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2018 Annual Report

Florida statutes require the Chief of Internal Audit to submit an annual report on or before February 15, summarizing the activities of the OIA during the preceding fiscal year. Per statute this report should include, but not be limited to, the following:

- An evaluation of the effectiveness of Citizens' internal controls
- Recommendations for corrective action, if necessary
- Summaries of the audits, reviews and investigations conducted by the office

Copies of this report were presented to members of Citizens' Board of Governors, the Executive Director, the members of the Financial Services Commission, the President of the Senate and the Speaker of the House of Representatives to comply with Florida statutes and to provide information on how the OIA accomplishes its mission. A copy of the report is included later in the materials.

Annual Charter Update and Review

Audit Committee Charter

The primary function of the Citizens Property Insurance Corporation (Citizens) Audit Committee (Committee) is to assist the Board of Governors (Board) in fulfilling its oversight responsibilities for the financial reporting process, system of internal controls and risk management, Citizens' compliance with legal and regulatory requirements, the qualifications, independence, and performance of the external auditors and internal audit function.

The Audit Committee Charter is the formal written document that defines the authority and responsibility of the Committee as delegated by the Board. The Audit Committee Charter was originally approved during the March 13, 2008 Board of Governors meeting with subsequent approvals annually thereafter. This year's review of the Charter resulted in the recommendation of minor word changes. The revised Charter is included later in the Audit Committee materials and is presented to the Committee for consideration.

The Audit Committee at the meeting on March 26, 2019 discussed and approved the Audit Committee Charter and the Committee recommended presentation of the Charter to the Board of Governors for approval. The Chief of Internal Audit therefore requests approval of the Audit Committee Charter as presented.

OIA Charter

The Office of the Internal Auditor departmental Charter is the formal written document that defines the OIA purpose, authority and responsibility. The charter establishes the OIA position within the organization, authorizes access to records, personnel and physical property relevant to the performance of engagements and defines the scope of the OIA activities. The Audit Committee as of January 23, 2008 approved the original charter with subsequent annual approvals obtained thereafter.

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This year's review of the Charter resulted in minor changes in the Office's duties and responsibilities and recognizing the inclusion of the Enterprise Risk and Internal Controls functions within OIA while maintaining the independence of the Internal Audit function.
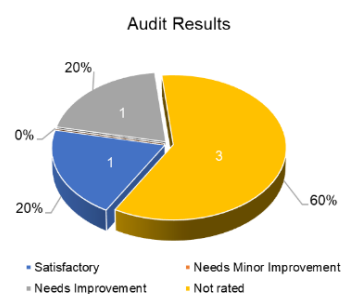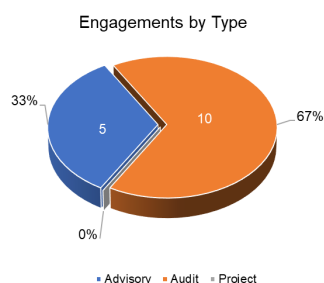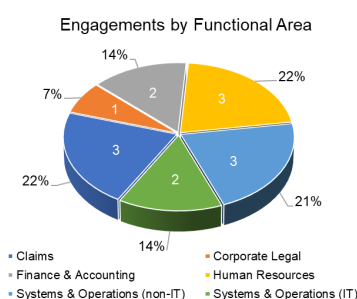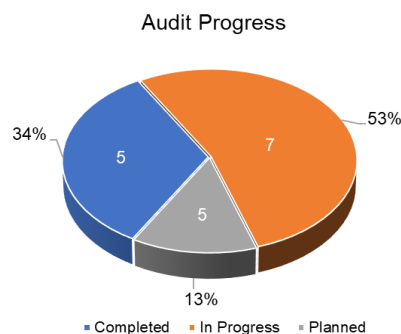
The revised OIA Charter was discussed and approved by the Audit Committee at the meeting on March 26, 2019.

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 review risks and consider operational challenges, we re-examine our plan and confirm that it continues to provide the expected assurance and that audit resources remain appropriately focused.

Audit Plan (Oct 1 2018 to Sep 30 2019)	
Completed	5
In Progress	8
Planned	2
Total Projects	15

Audit Progress
53%
34%
13%
- Completed - In Progress - Planned

Engagements by Functional Area
14%
7%
22%
14%
22%
21%
- Claims
- Finance & Accounting
- Systems & Operations (non-IT)
- Corporate Legal
- Human Resources
- Systems & Operations (IT)

Engagements by Type
33%
67%
0%
- Advisory - Audit - Project

Audit Results
20%
0%
20%
60%
- Satisfactory
- Needs Improvement
- Needs Minor Improvement
- Not rated

Audit Engagements Completed

Following the last meeting we completed work on three audit engagements:

- **Alternative Work Arrangements –** With this audit we evaluated the adequacy of processes deployed to ensure the effectiveness of Citizens' AWA program. Results of the audit indicated that the AWA program was successfully implemented. During the audit, a sample of 105 employees and 50 managers was selected to participate in surveys designed to assess various aspects of the program including performance management, productivity, and employee

engagement. The employee response from the survey was 53% (55 employees) while 27 (54%) of the managers surveyed responded. Overall both employees and managers have embraced the program and results reflect the positive impact the AWA program has on employee morale and engagement. OIA identified opportunities to strengthen oversight effectiveness of the AWA program and employee education to further mitigate risks. Process improvement opportunities were also noted and shared with management for consideration.

