

# Executive Summary

Audit Committee Meeting, April 10, 2018  
 Board of Governors Meeting, April 11, 2018

## AUDIT COMMITTEE UPDATE

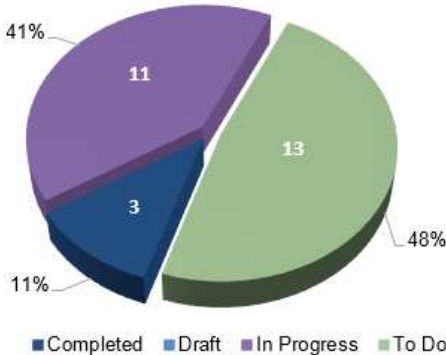
### Office of the Internal Auditor Update

At the meeting, the Chief of Internal Audit presented progress against the 2018 Audit Plan and noted that 52% of the planned engagements were either completed or in progress. Eleven 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 2018, of which three engagements are completed while 11 engagements are in progress.

Progress Against Audit Plan



2018 Plan Progress	
Completed	3
Draft	0
In Progress	11
To Do	13
<b>Total</b>	<b>27</b>

Pending Engagements		
In Progress		Status
• Financial Ratios Benchmarking	Audit	Fieldwork
• Investment Management	Audit	Planning
• Strategic Workforce Planning	Advisory	Planning
• Social Media	Audit	Planning
• Centerpoint Phase 3 Project Monitoring (Budgeting)	Project	Fieldwork
• Centerpoint Phase 5	Project	Fieldwork
• Citizens Insurance Suite V9 (ClaimCenter)	Project	Fieldwork
• Unclaimed Property Operational Process	Advisory	Planning
• Vendor Management	Audit	Planning
• Tampa Data Center Migration	Project	Fieldwork
• Data Retention	Advisory	Planning
Draft		
None		

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

- **Cat Field Checks (Needs Minor Improvement)** - Through this audit we evaluated the design and effectiveness of the controls associated with the distribution and monitoring of field claim payment checks issued during hurricane Irma to ensure compliance with the respective corporate policies. Although we obtained reasonable assurance that field check ALE payments to impacted policyholders were properly authorized and accurately processed in accordance with existing procedures, we however noted that there were certain control activities which needed to be strengthened going forward to properly safeguard the field check stock. No instances of inappropriate ALE payments or misappropriation of field checks were noted, and a detailed Check Inventory Audit was kicked off on December 11, 2017 to place assurance that no checks were missing.
- **CAT Independent Adjuster Day Rate and Fee Bill (Satisfactory)** - The objective of this audit was to obtain reasonable assurance that CAT Independent Adjuster Payments (Day Rate and Fee Bill) made during the current CAT event were being processed in accordance with established procedures and were valid and accurate. Through the audit we obtained reasonable assurance that the processes and internal controls for CAT Independent Adjuster Payments are operating effectively. OIA noted that Day Rate payments were made accurately in accordance with existing processes and applicable rate tables. In the case of Fee Bill payments, OIA noted a very small number of instances where duplicate payments were made for adjusting expense invoices. Management will undertake several activities to improve the controls for duplicate payments.
- **CAT Pay Policy and Execution (Satisfactory)** - The objective of the audit was to evaluate the design and effectiveness of the controls over the Catastrophe Pay program to ensure compliance with the respective corporate policies and procedures. Results from our audit work indicate that the corporate policies and procedures used to administer the Catastrophe Pay program sufficiently define the eligibility requirements, compensation criteria and authorization procedures. We also noted that the control processes are adequately designed to ensure that eligibility requirements are met and transactions are properly approved and processed accurately. OIA recommended a process improvement opportunity to develop a centralized process to track and monitor Citizens' employees approved for Catastrophe Pay.
- **CAT Travel Expenses (Satisfactory)** - With this audit we evaluated the design and effectiveness of the controls over CAT travel expenses to ensure compliance with the respective corporate policies and to ensure the increased volume did not result in any control breakdowns. The results from our work indicate that Finance Accounts Payables' expense review processes functioned well through the increased expense volume. Some minor process improvement opportunities were identified and were discussed with management for consideration during their planning for the upcoming storm season.
- **Field Check Inventory (Satisfactory)** - With this targeted audit, we completed a detailed unused field check inventory to identify any potential missing checks so that appropriate actions could be taken if necessary. The results from our work did not identify any missing checks.

