OIA also uses the following accepted industry frameworks for guidance when conducting audits: the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework for financial/operations/compliance audits; the Control Objectives for Information and related Technology (COBIT), the Information Technology Governance Institute (ITGI), the National Institute of Standards and Technology (NIST) and Information Technology Infrastructure Library (ITIL) when conducting technology audits.



## Organization and Administration

### Organization Structure

The Chief of Internal Audit is appointed by the Board of Governors, reports to and is under the general supervision of the Board, and is not subject to supervision by any Citizens employee. The Chief of Internal Audit reports to the Board through the Audit Committee. The following chart details the OIA departmental structure.



During 2016, following a realignment of the responsibilities associated within the Corporate Risk function, the Chief of Internal Audit assumed leadership responsibility for the Enterprise Risk Office.

### Training

In alignment with the *International Standards for the Professional Practice of Internal Auditing*, the OIA staff is required to maintain their professional proficiency through continuing education and training. Professional staff is required to receive at least 80 hours of continuing education every two years. This is accomplished by having the professional staff attend courses and/or conferences during the year.

Likewise, the OIA has an internal standard of 80 hours of training during each calendar year. This is achieved by attending Citizens' internal training and external courses and/or conferences during the year.

### Certifications and Advanced Degrees

The OIA brings various backgrounds of expertise to Citizens. Certifications and advanced degrees held by the Chief of Internal Audit and/or staff during the reporting period includes:

- Certified Internal Auditor
- Certification in Risk Management Assurance
- Certified Financial Services Auditor
- Certified Information Systems Auditor
- Certified Public Accountant
- Certified in Risk and Information Systems Control





- Certified Information Security Manager
- Certified Fraud Examiner
- Master of Business Administration
- Masters of Accountancy
- Master of Science in Information Assurance
- Master of Science in Computer Information Systems

## **Affiliations**

The OIA participated in various affiliations during the reporting period, in support of the internal auditing profession, and gained insurance industry knowledge through attendance at chapter meetings or industry focused training:

- The Institute of Internal Auditors (IIA) & affiliates
- Insurance Internal Auditing Group (IIAG)
- Insurance Accounting and Systems Association (IASA)
- Information Systems Audit and Control Association (ISACA)
- Association of Certified Fraud Examiners (ACFE)
- The American Institute of Certified Public Accountants (AICPA) & affiliates
- Financial Executives International (FEI)

## **Accomplishments**

The OIA has continued to develop a credible and sustainable internal audit program for the organization. During 2016, the OIA achieved several key accomplishments, including:

### **Audit Plan Execution**

The following reports/memorandums were issued during 2016:

- Administrative & Executive Expenses
- Benefit Plan Reconciliation
- Budget Process Advisory
- Business Continuity Plan
- Centerpoint Project
- IT Change Management
- Citizens Insurance Suite Monitoring
- Claims Quality Assurance
- Claims Resolution Process
- Claims Vendor Assignments
- Cloud Program: Software as a Service (SaaS) Implementations
- Commercial Co-Insurance
- Commissions
- Compliance Governance
- Dynamic Forecasting
- Disaster Recovery Strategy Plan Project
- Legislative & Federal Change Compliance
- IT Network Architecture and Design
- Payroll Advisory
- Retirement Benefits Advisory
- System Development Life Cycle Compliance
- Sinkhole Managed Repair Program
- SQL Database Remediation Project
- Traditional Reinsurance
- Treasury
- Underwriting Advisory
- Underwriting/CAS Vendor Management - MacNeill & Norvitex

