

# Executive Summary

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

## THE OFFICE OF THE INTERNAL AUDITOR

The Office of Internal Audit focuses its attention on areas where it can contribute the most by working with the organization to reduce risk and increase operational efficiencies. Since the last Audit Committee meeting, we focused on providing advisory support to management and the Corporation and delivering audits against the 2017 Audit Plan.

### 2017 Audit Plan Execution

The OIA follows a risk-based approach in developing and monitoring progress for delivery of the Audit Plan. As we reassess our understanding of risk within the organization and consider operational challenges, we re-examine our plan, thereby confirming that it continues to provide the expected assurance and that audit resources remain appropriately focused.

Since the previous meeting an assessment of changes in operational risk exposure following Hurricane Irma, we assessed the overall plan coverage for 2017 and opted to cancel/combine six planned engagements and add another six engagements to the plan. Audit engagements canceled included work on IT Shared Storage; FMAP; the Non-Automated Personal Lined Underwriting; Agency Quality Assurance; Claims Self-Service Strategy, and the Non-Automated Personal Lined Underwriting engagement was combined with the work OIA completed on automated underwriting.

Following Hurricane Irma we assessed impact on processes and focused on process changes that could negatively impact the strength of Citizens control strength. As a result of this assessment the following audit engagements were added to the plan: CAT Emergency Procurement; CAT Travel and Expense; Emergency Field Checks Payments; Independent Adjuster Pay; CAT Pay Policy and Execution; and CAT Delayed System Changes. (Detailed description of these changes in the plan are included in the Assurance Dashboard presented later in this package.)

### Progress against Plan

This graph represents the 2017 Audit Plan which includes 27 assurance and advisory engagements. Of these planned engagements 56% (or 15) engagements were completed by November 15, 2017. The remaining 44% (or 12) projects are all currently in progress, with various stages of completion. We plan to complete 11 of these engagements by December 31 this year with one engagement, an advisory for Data Retention, to roll over into 2018.



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## Work in Progress

In the execution of our audit engagements we follow a structured process which is divided into three main categories. The first step in any audit engagement focus upon Engagement Planning (including notification, fact finding, process risk and scope and objective setting). The second step focus on project execution or Fieldwork and the last step include Report delivery (agreeing result from fieldwork and deliver a written result of the work completed). As of November 15, 2017 OIA has 12 audit engagements in progress. Initial justification and objectives for the work in progress were:

- CenterPoint Project Monitoring (in fieldwork) To monitor project progress and at the same time assess project governance controls are followed.
- Data Retention advisory (in planning) To assess current data retention policies and practices and determine if they are appropriately applied within the organization.
- Expense Ratio Analysis Benchmarking advisory (in fieldwork) The objective of this advisory is to identify and understand the components of Citizens' various reported financial ratios, and how the components of Citizens financial ratios compare to others in the industry.
- Network Assessment audit (in fieldwork) To evaluate the effectiveness of the program to perform periodic network penetration testing. Concurrently with the 2017 third party test, OIA will also evaluate the sufficiency of the test and engage with management regarding test results and mitigation of findings.
- Office of Foreign Assets Control (OFAC) audit (in reporting) To evaluate the adequacy and effectiveness of the processes and controls in place to ensure compliance with OFAC requirements.
- Self-funded Benefit Plan audit (in fieldwork) To identify the risks and related controls in place to minimize the impact of potential ineffective or inefficient processes related to managing a self-funded plan.
- IRMA Project Impact audit (in fieldwork) To provide reasonable assurance that Enterprise projects delayed or cancelled due to the Irma catastrophe response initiatives were appropriately reviewed with IT and business managers and that any significant residual effects on the organization were escalated to ensure alignment with executive management's expectations.
- CAT Emergency Field Checks audit (in fieldwork) To assess risks and validate controls associated with the distribution and monitoring of emergency field claim payment checks issued during hurricane Irma.
- CAT Emergency Procurement audit (in fieldwork) To evaluate the adequacy and effectiveness of the processes and controls in place to ensure compliance with emergency procurement policies.

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- CAT Independent Adjuster Pay audit (in fieldwork) A targeted audit related to risks and controls associated with Loss Adjustment Expense payments (Day Rate and Fee Bill) for services rendered from September 7, 2017 to end November, 2017.
- CAT Pay Policy and Execution audit (in fieldwork) A targeted audit focused on risks and controls associated with CAT Pay and Execution
- Cat Travel and Expenses (in fieldwork) To evaluate the design and effectiveness of the controls over CAT Travel Expenses to ensure compliance with the respective corporate policies.

