



# Dashboard

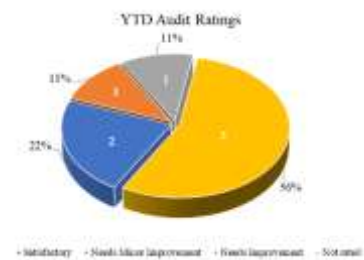
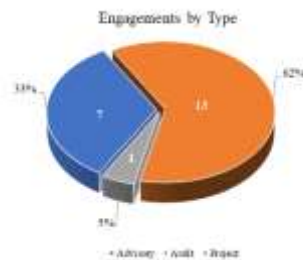
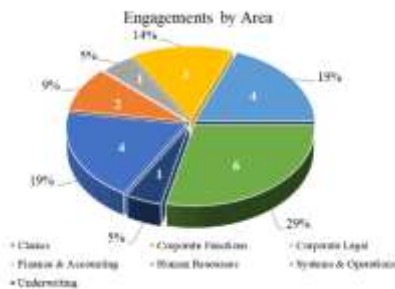
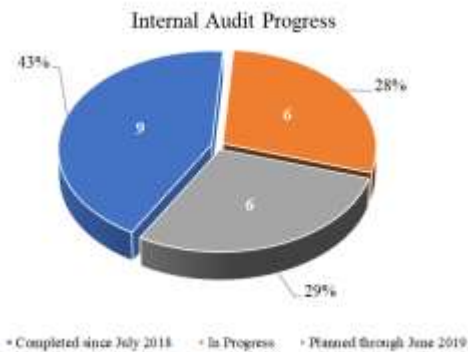
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## Internal Audit

### 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 since July 2018	9
In Progress	6
Planned through June 2019	6
<b>Total Projects</b>	<b>21</b>



### Audit Engagements Completed

Following the last meeting we completed work on two audit engagements, the VMO-Responsible Vendor Review (RVR); and provided advice to management on the Enterprise Rhythm process. A detailed copy of the memorandum has been included in this presentation.

- VMO-Responsible Vendor Review (RVR)** - Internal Audit in collaboration with VMO Management developed an approach to determine the adequacy and comprehensiveness of the RVR program by performing a gap analysis comparing leading State of Florida agencies under the same purchasing regulatory requirements Section 287.057, F.S., to Citizens. Results from the gap analysis indicate that Citizens' Responsible Vendor Review due diligence process is equal to or more comprehensive than leading State of Florida Agencies under the requirements of Section 287.057, F.S. Citizens' review process includes



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additional websites searches and information gathering in the areas of Licensure and Designations, Litigation History, Tax Liens, Associated Business Profiles, Employment Review Sites, and other resources such as LexisNexis, Better Business Bureau, Google, Google Review Rating, and Yelp.

- **Enterprise Rhythm Program** - The objective of this advisory was to partner with IT Management to assess the current maturity level and potential practice improvement opportunities related to the new enterprise planning and delivery framework referred to as Enterprise Rhythm as they continue to execute against their transformation roadmap. In support of management's initiative audit assisted with refining the list of advisory deliverables, and identifying and screening vendors who have experience in the Scaled Agile Framework (implementation experience, assessment tools, and benchmark data) that may serve to meet the objectives of the engagement. Management completed the vendor selection and is in the process of procuring the consulting service. Audit will remain engaged and continue to assist as needed throughout the vendor service delivery.

### Work 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). There are six audit engagements in progress:

- **Managed Repair Program (in draft reporting)** 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 draft reporting)** 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 draft reporting)** 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.
- **Payroll Audit** Because of the completed CenterPoint (ERP) HCM Access audit wherein we noted system limitations and complexities of Oracle roles and



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permissions it was determined that an audit of the Payroll Function was prudent.

- **It Critical Security 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 track and validate the changes.
- **SIU Process** Following a recent OIG claims evaluation, SIU and IA recorded opportunities to strengthen controls related to data analytics performed to support investigations and proactively identify fraud. OIA will provide consultative advice to incorporate leading practices and assess controls related to monitoring and oversight.

### Work Planned for Q1 2019

The following audit engagements are scheduled to commence late Q1 2019 with completion dates set during Q2 2019.