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- **Irma Emergency Procurement (Satisfactory)** - The objective of this audit was to evaluate the adequacy and effectiveness of processes and controls in place to ensure compliance with emergency procurement policies. The results from our work indicated that both the Vendor Management Office and Purchasing departments were able to fulfill and assist Citizens' need to procure goods during the declared emergency. VMO personnel improvised and utilized multiple technology resources to prioritize needs, obtain quotes, contact and mobilize vendors with existing contracts enabling the business to meet their needs under stressful circumstances. OIA noted an opportunity to enhance the emergency procurement procedures which management has agreed to implement before the next hurricane season.
- **Irma Project Impact (Satisfactory)** - The objective of this audit was to assess whether decisions to delay enterprise projects following the Irma catastrophe response initiatives were appropriately reviewed with IT and business managers and that any potential significant residual effects on the organization resulting from project date changes were escalated to ensure alignment with executive management's expectations. Our work noted that project changes were well communicated and project changes created no significant residual effects on the organization.
- **Network Assessment (Satisfactory)** - The objective of this audit was to evaluate the effectiveness of the processes comprising periodic network penetration testing. The scope included an assessment of the IT Security policies and standards associated with periodic penetration testing. As well, the third party test was assessed against Citizens' internal cyber security standards and industry leading practices. The OIA confirmed that a detailed and comprehensive set of tests were conducted by the vendor and that the policies, standards and overall effectiveness of the testing process were satisfactory. The vendor report indicated some opportunities for improvement, none of which were considered critical, and IT Management developed a comprehensive plan for remediation of the issues noted.
- **Office of Foreign Asset Control (OFAC) (Needs Improvement)** - The objective of this audit was to evaluate the adequacy and effectiveness of the processes and controls in place to ensure compliance with OFAC requirements. The results from our work indicate that Legal Services has compiled the pertinent transactional information and utilizes a screening system with the current Specifically Designated National (SDN) list to comply with OFAC requirements. During the audit, OIA noted a process disruption that impacted the screening of daily claimant files and determined opportunities to strengthen oversight and monitoring of the screening process. Management is actively addressing the observations.
- **Self-Insured Health Plan (Satisfactory)** - The objective of this audit was to evaluate the adequacy and effectiveness of controls related to managing the self-insured health plan. OIA confirmed that processes designed to manage the self-insured health plan are well managed with effective internal and external controls over financial accounting, reserving, member eligibility, and reconciliation of invoices. As the self-insured plan continues to mature, there will be additional opportunities to strengthen controls related to vendor monitoring and employee education to further mitigate risks. In the event the benefit consulting contract is re-solicited, key controls identified during the audit should be considered in future vendor selection.

