

# OFFICE OF THE INTERNAL AUDITOR

2019 Strategy & Plan




December 11, 2018





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### Executive Summary

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#### 1. Introduction

This document serves as the Office of the Internal Auditor's (OIA) 2019 Strategy and Plan (Plan) for Citizens Property Insurance Corporation (Citizens). The contents of this document have been shared with executive management and is presented to the Audit Committee for consideration and approval.

The Chief of Internal Audit currently oversees three complimentary assurance functions within Citizens which include Internal Audit, Enterprise Risk Management and Internal Control Monitoring. This Plan provides a detail description of approach, focus and expected deliverables for 2019 for each of the three functions mentioned.

#### 2. Background and Approach

The mission of Citizens' OIA is to provide independent, objective assurance and consulting services designed to add value and improve Citizens' operations. OIA assists Citizens in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

##### 2.1. Background on 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. Its mission is to provide insurance protection to Florida policyholders who are entitled to but are unable to find property insurance coverage in the private market. 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 forms a major component of the Florida Comprehensive Annual Financial Report. Citizens has offices in Tallahassee and Jacksonville.

##### 2.2. Approach

In alignment with our mission, OIA uses a collaborative approach in supporting Citizens in the achievement of its strategic 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. The objective of this plan is to provide the most timely and comprehensive scope of audit, risk and control coverage by using



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resources available to the OIA. Since it is impractical to provide coverage to the entire corporation on an annual basis, the OIA, in consultation with business unit leadership continuously considers risk across Citizens' process universe and determines the best type of service to address each set of risks and circumstances.

#### 2.3. Coordination with other Assurance Providers

In developing this plan and approach, OIA consulted with other internal and external assurance providers, including Citizens' Inspector General, to ensure that the 2019 OIA plan supports or complements other operational plans. This ensures duplication of work is minimized. Our schedule will be shared with the external auditors, Dixon Hughes Goodman, and we will continue our discussion with them as the year progresses and adjust the plan, where appropriate, in order to provide them the opportunity to rely on OIA's work product.

### 3. OIA Mandate

The purpose, authority, and responsibility of the OIA is formally established through Citizens' enabling statute, specifically Section 627.351(6)(i) Florida Statutes. In addition, Citizens' Audit Committee further clarified OIA's role and authority through Citizens' 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 and is reviewed annually.

In addition to the International Standards for the Professional Practice of Internal Auditing, the OIA further uses accepted industry frameworks for guidance when conducting audits, risk assessments or internal control evaluations. These include the Control Objectives for Information and related Technology (COBIT) as guidance for conducting IT audits; the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Framework (COSO 2013) for the development and management of Citizens' internal control framework; and the COSO Enterprise Risk Management Framework (COSO ERM) for the development and management of Citizens' enterprise risk framework.



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#### 4. OIA Values

In support of OIA's mission and aligned with Citizens' values we adopted:

- *Forward Thinking*: We provide excellence by being insightful, proactive and innovative.
- *Teamwork*: We are a solidified team that works together collaboratively and efficiently.
- *Trusted and Respected*: We embrace the highest level of confidentiality and integrity and treat all people with dignity and respect.
- *Professional and Courteous*: We respectfully follow the relevant standards while being polite and courteous to others.
- *Responsive to Risk and Customers*: We will understand the changing needs of Citizens and respond by being flexible in our planning and delivery.
- *Competent, Fair and Balanced*: We provide unbiased, balanced, and practical solutions.

#### 5. OIA Strategy

OIA aligned its 2019 approach with Citizens' strategic objectives and goals in order to provide high quality audit, risk and control services. To be a valued partner, the OIA team seeks opportunities to continuously be aware of leading audit, risk and control practices, to learn about and understand their business partners' environment and the challenges they face, as well as taking a forward look at internal and external factors and trends that may prevent Citizens from successfully meeting its goals and objectives.

##### 5.1. Strategic Goals

We seek creative ways to maximize the value and impact of available audit, risk and control resources and to be a valued partner. As such the OIA team seeks opportunities to:

- Learn about and understand our business partners' environment and the challenges they face.
- Provide progressive thinking toward internal and external factors and trends that may prevent Citizens from successfully meeting its goals and objectives.
- Continuously be aware of and apply leading audit, risk and control practices.

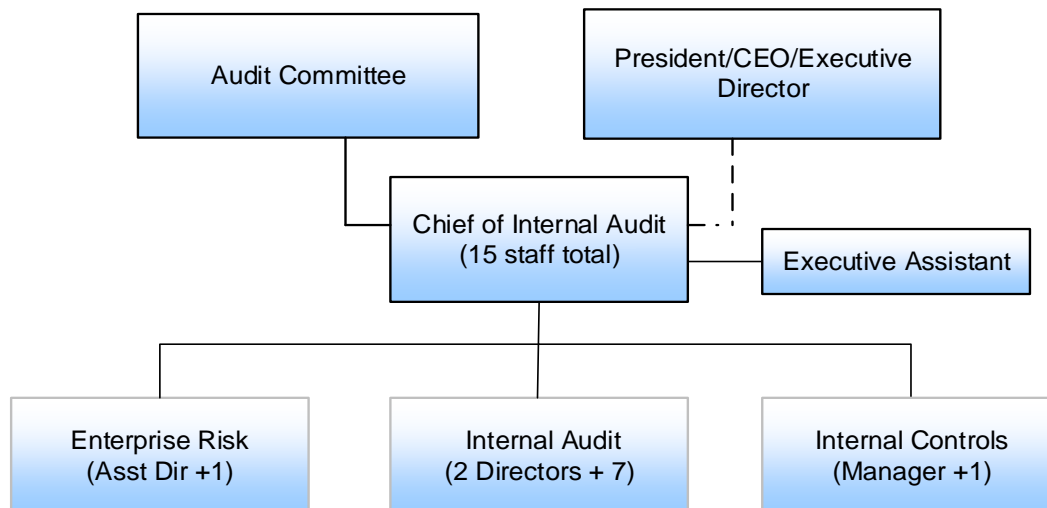


## Executive Summary

### 6. Organization

The Chief of Internal Audit was appointed by the Audit Committee, a committee of the Board of Governors, and reports directly to and is under the general supervision of the Audit Committee. Under the guidance of the Committee and in support of Citizens' management, the Chief of Internal Audit established a team of audit, risk and control professionals to provide assurance and consulting activity, which is designed to add value and improve the corporation's operations.

