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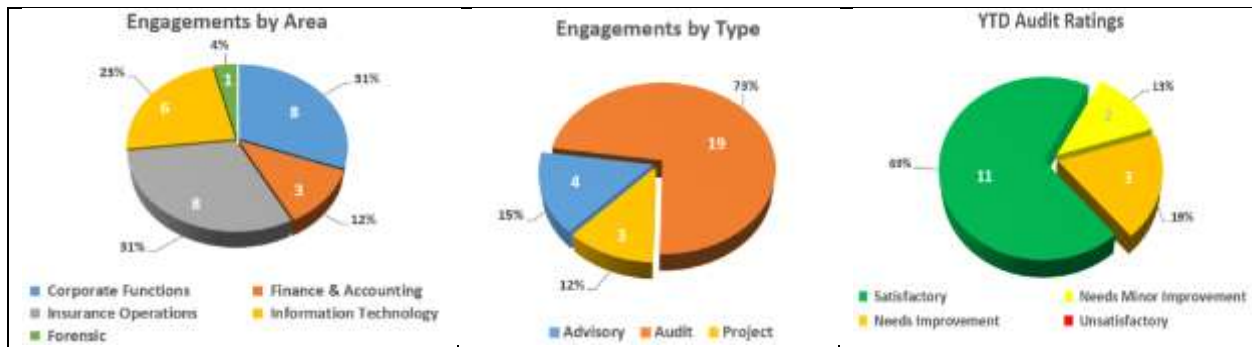
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## Internal Audit

### Overview of Audit Progress

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. We plan for a broad coverage and appropriate balance between assurance and advisory engagements which will add value.

Rolling Internal Audit Plan	
Completed in 2018	21
In Progress	5
2019 Q1 Planned	4
<b>Total Projects</b>	<b>30</b>
Cancelled this period	3



### Audit Engagements Completed

Following the last meeting we completed seven audit engagements (two advisory, one project and four audits).

- Centerpoint Access (HCM-Payroll) Audit
- Financial Ratios Benchmarking
- Social Media Audit
- Data Retention Advisory
- Annual Legislative Changes Audit
- Assistance to the Office of the Inspector General
- Investment Management Audit





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Detailed copies of the reports and memorandums have been included in this presentation.

- **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 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



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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 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 for consideration.



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### Audit Plan Changes

Since the previous meeting, we assessed the overall plan coverage and together with Business Unit Leaders opted to cancel three engagements.

Changes to Audit Plan		
Engagement	Type	Comments
Self Service Strategy	Project	Audit support no longer needed by business unit
Special VMO Project	Advisory	Rescheduled for 2019 based on business unit requirements
Treasury Management Automation Best Practices	Advisory	Audit support no longer needed by business unit

### Work in Progress

At the moment we have five audit engagements in progress. In the execution of our audit engagements we follow a structured process which is divided into three main categories, e.g.: the first step focuses upon engagement planning (including notification, fact finding, process risk and scope and objective setting); the second step focuses on project execution or fieldwork; and the last step in the audit process includes report delivery (agreeing results from fieldwork with management and delivering a written result of the work completed).

- Managed Repair Program (in planning)** Following the implementation of the revised MRP process OIA will assess the deployment of the Managed Repair Program against the stipulations of the agreement and evaluate the efficiency and effectiveness of internal controls developed and implemented to ensure that the program is operating as expected.
- Alternative Work Arrangements (in planning)** Given the closure of the Tampa Office and the roll-out of additional Alternative Work Arrangements OIA will evaluate performance management processes developed to ensure adequate oversight is in place to manage and monitor AWA employee performance, productivity, and compliance with corporate policy.
- Centerpoint User Access (Finance and Procurement) in planning)** Oracle Fusion Cloud Service, an integrated ERP solution, has been implemented in various phases. As a result of the completed Centerpoint (ERP) HCM Access audit work noting system limitations and complexities of Oracle roles and permissions it was determined that an audit of access controls over the Centerpoint Finance Module was prudent.



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- VMO-Responsible Vendor Review (in reporting)

The RVR process was recently enhanced to provide more in-depth research and discovery on prospective vendors. VMO Management requested an independent review of the RVR process to determine if it provides research and analysis comparable to Florida State Agencies.
- Enterprise Rhythm Program (in planning)

In 2017, IT management implemented a new enterprise planning and delivery methodology based upon an industry leading framework. “Enterprise Rhythm” is a transformative program with the goals of expanding economic decision making and improving delivery predictability, throughput and quality as well as development of performance metrics, elimination of administrative overhead and improved employee engagement. OIA will engage an external vendor to assist with a review of program maturity and opportunities for improvement as well as providing feedback relative to internal process changes occurring as part of the new program.

