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AUDIT COMMITTEE UPDATE

Internal Audit Update

At the meeting, the Chief of Internal Audit presented an overview of Internal Audit's progress and noted that 87% of the scheduled engagements were either completed or in progress. Seven 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 26 audit engagements scheduled for completion in 2018.

Internal Audit Progress
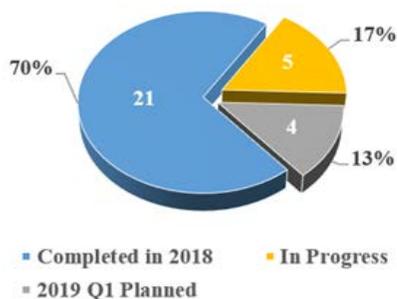
Rolling Internal Audit Plan	
Completed in 2018	21
In Progress	5
2019 Q1 Planned	4
Total Projects	30

In Progress		Status
Managed Repair Program	Audit	Planning
Alternative Work Arrangements	Audit	Planning
Centerpoint Phase 1 Post-Implementation Review (User Access Review of Finance and Procurement)	Audit	Planning
VMO-Responsible Vendor Review (RVR)	Advisory	Reporting
Enterprise Rhythm Program	Advisory	Planning

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

- **Centerpoint Access (HCM-Payroll) (Needs Improvement) –** The HCM module within the Centerpoint application is utilized to enter, process, and manage payroll, benefits, time and labor, and talent management for Citizens. Privileged roles within the HCM module allow an assigned user the ability to create and modify employees' salaries, benefits, addresses, and bank accounts. Access management includes creating, modifying, terminating, and monitoring user access, roles, and permissions. Results from our audit work indicate that Human Resources, Information Technology, and the Centerpoint Project Team proactively collaborated to design and implement appropriate user access controls and to properly secure confidential data. However, system limitations, the complexity of Oracle roles and permissions, and the business need to create custom roles contributed to challenges in effectively managing user access. OIA

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noted that improvements are needed to strengthen controls related to ensuring users are assigned roles with the least privilege necessary to perform their job functions, monitoring of privileged users, the design and use of the firecall process to perform emergency administrative tasks, security of confidential payroll information, and ensuring the deactivation process for terminated employees is completed.

- **Social Media (Needs Minor Improvement) –** With this audit we evaluated the adequacy and effectiveness of the processes, procedures, and controls in place to mitigate reputational risks associated with Citizens' social media program. Results from our audit work indicate that management proactively uses social media to support the organization's communication and outreach efforts to provide educational content such as storm and emergency preparedness, issues impacting the Florida insurance market and Citizens' policies and corporate initiatives to external stakeholders. Management also leverages social media as a recruiting tool to attract top talent for the organization. We also found that the Social Media Administrator and Customer Complaints Team provide timely resolution to customer inquiries, issues or concerns reported on the corporate social media accounts. Our work identified the need for management to develop formal strategy/plans and key performance indicators, review and update the corporate social media policies and develop internal procedures, reduce the number of personnel that have full administrative access to the corporate LinkedIn account, and ensure the designated Social Media Back-up is fully trained.

- **Annual Legislative Changes (Satisfactory) –** The objective of this audit was to monitor steps taken by Citizens to comply with the 2018 legislation changes that impact the organization. The design and operating effectiveness of controls were evaluated to ensure effective identification, evaluation, and tracking of legislative changes impacting Citizens, in addition to communicating and monitoring the implementation of needed changes to comply with the law. Results from our audit work indicate that the processes and controls related to tracking and implementing changes to Florida statutes that impact Citizens are mature and well organized, allowing for changes to be effectively communicated, assigned, evaluated, and implemented in a timely manner.

- **Investment Management (Satisfactory) –** OIA assessed the adequacy and effectiveness of the processes, procedures and controls associated with investment management practices at Citizens. Results from our audit work indicate that Citizens' investment policies appear to be in alignment with Citizens' overall investment strategy, effective oversight is present, and access rights within critical investment systems are properly restricted. Specifically, we noted that the FactSet system is effectively aligned with Citizens' investment policies to allow management to monitor investment activity and performance of its' third-party investment managers. Overall, we noted that management oversight of the Company's externally managed portfolio and the third-party managers was effective. We observed that management utilizes leading portfolio risk management practices through the use of quarterly stress tests to their portfolio. We also reviewed access rights within the NEXEN trading platform, as well as those in the Company's custodial banking system, and noted they were appropriately restricted and no segregation of

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duties issues were present. In addition, OIA identified a process improvement opportunity which was shared with management.

- **Financial Ratios Benchmarking –** The objective of this advisory was to support management with their analysis of Citizens' financial ratios.

