



***Office of the  
Internal Auditor***

**Annual Report 2017**

**CITIZENS PROPERTY INSURANCE CORPORATION**  
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February 12, 2018

To: **Mr. Chris Gardner**, Citizens Chairman of the Board of Governors  
**Ms. Bette Brown**, Citizens Audit Committee Chairperson  
**Mr. James Holton**, Citizens Audit Committee Member  
**Senator John McKay**, Citizens Audit Committee Member  
**Mr. Barry Gilway**, President/CEO and Executive Director

CC: **The Honorable Rick Scott**, Governor  
**The Honorable Jimmy Patronis**, Chief Financial Officer  
**The Honorable Pam Bondi**, Attorney General  
**The Honorable Adam Putnam**, Commissioner of Agriculture  
**The Honorable Joe Negrón**, President of the Senate  
**The Honorable Richard Corcoran**, Speaker of the House of Representatives  
Members of Citizens Property Insurance Corporation Board of Governors

Dear Messrs. Gardner, Brown, Holton, McKay and Gilway

I am pleased to submit our 2017 Office of the Internal Auditor (OIA) Annual Report as required by Section 627.351(6)(i).2., Florida Statutes. The report summarizes the department's structure and staffing, applied audit methodology, and results from the audit work completed during 2017.

I welcome your comments and suggestions regarding this report, and appreciate the support provided by the Board of Governors, the Audit Committee and Senior Management. The OIA looks forward to serving the Board of Governors, the State of Florida and contributing to Citizens efforts to achieve the corporation's goals and objectives. Thank you for your continued support as we move into 2018.

Respectively submitted,

A handwritten signature in blue ink, appearing to read "Joe Martins".

Joe Martins, CIA, CRMA, CFE  
Chief of Internal Audit  
Office of the Internal Auditor

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Christopher B. Gardner, Chairman, Orange County • Gary Aubuchon, Lee County  
Bette Brown, Monroe County • Blake Capps, Martin County • James Holton, Pinellas County  
John McKay, Manatee County • Freddie Schinz, Okaloosa County • John Wortman, St. Johns County  
Barry Gilway, President/CEO and Executive Director

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## **Executive Summary**

The Office of the Internal Auditor (OIA) is pleased to present the 2017 Annual Report for Citizens Property Insurance Corporation (Citizens).

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.

### **Annual Report**

The OIA has been committed to developing a credible, sustainable and value added internal audit program to meet the statutory requirements as defined in the Citizens statute and the expectations of the Board of Governors, Audit Committee and Citizens management. In order to ensure that the OIA remains appropriately focused, we develop an annual audit plan (approved by the Board of Governors) that adequately addresses risks independently assessed by OIA and confirmed with Citizens management.

The results of our audit work completed during the year 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.

In an effort to have greater oversight and insight into the efficiency and effectiveness of key controls within the organization, Citizens commenced with the rollout of an Internal Control Framework across all disciplines. This project is led by the Office of Internal Audit and follows a traditional control assessment lifecycle similar to one widely used by Sarbanes–Oxley (SOX) and Model Audit Rule (MAR) compliant entities. The Citizens Internal Control Framework (CICF) project is designed to provide Citizens stakeholders with assurances that management is conducting business within a sound and proven internal control environment. Not only is this project designed to provide ongoing assurance coverage throughout many layers of the organization but also it is done in a way that adapts to changes that occur over time.

We welcome your comments and suggestions regarding the 2017 Annual Report. The OIA looks forward to serving and supporting the Board of Governors, the State of Florida and contributing to Citizens' efforts to achieve its goals and objectives. Thank you for your continued support as we move into 2018.



## Introduction

### Background

Citizens Property Insurance Corporation (Citizens) operates according to statutory requirements created by the Florida Legislature and a Plan of Operation approved by the Florida Financial Services Commission. The corporation is subject to operational reviews and examinations by the Florida Office of Insurance Regulation and the Florida Auditor General, and its financial statements are a major component of the Florida Comprehensive Annual Financial Report. Three types of insurance coverage accounts were established when Citizens was created: personal lines (PLA); commercial lines (CLA); and coastal (Coastal). Citizens currently has offices in Tallahassee, Jacksonville and Tampa. Tallahassee is the corporate headquarters for the organization. The Jacksonville and Tampa offices provide policy services and underwriting, claims and customer support as well as other administrative and organizational support functions.