### Work Planned for Q1 2019

The following audit engagements are scheduled to commence late Q4 2018 with completion dates set during Q1 2019.

- Payroll Audit

As a result of the completed Centerpoint (ERP) HCM Access audit noting system limitations and complexities of Oracle roles and permissions it was determined that an audit of the Payroll Function was prudent.
- Claims Legal Billing (Acuity System) Audit

There has been a significant increase in litigated cases given AOB and hurricane Irma resulting in increased defense cost. The objective of the audit is to ensure there are adequate controls in place to monitor and manage litigation defense related expenses.
- It Security Critical Controls (Audit)

New security standards were adopted based upon the leading practices Critical Security Controls framework. IT Management has been tracking and implementing the new standards. OIA will evaluate project governance and the effectiveness of the standards implementation, including the gap analysis process, assessment and prioritization of new control practices and the compliance methodology used to validate the changes.
- SIU Advisory

In collaboration with SIU management, OIA will provide advice on forensic data analytics coordination and management.



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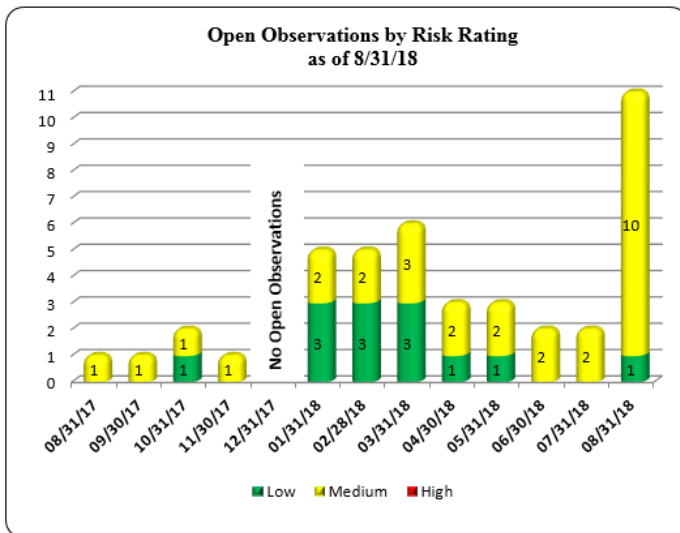
## Control Deficiency Resolution

As of August 31 2018, 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.

The following table provides an analysis of Open Audit Observations recorded as of August 31, 2018 compared to the previous month and the previous five quarters.

2017-2018 Open Observations Metrics							
	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	July 2018	Aug 2018
Open	6	1	1	0	6	2	2
New	0	0	1	8	0	0	12
Closed	5	0	2	2	4	0	3
Risk Acceptance	0	0	0	0	0	0	0
Remaining	1	1	0	6	2	2	11

The following charts provide additional information related to the number of open observations over the previous thirteen months including the observation ratings, source of observation and year reported of the currently open observations.



Observations by Rating @ 8/31/18			
High	Medium	Low	TOTAL
0	10	1	11

Observations by Audit Year @ 8/31/18			
2016	2017	2018	TOTAL
0	1	10	11

Observation Source @ 8/31/18	
OIA	7
External Auditor	0
Market Conduct - OIR	0
Auditor General	4
<b>TOTAL</b>	<b>11</b>







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### Client Satisfaction

Client Satisfaction is a 360 measure of how the audit department is engaging its clients and the quality of the services provided. Year to date, the average score on post audit client surveys is 4.3 on a scale of 5.0.

### Consent Item

With the original purchase of the TeamMate products, approved by the Board on December 9, 2015, OIA acquired licenses to use TeamMate AM (Audit Management), TeamMate CM (Controls Management) and Team Mate Analytics. This Consent Item is for approval of an amendment to upgrade Citizens' Audit Management Software from the vendor's "TeamMate AM" product to its "TeamMate+" product. This upgrade will allow for increased efficiency through enhanced configurability of various components, robust historical insights, work paper versioning, enhanced dashboard reporting, and ease of use on many types of devices.

The proposed amendment will result in additional contractual payments of \$34,706.00 (over the full nine-year term), but will not cause Citizens to exceed the amount previously authorized by the Board.

The OIA requests approval of the Consent Item from the Audit Committee for presentation to the Board.