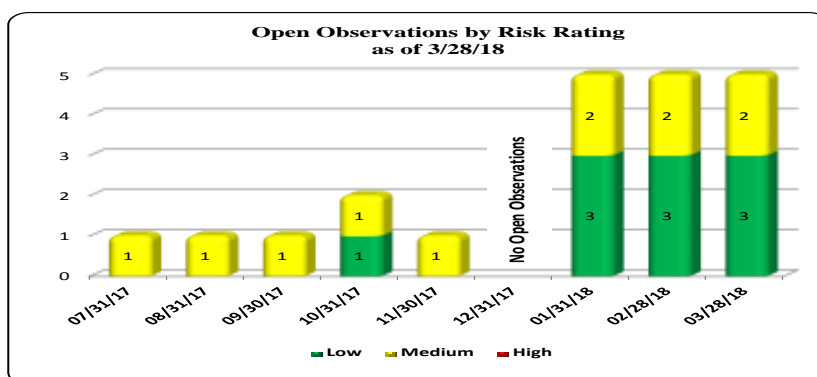
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- Third Party Access (Needs Improvement)** - This audit evaluated the adequacy and effectiveness of the processes and controls in place to manage third party access to Citizens' information assets such as data, applications, services and infrastructure. Our work indicated there are opportunities for improvement associated with Citizens' management of third party access in the areas of governance as well as IT Security standards assignment and implementation. These opportunities are being addressed by IT management.
- Centerpoint Phase 1 Post-Implementation (Memorandum)** - The OIA continues to provide advisory support for the implementation of Centerpoint by providing consultative advice regarding controls to business area and project management upon request, as well as confirms the effective utilization of project governance processes and timely escalation and handling of issues. The Centerpoint Project Team's tremendous efforts led to the successful and timely implementation of Phases 1, 2, and 4. Overall OIA noted that the Centerpoint Project Team continues to improve the efficiency of the implementation process throughout the project by identifying lessons learned from each phase that will benefit the implementation of remaining phases. Also, the project team has established an effective process to address system enhancements as well as defects. This process is well managed and comprehensive including the identification, escalation, and mitigation of risks.

## Control deficiency resolution

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



## 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

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In addition to documenting control scripts, testing procedures were created and light testing was performed as part of each process review.

There are two primary initiatives led by the ICO. The first is an initial roll-out of the ICF through ICO led process reviews. These reviews are planned, documented and reported by ICO in collaboration with management. The second initiative is the enablement and monitoring of management Control Self-Assessments (CSAs). CSAs are performed by management after ICO process reviews to ensure ongoing control design and operating effectiveness. Beginning in the 2nd quarter of 2018, management will be responsible for performing annual CSAs. The ICO will monitor CSAs through periodic performance of independent reviews.

## Update

### 1st Quarter 2018 Accomplishments

During the first quarter, the ICO made progress on 6 of the 16 ICF process reviews planned to be completed during 2018. For these 6 reviews, the ICO has completed inherent risk assessment workshops with management and is completing process walkthroughs and process documentation. These reviews are planned to be completed during the 2nd quarter of 2018. In addition, the ICO is working on other internal projects including review of the ICO controls software functionality, a plan to refresh inherent risk assessments for previous years' process reviews and rebalancing ICO business unit assignment.

### 2<sup>nd</sup> Quarter 2018 Upcoming Key Activities

During the second quarter, the ICO is scheduled to kick-off process reviews for an additional 4 of the 16 process reviews scheduled to be completed during 2018. These process reviews are planned to be completed during the 2<sup>nd</sup> and 3<sup>rd</sup> quarters of 2018. The ICO will also be working on two other projects including conducting 2018 inherent risk assessment refresher workshops and refining a training approach for management's completion of CSAs.

1 <sup>st</sup> Quarter Accomplishments	Upcoming Key Activities
<p>Areas completed or in progress as of March 2018 are:</p> <p><b><u>Process Reviews:</u></b></p> <ul style="list-style-type: none"> <li>• Facilities Management (Operations)</li> <li>• IT Strategy and Planning</li> <li>• IT/Business Unit Communications</li> <li>• IT Change Management</li> <li>• IT Service Request Management</li> <li>• IT Incident and Problem Management</li> </ul>	<p>The following projects are scheduled to commence in the 2<sup>nd</sup> Quarter of 2018:</p> <p><b><u>Process Reviews:</u></b></p> <ul style="list-style-type: none"> <li>• Records Management</li> <li>• Corporate Insurance</li> <li>• IT Enterprise Architecture</li> <li>• IT Application Development</li> </ul>

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<u>Additional Projects:</u>	<u>Additional Projects:</u>
<ul style="list-style-type: none"> <li>Review and refinement of the framework and control self-assessment setup in ICO's internal control software.</li> <li>Development of a plan for inherent risk assessment refresher workshops for previous years' process reviews.</li> <li>Review and rebalance process universe assignments within ICO.</li> </ul>	<ul style="list-style-type: none"> <li>Conduct 2018 inherent risk assessment refresher workshops.</li> <li>Review and refine management training of ICO's internal control software for management's documentation of 2018 control-self assessments.</li> </ul>

## Update on Enterprise Risk Management (ERM)

The Enterprise Risk Office (ERO) was created as the custodians of Citizens' Enterprise Risk Management (ERM) Framework and is tasked to facilitate the roll-out of this framework throughout all aspects of Citizens, thereby enabling management across all levels of the organization to self-identify, evaluate, record and manage risks.