- **Data Retention –** With this engagement, OIA provided advice and guidance relative to implementation of an operational work flow related to retention and deletion of structured and unstructured application and database data. The scope of work included developing an iterative process that includes: determination of application/database data retention schedules and data deletion; an assessment of the Enterprise Data Management (EDM) work group charter; and program recommendations so that electronic data retention better serves the needs of the organization. We recommended to Management that the process and supporting materials be utilized and refined as needed as application projects progress.

- **Assistance to the Office of the Inspector General –** OIA provided support to the OIG on one of their projects focused towards providing guidance to Citizens' claims operations in strengthening controls designed to detect and/or prevent fraud. The project is complete and process improvement opportunities were shared with claims management

Control deficiency resolution

As of the end of August, we are tracking eleven open observations. Since the last Committee meeting, twelve new observations were added, and three observations were resolved and closed. The Florida Auditor General just completed an exam of Citizens, which resulted in the addition of four of the new observations noted below. Overall, open items receive adequate business focus and implementation of agreed corrective actions are well managed. There are currently no high rated observations outstanding and no past due action plans.

Open Observations by Risk Rating as of 5/31/18
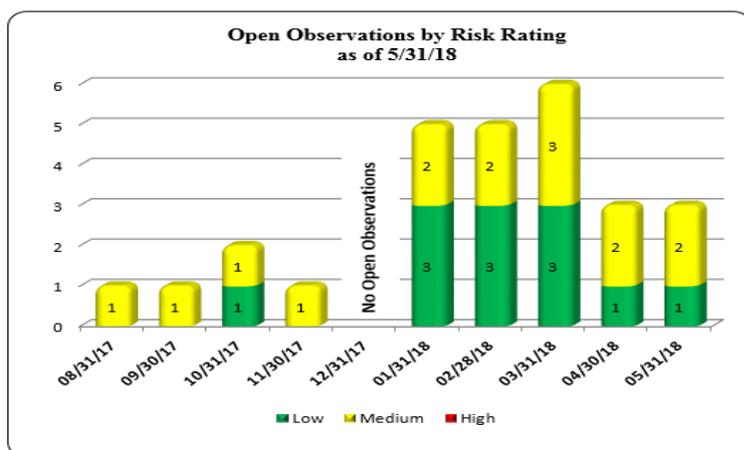
Observations by Rating @ 4/30/18			
High	Medium	Low	TOTAL
0	2	1	3

Observations by Audit Year @ 4/30/18			
2016	2017	2018	TOTAL
0	2	1	3

Observation Source @ 4/30/18	
OIA	3
External Auditor	0
Market Conduct - OIR	0
Auditor General	0
TOTAL	3

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Internal Controls Update

The Internal Controls Office (ICO) facilitates, enables and monitors the performance of control assessments across Citizens' financial, operational and information technology environments. The control assessments are designed and established through ICO's ongoing roll-out of the Citizens' Internal Control Framework (ICF).

There are two primary initiatives led by the ICO. The first is the initial roll-out of the ICF through ICO led process reviews. These reviews are planned, documented and reported by ICO in collaboration with management. ICO assessed Citizens process universe and selected 71 processes to be in-scope for ICF. Of the 71 processes 42 were completed in ICF while 14 reviews are in progress for completion by the end of the year.

The second initiative is the enablement and monitoring of management Control Self-Assessments (CSAs). CSAs are performed annually by management, after ICO process reviews are completed, to ensure ongoing control design and operating effectiveness. During August 2018 the ICO met with management to ensure and confirm their ongoing assessment of process control design and control effectiveness for the 42 completed process reviews. Of the 42 completed processes, ICO assessed that 37 are ready for Control Self-Assessment reviews, while the remaining five processes required a refreshment of control design following major process changes implemented through the roll-out of Centerpoint or other system changes. The ICO has implemented enhancements to the Annual Control Self-Assessments (CSAs) for all completed process reviews and ICO will monitor results as management completes their reviews.
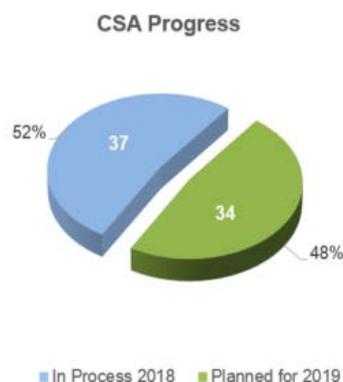
Resource Update

The ICO team has engaged Clifton Larson Allen LLP as an external consultant to provide the ICO with SOX implementation specialists that will assist in the completion of the 2018 planned process reviews and control evaluations.

