

Executive Summary

Audit Committee Meeting, December 12, 2017
Board of Governors Meeting, December 13, 2017

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 100% 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 27 engagements scheduled for completion in 2017, of which 15 engagements were completed, and 12 are in progress.

Plan Progress	
Cancelled	18
Completed	15
Draft Report	0
In Progress	12
To Do	0
Total	27



Pending Engagements	
In Progress	
• OFAC	Audit
• Centerpoint Project Monitoring	Project
• Data Retention	Advisory
• Self-Funded Benefit Plan	Audit
• Network Assessment	Audit
• Expense Ratio Analysis Benchmarking	Advisory
• CAT Emergency Procurement	Audit
• CAT Travel and Expense	Audit
• Emergency Field Checks	Audit
• CAT Independent Adjuster Pay	Audit
• CAT Pay Policy and Execution	Audit
• CAT Delayed System Changes	Audit
Draft	
None	

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

- Acuity System Functionality (Satisfactory)** – The objective of this audit was to evaluate the adequacy and effectiveness of processes and controls and to ensure that the system integration between Acuity and ClaimCenter achieved the expected outcome and that the integrity of the data is maintained. OIA found that the system integration between Acuity and ClaimCenter was completed and achieved implementation plan objectives. A review of the implementation project affirmed that all data integrity was maintained. OIA observed that project testing activities were effectively coordinated and covered all aspects of the integration. OIA noted an opportunity to adhere to post implementation system error management procedures and recommended error messages and alerts be properly transitioned to the appropriate IT Operations group to align with SDLC procedures.

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- **Automated Underwriting (Needs Minor Improvement)** – The objective of the audit was to evaluate the efficiency and effectiveness of the controls associated with Automated Underwriting (“AUW”) to ensure that underwriting activities are executed in compliance with Citizens’ underwriting rules and guidelines and to ensure processes are in alignment with the strategy. In addition, the automated underwriting quality control program was assessed to ensure quality efforts effectively met quality goals. OIA found that AUW process has enhanced underwriting’s workflow capabilities to allow underwriting activities to be auto-assigned to underwriters based on skill set and severity. In addition, the Automated Underwriting Quality Control program has adequate controls in place to effectively identify gaps and ensure weaknesses in the underwriting processes are remediated in a timely manner. OIA recommended process improvement opportunities to increase the efficiencies and effectiveness of the automated underwriting process.
- **Special Payment Programs audit (Satisfactory)** – The objective of this audit was to evaluate the adequacy of the design of controls related to the Catastrophe Pay, Severance Pay, Relocation Payments, Referral Awards and Vacation Sell Back programs to ensure compliance with the respective corporate policies and to determine the effectiveness of those controls. OIA concluded that corporate policies supporting these programs clearly identify eligibility and payout criteria and authorization procedures. Controls are adequately designed to ensure that these eligibility requirements are met, transactions are properly authorized and that payments are accurately calculated and properly distributed. Detailed testing of transactions for all five programs confirmed that these controls are working effectively.
- **End User Computing** – The objective of this advisory was to provide guidance relative to industry leading practices governance and program components with the objective to assist IT management in the development of an end user computing program. OIA provided leading practices, sample policies, sample materiality & complexity, framework and processes that will best serve the needs of the company.
- **Loss Adjusting Expense (LAE)** – A cross functional team of subject matter experts, including representatives from Actuarial, Finance, Claims, IT, and Office of Internal Auditor was formed to analyze end to end claims processes, decision points, and associated costs as well as perform in-depth reviews of financial, claim and legal cost data to identify drivers of increased claims litigation and improvement recommendations to reduce loss adjustment expense (LAE) costs. OIA led the effort to document end to end claims processes, identify key decision points, and costs. OIA collaborated with the LAE Project Team, Process Improvement, Claims, and Litigation to document claims processes from the first notice of loss through claims resolution and from the notice of litigation through the outcome of the suit. The team identified opportunities to capture additional data throughout the processes to facilitate more robust and comprehensive analyses of strategic decisions.
- **Legislative Change Compliance** – The objective of this advisory engagement was to monitor steps taken by Citizens to comply with the 2017 legislation changes. OIA found that appropriate steps have been taken to ensure compliance with the fraud prevention standards enacted as the result of 2017 legislation.

