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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 67% of the planned engagements were either completed or in progress. Three 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 27 engagements scheduled for completion in 2017, of which nine engagements are completed while nine engagements are in progress.

Plan Progress	
Cancelled	12
Completed	9
Draft Report	0
In Progress	9
To Do	9
Total	**27**

Progress Against Audit Plan

Pending Engagements	
In Progress	
• Automated Underwriting	Audit
• Acuity System Functionality	Audit
• Special Payment Programs	Audit
• LAE Process Analysis	Project
• End User Computing	Advisory
• Centerpoint Project Monitoring	Project
• Self-Service Strategy	Advisory
• Legislative Change Compliance	Project
• Non-Automated Personal Lines Underwriting	Advisory
Draft	
None	

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

- **Procurement (Satisfactory)** - The objective of this audit was to evaluate the adequacy and effectiveness of controls related to the vendor solicitation processes. The scope of the audit included a review of the solicitation processes from posting the solicitation through awarding the vendor.
OIA noted that the procurement processes are well managed with effective internal controls over adherence to regulatory requirements, selection of procurement method, evaluation process, confidentiality of information, and file audits. OIA noted an opportunity to improve training provided to Evaluation Committee members. OIA recommended calibration discussions to ensure scoring criteria is understood prior to the start of the evaluation process and enhancing training to include listening to a mock public meeting and/or portion of a previous meeting. Management also recognized the need for improved training and action plans are in progress.

- **Legal Billing & Litigation Expense Vendor Management (Satisfactory)** - The objective of this audit was to evaluate the adequacy and effectiveness of the processes and controls used to

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administer and monitor legal firm billings, educate firms on expense policy and vendor management process. The scope of the audit included a review of observations from prior audits.

OIA concluded that the Legal Billing & Litigation Vendor Management processes are well managed with effective internal controls. Through review of policies, interviews with management and staff, data analytics and examination of documentation, we evaluated how Citizens manages and administers firm related legal bills. The OIA noted that the Legal Billing & Litigation Vendor Management departments have improved their operational controls, process oversight and coordinated communication with firms. Furthermore, Legal Billing and Vendor Relationship Management is strategically engaged to continue to mature the process. Management has implemented process improvement opportunities identified during the audit.

- **Remote Password Reset Process (Focused Review)** – Following receipt of information from an internal member of Citizens' staff, the Chief of Internal Audit and Citizens Inspector General determined that a focused review of IT security policies, procedures and standards related to password reset user identification was warranted to determine practices associated with identifying individuals prior to resetting user account passwords.

  Our work confirmed the concern reported in that, under certain conditions, an unauthorized individual may obtain access to a valid email user account. Although the risk associated with unauthorized email access alone may not be that great, email could potentially contain confidential/sensitive information or the account could be used to send malicious/damaging emails. It was recommended that management thoroughly assess the risk and determine if additional user identification controls are required for certain password resets to mitigate the risk.

  Following conclusion of our work, management implemented changes which now require a positive answer to staff's previously provided identification verification question, or a service desk ticket from the staff member's direct supervisor prior to the help desk staff performing the password reset. An on-going monitoring process to ensure that internal users have successfully configured their verification question and answer is also being established.

- **CenterPoint Project Monitoring (Interim Memo)** - We continue to provide advisory support for the implementation of CenterPoint. OIA supports the project by providing consultative advice regarding controls to business area and project management. The CenterPoint Project Team's tremendous efforts led to the successful and timely implementation of Phase I. Overall OIA noted that the project is well organized with thorough documentation, follow up, and focus on the implementation of controls.

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Control deficiency resolution

As of June 1, we are tracking five open observations. Since the last Committee meeting, one observation was resolved and closed. There are currently no high rated observations outstanding.

2016-2017 Open Observations Metrics					
	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017 to Date
Open	15	18	14	4	6
Closed	10	12	12	3	1
Risk Acceptance	0	0	0	0	0
New	13	8	2	5	0
Remaining	**18**	**14**	**4**	**6**	**5**

Update from the Internal Controls Office (ICO)

The Citizens Internal Control Framework has been divided into two separate projects focusing on COSO (operations) and COBIT (Systems). The COSO initiative is progressing well with the completion of 41 process and control reviews, and 8 reviews in progress. This represents 94% of the total number of process reviews either completed or in progress. To date we documented 84 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 process review.

