Citizens Internal Control Framework (ICF)

Presentation to Board of Governors – December 12, 2018

Project Background

Project:

- 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.

Sponsors:

- This initiative is co-sponsored by Citizens Chief Financial Officer (Jennifer Montero) and Chief of Internal Audit (Joe Martins).

The Framework:

- 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.

COSO - Internal Control-Integrated Framework

The COSO framework focuses on 5 components of internal controls and explicitly articulates 17 principles to consider as the Internal Control Framework is designed:

COSO
Committee of Sponsoring Organizations of the Treadway Commission

Internal Control — Integrated Framework

Illustrative Tools for Assessing Effectiveness of a System of Internal Control

May 2013

Components	Principles
Control Environment	1. Commitment to integrity and ethical values 2. Independent board of directors oversight 3. Structures, reporting lines, authorities, responsibilities 4. Attract, develop and retain competent people 5. People held accountable for internal control
Risk Assessment	6. Clear objectives specified 7. Risks identified to achievement of objectives 8. Potential for fraud considered 9. Significant changes identified and assessed
Control Activities Information & Communication	10. Control activities selected and developed 11. General IT controls selected and developed 12. Controls deployed through policies and procedures
	13. Quality information obtained, generated and used 14. Internal control information internally communicated 15. Internal control information externally communicated
Monitoring Activities	16. Ongoing and/or separate evaluations conducted 17. Internal control deficiencies evaluated and communicated

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ICF Project Plan

Following Audit Committee approval in 2014 an Internal Controls Office (IC), within OIA, was formed to develop a comprehensive project plan, ICF roll-out approach and procured a controls management System (TeamMate + Controls). IC consists of two fulltime staff, and is supported by Enterprise Risk and Business Unit Control testers.
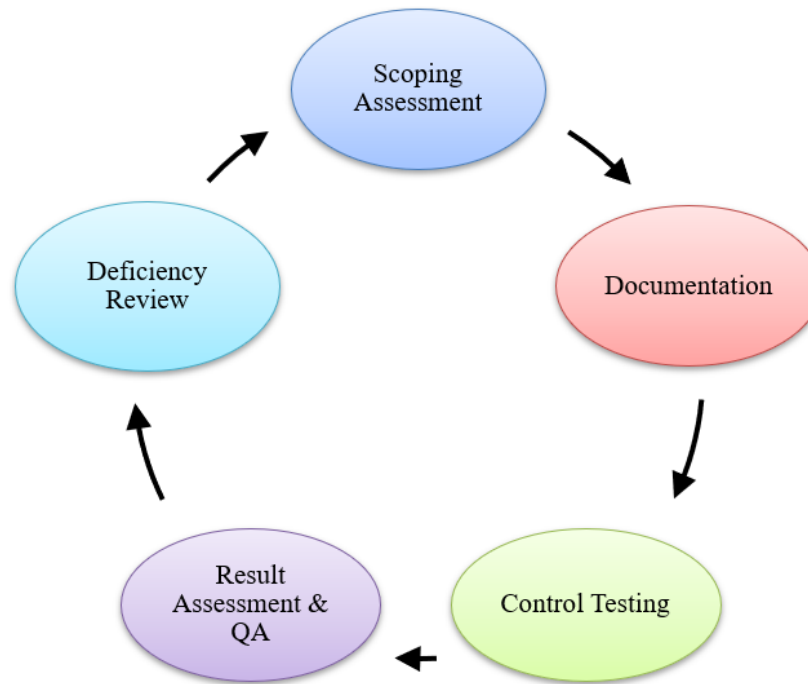
ICF Project Timeline