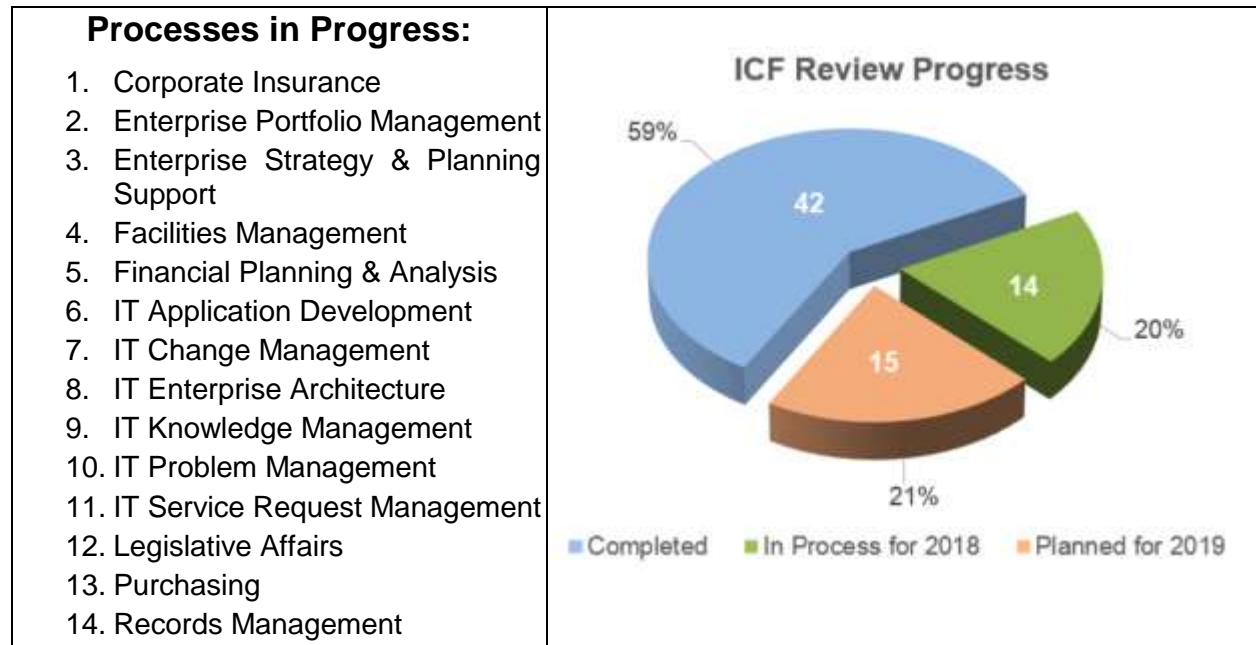
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## Internal Controls

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). This framework is based upon the widely accepted COSO 2013 framework and leverages the information technology COBIT 5 framework for IT control identification and best practices.

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. Originally we assessed Citizens process universe and chose 48 processes in-scope for ICF. Following a reassessment of IT (COBIT 5 driven processes) as well as the realignment of functions following ELT responsibility changes in 2017, we expanded ICF to 71 in-scope processes. Of the 71 processes ICF completed 42 processes and has 14 reviews 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