## Work Completed

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

- Acuity System Functionality audit
- Automated Underwriting audit
- Special Payment Programs audit
- End User Computing advisory
- Loss Adjusting Expense (LAE) advisory
- Legislative Change Compliance monitoring

## Summary of Audit Results

The following represents a brief summary of the audit work completed and presented to management. Detailed copies of the reports and memorandums have been included in this presentation for your consideration.

- **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.
- **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.

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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 Audit 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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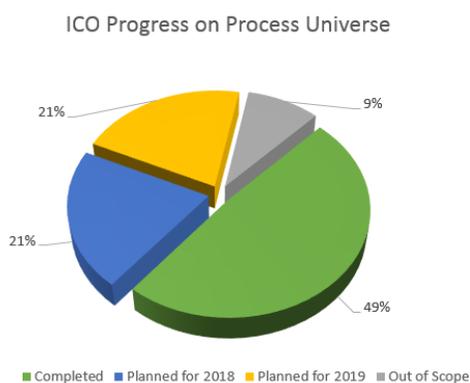
## Control deficiency resolution

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
<b>Open</b>	18	14	4	6	5	1
<b>Closed</b>	12	12		1	4	0
<b>Risk Acceptance</b>	0	0	0	0	0	0
<b>New</b>	8	2	5	0	0	1
<b>Remaining</b>	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
<b>Total</b>	<b>76</b>

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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## 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.

## 2018 Audit Plan

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

The risk assessment completed by OIA represents our best effort in understanding the audit universe and issues that may influence the effective execution of Citizens’ goals and objectives. Our assessment of risk is our own subjective opinion 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

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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



## 2018 Audit Budget

The 2018 budget for Citizens' OIA presented is \$2.26 million as compared to \$2.28 million budgeted for 2017. As we continue to develop our staff and hire more business qualified individuals we improve upon the type and quality of audits we complete which has a direct impact upon cost.

2018 Budget Analysis					
OIA Expense Categories	2016 Approved Budget	2017 Approved Budget	2018 Approved Budget	\$ Change	% of Total Proposed Budget
Salaries & Benefits	1,902,767	1,951,788	2,038,455	86,667	4%
Contingent Staffing	-	109,200	-	-109,200	-100%
Professional Services	50,000	75,000	75,000	-	0%
Training	30,000	29,800	31,200	1,400	5%
Operating Expenses	40,000	84,065	76,067	-7,998	-10%
Legal	55,950	40,000	40,000	-	0%
<b>Total</b>	<b>2,078,717</b>	<b>2,289,853</b>	<b>2,260,722</b>	<b>-29,131</b>	<b>-1%</b>

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- **Salaries & benefits:** Salaries & Benefits reflect the annual inflationary merit as well as the onboarding of a Forensic Audit Manager and his staff.
- **Professional Services & Contingent staffing:** Traditionally this amount is a placeholder should the department need external support. This year we do not think that there will be a need for contingent staff.
- **Training:** Training is based on a dollar allocation per staff member to upkeep professional CPE requirements and develop professionally. Staff is required to complete at least 80 hours of productive training (combination of external and internal).
- **Legal:** Traditionally this amount is a placeholder should the department need to use external legal services.
- **Operating expenses:** Year on year operating expenses are relatively stable.

Staff recommends that the Citizens Audit Committee approve 2018 Audit budget for \$2.26 million as presented above.

## 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
<b>Total</b>	<b>37</b>	<b>16</b>	<b>16</b>	<b>7</b>	<b>34</b>

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## 2018 Internal Control Budget

The 2018 budget for Citizens' ICO presented is \$286 thousand as compared to \$262 thousand budgeted for 2017.