Citizens' management continues to focus on process improvement and strengthening the control infrastructure, which supports changes to build the needed infrastructure and operational processes to support the corporation. There are a number of ongoing projects and operational changes that are at various stages of completion to ensure Citizens has the ability to continue to support its policyholders and is catastrophe ready. Among these are continued enhancement of the Citizens Insurance Suite (CIS), the Citizens Centerpoint ERP implementation (an Enterprise Resource Planning solution), and other strategic process improvement projects.

During the year, Citizens responded to property damage incurred by insureds following Hurricane Irma. Citizens' response to the catastrophe event impacted all parts of the Citizens organization and the OIA amended its work program to provide assurance and advisory activities where appropriate.

### OIA Duties and Responsibilities

The purpose, authority and responsibility of the OIA are formally defined in the internal audit charter. This charter is consistent with the Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing as defined by the Institute of Internal Auditors. The charter further reflects authority and responsibilities assigned to the OIA under Citizens' enabling statute, Section 627.351(6).

In accordance with Section 627.351(6)(i). Florida Statutes, it is the duty and responsibility of the Chief of Internal Audit to:

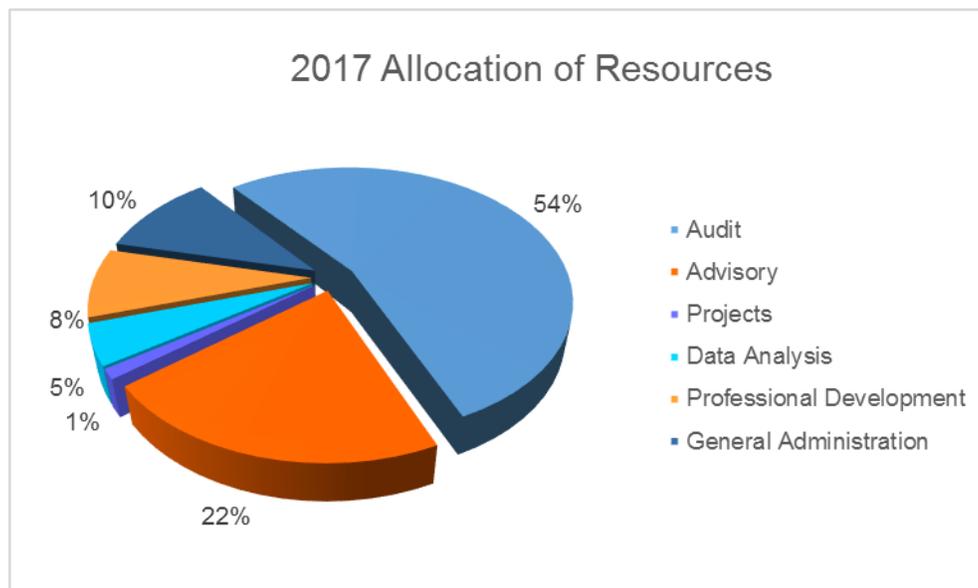
- Provide direction for the OIA including supervising, conducting and coordinating audits, investigations and management reviews relating to Citizens' programs and operations.
- Conduct, supervise or coordinate other activities carried out or financed by Citizens for promoting efficiency in the administration of, or prevention and detection of, fraud, abuse and mismanagement in its programs and operations.



- Submit final audit reports, reviews or investigative reports to the Board, the Executive Director, the members of the Financial Services Commission, the President of the Senate and the Speaker of the House of Representatives.
- Keep the Board informed concerning fraud, abuses and internal control deficiencies relating to programs and operations administered or financed by Citizens; make recommendations for corrective action; and report on the progress made in implementing corrective action.
- Cooperate and coordinate activities with the corporation's inspector general.

Additionally, the OIA works collaboratively with the external auditors (Dixon Hughes Goodman LLP) to support their financial statement audit. Consideration is given to other regulatory reviews/audits to minimize the duplication of audit coverage within Citizens.

In support of its mission, OIA's main focus is to support Citizens in the achievement of its goals and ultimately, to provide independent and objective assurance over the organization's internal control environment to the Audit Committee, Board of Governors and Management. In executing the audit plan, the OIA maximized independent, objective assurance through audit and advisory services that are designed to add value and improve Citizens' operations. The following diagram provides an overview of resource deployment:



Several noteworthy accomplishments have been completed and can be summarized into the following categories:

- Completion of a 2017 Audit Plan which included 21 audit and advisory engagements that provided independent assurance and delivered value to the organization in strengthening oversight and control.
- Improving the audit process by embedding a strong collaborative auditing approach and providing consulting (advisory) engagements as defined by the IIA International Professional Practices Framework as revised in 2017.