#### Organization Chart





## 7. Internal Audit Plan

The Internal Auditors (IA) follow a detailed annual planning process, and prepares a theme based audit plan which considers the possibility of dynamic risk fluctuations and process changes throughout the year. This necessitates regular re-evaluation of audit approach and scope so that appropriate audit focus is always given to important strategic and operational issues and risks. Throughout the year the audit plan continuously evolves to support our dynamic risk environment, focusing on current and emerging reputational, compliance, operational, information technology and financial risks. To achieve the greatest impact, IA “rebalances” internal audit activities in a rolling audit plan to ensure sufficient focus on Citizens’ strategic issues and critical processes.

### 7.1. Defining the audit universe

In determining Citizens’ audit universe (or range of all audit activities), we engaged with management across the organization and assessed potential auditable entities. These entities included a range of programs, activities, functions, structures and initiatives, which collectively contribute to the achievement of Citizens’ strategic objectives. For 2019, Citizens’ strategic goals are to:

- Operate as an efficient residual market
- Ensure a strong financial operating environment
- Operate a streamlined, scalable and customer-focused organization
- Protect the public interest and maintain the integrity of the Corporation
- Identify, educate and effectively communicate with internal and external stakeholders

### 7.2. Prioritizing work to be performed by Internal Audit

The primary responsibility of Internal Audit is to determine whether Citizens’ network of governance processes, risk/opportunity management, and internal control, as designed and represented by management, is adequate and functioning in a manner to ensure that:

- Risks/opportunities are appropriately identified and managed.
- Interaction with the various governance groups occurs, as needed.
- Significant financial, managerial, and operating information is accurate, reliable and timely.





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- Employees' actions comply with policies, standards, procedures and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and protected adequately.
- Programs, plans and objectives are achieved.
- Quality and continuous improvement are fostered in Citizens' control process.
- Significant legislative or regulatory issues affecting Citizens are recognized and addressed appropriately.
- Prioritizing the units to be reviewed or audited was based on the relative risks/opportunities associated with each of them. Risk factors considered while reviewing the units in the Universe included the Control Environment; Business Exposure; Compliance Requirements; Reputational/Image Factor; Organizational Change or Growth; and Management and Internal Audit Discretion.

### 7.3. Determining the types of services to be performed

Following the completion of a detailed analysis of the Citizens' strategic goals and objectives, Management's concerns and Internal Audit's risk assessment, IA developed specific audit themes in identifying planned audit activities and audit coverage. Themes-based audit planning is a value-adding approach that helps the IA to determine, consolidate, and provide high-level insights into the following periods audit focus areas to the Audit Committee, Chief Executive Officer (CEO) and other key stakeholders through the grouping of internal audit outcomes into related higher-level topic areas (or themes).

Activities carried out by IA can take many forms. IA realizes that pure assurance activities are not the only solution to accomplish our goals and offers other services to add value to the company and defined the following categories:

- Audit (Assurance) activity - involves the objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Through audits the IA assesses, among other, the adequacy of: internal control; risk management; governance process; compliance with laws or regulations, project management process; and occupational fraud mitigation practices.
- Consulting (Advisory) services - are provided generally at the request of a member of management or a process owner in the organization and are intended to add value and



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improve Citizens' governance, risk management, and control processes without assuming management responsibility.

- Business Support - is provided at the request of business unit management and is usually conducted to improve collaborative efforts and to assist in the identification of good business practice.
- Targeted audits or Investigations - research and validation activities support various constituents in the process of determining the legitimacy of a reported suspicion by providing independent, objective financial and process related expertise.
- Training/Education - detailed training aimed at educating management, employees and associated third parties on risk, control, process and financial related matters, and
- Risk Assessments - activities to assess, identify, and highlight current and emerging risks that may affect the Company.



### 7.4. Expense Management

Citizens continues to develop and improve existing strategies, programs, and processes geared toward reducing litigation and its associated impact on loss adjustment expenses and indemnity costs. There has been a significant increase in the costs of non-weather water claims loss and related litigation. Additionally, the organization remains focused to achieve and maintain an expense ratio that is comparable to the private market.

Effective October 2018, Citizens will begin requiring proof of repairs for Hurricane Irma damage to determine eligibility for policies renewing on or after March 6, 2019. Policyholders who have filed a claim for damage caused by Hurricane Irma, whether or not the claim exceeded the policy's hurricane deductible, must submit proof of repair to Citizens as soon as any repairs are complete. Proof of repairs includes, but is not limited



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to, photographs, receipts for work completed and local jurisdiction inspection reports. For claims with repairs not completed by the policy's renewal date on or after March 6, 2019, Citizens will accept documentation such as a contract with a roofing company or building contractor, that demonstrates repairs are underway to process the renewal.

In July 2017, Citizens established the Managed Repair Program (MRP), a customer focused turnkey service that returns the customers' property to pre-loss condition, and to help reduce the rising cost of water loss litigation. MRP is comprised of two separate components; Emergency Water Removal Services, and the Managed Repair Contractor Network Program; each supported by separate policy endorsements that provide options to the insured in their time of need. The insured's first option is to consent to receive free reasonable emergency measures for non-weather water loss extraction and drying services, and then the permanent repairs option is available for covered damages under the contractor network program. Effective August 1, 2018, Citizens revised the MRP products to enhance the personal lines Homeowners (HO-3) and Dwelling Property (DP-3) policy language that supports both endorsements, improves the customer's options and claim experience.

Following the 2017 CAT season Citizens has triggered recovery through its Reinsurance program. This accounting process has however not been used in recent years.