Project Scope

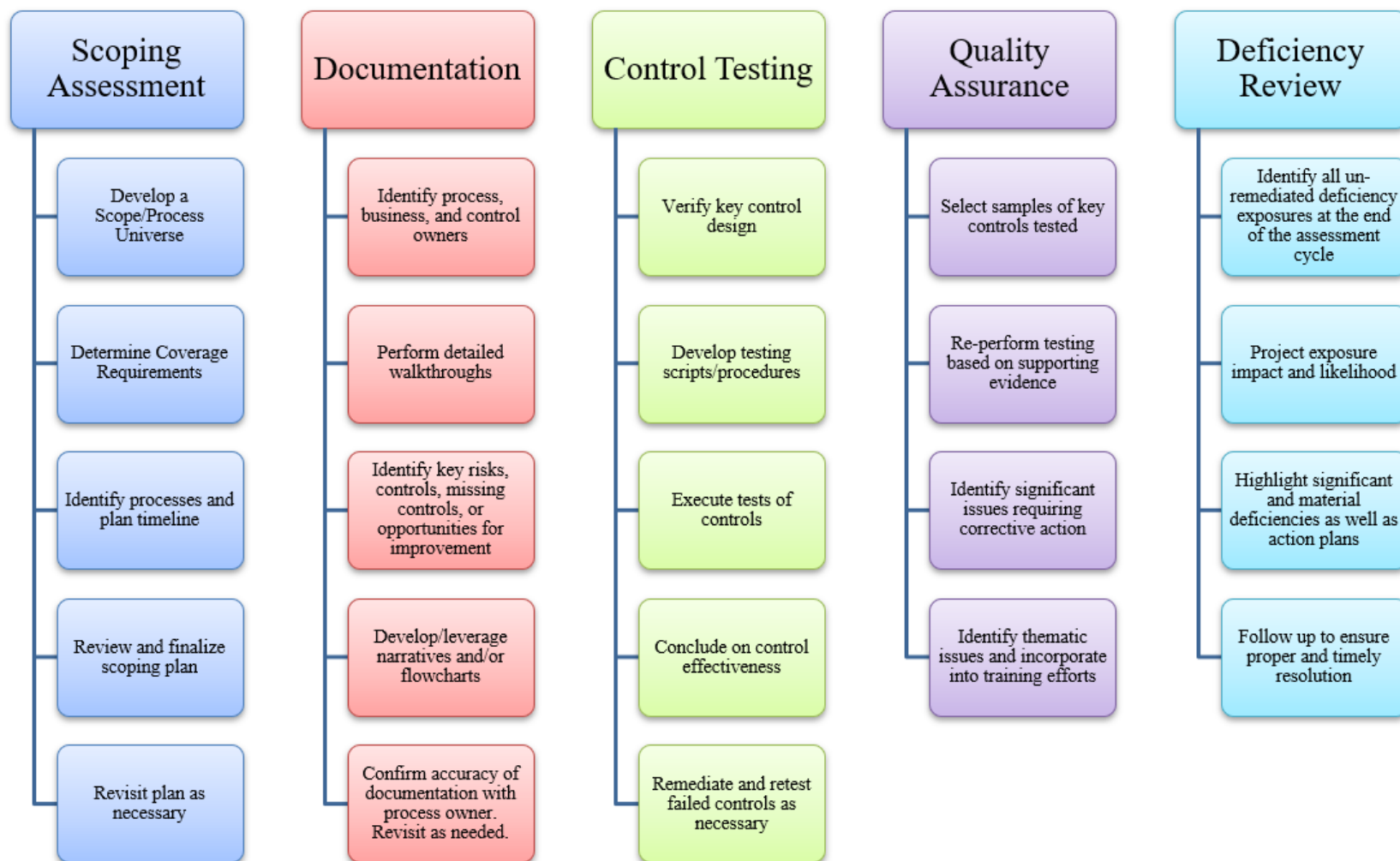We followed a process by business division approach and selected 72 processes in scope for the ICF