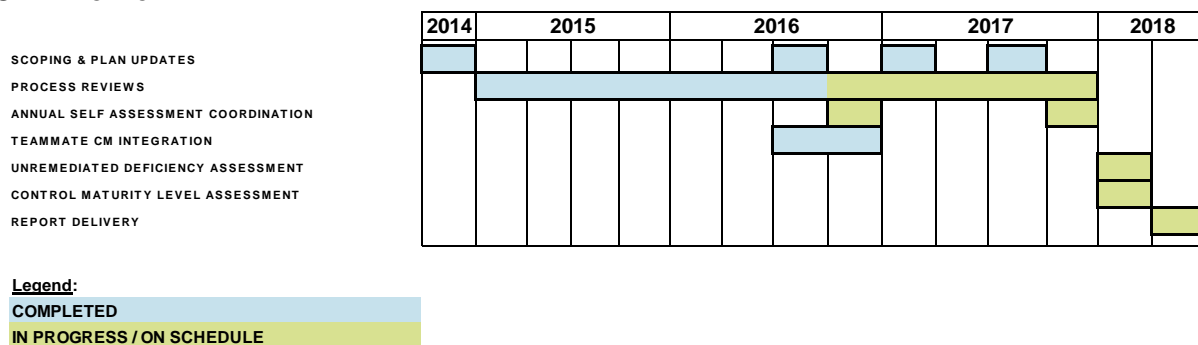


## Internal Control Framework Project

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 re-evaluated 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.

### 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. The CST has also collaborated with the external auditors (Dixon Hughes Goodman LLP) to provide them, thereby reducing applicable process owner’s time commitment during said planning procedures.

## Audit Committee and OIA Administration

We completed an:

- Annual review of the OIA and Audit Committee charters.
- Annual review of the *OIA Handbook, Internal Audit Policy and Open Items Policy*.
- Independent risk assessment, which was used to help define projects listed in our audit plan.

## Quality Assurance and Improvement Program

As outlined within the *Institute of Internal Auditors’ International Standards for the Professional Practice of Internal Auditing*, the chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity, including internal and external assessments. In compliance with this requirement, the OIA implemented a comprehensive peer review process, which is designed to assess our compliance with accepted audit standards and practices while executing audits. Results from these reviews are used to improve overall product quality and identify development needs.



## Audit Process

### Annual Planning

The OIA continues to refine its internal audit methodologies and process for Citizens. The audit plan is based on a risk-based methodology, and execution of this plan is in accordance with Florida Statutes and in compliance with the IIA's International Professional Practices Framework, which provides standards that delineate basic principles representing the practice of internal auditing.

The OIA conducts an independent risk assessment of Citizens' business units each year. The process begins with interviewing clients (Citizens' Board, senior management and external auditors), reviewing prior internal and external audit reports, and analyzing financial statements. In developing its 2016 audit plan the OIA aligned the Company's objectives and goals into its audit strategy utilizing information derived from OIA's Annual Enterprise Risk Assessment and in consultation with Management. Additionally, the OIA assessed risk at operational levels and performed detailed risk assessments on specific risks (i.e. Occupational Fraud, Information Technology, Finance/Operations) to understand their likelihood and impact on the Company and the affected business units. This information was aggregated, allowing OIA to identify the risks that have the highest impact and likelihood to adversely affect the Company from achieving its strategic goals and objectives. This "Top Down" approach allowed for the proper alignment of audit activities to provide assurance and mitigate risk within the organization at the enterprise and process levels.

Citizens is best served by an audit plan that is dynamic in nature – continually adjusted to meet the needs of the corporation. Key events that may affect the audit plan include, but are not limited to, operational changes, legislative decisions and/or storm season impacts. During 2016, OIA's primary objective related to the 2016 Audit Plan was to complete the scheduled audits and defined advisory services, and other direct audit support (executive and senior management team participation, key project meetings, etc.).

During 2016, in developing the 2017 audit plan, we revisited our risk identification and analysis process to better understand the Audit Universe (i.e., number of total processes) and improve audit coverage.

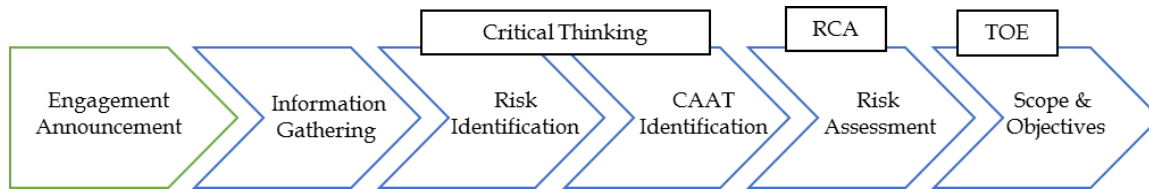
The 2017 Audit Plan was approved by the Citizens Audit Committee and is available upon request.