### Potential Engagements:



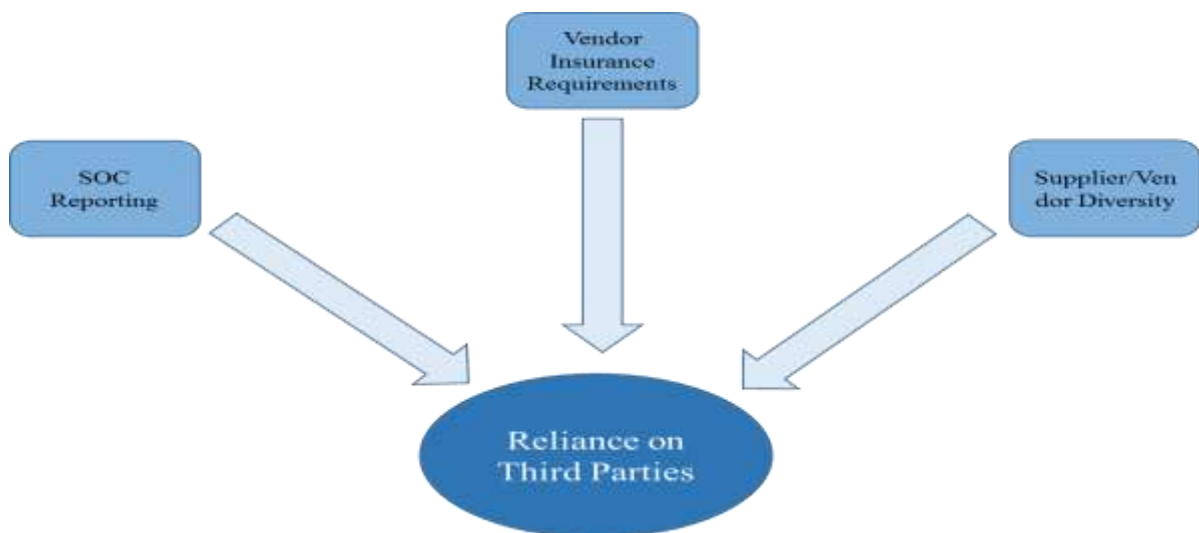


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### 7.5. Reliance on Third Parties

Citizens in its capacity as an insurance company and as a government entity relies on vendors to support daily operations. The Vendor Management Office (VMO) in partnership with the Purchasing and Legal departments supports Citizens' vendor selection process. The collaboration of these departments provides oversight of the contract life cycle and ensures compliance with Florida Statutes governing the procurement process to ensure fair and equitable selection of vendors. The VMO enables Citizens to better control costs, drive service excellence, and mitigate risks throughout the contract life cycle, which includes engagement, selection, and management. In 2019, VMO plans to include mitigation of risks for vendors that do not have a Service Organization Control (SOC) report available, revisiting liability insurance requirements for sinkhole and mobile home vendors, and potentially leveraging leading practices related to supplier diversity.

#### Potential Engagements:



### 7.6. Fraud Detection and Deterrence

#### ***Occupational Fraud***

Occupational fraud is universally recognized as a risk and as such risk prevention and early detection have become good business practice. Even a remote possibility of fraud could lead to significant economic and reputational impacts to an organization. Developing a



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strong occupational fraud program protects the interests of all Floridians and IA plans to strengthen its approach by deterring potential fraud schemes before they happen, and promptly identify and respond to any instance that may occur. This combination of proactive and reactive techniques will maximize the value of the program to the organization, and ensure all employees become co-owners and co-developers of the overall program.

Specifically, IA is leveraging knowledge of the insurance industry, fraud risks, and data analytics to team-up with the business units to understand and review the controls in place to stop common schemes experienced by peers in insurance and other industries. These occupational fraud risk assessments become the cornerstone of the program by providing the context needed to (1) share the knowledge with the company through training sessions and other media, and (2) direct the data analytics efforts to the most relevant risks. To support this effort, IA is also strengthening data analytics tools and techniques, so that the tests developed can be applied across the organization moving closer to early fraud warning and continued monitoring. Finally, IA is committed to quickly respond to all potential fraud indicators by promptly and efficiently deploying the team for targeted audits to minimize impacts and increase the chances of recovery.

Through this combination of proactive activities such as risk analysis & red flag assessments, fraud awareness & training, early detection through data analytics and efficient deployment of targeted audits, IA is confident this program maximizes its value to the organization and adequately addresses the risk of occupational fraud to protect the interests of all Floridians.

### ***Insurance Fraud***

Citizens' Special Investigations Unit (SIU) investigates potentially fraudulent insurance activity referred by the company's Claims, Underwriting and Agency Services, Vendor Relations and business units. The program balances the use of field investigators with outsourced investigative firms that provide both efficiency and scalability of resources. Successful SIU operations deter fraud and reduce insurance costs. As required by Florida statute, Citizens' SIU obligation remains to deliver equitable, prompt and efficient claims services on an objective measurement of the facts, the law and contractual obligation. The SIU has dedicated resources to perform data analytics to support investigations and



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proactively identify fraud. In collaboration with SIU management, IA will provide advice on forensic data analytics coordination and management.

### Potential Engagements:



### 7.7. Innovation and Systems Conversion

Citizens' core functions are continually innovating by exploring ways to leverage industry leading practices and tools to increase operational efficiency and focus on the customer experience.

New products and services offer enhanced self-service capabilities to policyholders, and agents enabling more efficient, cost effective, and user friendly transactions. My Policy is now available and plans are to continue to expand capabilities during 2019. Personal Lines Underwriting is researching the potential to leverage insurance scoring to encourage private companies to take out policies and to manage expenses by lowering underwriting and loss adjustment expenses and inspection costs (insurance scoring will not be used to determine eligibility or rates). There is a solicitation underway to procure a solution providing Citizens with the ability to provide policyholders with claims payments through electronic disbursement. The use of debit cards to replace field checks for additional living expense (ALE) payments disbursed to affected policyholders during a CAT event is also under consideration.