- Managing a flexible audit plan that considers changes in business operations and ensures that audit engagements focus on areas of most importance. Following Hurricane Irma OIA reassessed risk and added six new audits to the plan which focused on processes within the organization that were most impacted by Citizens' response to the Irma Catastrophe.

### Standards of Audit Practice

Citizens operates according to Section 627.351(6)(i), Florida Statutes, and the *Plan of Operation* approved by the Florida Financial Services Commission. Given that the OIA statute does not include a specific requirement for auditing standards to govern the Citizens OIA program, OIA elected to follow the *International Standards for the Professional Practice of Internal Auditing (2017 edition)* for all engagements. The nature of the Standards is emphasized by use of the word "must" to specify unconditional requirements; and the use of the word 'should' where conformance is expected, unless deviation is justified:

- Attribute Standards
  - 1000 – Purpose, Authority, and Responsibility
  - 1100 – Independence and Objectivity
  - 1200 – Proficiency and Due Professional Care
  - 1300 – Quality Assurance and Improvement Program
- Performance Standards
  - 2000 – Managing the Internal Audit Activity
  - 2100 – Nature of Work
  - 2200 – Engagement Planning
  - 2300 – Performing the Engagement
  - 2400 – Communicating Results
  - 2500 – Monitoring Progress
  - 2600 – Communicating the Acceptance of Risks

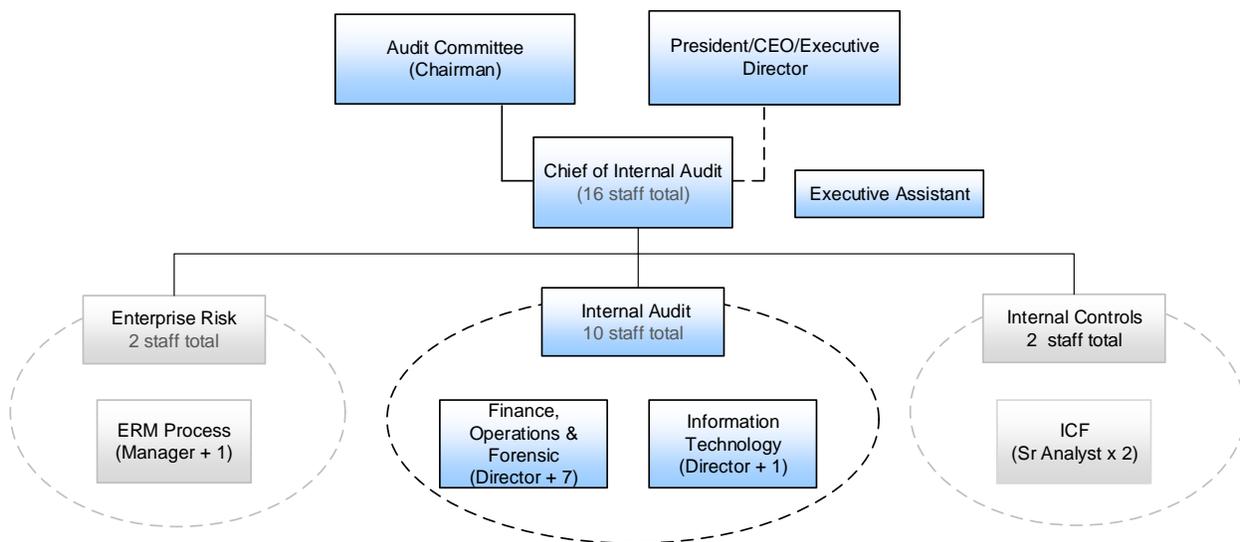
The OIA further uses other accepted industry frameworks for guidance when conducting audits. These include: the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013) internal control framework for financial/operations/compliance audits; the Control Objectives for Information and related Technology (COBIT), the Information Technology Governance Institute (ITGI), the National Institute of Standards and Technology (NIST) and Information Technology Infrastructure Library (ITIL) when conducting technology audits.



## Organization and Administration

### Organization Structure

The Chief of Internal Audit is appointed by the Board of Governors, reports to and is under the general supervision of the Board, and is not subject to supervision by any Citizens employee. The Chief of Internal Audit reports to the Board through the Audit Committee. Apart from the Office of the Internal Audit, the Chief of Internal audit also has leadership responsibility for the Enterprise Risk Office (ERO) and the Internal Control Office (ICO). Both the ERO and ICO operate independently from Internal Audit with its own staff, distinct processes and individual administrative support systems. The following chart details the OIA departmental structure.