### Audits

In the execution of audits, OIA developed three phases in the internal audit process. These were formalized so that we ensure that the auditor follows a framework that allows for consistent execution and provides for thorough preparation for the audit, thorough evaluation of risks and mitigation controls and meaningful resolution of identified control failures. The activities performed during each phase include, but are not limited to, the following:

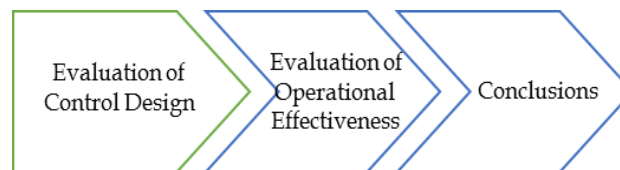


- Engagement Notification and Planning



During information gathering, the auditor obtains sufficient information to facilitate the efficient execution of the audit. Information gathering activities typically consist of interviews/discussions with key individuals and reviews of background information/associated documentation. Auditors typically document a high-level process overview/narrative relevant to the area under review (incorporating processing/information flows, control type – manual/automated control activities, decision points, inputs/outputs, etc.). Thereafter, the auditor performs an analysis of the risks identified at the engagement level. This enables the auditor to confirm whether the risks are sufficient for the engagement to proceed (i.e. “Go”/”No Go”), and if so, determine the objectives and scope of the review. This risk assessment process will establish the primary focus, objectives and scope of the audit. Prior to commencing with the audit, the auditor communicates and agrees the defined audit objectives and scope to key stakeholders or customers in the relevant business area.

- Fieldwork



Audit engagement fieldwork is carried out to provide sufficient, reliable and relevant evidence, which provides the auditor the basis for an opinion on control design and operational effectiveness. The Auditor first assesses whether controls in place are appropriately designed to address the risks they were designed to mitigate. In instances where there are no controls, or where controls are inappropriately designed, these findings can be turned into recommendations for improvement with limited further testing to quantify the exposure (likely impact /consequences and materiality of poor design). Following the assessment of control design, further assurance should be sought through sample based testing of the operation of identified key controls. The decision on whether to proceed to test operational effectiveness will depend on the significance of that control and whether more relevant compensating controls exist. Again, in instances where it is found that controls are not executed as designed, these findings are turned into recommendations for improvement. Fieldwork steps are documented in accordance with the OIA’s Workpaper Standards.



- Wrap-up & Reporting



Control issues identified during and following completion of engagement fieldwork are documented and communicated to stakeholders/customers. Our principal product is the final report in which we express our opinion, present the audit findings, and discuss recommendations for improvement. For this reason alone, wrap-up and reporting are perhaps the most important parts of the audit process. It is important because the report is typically the only product of our work that management and the Audit Committee receive.

Every issue identified and documented in the course of an audit is rated either *high*, *medium* or *low* depending on the assessed impact of the issue upon the efficiency and effectiveness of the control structure being assessed. The audit issue ratings help determine the audit report rating, which is either unsatisfactory, needs minor improvement, needs improvement or satisfactory. Final audit reports are issued to management, the Audit Committee, as required by s. 627.351(6)(i)1.c., F.S. After the conclusion of each audit, the OIA monitors the implementation of management’s action plans, using the open-items process described in the Open Items Process section.

### Advisory Services

In addition to internal audits, the OIA also provides consultative services to the organization. These engagements are usually advisory in nature. The focus and scope of which are agreed with the client and are intended to add value and improve the organization’s governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training. During advisory engagements, OIA reviews specific aspects of a function, system or activity and provides expertise, opinions and/or suggestions for courses of action. The nature of the engagement will determine the result, which may range from oral presentations or discussions to memos summarizing the project results. An audit opinion is not rendered on the adequacy of the control environment, due to limited test work and scope of project.