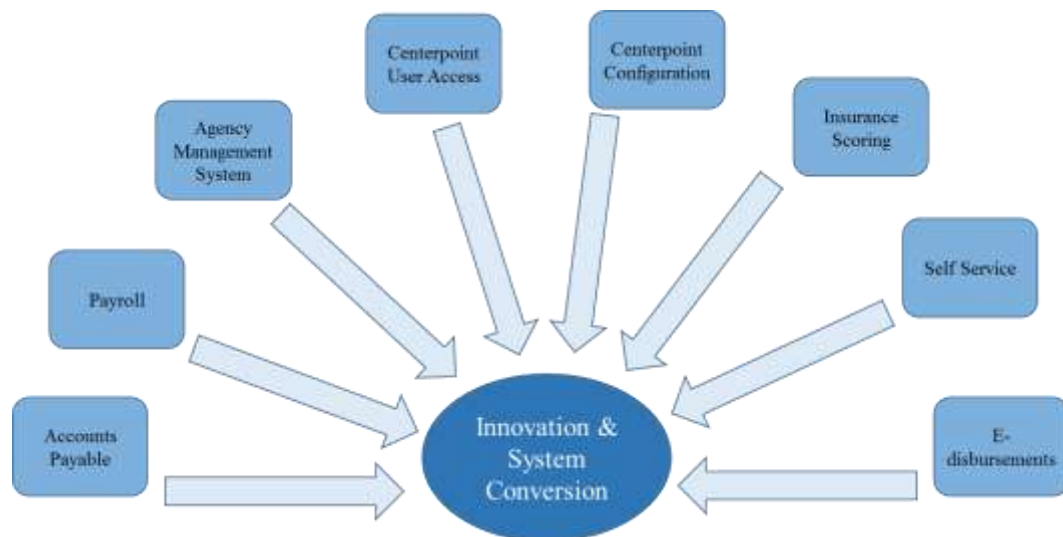
During 2018, implementation of the Oracle Fusion Cloud Service, an integrated ERP solution, continued. This system application, branded by Citizens as CenterPoint, replaces



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independent applications previously used by individual departments. The CenterPoint project consisted of five phases with implementation dates ranging from April 2017 through November 2018. The five phases focused on HR, Finance and Procurement. Privileged roles within CenterPoint modules allow an assigned user the ability to create and modify employees' salaries, benefits, addresses, bank accounts, and financial transactions. Human Resources, Procurement, Vendor Management Office, Finance, 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 are contributing to challenges in effectively managing user access and proper configuration of the system is necessary to prevent the ability to override controls. Implementation is also underway for a replacement of the current agency management system that will support tracking and monitoring of agent licenses, commissions, investigations, complaints and key performance indicators.

### Potential Engagements:



### 7.8. Enterprise Resiliency

Enterprise resilience refers to the ability of Citizens to quickly adapt to disruptions while maintaining continuous business operations and safeguarding people, assets and overall brand equity. To evaluate how resilient an enterprise is, it is necessary to have an understanding and knowledge of the characteristics of disruptions and their consequences,





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and plan for those events. Enterprise Resiliency planning focuses on: business continuity; crisis management; disaster recovery; and employee safety preparedness. Business continuity planning (BCP) enables critical business functions to perform and be available to customers, vendors and other entities in the event of a business interruption, an emergency or incident which damages or prevents access to operational facilities and/or key processing equipment. Disaster recovery is the technology portion of business continuity that provides information technology and communications in support of business functions. Additionally, emergency preparedness and response targeted to employee safety are components of resiliency requiring planning and coordination for critical incidents such as the proximity of the business to acts of violence, flooding, water interruptions, pandemic health issues, etc.

Office consolidations have occurred in recent years and these changes prompted plan revisions. Also, during July 2018, Citizens migrated its backup facility to a new location within Florida. This migration reduced the risk associated with the previous location being close to the Gulf of Mexico and allowed for additional beneficial facility changes to occur. While some connectivity and application testing occurred at the new location during the migration, continued testing is required to ensure application availability required by business recovery objectives and recovery time objectives can be met.

### Potential Engagements:



### 7.9. Security and Privacy Culture

User access controls and system configurations are foundational to application security and monitoring. Especially important are controls related to privileged users and audit



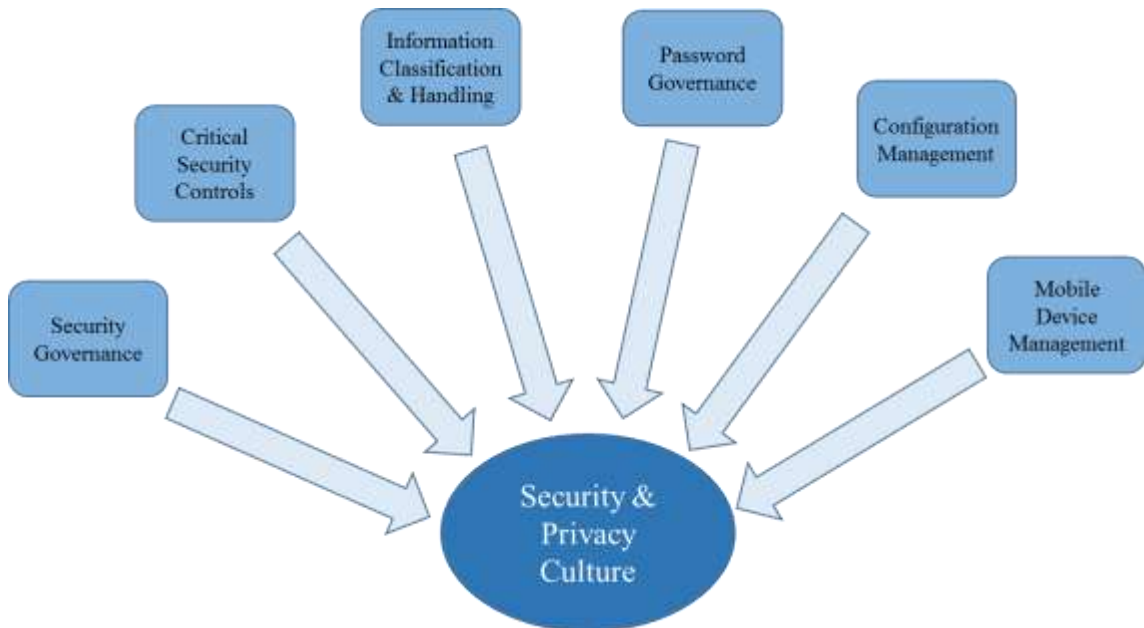


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logging. With the implementation of CenterPoint, the business is reviewing risks and re-evaluating user access controls subsequent to an internal audit which brought focus to some opportunities for business collaboration and improvements in this area.