### Training

In alignment with the *International Standards for the Professional Practice of Internal Auditing*, the OIA staff is required to receive at least 80 hours of continuing education to maintain professional proficiency. This is accomplished by having staff attend seminars, conferences, work groups, internally offered training and webinars.

### Certifications and Advanced Degrees

The OIA brings various backgrounds of expertise to Citizens. Certifications and advanced degrees held by the Chief of Internal Audit and/or staff during the reporting period include:

- Certified Internal Auditor
- Certificate in Risk Management Assurance
- Certified Financial Services Auditor
- Certified Information Systems Auditor
- Certified Public Accountant
- Certified in Risk and Information Systems Control



- Certified Information Security Manager
- Certified Fraud Examiner
- Master of Business Administration
- Master of Science in Information Assurance
- Master of Science in Computer Information Systems

## Affiliations

The OIA participated in various affiliations during the reporting period, in support of the internal auditing profession, and gained insurance industry knowledge through attendance at chapter meetings and industry focused training:

- The Institute of Internal Auditors (IIA) & affiliates
- Insurance Internal Auditing Group (IIAG)
- Insurance Accounting and Systems Association (IASA)
- Information Systems Audit and Control Association (ISACA)
- Association of Certified Fraud Examiners (ACFE)
- The American Institute of Certified Public Accountants (AICPA) & affiliates

## Accomplishments

The OIA has continued to develop a credible and sustainable internal audit program for the organization. During 2017, the OIA achieved several key accomplishments, including:

### Audit Plan Execution

The following reports/memorandums were issued during 2017:

- Acuity System Functionality Audit
- Automated Underwriting Audit
- Building Consolidation Audit
- CenterPoint Project Monitoring
- Citizens Insurance Suite Access
- End User Computing Advisory
- IT Governance Advisory
- Legal Billing & Litigation Expense Vendor Mgmt. Audit
- Legislative Change Compliance Monitoring
- Loss Adjusting Expense (LAE) Advisory
- Privacy Audit
- Procurement Audit
- Remote Password Reset Process Advisory
- Special Payment Programs Audit
- Underwriting Quality Assurance Audit

### Audit Committee and OIA Administration

We completed an:

- Annual review of the OIA and Audit Committee charters.
- Annual review of the *OIA Handbook, Internal Audit Policy and Open Items Policy*.
- OIA assessment of enterprise risk, which was used to help define projects listed in our audit plan.
- Refined the audit universe and annual audit operational risk assessment process.



## Quality Assurance and Improvement Program

As outlined within the *Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing*, the chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity, including internal and external assessments. In compliance with this requirement, the OIA implemented a comprehensive peer review process, which is designed to assess our compliance with accepted audit standards and practices while executing audits. Results from these reviews are used to improve overall product quality and identify development needs.

## Audit Process

### Annual Planning

The OIA continues to refine its internal audit methodologies and process for Citizens. The audit plan is based on a risk-based methodology, and execution of this plan is in accordance with Florida Statutes and in compliance with the IIA's International Professional Practices Framework, which provides standards that delineate basic principles representing the practice of internal auditing.

The OIA conducts an independent risk assessment of Citizens' business units each year. The process begins with interviewing stakeholders (Citizens' Board, Senior Management, and Management), reviewing prior internal and external audit reports, analyzing financial statements, and considering Citizens strategic goals and initiatives for 2018. This information was aggregated into a detailed operational risk assessment, allowing the OIA to identify those risks that have the highest potential of adversely affecting the Company and its operations from achieving strategic goals and objectives. This "Top Down" approach allowed for the proper alignment of audit activities to provide assurance and mitigate risk within the organization at the enterprise and process levels.

Citizens is best served by an audit plan that is dynamic in nature – continually adjusted to meet the needs of the corporation. Key events that may affect the audit plan include, but are not limited to, operational changes, legislative decisions and/or storm season impacts. During 2017, OIA's primary objective related to the 2017 Audit Plan was to complete the scheduled audits and defined advisory services, and other direct audit support (executive and senior management team participation, key project meetings, etc.).

During 2017, in developing the 2018 audit plan, we revisited our risk identification and analysis process to better understand the Audit Universe (i.e., number of total processes) and improve audit coverage. The 2018 Audit Plan was approved by the Citizens Audit Committee and is available upon request.

