# Executive Summary

AUDIT COMMITTEE UPDATE

Office of the Internal Auditor Update

At the meeting, the Chief of Internal Audit presented progress against the 2017 Audit Plan and noted that 31% of the planned engagements were either completed or in progress. Six engagements were completed since the previous meeting.

Audit Plan Execution

OIA provided an update on key activities completed since the last reporting period. The update also included a review of the latest OIA Dashboard. The following graph represents progress to date on the audit plan and represents 35 engagements scheduled for completion in 2017, of which six engagements are completed while five engagements are in progress.

Progress Against Audit Plan
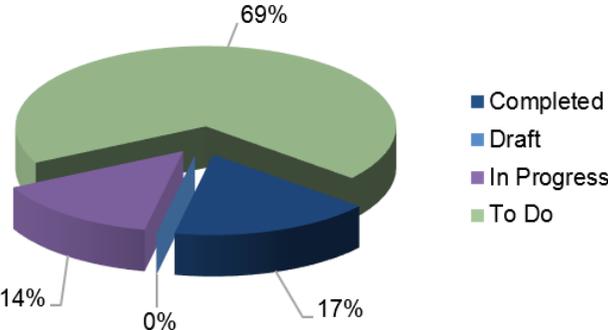
Plan Progress	
Completed	6
Draft	0
In Progress	5
To Do	24
Total Engagements	**35**

Pending Engagements	
In Progress	
• Procurement	Audit
• Legal Billing & Litigation Expense Vendor Mgmt.	Audit
• Centerpoint Project Monitoring	Advisory
• Self-Service Strategy	Advisory
• Legislative Change Compliance	Advisory

The following represents brief summaries of the audit work completed and presented to management.

- **Privacy (Satisfactory)** – During 2013, Citizens established a privacy framework to act as the foundation for the development of the company's privacy practices and policies. The objective of

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this audit was to evaluate the design of the policies, practices and processes that Citizens has implemented to provide the appropriate level of control over customers', employees' and third-parties' private information. Through review of policies, interviews with management and staff and examination of documentation we determined how Citizens manages the use of private information. Through this work we noted that processes are appropriately designed to support Citizens strategic privacy objective. We also noted a need to further develop regular monitoring and reporting on the continued strength of applied privacy compliance practices. Through implementing regular limited privacy assessments, the Privacy Officer could effectively opine and report on the condition of Citizens privacy compliance program on an enterprise level. This was discussed with management and a review/reporting program is being developed. Several other minor process improvement opportunities were identified during the review which were discussed with the management of the appropriate business units. Management will evaluate these process improvement suggestions and will take appropriate action as necessary.

- **Underwriting Quality Assurance (Needs Minor Improvement)** – Citizens established an Underwriting Quality Assurance program to ensure the personal and commercial lines business units adhere to the highest quality standards. The objective of this audit was to assess the effectiveness of the underwriting quality assurance program to ensure that quality assurance efforts effectively meet quality goals and work in the best interest of Citizens. OIA noted several strengths in the Underwriting Quality Assurance program redesign efforts which included the implementation of processes and procedures to improve the reporting of QA results, increase auditor consistency and accuracy, identify root causes to facilitate improvement opportunities, ensure the timely correction of errors and collaborating with the Underwriting teams to utilize the QA results to improve the efficiency and effectiveness of the business areas. The audit indicated sound controls are in place to ensure the underwriting quality assurance programs effectively identify gaps, training opportunities and process improvements. OIA recommended management to engage the IT department to review the Q-Center application and related controls, processes and documentation to ensure compliance with internal IT Policy Standards.

- **Citizens Insurance Suite Access (Needs Minor Improvement)** – During 2015, OIA consulted with project management to educate and develop processes and controls to mitigate segregation of duty concerns across the suite. As a result, standards were rolled out to all business owners and application administrators to help ensure adequate access controls were followed. The objective of this audit was to evaluate the adequacy and effectiveness of access controls for Billing, Claim and Policy Centers, including Contact Manager, within Citizens Insurance Suite. The scope of the audit included an assessment of controls related to provisioning and de-provisioning, segregation of duties, and monitoring activities for Citizens' employees, agents, vendors, and take-out companies. OIA found that the provisioning processes are generally well managed with effective internal controls over the provisioning team screening of requests, confidentiality and non-disclosure agreements with agents regarding their system access and use of data, and the annual recertification process. OIA noted that minor improvements are needed to strengthen controls

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related to monitoring privileged users, ensuring permissions within certain roles are the least privilege necessary for the user to perform their job functions, and ensuring the deactivation process for terminated employees is completed. OIA recommended the implementation of alerts or exception reports to monitor privileged users and a review of permissions within roles. Management quickly resolved any user specific concerns.