- **Centerpoint User Access (Finance and Procurement) -** The objective of this audit was to evaluate the adequacy and effectiveness of user access controls deployed within the Centerpoint Financial and Procurement modules. Results from our audit work indicated that Finance, Procurement, VMO, IT and the Centerpoint Project Team proactively collaborated in the design and implementation phases of the Centerpoint project to develop appropriate user access controls. However, system limitations and the complexity of Oracle roles and permissions contributed to challenges in effectively managing user access. OIA noted that improvements are needed to strengthen controls related to ensuring users are assigned roles with the least privilege necessary to perform their job functions, monitoring of transactions performed by privileged users, and oversight of the provisioning process including external users. Finance, Procurement, VMO and IT are currently in the process of implementing remediation plans to mitigate the risks identified.

- **Managed Repair Program -** The audit focused on the readiness, adequacy and efficiency of internal MRP processes, controls and oversight procedures to ensure the program is effective and department objectives are being achieved. Results of our work indicated that Citizens Management established well-defined and thorough processes to support the MRP. Communication and training to internal and external stakeholders has been very comprehensive to ensure consistency in service across the program. Some opportunities for improvement were noted and shared with management for consideration.

Detailed copies of the reports are included in this presentation.

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 eight audit engagements in progress:

- Critical IT Security Controls Audit (in fieldwork) Q2

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 assess 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.

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- Litigation Settlement Audit (in planning) Q2

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 assess the effectiveness of the claim's settlement process.

- RVR Scoring Model Advisory (in planning) Q2

With this advisory we will assist the Vendor Management Office in developing an RVR scoring schema to more objectively determine pass/fail decisions based on the broad categories of integrity, reliability, ability to perform and financial soundness.

- SIU Process Advisory (in fieldwork) Q2

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.

- Targeted Payroll Analytics Audit (in planning) Q2

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.

- Claims Litigation and Legal Billing Audit (in planning) Q3

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 Advisory (in planning) Q3

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). 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.

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- Payroll Audit (in planning) Q3

Results from the recent CenterPoint (ERP) HCM Access audit indicated some system limitations and complexities of Oracle roles and permissions and it was decided that a detailed audit of current payroll processes will be prudent.

Work Planned

The following audit engagements have not commenced and are scheduled for completion in Q3.

- Information Classification and Handling Policy Governance Audit

The Information Classification and Handling Policy provides guidance to classify, protect and dispose information assets maintained by Citizens to ensure that confidentiality, integrity and availability of those assets are maintained. Protection specifications are included in the policy. OIA will assess the design and effectiveness of governance processes and controls associated with Citizens' Information Classification and Handling Policy.

- Reinsurance Recoveries Audit

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.

Control Deficiency Resolution

The OIA maintains a database containing reported audit observations, recommendations, management action plans and target completion dates originating from OIA audits, reviews performed by the external auditors and regulatory exams conducted by the Office of Insurance Regulation and the Auditor General. We are currently tracking nineteen open observations of which six new observations were added and two observations were closed since the last Committee meeting. There are currently two high rated observations of which both refer to audits performed on Centerpoint user access.

Status of High Open Observations

| Audit	Observation	Target Date	Latest Status Update
Centerpoint HCM User Access	HCM roles and permissions are not clearly defined, resulting in instances of inadequate segregation of duties and excessive permissions that are not adequately monitored. Activities performed by these users are not specifically logged or monitored.	3/31/19	Role redesign completed. Modified roles are currently being tested. Working to resolve an issue with approval workflows prior to moving to production.
Centerpoint User Access (Financial and Procurement)	Centerpoint roles and permissions are not clearly defined resulting in instances of inadequate segregation of duties and	8/30/19	The Oracle Audit (user logging) functionality has been enabled for HCM, Finance and Procurement on

	excessive permissions that are not adequately monitored. Additionally, activities performed by these users are not specifically logged or monitored.		2/11 and specific user transactions can now be tracked. Role redesign is being evaluated.

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.

Open Observations by Risk Rating
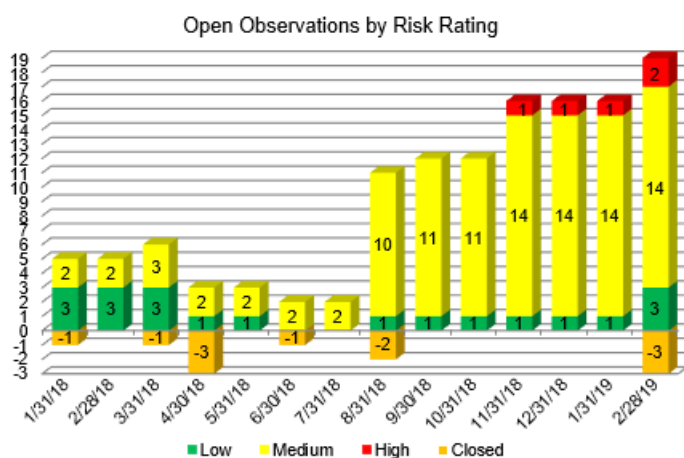
Open observations by year reported		
2018	2019	**TOTAL**
15	4	**19**