Citizens' hardware, software and mobile assets are key to providing secure business applications and network and staff communications, as well as promoting employee and contract personnel productivity to support business strategies and goals. Configuration management as it relates to security and device hardening are part of infrastructure management and have a direct impact on cyber security. Regarding mobile device management, a challenge with items such as tablet computers, phones and mobile printers is that they can be moved from location to location much easier than a desktop, and some are small enough to get lost. Configuration settings and application installations occur "over the air" for some of these devices. As well, employees who use their own personal phones for business, referred to as Bring Your Own Device, bring data security challenges that must be mitigated. A project is underway to provide new employee phones and upgrade or change the middleware program that provides centralized device management. Considerations for Bring Your Own Device management will be required as several staff utilize personal phones for business use. The project is due to be completed during 2019.

### Potential Engagements:





## 8. Enterprise Risk Plan

The Enterprise Risk (ER) office is responsible for coordinating, developing and monitoring Citizens' risk management framework and processes and supports and challenges the business with the identification, assessment and mitigation of current or emerging risks. Citizens' managers bear primary responsibility for identifying, controlling and monitoring the risks within their processes and for maintaining an appropriate internal control framework.

### 8.1. Key Principles on Managing Risk

The following principles are essential in securing appropriate consideration of risk throughout Citizens:

- In order to achieve Citizens' business objectives, risks are approached enterprise-wide;
- Risk management is integral to the strategic planning, daily decision making processes;
- Risks are identified, analyzed, responded to, monitored and reported on, in accordance with Citizens' policies and procedures;
- Risk responses must be tailored to each particular business circumstance;
- Management must regularly assess the status of risks and risk responses; and
- Compliance with the ERM Framework is monitored and reported.

### 8.2. ER Vision

ER, through the integration of risk and control activities across the enterprise, implements a risk framework that supports a common, holistic, prioritized view of risks and controls.



### 8.3. ER Goals

In the execution of its 2019 work plan ER will:

- Promote structure, transparency, consistency, and uniformity among internal ERM community.



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- Facilitate the identification and evaluation of risks throughout the organization and support the use of a consistent aligned approach across Citizens.
- Enable management across all levels of the organization to self-identify, evaluate, record and manage risks through the provision of guidance, training and a software solution.
- Convert disparate risk and control data into integrated informational views.
- Proactively identify, assess, measure, manage and monitor Citizens risk portfolio.
- Empower management to make risk-informed resource utilization decisions.
- Validate that current residual risk exposure is aligned with risk appetite.

Risk management assessments are being conducted from three different perspectives: top-down (strategic risk); bottom-up (operational risk); and project risk.



During 2018 ER focused its efforts to the rollout of a detailed and comprehensive strategic risk identification and assessment approach. In support of the Internal Control Framework initiative ER continued to conduct inherent operational risk assessments throughout the organization. ER further selected and procured a SAAS based ERM administration solution which is currently being implemented.

### 8.4. 2019 Planned deliverables

#### Strategic Risk

In 2018 the ELT, in a facilitated risk workshop, documented and prioritized 15 key strategic risks. During 2019 ER will continue to work with the assigned Risk Owners to further develop risk mitigation activities and where appropriate develop key risk indicators (KRIs)



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that can be used to monitor the efficiency and effectiveness of mitigation efforts. In addition, a refresh workshop will be held during the first quarter of 2019.

### Operational Risk

During 2019 ER will continue to introduce business unit management and their delegates, to Citizens' operational risk management methodology with the primary objective to enhance Citizens' risk culture within operational management, business units and functional areas. Our operational risk management approach is intended to foster a culture where the organization embraces incorporating risk management decisions into their daily decision making and activities. Through this approach ER, together with business unit management, will complete both inherent and residual risk assessments for 72 business processes and handover the daily management responsibility of these risks to the enabled business units. To facilitate the rollout of the operational risk management approach, ER will introduce its SaaS based ERM administrative system.

### Project Risk

Project risk management has been in place within the project life cycle for many years in Citizens. This approach has however not been aligned with Citizens renewed Enterprise Risk Management Framework and related methodology. During 2019 ER will revisit the current approach and assist project management in redefining and enhancing the project risk assessment and recording process.

## 9. Internal Controls Plan

Although Citizens is not legally required to be compliant to any standard specific to its corporate structure or industry in the way that US public companies or non-public insurers must adhere to the requirements of the Sarbanes Oxley Act (SOX) or the Model Audit Rule (MAR), Citizens management saw the embedded value of a strong internal control environment and chose to implement an approach and framework, based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) 2013, that complemented the uniqueness of operations, business goals and existing risks, and meet relevant principles embedded in leading standards. While the COSO 2013 framework allows Citizens to establish an internal control benchmark, we are leveraging the Control Objectives for Information and Related Technology (COBIT 5) model for determining IT control effectiveness.

### 9.1. Planned Deliverables

During 2019 Citizens will enter the final phase of the Internal Controls Framework implementation. During the first quarter the Internal Control Office (IC) will commence



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with the final 15 process reviews, to complete all 72 reviews scheduled within the project execution plan. Once these reviews are completed relevant process and control documentation will be housed in the control administration tool where business unit management, and their selected representatives, will be enabled to perform annual self-reviews focused on evaluating control design operating effectiveness. Although these self-reviews are already in progress for those processes completed through 2017, 2019 will be the first year within which the full set of identified primary controls will be assessed and the results shared with executive management and the Audit Committee.

Following the completion of the ICF project implementation, the IC staff will monitor business unit progress on the completion of their annual control self-assessments (CSA's), support the business with inherent risk and control documentation refreshers, and perform quality assurance (QA) reviews for approximately one third of the processes completed through the end of 2018.