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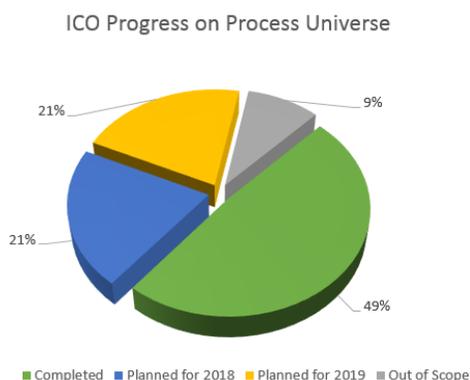
Control deficiency resolution

As of November 15, we are tracking two open observations. Since the last Committee meeting, one new observation was added, while no observations were resolved and closed. There are currently no high rated observations outstanding.

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

Update from the Internal Controls Office (ICO)

During 2017, OIA, ERO and ICO collaborated to define a single process universe to use in the development of their execution plans. As a result, a total of 76 processes have been identified of which 69 are eligible for inclusion in the ICF. At the end of November 2017, 37 of the 69 (54%) processes reviews have been evaluated (see Exhibit ICO-01 on page 10). Of the remaining 32 process reviews we plan to complete 16 in 2018 with the remaining 16 reviews scheduled for 2019. COBIT 5 benchmarking is ongoing as part of the IT process and control reviews to further identify opportunities for enhancement of the IT control environment. The ICO also facilitated control self-assessments in preparation for a formalized kick-off of the ongoing monitoring program for effective design and operating effectiveness of controls to begin in 2018. The following graph represents progress to date:



Plan Progress	
Completed	37
Planned for 2018	16
Planned for 2019	16
Out of Scope	7
Total	76

As of November 15, 2017 88 primary controls were identified and documented for the 37 process reviews completed. For each of these controls we created a testing program which will be used by the business units to self-evaluate each of these controls. In the initial review, completed by ICO, an abbreviated form of testing was performed to verify existence and operation of the control.

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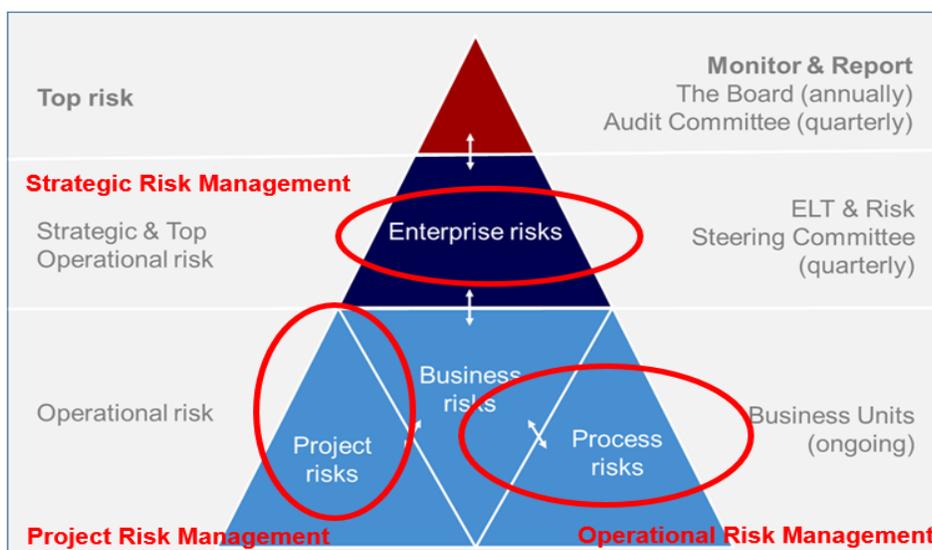
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Update from the Enterprise Risk Office (ERO)

The ERO facilitates the implementation, development, maintenance and consistent application of the corporate ERM framework. Citizens uses a “top-down” (strategic risk assessment) and “bottom-up” (operational risk assessment) approach in assessing risk throughout the Enterprise.

The ERO and ICO work collaboratively in assisting the organization with their operational risk identification and assessment meetings. The operational risk assessment initiative is well underway and in 2017, 21 (28%) of the 76 process risk assessments were completed.

The strategic risk assessment implementation plan was presented to the Risk Steering Committee and this methodology will be embedded into the Strategic Planning and Annual planning processes. The assessment of strategic risk focused on the identification, assessment, management and reporting of the key risks that may impact Citizens’ ability to achieve its strategic objectives and key strategic initiatives.