### Internal Investigations

The OIA developed the *OIA Inquiries and Investigations Policy and Procedures* to document its standardized methodology for evaluating, investigating, documenting and reporting findings. Where there is sufficient cause or predication the OIA would, in consultation with the IG, complete investigations associated with:

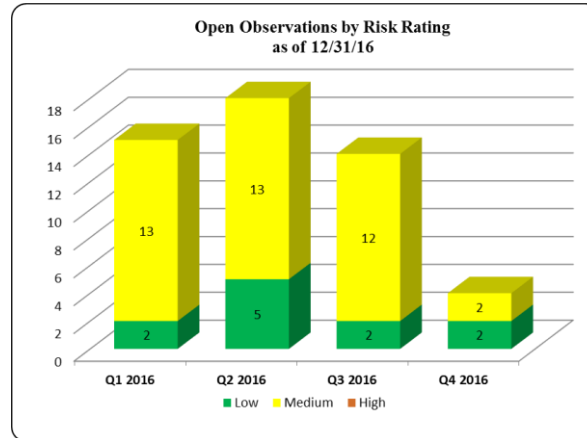
- Abuse
- Financial reporting concerns
- Fraud
- Internal control deficiencies
- Misappropriation of assets
- Mismanagement

For 2016, no investigations were conducted by the OIA.



## Open Items

The OIA developed the Open Items Process, Corporate Policy 802. The Open Items Policy addresses the process administered by OIA for follow-up, escalation, and resolution of audit observations & recommendations. The process has been established to ensure that management action plans have been effectively implemented or that management has accepted the risk of not taking action on audit results. This process was established in accordance with the International Standards for the Professional Practice of Internal Auditing Standards 2500.



Open Items statistics and those that are rated *high* or *past due* are provided to the Audit Committee on a quarterly basis. Management is taking appropriate action on the issues reported and the OIA monitors progress on the implementation of corrective action.



## Appendix 1 – Audit Engagement Summaries

During the course of the year, the OIA's risk-based approach covers many elements of the corporation's internal control systems; it is not intended to cover all areas of the corporation, nor all possible areas of risk. Instead, we focus our resources on those areas that were evaluated as the highest priority in terms of greatest risks and where our work could be most valuable, either by providing assurances through information or by effecting positive change.

Citizens' management is responsible for establishing and maintaining an effective internal control structure. The OIA evaluates and reports on the design and effectiveness of that internal control structure. Areas of audit coverage include internal audits, advisory services and financial statement audit support.

### Internal Audits

Internal audits are designed to provide reasonable assurance to the Board of Governors and senior management that the controls designed and implemented by management can be relied upon to mitigate the risk within the organization to an acceptable level. There are various types of audits including operational, financial, forensic, compliance and information technology.

### Advisory Services

Advisory services are generally less formal than audits, and as a result, an opinion is not being expressed as to the effectiveness of the controls and an audit rating is not applied. However, due consideration should be given by management to adoption of internal control recommendations, to enhance the efficiency and effectiveness of the existing internal control environment under review.

### External Audit Support (a.k.a. Client Assistance)

OIA coordinates audit engagements in order to maximize the reliance External Audit places on our work product. We further provide the External Auditors an opportunity to influence audit scope and audit procedures, for relevant projects, in an attempt to increase reliance and reduce audit time and duplication.

### Audit Engagement Summaries

The following internal audit summaries reflect reported audit results for areas in scope for 2016. All executive reports were issued to the Citizens Board of Governors (Audit Committee) and, in accordance with Florida Statutes, to the Financial Services Commission, Speaker of the House and President of the Senate. Detailed management reports are provided directly to the applicable management group.

- **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 documenting, reviewing and approving both invoices and expense reports are functioning well.