This following table represents the COSO ICF plan by functional area:

# Processes	Human Resources	Financial Services	Operations	Claims	Legal	Underwriting & Agency Services	Legislative & External Affairs	Corporate Governance
18		Process not Started						
17		Process not Started						
16		Process in Progress						
15		Process in Progress						
14		Process in Progress						
13		Process in Progress						
12		Process in Progress						
11		Completed						
10		Completed						
9		Completed						
8		Completed						
7		Completed				Completed		
6		Completed						
5		Completed	In Progress	Completed				Completed
4	Completed	Completed	In Progress	Completed	Not Started			Completed
3	Completed	Completed	In Progress	Completed				Completed
2	Completed	Completed		Completed		Completed	Completed	Completed
1	Completed	Completed		Completed		Completed	Completed	Completed

Legend: Process Completed (green); Process in Progress (yellow); Process not Started (blue)

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The COBIT 5 initiative commenced during the quarter with development of an overall project plan as well as standard review procedures and control documentation templates. As our pilot we commenced with a review of the IT Security and Risk functional area. As part of standard review procedures, we started off by confirming process objectives with the business. As step two the Enterprise Risk Office facilitated inherent risk assessments, for each defined objective, to identify key (primary) risks. In step three we completed process walkthroughs, in which we identify controls which mitigate the impact of inherent risks identified (primary controls). We are currently in the process of completing a controls gap assessment for IT Security and Risk and anticipate completing the pilot during June 2017. Additionally, we commenced a review of IT Governance and are performing inherent risk assessments as part of the initial review stage.

This following table represents the COBIT ICF plan by functional area:

Cobit 5 Plan Details		Legend:		
			Process Completed	
			Process in Progress	
			Process completed	

Function	# Sub-Processes	2017			2018			
		Q2	Q3	Q4	Q1	Q2	Q3	Q4
IT Security and Risk	11	▓						
Governance	29	▓	▓					
IT Change Management	4		▓					
Enterprise Resilience (BCP/DRP)	8		▓					
Business Unit Communications	5			▓				
Technical Operations Center	5			▓				
Enterprise Architecture	5			▓				
IT Finance Management	5			▓				
Application Delivery	4				▓			
Application Quality Assurance	2				▓			
Strategy and Planning	18				▓			
Application Development	37					▓		
Infrastructure	11					▓		
Knowledge Management	5					▓		
Operations	5						▓	
Configuration Management	5						▓	
Incident and Problem Management	12							▓
Total	**171**							

Update from the Enterprise Risk Office (ERO)

Under the current plan, ERO will take both a "top-down" (strategic risks) and "bottom-up" (operational risks) approach in assessing risk. The operational risk assessment initiative is well underway, with the following accomplishments achieved during the second quarter of 2017:

- An inventory identified 260 separate processes operating within Citizens.
- An operational risk assessment plan and schedule was approved by executive leadership.
- Orientation meetings were conducted for process owners.
- Risk assessment meetings scheduled for Q2-2017 are being facilitated.

Our work schedule is aligned with the ICO COSO and COBIT delivery plans and both these teams are included in the operational risk identification and assessment meetings as the key (primary) risks identified impact the focus on key (primary) controls.

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ERO Progress	
Completed	45
In Progress	14
To Do	201
Total Engagements	**260**

ERO Progress
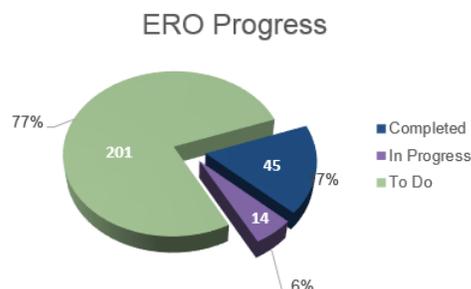
The strategic risk assessment portion of the plan will take shape in conjunction with the onboarding of Mike Tush, the second Enterprise Risk Manager, and will align with Citizens' strategy review.

Staffing update

Since the last meeting we were able to fill the open Enterprise Risk Manager position. Michael (Mike) Tush joined Citizens on June 12 and will be responsible for facilitating Strategic Risk assessments. Mike is a skilled Enterprise Risk Management professional with experience in risk transformation and governance, compliance, business and practice development, and project management. Mike joins Citizens from GuideWell / Florida Blue where he was responsible for reengineering the Enterprise Risk Management strategy and processes and developing and implementing board and senior management reports with key risk indicators (KRIs) for critical risks across the organization. Among other roles Mike held in his career he was responsible for the development and global implementation of Wal-Mart's Enterprise Risk Management strategy and processes as their Director of Enterprise Risk Management. Mike has a Bachelor of Science, Computer Science and Bachelor of Science, Mathematics from Kansas State University.

Chief Financial Officer Update

Chief Financial Officer, Ms. Montero presented a Financial Summary and Statement of Operations and the Quarterly Financial Update. The 2016 STAT and GAAP Audited Financial Statements were also presented.

External Auditors Update

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