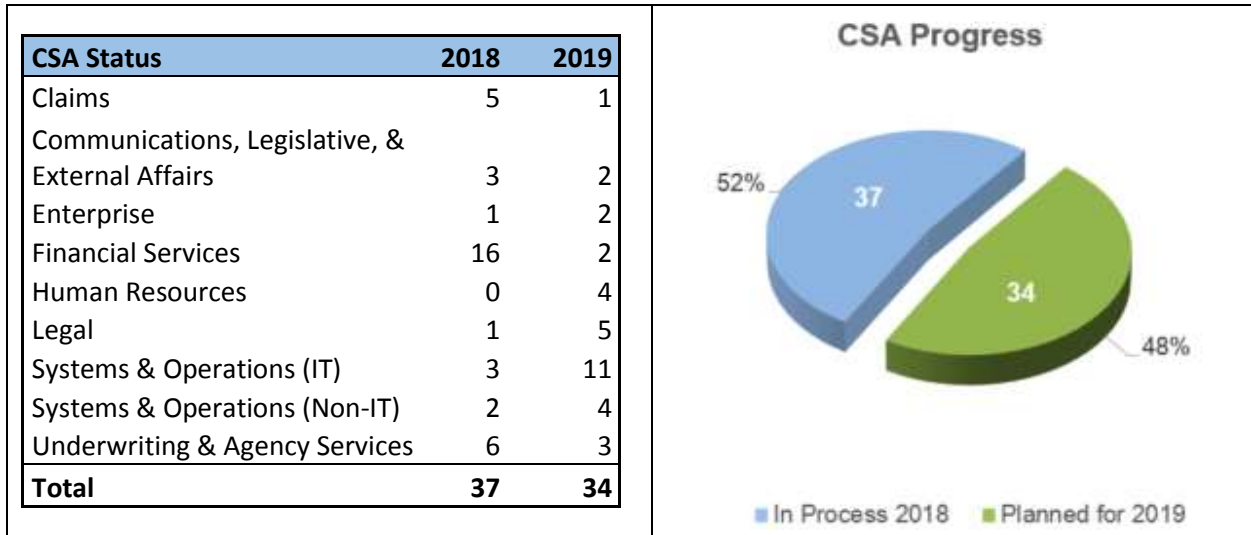




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assessed that 37 are ready for Control Self-Assessment reviews, while the remaining five processes required a refreshment of control design following major process changes implemented through the roll-out of Centerpoint or other system changes. The 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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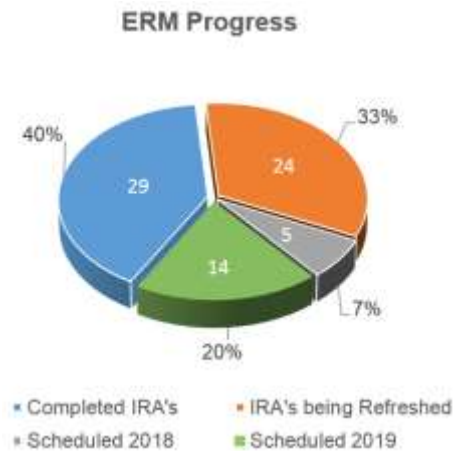
## Enterprise Risk

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
<b>Total</b>	<b>72</b>



Following the last Audit Committee meeting the ERO and the Executive Leadership Team (ELT) continued to develop 15 key strategic risks. (Refer to Appendix 2 for a list of the 15 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.