2018 Budget Analysis					
ICO Expense Categories	2016 Actual	2017 Approved Budget	2018 Proposed Budget	\$ Change	% of Total Proposed Budget
Salaries & Benefits	116,613	232,003	245,796	13,794	6%
Contingent Staffing	-	-	-	-	0%
Professional Services	6,000	0	15,000	15,000	100%
Training	3,358	4,000	5,200	1,200	30%
Operating Expenses	29,371	26,009	20,427	-5,582	-21%
Legal	-	-	-	-	0%
<b>Total</b>	<b>155,342</b>	<b>262,012</b>	<b>286,423</b>	<b>24,411</b>	<b>9%</b>

- **Salaries & benefits:** Salaries & Benefits reflect onboarding of the Sr IT Analyst.
- **Professional Services & Contingent staffing:** This amount is a placeholder should the department need external support.
- **Training:** Training is based on a dollar allocation per staff member to upkeep professional CPE requirements and develop professionally. Staff is required to complete at least 80 hours of productive training (combination of external and internal).
- **Operating expenses:** The reduction is due to a decrease in software licensing fees.

## 2018 Enterprise Risk Plan

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

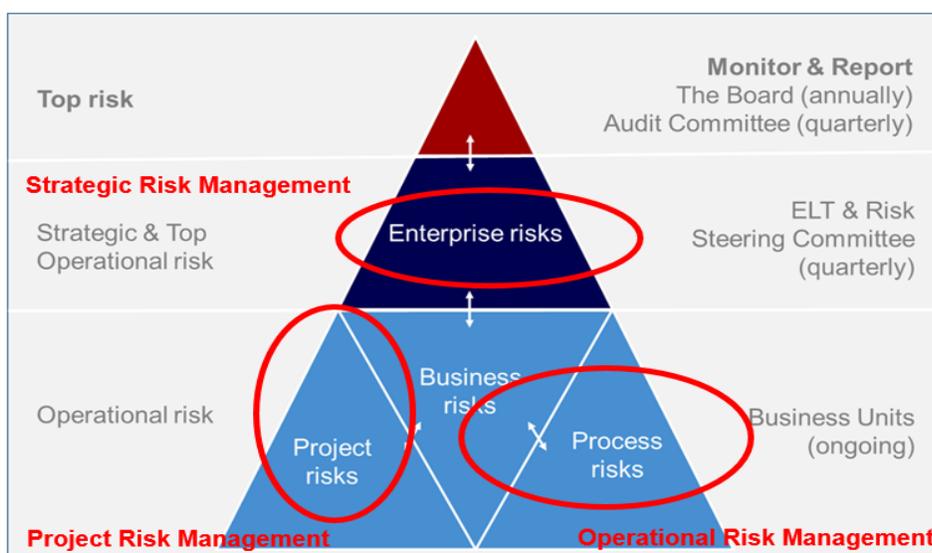
- Roll-out a refined Strategic Risk Management process.
- Continue embedding an Operational Risk Management process and conducting operational risk assessments throughout the organization.
- Complete the implementation and roll-out of a new ERM platform.

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.



## 2018 Enterprise Risk Budget

The 2018 budget for Enterprise Risk presented is \$421 thousand as compared to \$524 thousand budgeted for 2017.

2018 Budget Analysis					
ERO Expense Categories	2016 Actual	2017 Approved Budget	2018 Proposed Budget	\$ Change	% of Total Proposed Budget
Salaries & Benefits	379,483	411,916	292,869	-119,047	-29%
Contingent Staffing	51,692	-	-	-	0%
Professional Services	972	50,000	15,000	-35,000	-70%
Training	7,872	7,600	5,200	-2,400	-32%
Operating Expenses	89,448	55,250	108,500	53,250	96%
Legal	-	-	-	-	0%
<b>Total</b>	<b>529,467</b>	<b>524,766</b>	<b>421,569</b>	<b>-103,197</b>	<b>-20%</b>

- **Salaries & benefits:** Salaries & Benefits reflect the reduction in staff following changes within the ERO structure.
- **Professional Services:** This amount is a placeholder should the department need external support.

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- **Training:** Training is based on a dollar allocation per staff member to upkeep professional CPE requirements and develop professionally. Staff is required to complete at least 80 hours of productive training (combination of external and internal).
- **Operating expenses:** The increase reflects the anticipated acquisition and implementation of an ERM application.

## 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 Citizens Audit Committee approve RFP 17-0021 for presentation to the Board of Governors on December 13, 2017.

## Recommendations

1. Chief of Internal Audit requests Committee approval of the 2018 Audit Strategy and Plan which includes the 2018 Audit Budget.
2. Chief of Internal Audit requests Committee approval of the Action Item: RFP 17-0021 Enterprise Risk Management System for presentation to the Board of Governors on December 13, 2017.