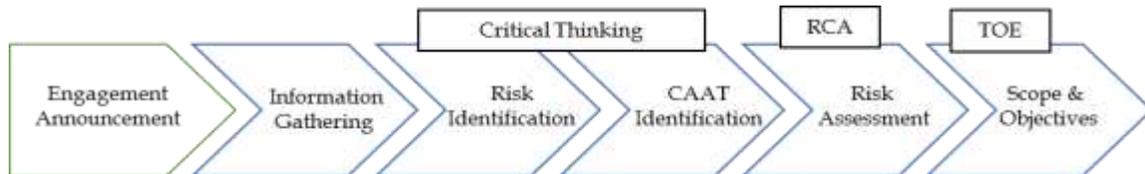
### Audits

In the execution of audits, OIA developed three phases in the internal audit process. These were formalized so that we ensure that the auditor follows a framework that allows for consistent



execution and provides for thorough preparation for the audit, thorough evaluation of risks and mitigation controls and meaningful resolution of identified control failures. The activities performed during each phase include, but are not limited to, the following:

- Engagement Notification and Planning



During information gathering, sufficient information to facilitate the efficient execution of the audit is obtained. Information gathering activities consist of discussions with key individuals and reviews of background information and documentation. Auditors typically document a high-level process overview/narrative for the area under review (incorporating processing/information flows, control activities, decision points, inputs/outputs, etc.). Thereafter, the auditor performs an analysis of the risks identified at the engagement level. This enables the auditor to confirm whether the risks are sufficient for the engagement to proceed (i.e. “Go”/”No Go”), and if so, determine the objectives and scope of the review. This risk assessment process will establish the primary focus, objectives and scope of the audit. Prior to commencing with the audit, the auditor communicates and agrees the defined audit objectives and scope to key stakeholders or customers in the relevant business area.

- Fieldwork



Audit engagement fieldwork is carried out to provide sufficient, reliable and relevant evidence, which provides the auditor the basis for an opinion on control design and operational effectiveness. The Auditor first assesses whether controls in place are appropriately designed to address the risks they were designed to mitigate. In instances where there are no controls, or where controls are inappropriately designed, these findings can be turned into recommendations for improvement with limited further testing to quantify the exposure (likely impact /consequences and materiality of poor design). Following the assessment of control design, further assurance should be sought through sample based testing of the operation of identified key controls. The decision on whether to proceed to test operational effectiveness will depend on the significance of that control and whether more relevant compensating controls exist. Again, in instances where it is found that controls are not executed as designed, these findings are turned into recommendations for improvement. Fieldwork steps are documented in accordance with the OIA's Work paper Standards.



- Wrap-up & Reporting



Control issues identified during and following completion of engagement fieldwork are documented and communicated to stakeholders/customers. Our principal product is the final report in which we express our opinion, present the audit findings, and discuss recommendations for improvement. For this reason alone, wrap-up and reporting are perhaps the most important parts of the audit process. It is important because the report is typically the only product of our work that management and the Audit Committee receive.

Every issue identified and documented in the course of an audit is rated either *high*, *medium* or *low* depending on the assessed impact of the issue upon the efficiency and effectiveness of the control structure being assessed. The audit issue ratings help determine the audit report rating, which is either unsatisfactory, needs minor improvement, needs improvement or satisfactory. Final audit reports are issued to management, the Audit Committee, Members of the Financial Services Commission, the Speaker of the House of Representatives, and the President of the Senate as required by s. 627.351(6)(i)1.c., F.S. After the conclusion of each audit, the OIA monitors the implementation of management's action plans, using the open-items process described in the Open Items Process section.

### Advisory Engagements

In addition to internal audits, the OIA also provides consultative services to the organization. These engagements are usually advisory in nature. The focus and scope of which are agreed with the client and are intended to add value and improve the organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training. During advisory engagements, OIA reviews specific aspects of a function, system or activity and provides expertise, opinions and/or suggestions for courses of action. The nature of the engagement will determine the result, which may range from oral presentations or discussions to memos summarizing the project results. An audit opinion is not rendered on the adequacy of the control environment, due to limited test work and scope of project.