Enterprise	**Financial Services (continue)**	**Systems & Operations (Non-IT)**
Corporate Governance	Accounts Payable	Continuous Improvement
Enterprise Risk Management	Cash Management & Treasury	Enterprise Metrics
Internal Control Framework	Claims Accounting & Disbursements	Enterprise Portfolio Management (PMO)
	Commissions Payments & Accounting	Enterprise Strategy & Planning Support
Claims	Corporate Analytics	Facilities Management
Catastrophe Planning, Testing, Coordination	Depopulation Billing, Settlements & Accounting	Vendor & Contract Management
Claims Governance	Escheatment Processing & Accounting	
Claims Litigation	Financial Close	**Systems & Operations (IT)**
Claims Operations	Financial Planning & Analysis	IT Application Delivery
Special Investigations Unit (SIU)	Financial Reporting	IT Application Development
Vendor Management - Claims	Investment Accounting	IT Application Quality Assurance
	Investments Management & Compliance	IT Configuration Management
	Loss Reserve Development/IBNR	IT Change Management
Communications, Legislative, & External Affairs	Pre- & Post-Event Liquidity Bond Financing	IT Enterprise Architecture
Corporate Communications		
Insurance Comm'ns - Customer Correspondence & Complaint Handling	Premiums	IT Enterprise Resilience (BCP/DRP)
Insurance Comm's - Technical Communications	Rate Development & Filing	IT Governance
Legislative Affairs	Reinsurance Servicing & Accounting	IT Infrastructure
Public/External Relations & Outreach	Risk Transfer Strategy & Execution	IT Knowledge Management
		IT Problem Management
Human Resources	**Underwriting & Agency Services**	IT Operations
Compensation & Benefits	Agency Management	IT Security and Risk
HR Supporting Services	Clearinghouse Operations	IT Service Request Management
Payroll Administration	Commercial Lines Underwriting	
Recruiting & Contingent Staffing	Consumer & Policy Services	
	Depopulation Operations	
Legal	FMAP	
Claims Legal	Personal Lines Underwriting	
Compliance	Product & Rate Implementation	
Corporate Insurance	Product Development -Applications, Forms, Rules	
Corporate Legal	Underwriting & Agency Governance	
Purchasing		
Records Management		

Control Assessment Lifecycle

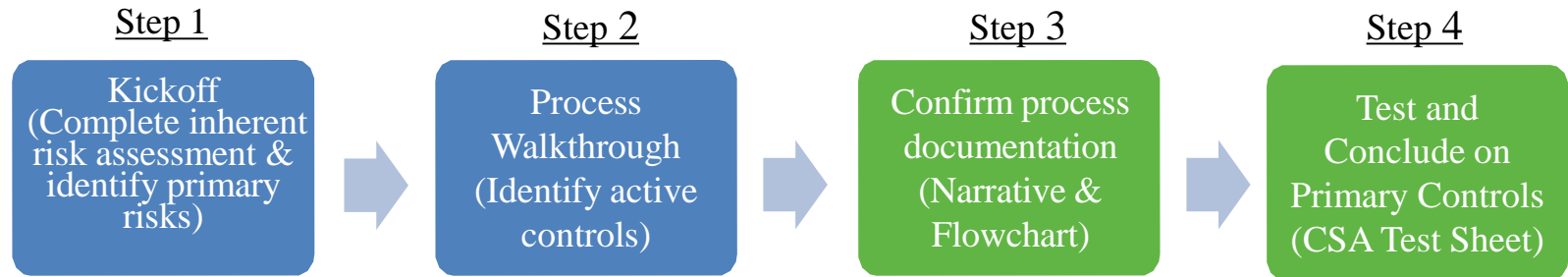Once the process is established, the control assessment lifecycle is typically performed annually and spans 5 major categories which include defining the scope of review, developing/updating process documentation and identifying key controls, testing key controls, concluding on and reviewing controls tested, and understanding the risks posed by any deficiencies left un-remediated by the end of the cycle.

Control Assessment Lifecycle

Scoping Assessment

- Develop a Scope/Process Universe
- Determine Coverage Requirements
- Identify processes and plan timeline
- Review and finalize scoping plan
- Revisit plan as necessary

Documentation

- Identify process, business, and control owners
- Perform detailed walkthroughs
- Identify key risks, controls, missing controls, or opportunities for improvement
- Develop/leverage narratives and/or flowcharts
- Confirm accuracy of documentation with process owner. Revisit as needed.

Control Testing

- Verify key control design
- Develop testing scripts/procedures
- Execute tests of controls
- Conclude on control effectiveness
- Remediate and retest failed controls as necessary

Quality Assurance

- Select samples of key controls tested
- Re-perform testing based on supporting evidence
- Identify significant issues requiring corrective action
- Identify thematic issues and incorporate into training efforts

Deficiency Review

- Identify all un-remediated deficiency exposures at the end of the assessment cycle
- Project exposure impact and likelihood
- Highlight significant and material deficiencies as well as action plans
- Follow up to ensure proper and timely resolution

ICF Documentation

In-scope processes, are fully documented in order to identify and test primary controls.