- **Benefit Plan Reconciliation (Memorandum)** - At the request of Human Resources management, OIA reviewed the benefit invoice reconciliation process and provided input regarding report validation, invoice reconciliation, and payment. We noted that processes are in place to ensure the benefit invoice reconciliations are performed timely and accurately.
- **Budget Process Advisory (Memorandum)** - The scope of the advisory engagement was to compare the current and planned financial budgeting and forecasting practices, as compared to best practices suggested by insurance industry and other whitepaper guidance. Management has taken a major step in strengthening financial planning processes with the development and implementation of scenario planning during 2015 and forecasting income and expenses for a rolling eight quarters. Overall, OIA noted that fundamental, as well as some advanced elements of a financial planning & analysis function are present, under development or refinement for 2016. Following our analysis of current best practices, we advised management to consider formally assigning leadership over all the financial planning & analysis activities to establish consistent processes, methodologies and deliverables while at the same time maintaining cross-departmental participative collaboration.
- **Business Continuity Plan (Needs Improvement)** - We evaluated the completeness and appropriateness of the business continuity planning (BCP) process for the organization. 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 in Jacksonville. As a result, the organization may not be able to adequately and timely recover from a business interruption. Subsequent to the audit, appropriate steps have been taken to improve BCP.
- **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.





- **IT 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.
- **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 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.
- **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 quality assurance programs.
- **Claims Resolution Process (Needs Minor Improvement)** - The objective of this audit was to evaluate the adequacy and effectiveness of controls related to claims resolution for front-end claims, mediation, appraisal, and litigation triage. The scope of the audit included a review of the approval of front-end claim denials, authorization and approval of settlement agreements, receipt of releases, compliance with timeliness requirements, and access to confidential records. Efforts to strengthen controls and the implementation of improvement initiatives for various claims resolution processes were noted throughout the audit. OIA found in general that claims resolution transactions are well managed with effective internal controls over the approval of denials, settlement agreements, timeliness, and the receipt of releases. OIA noted that minor improvements are needed to strengthen controls related to access to



confidential records. The improvements noted include implementing additional system restrictions to further limit access to medical records for liability claims, improving consistency of claim adjuster documentation, and conducting periodic reviews of user access. Strategic improvement opportunities were identified and discussed with management for consideration. Efficiency opportunities highlighted to management include analyzing litigation impacts of water mitigation vendor estimates for non-weather water claims and enhancing reporting capabilities for key metrics for the appraisal and mediation teams.

- **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 adjuster or supervisor.
- **Cloud Program: Software as a Service (SaaS) Implementations (Needs Minor Improvement)** - The objective of this audit was to assess controls adequacy and effectiveness related to the procurement and governance of SaaS implementations. Areas in scope included: alignment of the SaaS decision framework to cloud industry guidance; review of the SaaS strategy; application of the framework to SaaS procurements; a cross-functional evaluation of SaaS viability in solicitations; contract manager training; and monitoring of SaaS vendor agreements. The vendor management office implemented a major step in strengthening cloud SaaS procurement and governance oversight controls with the implementation of the SaaS decision framework during 2015. To complement the framework, we noted a need to create procedures outlining roles, responsibilities and deliverables for team activities as well as requirements associated with the performance of a vendor risk assessment and ongoing compliance program. We also suggested that the process be documented to ensure that all SaaS procurements utilize this framework.
- **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. 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.



- **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.
- **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.
- **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 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.
- **Disaster Recovery Strategy Plan Project (Satisfactory)** - IT Management requested participation by the OIA in the development of the IT disaster recovery 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 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.