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Enterprise Risk Update

As an integrated part of Citizens' strategy development and achievement of related business process objectives, the Enterprise Risk Office (ERO) is responsible for coordinating, developing and monitoring Citizens' risk management framework and support the business with their identification, assessment and mitigation of current or emerging strategic, operational and project risks.

In supporting its goal to enable business unit management in their documentation of identified risks and monitoring risk mitigation efforts, the ERO purchased and is in the process of implementing a risk management administrative tool. This tool will be fully operational by January 2019.

Citizens' Operational Risk Assessments are currently tied to the roll-out of the Internal Controls Framework. This initiative provides the ERO an opportunity to conduct first time inherent risk assessments for all processes in scope for ICF. To date the ERO completed a total of 53 inherent process risk assessments. Of these, 24 inherent risk assessments were completed in excess of 18 months ago and are scheduled to be refreshed. For 2018 an additional five first time inherent risk assessments are scheduled with the remaining 14 to be completed with the ICF roll-out in 2019.

ERM Status	
Completed IRA's	29
IRA's being Refreshed	24
Scheduled 2018	5
Scheduled 2019	14
Total	72

ERM Progress

Following the last Audit Committee meeting the ERO and the Executive Leadership Team (ELT) continued to develop 15 key strategic risks.

In addition, 2-3 of these key strategic risks will be presented at each Audit Committee meeting going forward. For this meeting Jay Adams, Citizens Chief Claims Officer will present the Claims risks and related management action to the Committee. *(Refer to Appendix 1 for a list 2 Claims risks discussed)*

Chief Financial Officer Update

Chief Financial Officer, Ms. Montero presented a Financial Summary and Statement of Operations, and the Quarterly Financial Update.

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APPENDIX 1:   Strategic Risk Update

Claims Abuse

Risk Owner: Jay Adams
Risk Champion: Elaina Paskalakis

Risk Description

Failure to identify and stay in front of claims abuse schemes that increase litigation costs for Citizens.

Mitigation Update

- Front-line claim representatives and team leads communication to CLT leadership of identified trends and potential systematic fraud
- SIU leadership liaison to Florida DFS for P & C Industry awareness and reporting of claim trends and patterns of abuse
- CPIC Product reviews to recognize contract deficiencies that may provide opportunities for future claim scheme abuse
- CPIC UAS leadership outreach to educate agencies to be aware of and report to CPIC patterns of claim trends in their service area
- CLT conducts quarterly claim trend committee meetings
- Automated vendor and PA data collection, via ClaimCenter, to identify service provider(s) relationships, patterns & geography
- Feedback "loop" between Claims & Claims Litigation regarding emerging trends and anomalies
- Ongoing departmental and business unit QA of adjuster activities

Potential Gaps / Concerns

- Claim abuse schemes evolve slowly, over a period of time and are difficult to identify in short-term
- Compilation of data to identify and profile service provider(s) relationships
- Anticipating product 'loopholes' for contract revisions without compromising customer contract protections
- Engaging CPIC contract agencies to report 'red flags' of potential fraud claim trends within their communities
- Reliance on outside vendors for claims adjustment & litigation handling that may obscure visibility to schemes.

CAT Response

Risk Owner: Jay Adams
Risk Champion: Michael Guerra

Risk Description

Failure to have adequate resources to respond to a major catastrophic event.

Mitigation Update

- RFP Solicitation for Independent Adjusting Services – CAT
- RFP Solicitation for Field Inspection Services – CAT
- Established Best Practices / Estimating Guidelines for the Field and Desk Adjuster – established services expectations
- Established 'Fast Track' Catastrophe Adjuster's Processing Guide
- RFP Solicitation for Aerial Drone Inspection Services
- Renewed Geomni Roof Skematic Contract with Xactware
- Xactanalysis established as conduit via CPIC GAM to forward CAT IA claim assignments to IA firms and firms make assignment to their IA teams.
- IA CAT estimates to be both IA firm & CPIC QA team reviewed and qualified via Xactanalysis prior to submission to ClaimCenter file
- 2017 IA Fee Schedule to be maintained in 2018

Potential Gaps / Concerns

- First major event of the season, or multiple events, strike outside of Florida drawing IA resources away
- Multiple events stretch available resources and CAT service fatigue reduces productivity and claim services quality for both IA and CPIC claim representatives
- Initiation of Modified CAT for MCM 'First Response' for CAT event and ability to maintain service for Non-CAT claims following major or multiple events
- Xactanalysis success as IA claims assignment delivery, distribution and estimate return conduit to
- ClaimCenter, proficiency for first-CAT year engagement protocol

CITIZENS
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