Step 1		Step 2		Step 3		Step 4
Kickoff (Complete inherent risk assessment & identify primary risks)	→	Process Walkthrough (Identify active controls)	→	Confirm process documentation (Narrative & Flowchart)	→	Test and Conclude on Primary Controls (CSA Test Sheet)

Deliverables produced by the ICF Project team include:

- **Risk Control Matrix** describing process objectives and associated risks
- **Process Narrative** describing the process in its totality and selected primary control
- **Process Flowchart** graphically depicting the process, where practical

Sample Deliverables (Step 1)

Risk Control Matrix (RCM)

- Document process' objectives (primary goals of the process).
- Objectives drive risks which are mitigated through controls.

Process:	Project Portfolio Management (PPM)
Process Owner:	Brian Weaver
Key Inherent Risks:	PPM-001-R; PPM-002-R; PPM-003-R

Risk Control Matrix (RCM)

Process Description	Process Objective(s)	Risk ID	Business Unit Determined - Inherent Risk and Rankings				Primary Key Control
			Risk Description	Impact	Probability	Inherent Risk Analysis	
Portfolio management identifies and prioritizes the organization's projects so that appropriate resources can be applied to effectively achieve corporate goals and objectives.	1- Optimize the return on investment of strategic programs and projects through proper alignment of corporate resource, application of best practices in project management and providing information on the performance of the enterprise project portfolio to business leadership for use in managing the company and decision making.

2- Maximize value delivery to the enterprise by quantifying, tracking and analyzing the financial impact of enterprise projects and initiatives used to drive business decisions and ensure business value is being met. | PPM-001-R | **Project scope creep:** Without communicating significant changes to projects relative to baseline business cases and associated assumptions to responsible authorities, projects could be allowed to continue under original assumptions when not warranted. | Medium | Likely | Medium | PPM-001-C PPM-002-C |
		PPM-002-R	**Overcommitment of Resources:** Without sufficient governance, the organization may over-commit to more projects than resource capacity and/or knowledge and skills allow and could lead to suboptimal prioritization of projects and results, missed deadlines, poor quality, low employee morale, turnover and additional costs.	Medium	Likely	Medium	PPM-002-C
		PPM-003-R	**Project Oversight:** Without the adequate evaluation/assessment of initiative concepts (e.g. business case, feasibility study) by a governance oversight body prior to project kickoff, poor investment decisions could result.	Medium	Possible	Medium	PPM-001-C PPM-002-C
		PPM-004-R	**Projects Outside of Formal Process:** If business units begin projects outside of the Enterprise or IT Project Portfolios, the total project plan could be negatively impacted.	Medium	Possible	Medium	N/A
		PPM-005-R	**Project Management Standards** Unless Project Management standards are utilized by Project Managers operating in Citizens' various business units, inconsistent delivery processes, artifacts and other outputs could result.	Low	Likely	Low	N/A

Process Narrative and primary control:

- Documentation is instrumental to understanding the key risks and controls inherent in any given process. Flowcharts and narratives detail owners, contributors, primary controls, and the flow of a process.

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Project Portfolio Management and Standards Narrative

November 2, 2018

E. Key Controls

PPM-001: The completed Concept Proposal Forms are reviewed and approved by ELT sponsor. ELT sponsor's approval of the proposal can occur in two different ways depending on timing: **(a)** ELT sponsor sends email to CEO's Executive Assistant requesting to add the CP to ELT's meeting agenda and **(b)** ELT sponsor can send email to ELT members communicating the admission of the CP to governing body for electronic discussion and approval.

PPM-002: During the monthly ELT meetings, Executive Leadership reviews the Index and Priority report along with the proposed initiatives (noted above in PPM-001) before they are moved to the Backlog state. Depending on business needs, capacity, priority, and urgency of the projects or initiatives, the final ranking can be changed at the directive and discretion of ELT / ITGC to ensure prioritization is aligned to priority of Enterprise Strategies. ELT's decisions and discussions held are summarized in the meeting minutes prepared by CEO's Executive Assistant approximately two weeks after the meeting date.