- **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 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 implementing corrective action.
- **Payroll Advisory (Memorandum)** - At the request of Human Resources management, OIA reviewed the payroll audit process and checklist used to perform the bi-weekly payroll audit and provided suggestions to increase efficiency and still maintain adequate controls. In addition, OIA reviewed the HR procedures used to perform the payroll audit to ensure they were accurate and complete. OIA found the bi-weekly payroll review process is well developed and sufficient to validate all transactions processed during the payroll period are correct.
- **Retirement Benefits Advisory (Memorandum)** - The objective of the audit work was to provide independent advisory for the transition of the current employee retirement plan administration from Lincoln Financial Group to Mass Mutual Financial Group. Overall, OIA noted that adequate processes and due diligence were in place and performed to support the transition of approximately \$68 million in assets between retirement plan administrators. In addition, the plan reconciliations performed by Citizens are complete and appropriate to ensure all assets moved from Lincoln were received by Mass Mutual.
- **System Development Life Cycle Compliance (Needs Improvement)** - The objective of this audit was to assess the adequacy of the systems development life cycle (SDLC) governance structure and procedures and validate that the process is well controlled and has been implemented consistently and effectively. Areas in scope included general conformance of processes with industry standards, application and compliance of the SDLC process to qualifying projects and the availability of training materials. We noted that Management has significant knowledge of SDLC methods and is committed to developing a strong process. Based upon our work, we found that the consistent application and implementation of the



process to relevant projects require improvement. Appropriate action was taken by management and the issues were resolved.

- **Sinkhole Managed Repair Program (Needs Improvement)** - The objective of this audit was to provide assurance that the sinkhole managed repair program (SMRP) is properly functioning and to offer guidance for future managed repair programs. The scope of the audit included review of related solicitations and contracts, assignment, credentialing and management of contractors, subcontractors and monitoring engineers, evaluation of liability insurance requirements for contractors and subcontractors and the monitoring of stabilization projects. The SMRP was a direct result of a series of global sinkhole settlement agreements and was Citizens' first managed repair program. The extensive lessons learned during this program will provide a foundation for future similar programs. Based on our work we found that there is a need to strengthen the management of subcontractors and to increase onsite inspections. In addition, more detailed liability insurance requirements for vendors would ensure appropriate coverage and reduce potential risk for future managed repair programs or other contracted services.
- **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.
- **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, are compliant with state statutes and align with corporate strategic objectives. Though Citizens has not experienced a storm of sufficient magnitude to trigger new traditional reinsurance activity in over 10 years, the administration of claims from the 2005 hurricane season is performed accurately and timely.
- **Treasury (Satisfactory)** - The objective of this audit was to assess processes in place to manage the effectiveness of the Treasury Unit's cash management and forecasting functions and verify that statutory and regulatory obligations are appropriately achieved. OIA made recommendations for enhancements to the manual cash forecasting process, end user computing controls and the SSAE 16 review process. Management has been pro-active in developing appropriate remediation strategies. The Treasury Unit is performing their stated responsibilities; however, we are of the opinion that there are opportunities to expand the treasury unit's capabilities and provide additional value to the organization through enhanced



communication with revenue and expense related business areas and automate the process through an integrated treasury management system.

- **Underwriting Advisory (Memorandum)** - The audit work was performed at the request of Underwriting Services Management due to the recent realignment of underwriting responsibilities, system changes and process streamlining. The objective of the advisory work was to review the expedited underwriting process to provide input regarding potential gaps or unidentified risks, and possibly identify opportunities for efficiency improvements. Overall OIA noted that adequate processes are in place to ensure Expedited Underwriting responsibilities are performed timely and accurately and that proper controls have been implemented to mitigate significant underwriting risks.
- **Underwriting/CAS Vendor Management - MacNeill & Norvitex (Satisfactory)** - The objective of this audit was to assess processes in place to manage and monitor the efficiency and effectiveness of two vendors (MacNeill & Norvitex). With these vendor agreements, Citizens outsources processing of specific business transactions for Citizens underwriting and call center operations. In our initial walkthrough assessment, we determined that the transactions processed by Norvitex are not complex and are easily monitored and focused our audit work on invoice billing and reconciliation. A more comprehensive audit was conducted on the relationship management of the MacNeill vendor with a focus on credentialing, training, vendor performance monitoring, call center operations, business continuity/disaster recovery, quality assurance, system access and invoice billing reconciliation. OIA recommended vendor underwriting quality assurance reviews be performed by an independent Citizens quality assurance function. In addition, Citizens management should perform periodic assessments of the integrity of the vendor call center performance data reported on the vendor's monthly agent summary report.