- **CenterPoint Configuration** Oracle Fusion Cloud Service modules for human capital management, financials, and procurement were implemented (referred to as CenterPoint). CenterPoint replaced independent applications previously used by Human Resources, Finance and Procurement. Oracle module configuration is complex and proper configuration of the modules is necessary to adequately restrict and/or eliminate the ability to override controls in place to prevent inappropriate transactions. Improper application configuration may lead to unauthorized transactions that may impair business operations or allow nefarious transactions. Internal Audit will validate that CenterPoint modules are properly configured to prevent the override of key controls.
- **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 vendors and defense related expenses.
- **Insurance Scoring** Insurance scoring models are designed to predict risks and in the private market, insurance scoring is typically used in underwriting decisions for personal product lines. Citizens' personal lines underwriting team is researching the possibility of leveraging insurance scoring to encourage private companies to take out policies and to manage expenses by lowering underwriting and loss adjustment expenses and inspection costs



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(insurance scoring will not be used to determine eligibility or rates). Internal Audit will provide consultative advice to management in the design of any new processes implemented as a result of this research to ensure appropriate controls are considered.

- **Litigation Settlement**

Citizens' goal is to provide high quality customer service and accurate damage estimates for our policyholders in their time of need. On occasion, disagreements in claims handling and resolution may lead policyholders to pursue litigation. Citizens continues to receive an excessive number of new lawsuits per month, most of which are related to Hurricane Irma litigation and non-weather water loss. The leading dispute for most Hurricane Irma lawsuits, both residential and commercial, is scope and pricing. Once in litigation, matters are evaluated to determine whether appropriate for resolution without the need for protracted litigation. Internal Audit will review claims settled to identify improvements in the claims process.
- **SOC Reporting**

System and Organization Controls (SOC) reports are internal control reports on the services provided by a vendor that delivers valuable information that Citizens needs to assess and address the risks associated with an outsourced service. Properly obtaining and reviewing SOC reports of applicable service vendors is necessary to ensure the organization is not exposed to shortcomings in vendor controls relied upon. Internal Audit will assist management in developing effective governance surrounding SOC reporting requirements for Citizens vendors, including but not limited to effective identification, enforcement, evaluation, alternative mitigations, and monitoring.
- **Targeted Payroll Analytics**

With the recent CenterPoint implementation there is an opportunity for IA to evaluate transactional process risks and establish red flag and anomaly monitoring. Examples of payroll related risks could include unauthorized modification of records and overriding or circumventing system controls. Internal Audit will complete a targeted audit of the payroll process to validate that all transactional risks faced are identified and proper mitigating controls are in place.

### Control Deficiency Resolution

OIA is currently tracking twelve open observations and no new observations were added/closed since the last meeting. Overall, open observations receive adequate business focus and implementation of agreed corrective action is well managed.

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

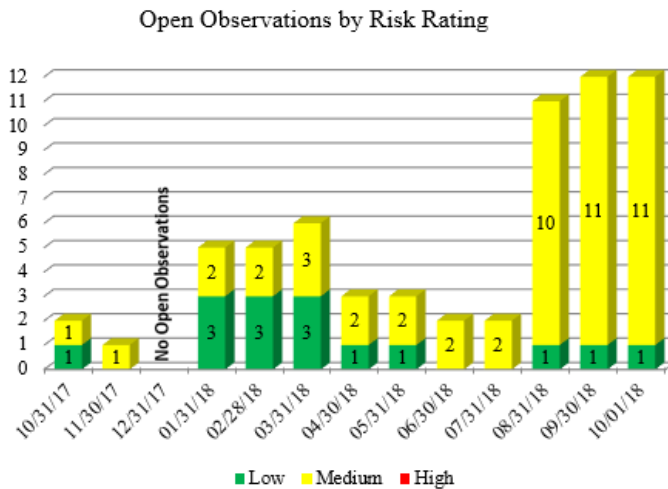


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Open Observations Metrics							
	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Oct 2018
Open	6	1	1	0	6	2	12
New	0	0	1	8	0	13	0
Closed	5	0	2	2	4	3	0
Risk Acceptance	0	0	0	0	0	0	0
Remaining	1	1	0	6	2	12	12

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 @ 10/31/18			
High	Medium	Low	TOTAL
0	11	1	12

Observations by Audit Year @ 10/31/18			
2016	2017	2018	TOTAL
0	1	11	12

Observation Source @ 10/31/18	
OIA	7
External Auditor	0
Market Conduct - OIR	0
Auditor General	5
<b>TOTAL</b>	<b>12</b>