### 2019 ICF Timeline





### 10. 2019 OIA Budget

The 2019 budget for Citizens' OIA presented is \$2.95 million as compared to \$2.97 million budgeted for 2018. As we continue to develop our staff and hire more business qualified individuals we improve upon the type and quality of audits we complete which has a direct impact upon cost.

| 2019 Budget Analysis  | 2018 Budget      | 2018 Projection  | 2019 Budget      | Variance \$    | Variance %   |
|-----------------------|------------------|------------------|------------------|----------------|--------------|
| Salaries & Benefits   | 2,458,734        | 2,333,711        | 2,491,075        | 32,341         | 1.3%         |
| Contingent Staffing   | 0                | 8,635            | 0                | 0              | 0.0%         |
| Professional Services | 105,000          | 140,000          | 198,000          | 93,000         | 88.6%        |
| Training              | 41,600           | 40,523           | 41,600           | 0              | 0.0%         |
| Operating Expenses    | 332,070          | 190,488          | 185,664          | -146,406       | -44.1%       |
| Legal                 | 40,000           | 0                | 40,000           | 0              | 0.0%         |
| <b>Total</b>          | <b>2,977,404</b> | <b>2,713,357</b> | <b>2,956,339</b> | <b>-21,065</b> | <b>-0.7%</b> |

- **Salaries & benefits:** Salaries & Benefits reflect a small reduction of staff and the annual merit.
- **Professional Services & Contingent staffing:** This year we do not think that there will be a need for contingent staff. The increase in professional services mainly reflects vendor support needed with the completion of the ICF project.
- **Training:** Training is based on a dollar allocation per staff member to upkeep professional CPE requirements and develop professionally. Staff is required to complete at least 80 hours of productive training (combination of external and internal).
- **Operating expenses:** The variance in operating expenses reflects a difference in the expected and negotiated cost for the implementation of the Enterprise Risk Administrative system.
- **Legal:** Traditionally this amount is a placeholder should the department need to use external legal services.



## Appendix 2: Overview of Potential 2019 Audit Engagements

| Title                                     | Audit Justification and Objective  |
|---|--|
| Accounts Payable                          | <p><b>Risk Rationale:</b> With the recent implementation of the Oracle integrated ERP solution (CenterPoint), there is an opportunity for IA to evaluate the accounts payable process and related controls. Accounts payable has inherent risk associated with financial misstatement and potential for financial loss through duplicate payments, unauthorized payments, and payments made on non-received goods or services.</p> <p><b>Objective:</b> To evaluate the effectiveness and adequacy of key business processes and control functions related to accounts payable.</p>                                    |
| Agency Management System                  | <p><b>Risk Rationale:</b> The current agency management system, used to support agent distribution relationship management, is being replaced with the Salesforce Service Cloud Platform. This platform will support the tracking and monitoring of agent licenses, commission, performance, investigations, complaints, and key performance indicators.</p> <p><b>Objective:</b> Provide project support during the system implementation.</p>  |
| Automated Billing (Fee Bill and Day Rate) | <p><b>Risk Rationale:</b> Independent adjusters are paid on either a day rate or fee bill basis. Day rate payments are calculated on a flat rate per day of work completed while fee bill payments are based on a variable percentage of the gross claim amount calculated. Currently most of the day rate and fee bill payment processes are manual and claims management is considering the use of third party software to automate the management of independent adjuster payments.</p> <p><b>Objective:</b> Provide advice on controls to consider to ensure automation provides timely and accurate payments.</p> |
| Business Continuity Program               | <p><b>Risk Rationale:</b> Business continuity plans are being refreshed in an ongoing corporate wide coordinated event due to both business and building location changes. Limited testing will occur early in 2019 with finalization of plans during 2019.</p> <p><b>Objective:</b> Evaluate the adequacy, effectiveness and completeness of the business continuity program, plans and testing.</p>  |





## Appendix 2: Overview of Potential 2019 Audit Engagements

| Title                     | Audit Justification and Objective   |
|---------------------------|---|
| CenterPoint Configuration | <p><b>Risk Rationale:</b> 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.</p> <p><b>Objective:</b> Validate the CenterPoint modules are properly configured to prevent the override of key controls.</p>   |
| CenterPoint User Access   | <p><b>Risk Rationale:</b> Privileged roles within CenterPoint modules allow an assigned user the ability to create and modify employees' salaries, benefits, addresses, bank accounts, and financial transactions. During implementation participating project teams collaborated to design and implement appropriate user access controls and securing access to confidential data. However, system limitations, the complexity of Oracle roles and permissions, and the business need to create custom roles are contributing to challenges in effectively managing user access. In 2018, IA noted that roles and permissions were not clearly defined resulting in instances of inadequate segregation of duties and excessive permissions that are not adequately monitored. Business areas and IT are implementing mitigation plans 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 information, and ensuring the deactivation process for terminated employees is completed.</p> <p><b>Objective:</b> Evaluate the adequacy and effectiveness of controls related to segregation of duties and monitoring of privileged users and high risk transactions.</p> |





## Appendix 2: Overview of Potential 2019 Audit Engagements

| Title                    | Audit Justification and Objective  |
|--------------------------|--|
| Claims Legal Billing     | <p><b>Risk Rationale:</b> There has been a significant increase in litigated cases given AOB and hurricane Irma resulting in increased defense cost. In addition, there has been a significant number of billing appeals submitted by defense counsel which must be reviewed and resolved. The Legal Billing Department has added staff to perform these reviews. The process may be strained as a result of the additional volume and should be periodically reviewed to provide independent assurance over the control structure.</p> <p><b>Objective:</b> Ensure that adequate controls are in place to monitor and manage litigation defense related expenses.</p> |
| Configuration Management | <p><b>Risk Rationale:</b> Absent a complete asset inventory as well as secure configurations installed and maintained for operating systems and software, assets may not be properly protected, leading to undocumented changes that may cause business disruption or a security breach.</p> <p><b>Objective:</b> Evaluate the effectiveness of policies and processes requiring that secure configuration baselines are defined and documented for all environments and consistently reflected on hardware, software and images.</p>  |
| Data and Systems Backup  | <p><b>Risk Rationale:</b> A backup policy and processes are required to copy applications, databases and files to disk or tape, including to offsite locations to ensure data recoverability in the event of accidental data deletion, corrupted information or a system outage. Appropriate media protection is essential at offsite locations.</p> <p><b>Objective:</b> Assess the backup policy and procedures and ensure processes and offsite security are adequate to support business recovery.</p>   |