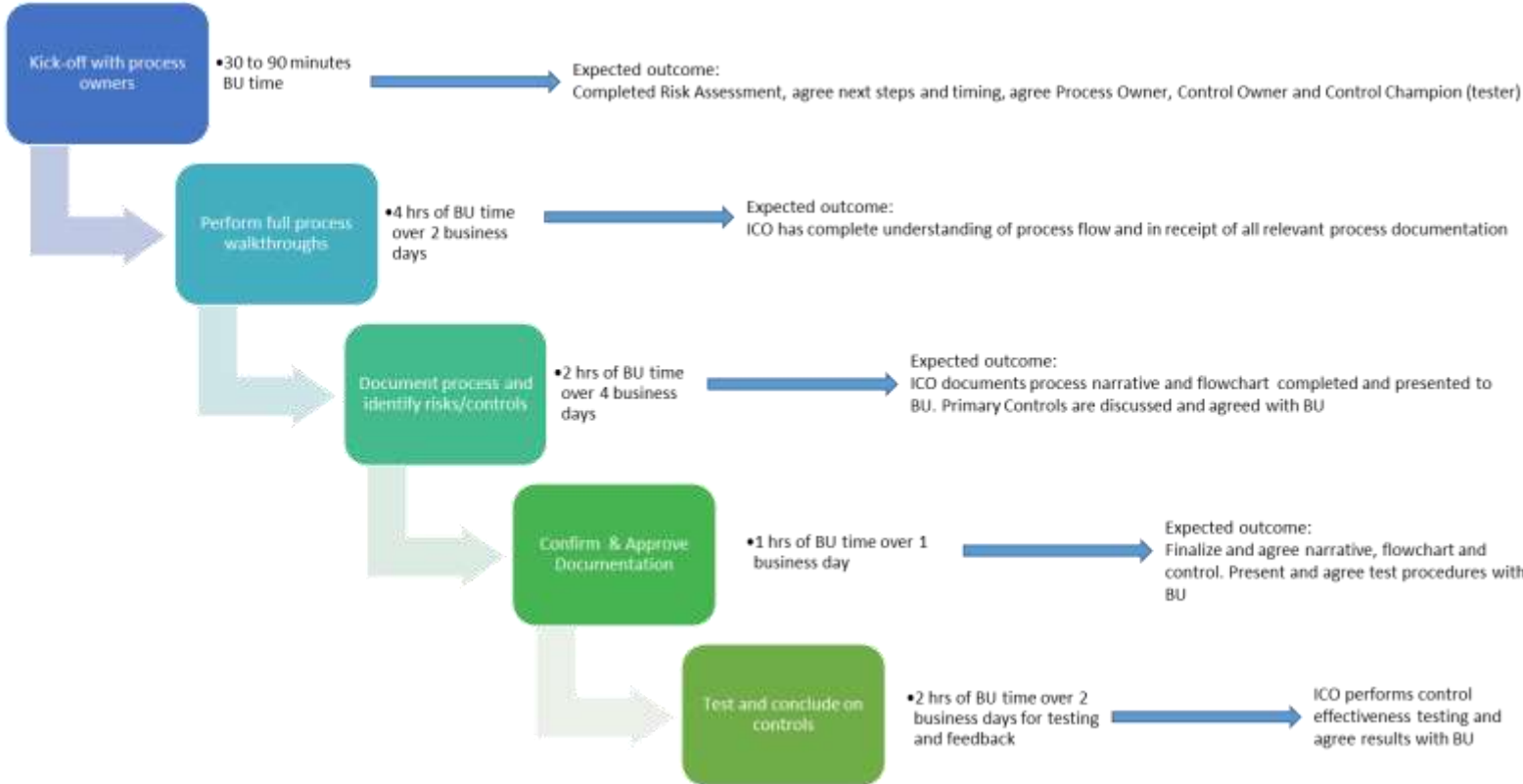




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## APPENDIX 1: ICF ROLL-OUT PROCESS FLOW



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### APPENDIX 2: STRATEGIC RISKS

Risk Title	Risk Description	Risk Owner
<b>CAT Response</b>	Failure to have adequate resources to respond to a major catastrophic event.	<b>Jay Adams</b>
<b>Change Management Leadership</b>	Failure to effectively design and implement change management process and have nimble leadership for executing change across the organization.	<b>Kelly Booten</b>
<b>Claims Abuse</b>	Failure to identify and stay in front of claims abuse schemes that increase litigation costs for Citizens.	<b>Jay Adams</b>
<b>Compliance with Laws &amp; Regulations</b>	Unintentional acts or decisions by the company that are not in accordance with rules, regulations, ethical standards, professional code of conduct and policies and procedures, resulting in non-compliance, penalties, criminal charges, reputational damage or financial loss	<b>Dan Sumner</b>
<b>Data Quality and Availability</b>	Lack of complete and accurate data available to support management decisions.	<b>Kelly Booten</b>
<b>Data Security and Privacy</b>	Ability to secure and protect the privacy of the data and computing assets from unauthorized access resulting in the unintentional disclosure of confidential, private, proprietary or sensitive information.	<b>Kelly Booten</b>
<b>Ethics, Integrity, Conflicts of Interest</b>	Violation of Citizens' code of ethics, execution of illegal and unauthorized acts, management fraud, employee fraud or situations where multiple, conflicting interests could possibly corrupt motivation or decision-making. Any or all of these may result in non-compliance, penalties, criminal charges, reputational damage or financial loss.	<b>Dan Sumner</b>
<b>External Influences</b>	Failure to fully understand, anticipate, plan for and react quickly to external events, including new or changing laws and regulations, that require rapid adjustments that Citizens either isn't ready to make or have a significant financial impact.	<b>Christine Ashburn</b>



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### APPENDIX 2: STRATEGIC RISKS (continued.....)

Risk Title	Risk Description	Risk Owner
<b>Product Offerings</b>	Failure to have insurance products that balance the needs of the market, consumers, and Citizens.	<b>Steve Bitar</b>
<b>Reinsurance Program</b>	Failure of Citizens reinsurance strategy and associated program to provide adequate risk transfer and the expected protection of Citizens' surplus at an acceptable cost.	<b>Jennifer Montero</b>
<b>Reliance on 3<sup>rd</sup> Partiers</b>	Significant reliance and/or overreliance on vendors.	<b>Kelly Booten</b>
<b>Succession Planning</b>	Ability to identify and develop key senior leadership talent, minimizing the loss of institutional knowledge, and negative impact associated with turnover in senior leadership roles.	<b>Violet Bloom</b>
<b>Systems Implementations</b>	The ability to effectively scope requirements, prioritize, implement and measure the return on technology solutions, both internally developed and external solutions.	<b>Kelly Booten</b>
<b>Underwriting Data Integrity</b>	Inaccurate assessment or classification of the risk caused by either out of date or inaccurate underwriting information, or not reviewing renewal risks periodically, resulting in incorrect underwriting decisions or unintended consequences on depopulation.	<b>Steve Bitar</b>
<b>Vendor Management / Oversight</b>	Inadequate monitoring of third-party/vendor relationships, activities, performance and contract compliance on any ongoing and periodic basis resulting in missed SLAs, contract violations, rework/additional work for Citizens, additional costs, lower quality and missed deadlines.	<b>Kelly Booten</b>