Staffing update

Since the last meeting we filled the open Audit Manager position. Patrick Lynch joined OIA on November 6, 2017 and is responsible for performing various types of audit engagements and data analytics mainly focused towards strengthening Citizens awareness and mitigation of occupational fraud. Kirk Elmore transferred from OIA to ICO to fill the vacant Senior Internal Controls position. The ICO is now fully staffed. We are currently recruiting to fill the two vacancies, one Senior Internal Auditor in OIA and a Senior Risk Management Analyst in ERO.

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2018 Audit Plan

The OIA presented, 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

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 and was derived from client, other assurance party and risk input. 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.

2018 OIA Plan Distribution by Function



2018 Audit Plan by Engagement Type



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2018 Internal Control Plan

As of November 2017, 37 out of the 69 process and control reviews have been completed. The ICO will continue process and control reviews on additional process areas through 2019. Each review involves understanding, documenting, and testing identified primary controls in line with COSO 2013, the industry standard for internal control frameworks. There are 16 process and control reviews planned for 2018. Of these 16 reviews, 11 process and control reviews are in the Information Technology (“IT”) function.

In addition to the 16 process and control reviews planned for 2018, the ICO will continue transitioning a larger majority of the ownership of control assessments and documentation updates to the business functions in alignment with control awareness and accountability objectives through control self-assessments. As 2018 will be the first year of full implementation of the Framework in most areas, the ICO will initiate a quality assurance program in 2019 for reviews completed during control self-assessment year 2018.

ICO Plan Breakdown:



Functional Area	Completed	Planned for 2018	Planned for 2019	Out of Scope*	Control Self-Assessments**
Enterprise	1	0	0	0	1
Assurance	0	0	1	1	0
Claims	6	0	1	0	6
Communications, Legislative & External Affairs	3	0	2	0	3
Financial Services	15	1	1	1	15
Human Resources	3	0	1	0	3
Legal	1	3	2	0	1
Systems & Operations	4	12	5	2	1
UW & Agency Services	4	0	3	3	4
Total	37	16	16	7	34

2018 Enterprise Risk Plan

Citizens' Enterprise Risk Office (ERO) 2018 focus areas will be to:

- Roll-out a refined Strategic Risk Management process.
- Continue embedding an Operational Risk Management process and conducting operational risk assessments throughout the organization.
- Complete the implementation and roll-out of a new ERM platform.

The primary focus of Strategic Risk Management (SRM) will be the identification, assessment, mitigation, monitoring and reporting of the key enterprise risks that may prevent Citizens from achieving its Strategic Objectives and Key Strategic Initiatives identified in the Strategic and Annual Plans.

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The focus of the Operational Risk Management (ORM) will be the identification, assessment, mitigation, monitoring and reporting of the risks to day-to-day operations at Citizens. Operational risks typically deal with people, processes and systems.

Chief Financial Officer Update

Chief Financial Officer, Ms. Montero presented the September 30, 2017 Financial Summary and Statement of Operations, and the Quarterly Financial Analysis.

External Auditors Update

Matt Church and Brian Smith from Dixon, Hughes Goodman LLP presented an update on the 2017 Financial Statement Audit Plan.

Action Item - Risk Management System Procurement

On July 19, 2017 Citizens issued Request for Proposal (RFP) No. 17-0021 for the procurement of an Enterprise Risk Management System. Six (6) proposals met Citizens' mandatory requirements and were evaluated by an Evaluation Committee. On September 14, 2017, the Evaluation Committee conducted a publicly-noticed telephone meeting and recommended awarding the contracts to Resolver.

The contract will have a five (5) year base term, with five (5) optional, one (1) year renewal terms, which may be exercised at Citizens' sole discretion by delivery of written notice to the vendor any time prior to the expiration of the then current contract. The total cost of the awarded contract will not exceed \$600,000

The purpose of the contract is to provide the Enterprise Risk Office (ERO) as well as the broader Citizens' organization with a Software-as-a-Service (SAAS) enterprise risk management tool. The ERM system will facilitate the identification and evaluation of risks throughout the organization and support the use of a consistent aligned approach to the treatment of identified risks throughout Citizens; and enable management across all levels of the organization to self-identify, evaluate, record and manage risks through the provision of guidance, training and a software solution.

This procurement will effectively replace the ERM tool used by the organization until January 2017 when that contract expired.

Staff recommends that the Board of Governors approve RFP 17-0021.

Recommendations

1. Chief of Internal Audit requests Board approval of the Action Item: RFP 17-0021 Enterprise Risk Management System.