The following is a control ownership composition for both key controls (PPM-001 and 002):

Process Owner	Sr. Director, Strategy, Planning, and Continuous Improvement
Control Owner	Assistant Director, Project Portfolio Management and Standards **or** Manager, Project Portfolio Management and Standards
Control Champion	Senior Project Portfolio Manager

Sample Deliverables (Step 3)

Process Flow Diagram
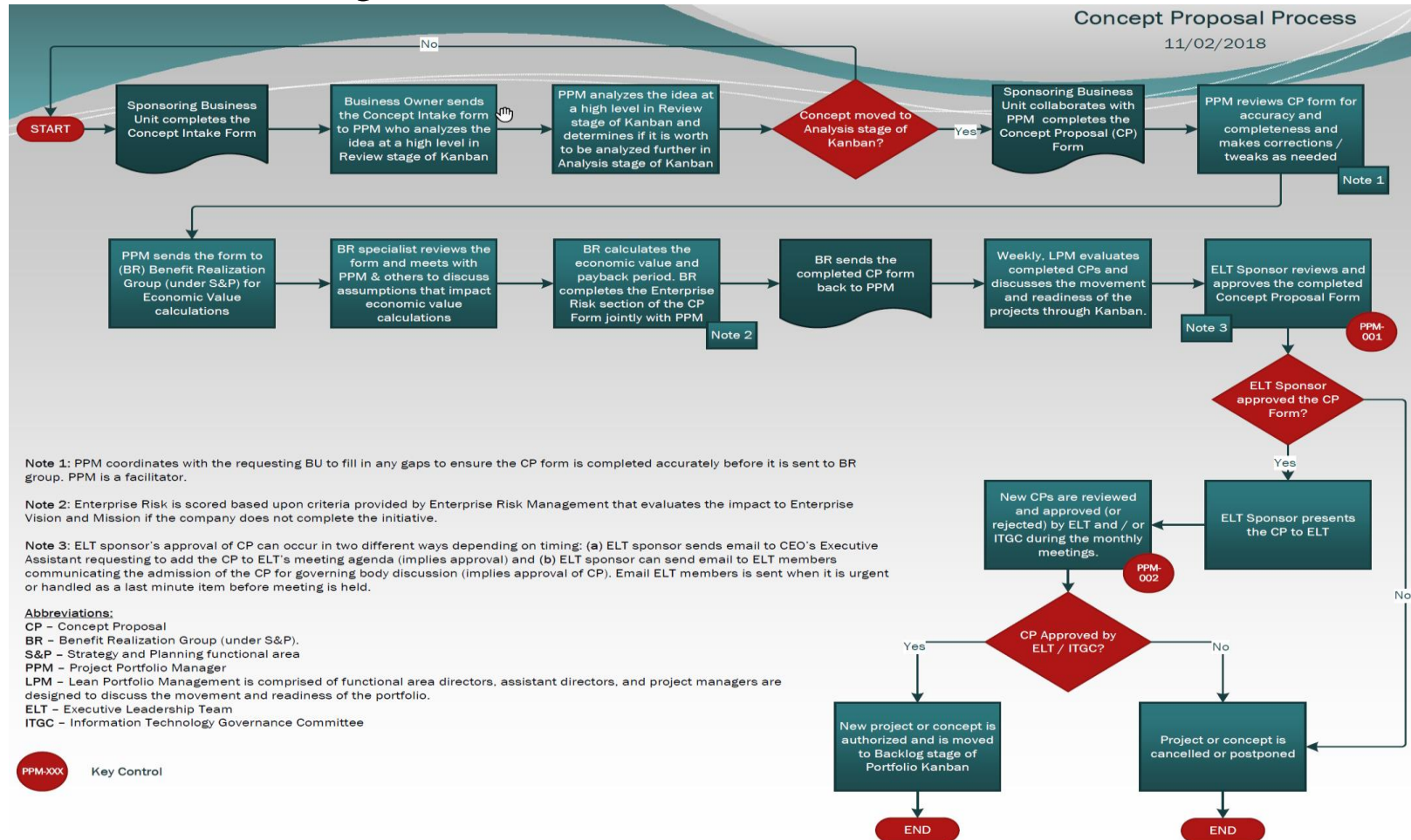
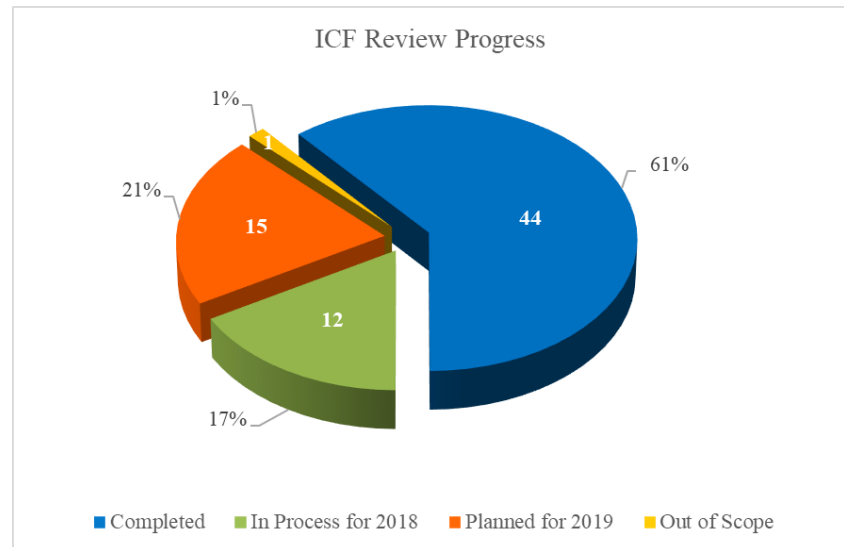# Sample Deliverables (Step 4)