With this in mind, the ERO worked with senior management to develop a robust ERM framework and risk management process which simplifies the identification and mitigation of risks across all business platforms. Risk management assessments are being conducted from three different perspectives: top-down (strategic risk); bottom-up (operational risk); and project risk.

The focus for the ERO in 2018 will be to implement the revised Strategic Risk Management process and continue to enhance the on-going Operational Risk Management processes.



## Strategic Risk Management

The revised Strategic Risk Management process and 2018 implementation plan was presented and approved by the Risk Steering Committee at its November 2017 meeting. During the 1<sup>st</sup> quarter, the ERO introduced the revised approach to senior management. Each member of the Executive



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Leadership Team (ELT) was interviewed and asked to identify their top 5-7 risks to achieving the key objectives and strategic initiatives. These interviews resulted in the identification of 22 risk elements. These risk elements were further reviewed by senior management and resulted in the identification of 16 key risks. These risks were discussed and prioritized in a facilitated risk assessment workshop attended by all the members of the ELT. Through the use of an anonymous voting tool, the ELT rated the risks on both impact to Citizens and probability of occurrence. Each of the 16 identified risks were assigned an ELT risk owner.

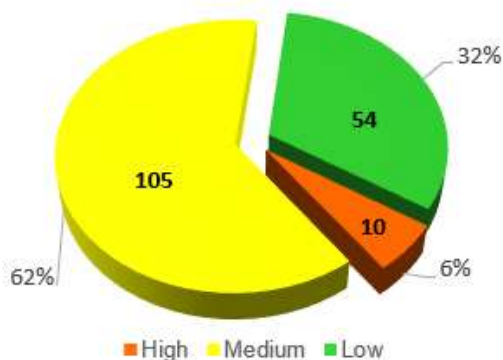
The ERO will be working with these Risk Owners to further develop a summary of current and future mitigation activities. The top strategic risks will be presented to the Audit Committee once this work is completed.

## Operational Risk Management

The ERO commenced late last year with the operational risk assessments, mainly in support of the Internal Control Framework roll-out. In 2018 the operational risk assessments will continue to be coordinated and collaborate with the on-going Internal Control Framework (ICF) roll-out. The ICF project has defined 76 functional and operational processes and IT functions. Operational risk assessments are in process for 29 processes / functions with another 15+ to begin this year.

These 29 risk assessments have resulted in the identification of 169 inherent operational risks. Of these 169 inherent operational risks, 10 have been rated as High, 105 as Medium and 54 Low.

Operational Risk Assessments  
Inherent Risk Rankings



Inherent Risk Rankings	
High	10
Medium	105
Low	54
Total	169

In addition to rolling out new processes in 2018, the ERO will be implementing the ERM administrative system in the second quarter of 2018. This system will ensure that everyone in the organization understands their risk and has the ability to self-identify, document, manage and monitor their risks.

## Resource Update

The ERO team has an opening for one additional team member and is currently recruiting.

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## 2017 Annual Report

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.

Within this report the OIA noted that the results of our audit work completed during 2017 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.

## Annual Charter Update and Review

The Committee considered both the Audit Committee Charter and the OIA Charter for changes and this year's review did not reveal any specific need for revision.

## Chief Financial Officer Update

Chief Financial Officer, Ms. Montero presented a Financial Summary and Statement of Operations, the Quarterly Financial Update, and 2017 Management's Discussion and Analysis.

## External Auditors Update

Matt Church and Brian Smith from Dixon, Hughes Goodman LLP presented the 2017 Financial Statement Audit Update.