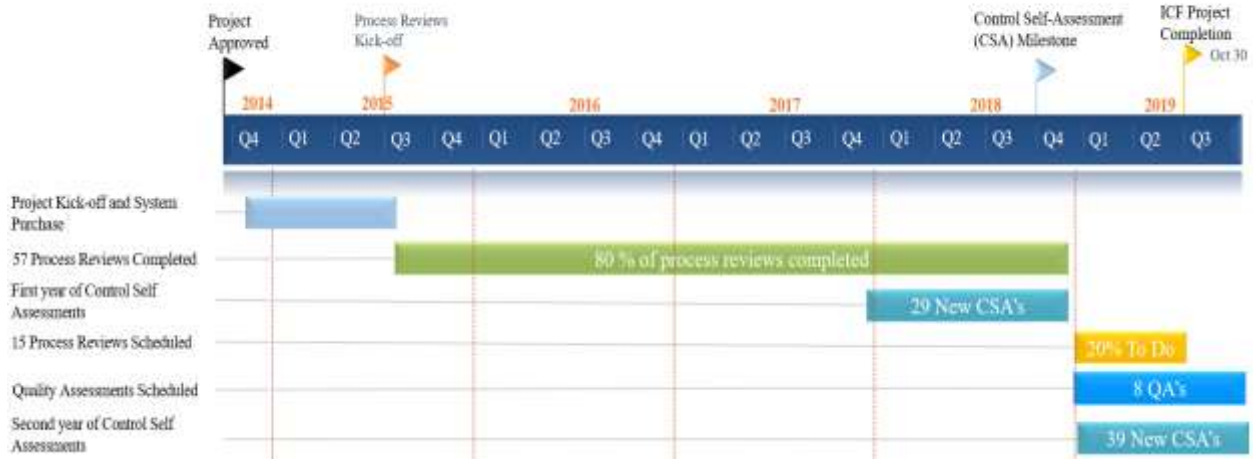
## Internal Controls

In 2014 Citizens Audit Committee approved the roll-out of an Internal Control Framework (ICF), throughout the organization, which is aimed at strengthening and improving the organization’s overall control and operating environment. As a basis for designing Citizens’ ICF, the organization selected COSO 2013 (developed by the Committee of Sponsoring Organizations of the Treadway Commission), which provides an Internal Control-Integrated Framework that enhances fundamental concepts of what defines an effective system of internal controls. The following graph shows the project timeline:

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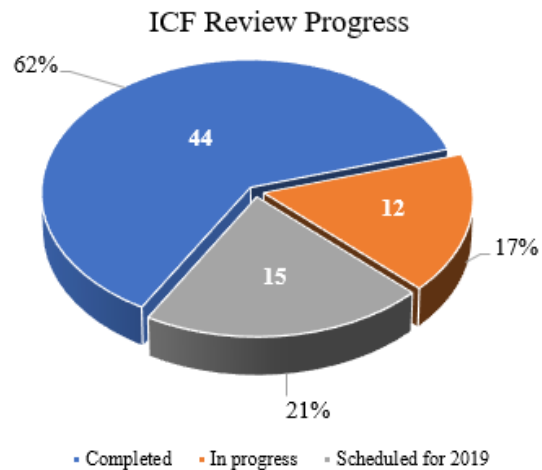
## ICF Project Timeline



The Internal Controls Office (IC) facilitates, enables and monitors the performance of control assessments across Citizens' financial, operational and information technology environments. There are two primary initiatives led by the IC. The first is the initial roll-out of the ICF through facilitated workshops throughout Citizens.

### Process Reviews in Progress:

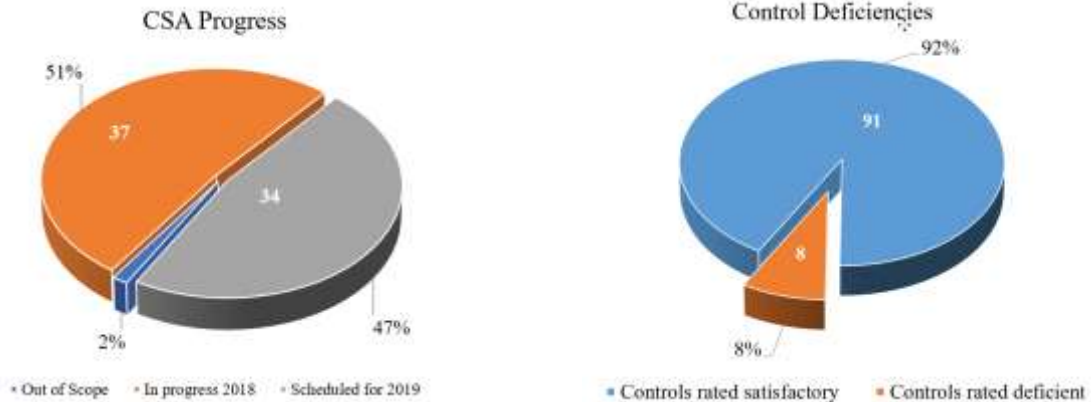
1. Corporate Insurance
2. Enterprise Strategy & Planning Support
3. Enterprise Performance Metrics
4. Facilities Management
5. IT Application Delivery
6. IT Application Development
7. IT Change Management
8. IT Problem Management
9. IT Service Request Management
10. Legislative Affairs
11. Purchasing
12. Records Management



The second initiative is the enablement and monitoring of management Control Self-Assessments (CSAs). CSAs are performed annually by management, after IC process reviews are completed, to ensure ongoing control design and operating effectiveness.