Control Testing

- When primary controls are established or identified, they can then be tested to ensure that their risk mitigation objectives are being met.

Control Self Assessment							
Division:	Strategy, Planning, and Continuous Improvement ("SPCI")						
Functional Area:	Project Portfolio Management (PPM)						
Control Description							
Control Name:	PPM-001	**Completion, review and approval of Concept Proposal (CP) Forms:** The completed Concept Proposal (CP) Forms are reviewed and approved by ELT sponsor. ELT sponsor's approval of the proposal can occur in two different ways depending on timing: (a) ELT sponsor sends email to CEO's Executive Assistant requesting to add the CP to ELT's meeting agenda and (b) ELT sponsor can send email to ELT members communicating the admission of the CP to governing body for electronic discussion and approval. CPs are completed, reviewed, and approved as needed as concepts and ideas arise; new CPs are discussed during the monthly ELT meetings as an agenda item.					
Process Owner	Sr. Director, Strategy, Planning, and Continuous Improvement						
Control Owner:	Assistant Director, Project Portfolio Management and Standards						
Control Champion:	Senior Project Portfolio Manager						
Control Tester:	Internal Auditor						
Testing Instructions							
Testing Purpose:	To ensure all new initiatives (concepts or ideas) are thoroughly evaluated and reviewed before the company invests time and resources into any project and appropriate quality control over new initiatives is being performed before they are presented to and discussed with ELT.						
Testing Sample Source and Instructions	**Step 1.** Select one initiative from a Enterprise Portfolio Planning Index Monthly Report and obtain a copy of the completed CP from a Project Portfolio Manager. Inspect the CP form to ensure all sections of the form were completed and/or marked or indicated as N/A when applicable. **Step 2.** Obtain an evidence of approval by ELT Sponsor (i.e., copies of emails) to verify the proposed initiative was approved by the respective ELT sponsor within the parameters / description of the control process. (**Note:** Steps 1 and 2 are considered testing attributes.)						
Examples of Exceptions	1. CP form was incomplete (e.g., sections omitted, proposal summary and description were not clear or not completed.) 2. CP was not reviewed and approved by ELT Sponsor and alternative evidence of approval does not exist.						
Testing Period	01/01/2018 - 09/30/2018						
Testing Results							
	CP Name	**CP Date**	**ELT Sponsor Name and Title**	**ELT Sponsor Review and Approval Date**	**Test Attribute #1 (Step 1)**	**Test Attribute #2 (Step 2)**	**Exception Noted?**	**workpaper (w/p) Reference**
1	Strategic Workforce Planning	08/13/18	Violet Bloom - Chief Human Resources Officer	09/28/18	X	X	No	w/p 1 - PPM-001 - October Planning Index Report / w/p 2 - PPM-001 - Concept Proposal / w/p 3 - PPM-001 - Email Approval

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Completion of Process Reviews