### Internal Investigations

The OIA developed the *OIA Inquiries and Investigations Policy and Procedures* to document its standardized methodology for evaluating, investigating, documenting and reporting findings. Where there is sufficient cause or predication the OIA would, in consultation with the IG, complete investigations associated with:

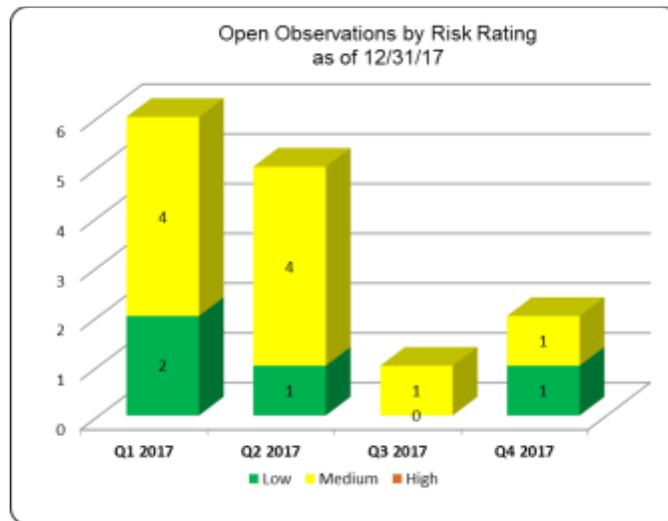
- Abuse
- Financial reporting concerns
- Fraud
- Internal control deficiencies
- Misappropriation of assets
- Mismanagement



For 2017, no investigations were conducted by the OIA.

### Open Items

The OIA developed the Open Items Process, Corporate Policy 802. The Open Items Policy addresses the process administered by OIA for follow-up, escalation, and resolution of audit observations and recommendations. The process has been established to ensure that management action plans have been effectively implemented or that management has accepted the risk of not taking action on audit results. This process was established in accordance with the International Standards for the Professional Practice of Internal Auditing Standards 2500.



Open Items statistics and those that are rated *high* or *past due* are provided to the Audit Committee on a quarterly basis. Management is taking appropriate action on the issues reported and the OIA monitors progress on the implementation of corrective action.



## Appendix 1 – Audit Engagement Summaries

During the course of the year, the OIA’s risk-based approach covers many elements of the corporation’s internal control systems; it is not intended to cover all areas of the corporation, nor all possible areas of risk. Instead, we focus our resources on those areas that were evaluated as the highest priority in terms of greatest risks and where our work could be most valuable, either by providing assurances through information or by effecting positive change.

Citizens’ management is responsible for establishing and maintaining an effective internal control structure. The OIA evaluates and reports on the design and effectiveness of that internal control structure. Areas of audit coverage include internal audits, advisory services and financial statement audit support.

### Internal Audits

Internal audits are designed to provide reasonable assurance to the Board of Governors and senior management that the controls designed and implemented by management can be relied upon to mitigate the risk within the organization to an acceptable level. There are various types of audits including operational, financial, forensic, compliance and information technology.

### Advisory Services

Advisory services are generally less formal than audits, and as a result, an opinion is not being expressed as to the effectiveness of the controls and an audit rating is not applied. However, due consideration should be given by management to adoption of internal control recommendations, to enhance the efficiency and effectiveness of the existing internal control environment under review.

### External Audit Support (a.k.a. Client Assistance)

OIA coordinates audit engagements in an effort to maximize the reliance External Audit places on our work product. We further provide the External Auditors an opportunity to influence audit scope and audit procedures, for relevant projects, in an attempt to increase reliance and reduce audit time and duplication.

### Audit Engagement Summaries

The following internal audit summaries reflect reported audit results for areas in scope for 2017. All executive reports were issued to the Citizens Board of Governors (Audit Committee) and, in accordance with Florida Statutes, to the Financial Services Commission, Speaker of the House and President of the Senate. Detailed management reports are provided directly to the applicable management group.

- **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)** – With this Audit we evaluated 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 the 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.
- **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.
- **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.
- **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.



- **Citizens Insurance Suite Access (Needs Minor Improvement)** – 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 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.
- **End User Computing (Advisory)** – Management requested our support and 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 components, frameworks and processes that will best serve the needs of the company.
- **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.
- **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 administer and monitor legal firm billings, to educate firms on expense policy, and the 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.

- **Legislative Change Compliance (Advisory)** – 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.
- **Loss Adjusting Expense (Advisory)** – 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.
- **Privacy Framework (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 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.



- **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.
- **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.
- **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.
- **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 that management engage the IT department to review the Q-Center application and related controls, processes and documentation to ensure compliance with internal IT Policy Standards.