## Appendix 2: Overview of Potential 2019 Audit Engagements

| Title                                   | Audit Justification and Objective  |
|---|--|
| Disaster Recovery Program               | <p><b>Risk Rationale:</b> The backup data center was moved to a new Florida location in July 2018 with limited testing performed during the migration. The disaster recovery plan was updated subsequent to the migration. The DR program is important to the business not only from a business continuity perspective but also due to the heightened risks posed by Florida weather events.</p> <p><b>Objective:</b> Evaluate the adequacy, effectiveness and completeness of the disaster recovery program, plan and testing strategy.</p>   |
| E-disbursements                         | <p><b>Risk Rationale:</b> An invitation to negotiate (ITN) is currently in process for an electronic disbursement system. Citizens desires a convenient and customer friendly method of paying its policyholders electronically, not involving the printing of checks. Citizens is seeking a solution which leverages debit card and Automated Clearing House (ACH) technology for the following claims payments: 1) Additional Living Expense (ALE) payments to policyholders via vendor issued debit card and/or ACH options; and 2) ACH payments to policyholders and/or other parties for claim related disbursements; including multi-party payment options and multiple external approvals (both in the event of a catastrophe and in usual operations).</p> <p><b>Objective:</b> Provide consultative advice during design and implementation to assess the security of debit cards and ACH transactions.</p> |
| Information Classification and Handling | <p><b>Risk Rationale:</b> Per the information classification policy all relevant information kept should be assigned a specified classification and certain confidential information should be secured in accordance with the policy including encryption. A project was started in 2016 to determine and implement appropriate controls, for applications and databases.</p> <p><b>Objective:</b> Assess the effectiveness of processes and controls to ensure ongoing compliance with the Information Classification and Handling policy.</p>  |



## Appendix 2: Overview of Potential 2019 Audit Engagements

| Title                      | Audit Justification and Objective  |
|----------------------------|--|
| Insurance Scoring          | <p><b>Risk Rationale:</b> 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 (insurance scoring will not be used to determine eligibility or rates).</p> <p><b>Objective:</b> 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.</p> |
| Critical Security Controls | <p><b>Risk Rationale:</b> Citizens' IT Security department adopted the internationally accepted "Critical Security Controls" framework to uplift and standardize IT security controls. A gap analysis was performed and work is underway to implement any process gaps. Absent appropriately designed and implemented cyber security safeguards, unknown data access or changes may occur within the network, potentially causing business disruption, financial implications or reputational damage.</p> <p><b>Objective:</b> Assess the governance process utilized in decision making, gap analysis and implementation tracking. Evaluate progress on the effective resolution of identified gaps and compliance to standards.</p>          |
| Security Governance        | <p><b>Risk Rationale:</b> Sound policies and processes within the IT Security department ensure appropriate risk management and effective use of resources. Strategies and objectives should be developed to align with business goals with underlying foundational programs and processes supporting those objectives. Absent appropriate oversight, lack of appropriate IT security risk mitigation may impair business performance.</p> <p><b>Objective:</b> Evaluate governance processes related to the strategy, policies, processes and metrics to direct, manage and monitor IT Security for the enterprise.</p>   |



## Appendix 2: Overview of Potential 2019 Audit Engagements

| Title                         | Audit Justification and Objective  |
|-------------------------------|--|
| Litigation Expense Management | <p><b>Risk Rationale:</b> Claims is continually assessing, developing, and implementing solutions designed to reduce litigation and associated impacts on loss adjustment expense and indemnity costs. In-depth reviews of litigation expenses are being performed in an effort to develop and implement comprehensive expense monitoring.</p> <p><b>Objective:</b> Provide advice to ensure appropriate controls are considered in the design and implementation of the expense monitoring process.</p>   |
| Litigation Settlement         | <p><b>Risk Rationale:</b> 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 amount 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.</p> <p><b>Objective:</b> Review of claims settled to identify improvements in the claims process.</p> |
| Managed Repair Program        | <p><b>Risk Rationale:</b> In July 2017, Citizens established the Managed Repair Program (MRP), a customer focused turnkey service that returns the customers' property to pre-loss condition, and to help reduce the rising cost of water loss litigation. In 2018, IA conducted an audit to assess the readiness, adequacy, and effectiveness of the MRP process including oversight of the end to end process, and vendor performance and capacity. While the audit included some aspects of the limited August product changes, a comprehensive review of product revisions could not be performed due to a limited claims volume during this short period of time.</p> <p><b>Objective:</b> Assess the adequacy and effectiveness of the recent MRP product revisions.</p>                     |



## Appendix 2: Overview of Potential 2019 Audit Engagements

| Title                    | Audit Justification and Objective  |
|--------------------------|--|
| Mobile Device Management | <p><b>Risk Rationale:</b> Citizens and employee owned (Bring Your Own Device) mobile devices access company applications and data and should be protected appropriately. An IT project is currently underway to implement new phones and perhaps associated management software. Potential weaknesses in mobile computing controls may allow unauthorized access to corporate information, sensitive or otherwise.</p> <p><b>Objective:</b> Assess governance and operational policies and procedures for operating effectiveness and compliance to IT Security policy and standards including controls associated with inventories, user authentication configurations, and data confidentiality.</p> |
| Password Governance      | <p><b>Risk Rationale:</b> Password Manager Pro is a security application that stores and manages privileged user accounts and passwords. Rigorous management of the software is required to ensure only authorized individuals utilize elevated privileges on a limited need basis only and that the usage is logged and monitored.</p> <p><b>Objective:</b> Assess processes associated with Password Manager Pro to validate controls are documented, effective and provide adequate security over privileged identities.</p>  |
| Payroll                  | <p><b>Risk Rationale:</b> As a result of the completed CenterPoint 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 due to increased risk.</p> <p><b>Objective:</b> Evaluate whether key controls related to the payroll processes are efficient and effective to ensure that payroll transactions are authorized, accurate, processed and recorded timely in accordance with applicable laws, regulations and company policies.</p>  |