The Internal Controls Office (IC) leads the roll-out of the ICF Project and process reviews. Of the 72 identified processes IC completed 44 process reviews, has 12 in-progress for completion by mid December 2018 and has the final 15 reviews scheduled for completion in Q2 2019.
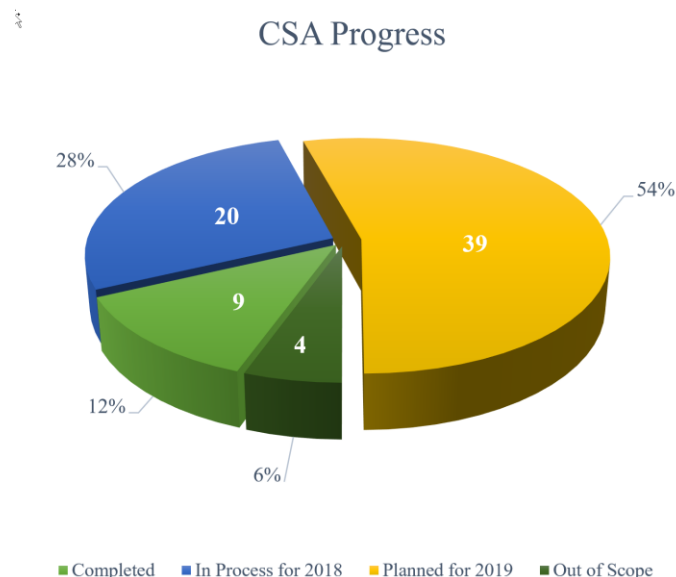
ICF Review in Progress - 2018	
	Process
1	Corporate Insurance
2	Enterprise Strategy & Planning Support
3	Facilities Management
4	Enterprise Performance Metrics
5	IT Application Development
6	IT Change Management
7	IT Application Delivery
8	IT Problem Management
9	IT Service Request Management
10	Legislative Affairs
11	Purchasing
12	Records Management

ICF Review Progress

- Completed: 44 (61%)
- In Process for 2018: 12 (17%)
- Planned for 2019: 15 (21%)
- Out of Scope: 1 (1%)
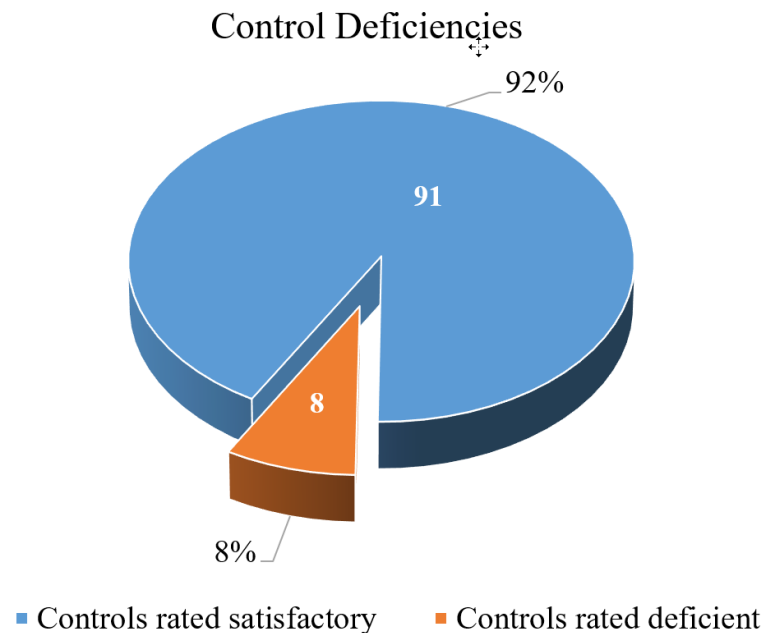
Completion of Control Self Assessments

Control Self Assessments (CSA's) are performed annually by business unit management once IC process reviews are completed, to ensure ongoing control design and operating effectiveness.

2018 CSA Progress		
CSA Status	**2018**	**2019**
Claims	5	1
Communications, Legislative, & External Affairs	3	2
Enterprise	0	3
Financial Services	13	5
Human Resources	0	4
Legal	0	6
Systems & Operations (IT)	3	11
Systems & Operations (Non-IT)	2	4
Underwriting & Agency Services	6	4

CSA Progress

28% 20
54% 39
12% 9
4
6%

■ Completed ■ In Process for 2018 ■ Planned for 2019 ■ Out of Scope

Control Deficiencies

Deficiencies are expected in any organization and it is management's understanding of the underlying cause and actionable response plan that sets itself apart from others. 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 for each corrective action are in progress.

Control Deficiencies

92%

91

8

8%

■ Controls rated satisfactory   ■ Controls rated deficient

15

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