There were expectations of some control deficiencies as the process reviews were performed. To date forty-four process reviews were completed through which ninety-nine primary controls were

recorded. Of these 8 controls were identified as being deficient and corrective actions for each are in progress.



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

## Enterprise Risk

The ERO continues to focus on delivering on its three primary objectives in 2018. The first was to complete a strategic risk assessment to define and document Citizens' top strategic risks. Secondly, the ERO is facilitating and embedding an operational risk assessment and management process throughout the organization and lastly, the ERO is in the process of implementing a risk management administration system including a training program to identified business unit representatives.

### Strategic Risk Management

The ERO and the Executive Leadership Team (ELT) have continued to develop the 15 key strategic risks identified. Commencing with the last meeting, selected Risk Owners will present a summary of current and future mitigation activities for their risks. Risk summaries being reviewed at this meeting include - Data Quality and Availability, Data Security and Privacy, Reliance on Third Parties and Systems Implementations.

The 2019 risk assessment will follow the process established last year to identify and assess the strategic risks to the organization. Each member of the Executive Leadership Team (ELT) will be interviewed in January and asked to identify their top 5-7 risks to achieving the 2019 key objectives and strategic initiatives. These risk elements will be further discussed and prioritized in a facilitated risk assessment workshop attended by all the members of the ELT in February. The ELT will be asked to rate the risks on both impact to Citizens and probability of occurrence.

It is our objective to present the results of the strategic risk assessment to the Audit Committee at the March 2019 meeting.

## Operational Risk Management

The ERO will continue to coordinate completing the operational risk assessments with the roll-out of the Internal Control Framework (ICF). In addition, the ERO started implementing independent Operational Risk Management processes. The Operational Risk Management project plan for the remainder of 2018 includes completing 17 residual risk assessments (1 is complete and 16 in process). The 2019 ORM plan includes:

- The ERO in coordination with ICF will complete 18 operational risk assessments, including both assessments of inherent and residual risks.
- The completion of operational risk assessments, including assessments of both inherent and residual risks and the implementation and training on Resolver, the SaaS based ERM administration system, for 37 processes.
- Including the 17 operational risk assessments scheduled for completion in 2018, the 2019 plan includes completion of both inherent and residual risk assessments and the implementation and training on Resolver for all 72 processes.



Following the last Audit Committee meeting the ERO and the Executive Leadership Team (ELT) continued to develop 15 key strategic risks. (*Refer to Appendix 1 for a list of the 15 strategic risks*)

In addition, 2-4 of these key strategic risks will be presented at each Audit Committee meeting going forward. For this meeting Kelly Booten, Citizens Chief Systems & Operations, will present the Systems & Operations risks and related management action to the Committee.





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### APPENDIX 1: STRATEGIC RISKS

Risk Title	Risk Description	Risk Owner
CAT Response	Failure to have adequate resources to respond to a major catastrophic event.	Jay Adams
Change Management Leadership	Failure to effectively design and implement change management process and have nimble leadership for executing change across the organization.	Kelly Booten
Claims Abuse	Failure to identify and stay in front of claims abuse schemes that increase litigation costs for Citizens.	Jay Adams
Compliance with Laws & Regulations	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	Dan Sumner
Data Quality and Availability	Lack of complete and accurate data available to support management decisions.	Kelly Booten
Data Security and Privacy	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.	Kelly Booten
Ethics, Integrity, Conflicts of Interest	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 which may result in non-compliance, penalties, criminal charges, reputational damage or financial loss.	Dan Sumner
External Influences	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.	Christine Ashburn



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### APPENDIX 1: STRATEGIC RISKS (continued.....)

Risk Title	Risk Description	Risk Owner
Product Offerings	Failure to have insurance products that balance the needs of the market, consumers, and Citizens.	Steve Bitar
Reinsurance Program	Failure of Citizens reinsurance strategy and associated program to provide adequate risk transfer and the expected protection of Citizens' surplus at an acceptable cost.	Jennifer Montero
Reliance on Third Parties	Significant reliance and / or overreliance on vendors.	Kelly Booten
Succession Planning	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.	Violet Bloom
Systems Implementations	The ability to effectively scope requirements, prioritize, implement and measure the return on technology solutions, both internally developed and external solutions.	Kelly Booten
Underwriting Data Integrity	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.	Steve Bitar
Vendor Management / Oversight	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.	Kelly Booten