- **Citizens Insurance Suite (Monitoring)** – The objective of the review was to provide advisory support to evaluate the design and effectiveness of the governance processes in place for Citizens Insurance Suite. Efforts made by the Suite Governance Team to strengthen controls and implement improvement initiatives were noted during the review. Key strengths include the overall design of the governance program, inclusion of business areas, and tracking of issues to resolution.

- **IT Governance (Advisory)** – With this advisory OIA provided IT management with a detailed assessment of current governance practices compared to leading industry practices as well as a relevant subset of the COBIT 5 framework governance practices. The scope of our work comprised ten process areas including: strategic planning; organization and relationships; value and financial activities; resource management; compliance management; risk management; project management; quality management; managing technology outside of IT; and performance management. Several strengths were noted in governance processes including IT goals and initiatives being formally aligned with corporate goals, an IT steering committee comprised of executive management, several additional formal work groups providing governance oversight activities, strong portfolio and project management processes, the new Enterprise Rhythm program to further enhance resource and quality management practices and ongoing communications of goals and initiatives to IT employees. A detailed gap analysis inclusive of all effective practices as well as potential governance improvement opportunities for consideration was shared with IT senior leadership. Management is reviewing all observations noted and is considering the most appropriate response to strengthen governance activities and/or promote process maturity.

- **Building Consolidation (Advisory)** – Following our monitoring of the building consolidation project, we completed an assessment of project expenses to evaluate whether expenses incurred to relocate operations to the EverBank Center were accurate, appropriately authorized and did not exceed the board approved budgeted amount. In addition, we assessed management's efforts for identifying opportunities to reduce costs related to the office space consolidation. Results from our work confirmed that actual expenses incurred to relocate operations to the EverBank Center were accurate, appropriately authorized and did not exceed the board approved budgeted amount. In addition, the real estate consolidation project should result in cost savings and increase efficiencies. We encourage management to continue monitoring the realization of cost savings through completion of the four year period.

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Control deficiency resolution

As of March 1, we are tracking six open observations. Since the last Committee, three new observations were added while one observation was resolved and closed. There are currently no high rated observations outstanding.

Open Observations Trend as of 2/28/17

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Jan 2017	Feb 2017
High	0	0	0	0	0	0
Med	13	13	12	2	1	4
Low	2	5	2	2	2	2

Update on Citizens Internal Control Framework (CICF)

The Citizens Internal Control Framework has been divided into two separate projects. The first project focuses upon formalizing and monitoring the effective design and operational effectiveness of financial and operational controls based upon the COSO 2013 framework. This initiative is progressing well with the completion of 31 process and control reviews, and 6 reviews in progress. This represents 88% of the total number of process reviews either completed or in progress. To date we documented 80 primary controls and, together with respective process owners, completed the relevant control scripts. In addition to documenting control scripts, testing procedures were created and light testing was performed as part of each processes review.

Analysis of Process Reviews by Function

Processes

Legend:
- Process Completed
- Process in Progress
- Process not Started

#	Human Resources	Financial Services	Operations	Claims	Legal	Underwriting & Agency Services	Legislative & External Affairs	Corporate Governance	Information Technology
12		Not Started							
11		Not Started							
10		Not Started							
9		In Progress							
8		Completed							
7		Completed							
6		Completed							
5		Completed		Completed	Not Started	In Progress		Completed	
4	Completed	Completed	In Progress	Completed	Not Started			Completed	
3	Completed	Completed	In Progress	Completed	Completed	Completed		Completed	
2	Completed	Completed	In Progress	Completed	Completed	Completed		Completed	
1	Completed	Completed	In Progress	Completed	Completed	Completed		Completed	

Information Technology: COBIT 5 - TBD

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The second project focuses exclusively on strengthening practices and internal controls within the Information Technology function. For this initiative we are using COBIT 5 as the base framework through which a detailed assessment and gap analysis will be completed for every process. At the same time we will conduct an inherent risk assessment to identify impactful risk that has to be mitigated through strong controls (primary controls) in order to ensure achievement of organizational goals and objectives. This project has been delayed as we could not retain appropriate staffing. Our staffing issue has been resolved, we are currently developing the project plan, reviewing procedures and control documentation templates. We will commence with a pilot during the second quarter of this year and plan to present detail plans at the next Audit Committee meeting.

Update on Enterprise Risk Management (ERM)

Following the last meeting we continued with defining Citizens approach to managing risks going forward and developed a detailed framework based on the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Enterprise Risk Management Framework. This framework describes responsibilities and governance structure, the foundation and components of this program, the external and internal environment to provide necessary context for assessment of Citizens risks, an introduction to risk appetite, and the methodology for developing our risk profile. The framework also provides the basis for the development of Citizens Enterprise Risk Management policy, procedures and report structures (Copy included in pack) and defines the components of ERM and the following steps through which risks will be identified, managed and mitigated:

1. **Establish** the Context - understanding and articulating the internal and external environments of Citizens. The environment may generate risks that cannot be controlled, or constrain the way we respond to a risk.
2. Initial Risk **Identification** - using a structured and systematic approach to recognizing where the potential for undesired outcomes or opportunities can arise.
3. Analyze and **Evaluate** Risks - considering the causes, sources, probability the risk will occur, the potential positive or negative outcomes, and then prioritizing the results of the analysis.
4. **Develop** Alternatives, if applicable - systematically identifying and assessing a range of risk response options guided by risk appetite.
5. **Respond** to Risks - making decisions about the best options(s) among a number of alternatives, and then preparing and executing the selected response strategy. Risk responses will involve one or more of the following: mitigate, exploit, accept, transfer, avoid.
6. **Monitor** and Review - evaluating and monitoring performance to determine whether the implemented risk management options achieved the stated goals and objectives.

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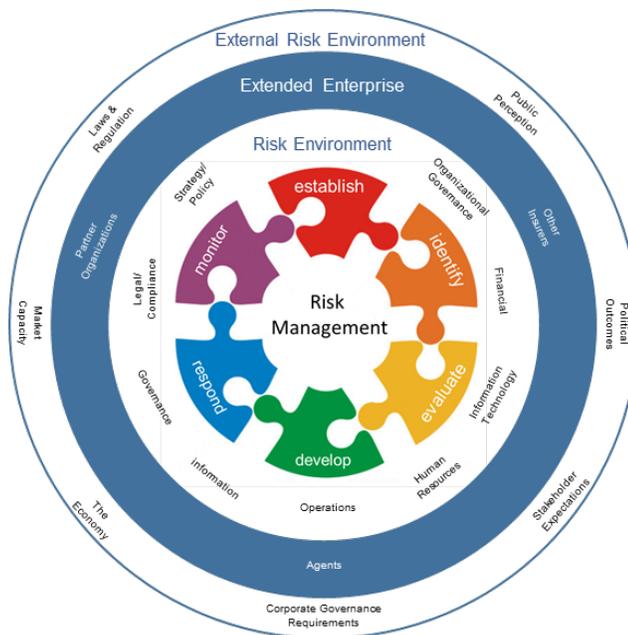
Work has commenced in identifying Citizens risk universe, aligning the universe with that defined by OIA and ICF, and consolidating all operational risk assessment and analysis work already completed. We also refreshed the Risk Steering Committee Charter and are currently in the process of developing a risk policy document; risk identification, assessment and monitoring procedures; identifying an appropriate software solution, developing report structures and refining our approach to assess risk appetite and risk tolerance.

Staffing update

Following the last meeting we revisited the staffing composition and opted not to hire a Director of Enterprise Risk. After an extensive staffing search it was agreed that Citizens will be better served should we staff the function with two dynamic well qualified persons, one skilled in strategic risk and one skilled in operational risk. The operational risk position is already filled. We are now recruiting to fill the Manager - Enterprise Risk position. The incumbent will be responsible for assisting the organization with their development and management of a strategic risk register.

Within Audit we have the Manager Forensic Audit vacancy which is being recruited. For the Internal Control Office we opted to assign three audit staff (two Audit Managers and one Senior Auditor) to assist with the management of the COSO roll out and to kick off the COBIT project.

We are dedicated to the professional development of staff to ensure continuous growth of knowledge, skills and other competencies throughout the year. Which is evidenced by most of the staff holding at least one professional certification in addition to college degree.

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Chief Financial Officer Update

Chief Financial Officer, Ms. Montero presented the December 31 , 2016 Unaudited Financial Report, Quarterly Financial Analysis and Water Loss Trends.

External Auditors Update

Matt Church and Brian Smith from Dixon, Hughes Goodman LLP presented the 2016 Financial Statement Audit Plan.

Action Item - Internal Audit Consulting Services

On November 15, 2016 Citizens issued Request for Proposal (RFP) No. 16-0005 for Internal Audit Consulting Services. Fourteen (14) proposals met Citizens' mandatory requirements and were evaluated by an Evaluation Committee. On February 3, 2017, the Evaluation Committee conducted a publicly-noticed telephone meeting and recommended awarding contracts to all fourteen (14) vendors in order to assure that the skills and experience required to fulfill the annual audit plans would be available over the contract period.

This Action Item seeks the Committee's approval to enter into contracts with the panel of fourteen (14) auditing/consulting firms to augment the Office of the Internal Auditor (OIA) staff on an as-needed basis. The number of recommended firms is considered reasonable due to the variety of potential engagements and the possibility of conflicts.

The total cost of all awarded contracts will not exceed $2,000,000 over the five (5) year base term and five (5) year optional renewal term. The estimated annual cost is $200,000 but this may be exceeded in a particular year based on need.

Recommendation

Staff recommends that the Citizens Board of Governors:

a) Approve the recommended awards and resulting contracts with the fourteen (14) firms identified on Exhibit A; and
b) Authorize staff to take appropriate or necessary action consistent with this Action Item.