## Appendix 2: Overview of Potential 2019 Audit Engagements

| Title                   | Audit Justification and Objective   |
|-------------------------|---|
| Proof of Repairs (Irma) | <p><b>Risk Rationale:</b> During October 2018, Citizens began requiring proof of repairs for Hurricane Irma damage to determine renewal eligibility for policies renewing on or after March 6, 2019. Policyholders who have filed a claim for damage caused by Hurricane Irma, whether or not the claim exceeded the policy's hurricane deductible, must submit proof of repair to Citizens as soon as any repairs are complete. For claims with repairs not completed by the policy's renewal date Citizens will accept documentation such as a contract that demonstrates repairs are underway to process the renewal.</p> <p><b>Objective:</b> Evaluate the adequacy and effectiveness of controls for the request and receipt of proof of repairs and the determination of renewal eligibility.</p> |
| Reinsurance Recovery    | <p><b>Risk Rationale:</b> As a result of claims incurred related to Hurricane Irma, Citizens is positioned to begin to submit and collect recoveries based on underlying reinsurance agreements in place at the time of the event. It has been several years since Citizens has experienced a large enough claim event to trigger reinsurance recoveries.</p> <p><b>Objective:</b> To evaluate the effectiveness of processes and controls related to reinsurance recoveries.</p>   |
| Self Service            | <p><b>Risk Rationale:</b> Existing products and services offer limited capabilities that may not align to industry standards and best practices. New products and services will offer enhanced self service capabilities to policyholders and agents enabling more efficient, cost effective, and user friendly transactions. 'My Policy' is now available on the Citizens website and plans are to continue to expand self service capabilities throughout 2019.</p> <p><b>Objective:</b> Evaluate the adequacy and effectiveness of controls of self service capabilities.</p>  |



## Appendix 2: Overview of Potential 2019 Audit Engagements

| Title              | Audit Justification and Objective  |
|--------------------|--|
| SIU Process Advice | <p><b>Risk Rationale:</b> 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.</p> <p><b>Objective:</b> Provide consultative advice to incorporate leading practices and assess controls related to monitoring and oversight.</p>  |
| SOC Reporting      | <p><b>Risk Rationale:</b> System and Organization Controls (SOC) reports are internal control reports on the services provided by a vendor that delivers valuable information that Citizens need 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 that the Company relies.</p> <p><b>Objective:</b> To 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.</p> |
| Specialty Vendors  | <p><b>Risk Rationale:</b> Claims adjusters are able to select their own experts to assist with the claims process which may lead to inappropriate agreements between the parties to deceive, mislead, or defraud.</p> <p><b>Objective:</b> To collaborate with Claims Management in the development of alternative solutions to the current state.</p>   |



## Appendix 2: Overview of Potential 2019 Audit Engagements

| Title                               | Audit Justification and Objective   |
|-------------------------------------|---|
| Supplier/Vendor Diversity           | <p><b>Risk Rationale:</b> Citizens maintains an open, competitive procurement process that provides fair and equitable treatment of all persons seeking to provide commodities or contractual services. The Vendor Management Office (VMO) in partnership with the Purchasing and Legal departments support Citizens' vendor selection process. The collaboration of these departments provides oversight of the contract life cycle and ensures compliance with Florida Statutes governing the procurement process to ensure fair and equitable selection of vendors.</p> <p><b>Objective:</b> Assess Citizens' practices against industry leading practices related to attracting and retaining diverse suppliers including outreach efforts and ongoing monitoring to understand the diversity of suppliers including small businesses as well as veteran, minority, and women owned businesses.</p> |
| Targeted Accounts Payable Analytics | <p><b>Risk Rationale:</b> 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 AP risks include invoices for products or services that were not delivered, or unauthorized vendors.</p> <p><b>Objective:</b> To complete a targeted audit of the accounts payable process to validate that all transactional process risks faced are identified and proper mitigating controls are in place.</p>  |
| Targeted Payroll Analytics          | <p><b>Risk Rationale:</b> 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.</p> <p><b>Objective:</b> To complete a targeted audit of the payroll process to validate that all transactional risks faced are identified and proper mitigating controls are in place.</p>   |





## Appendix 2: Overview of Potential 2019 Audit Engagements

| Title                                 | Audit Justification and Objective   |
|---------------------------------------|---|
| UAS QA Fraud                          | <p><b>Risk Rationale:</b> The Underwriting and Agency Services Quality Assurance Program does not include assessment questions to assist in identifying suspected fraud and ensuring that any potential concerns are properly escalated.</p> <p><b>Objective:</b> Provide business support to the Underwriting and Agency Services (UAS) Quality Assurance Program in their efforts to design assessment questions to potentially identify fraud and to develop a process to ensure any potential concerns identified through the quality program are properly escalated.</p> |
| Vendor Minimum Insurance Requirements | <p><b>Risk Rationale:</b> Sinkhole and mobile home vendors are self-terminating agreements with Citizens due to expensive liability insurance requirements with no guarantee of work. Minimum insurance requirements of vendors is important to protect the policyholder as well as Citizens with regards to vendor caused property damage or injuries.</p> <p><b>Objective:</b> Provide support to management in revisiting insurance requirements in the market to identify levels of insurance requirements.</p>   |
| OIA Data Analytics                    | OIA will be expanding upon their current data analytics audit program. This will be accomplished through the use of state of the art tools and techniques to develop tests that can be applied across the organization, going beyond sampling into early warning and continued monitoring.  |
| OIA Fraud Awareness & Training        | OIA will leverage an extensive industry knowledge, experience, and expertise to drive a message that everyone has a duty to understand occupational fraud to ensure any potential misconduct is identified and addressed timely. This will be accomplished through pro-active training programs that are business unit specific and leveraging the communication platforms available within the company.  |
| OIA Risk Analysis & Red Flags         | The cornerstone of OIA's fraud awareness program, transactional risk analysis and identifying red flags, provides the context needed to share the knowledge with the company through training sessions, but also direct our data analytics and targeted audit efforts to the most relevant risks that simply cannot be avoided.   |