Open observation source	
OIA	15
External Auditor	0
Market Conduct - OIR	0
Auditor General	4
TOTAL	**19**

Internal Audit Policy reviews

Internal Audit operations are further governed by two policies, the Internal Audit Corporate Policy 801, and the Open Items Management Corporate Policy 802. Both these policies have been periodically reviewed and changes to the Corporate policy 801 was last approved by the Committee at the March 2013 meeting while Corporate Policy 802 was last changed in April 2011.

Our review indicated that changes to both policies are needed to align these policies with current practice. None of the changes were material and was presented to the Citizens President and Citizens Ethics and Compliance Officer for review and comment.

The revised policies were discussed and approved by the Audit Committee at the meeting on March 26, 2019.

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
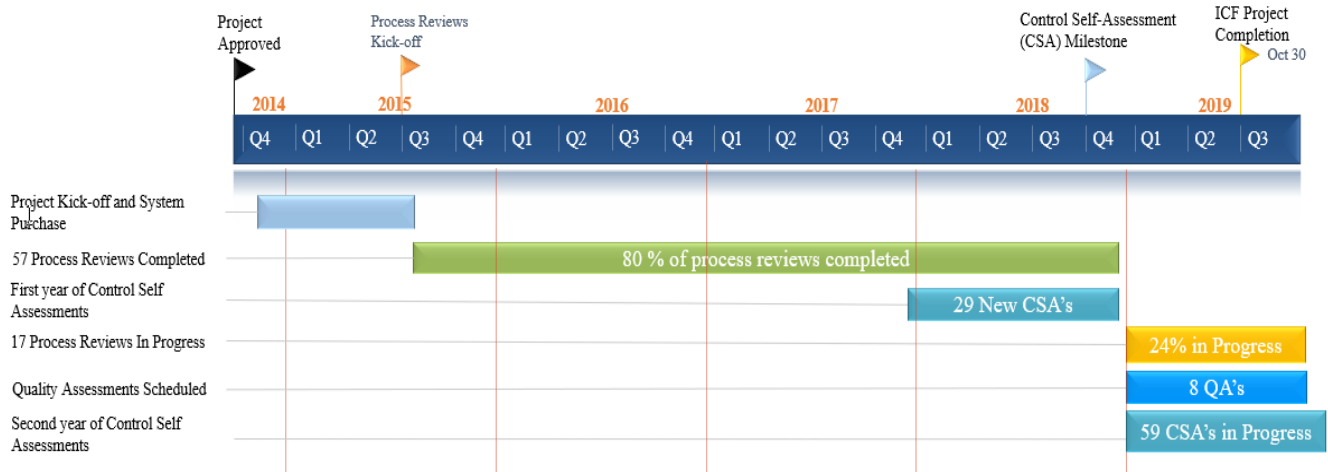
concepts of what defines an effective system of internal controls. The following graph shows the project timeline:

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. Agency Management
2. Claims Governance
3. Compliance
4. Consumer & Policy Services
5. Corporate Analytics
6. Corporate Legal
7. Financial Planning & Analysis
8. HR Strategic Services
9. IT Application Quality Assurance
10. IT Configuration Management
11. IT Infrastructure
12. IT Knowledge Management
13. IT Operations
14. IT Problem Management
15. IT Service Request Management
16. Public/External Relations & Outreach
17. Underwriting & Agency Governance
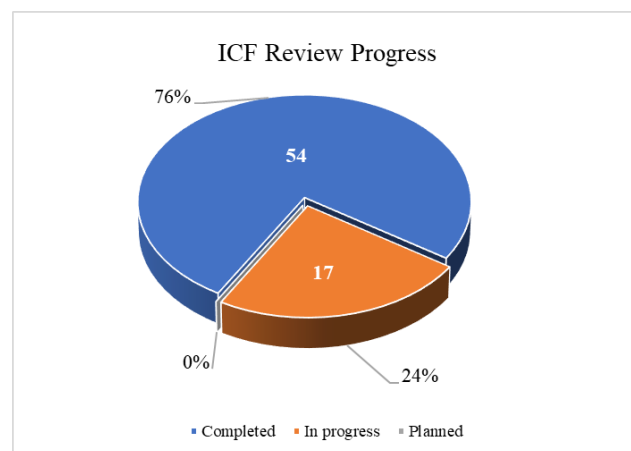
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The second initiative is the enablement and monitoring of management Control Self-Assessments (CSAs). CSAs are performed annually by management, after IC process reviews are completed, to ensure ongoing control design and operating effectiveness.

To date, ninety-nine primary controls were identified and recorded through the process reviews and we expect some control deficiencies being identified as the process reviews are being performed. To date 8 controls were identified as being deficient and corrective actions for each are in progress. The 2019 control self-assessment is currently in progress and is expected to be completed by Q4 2019.
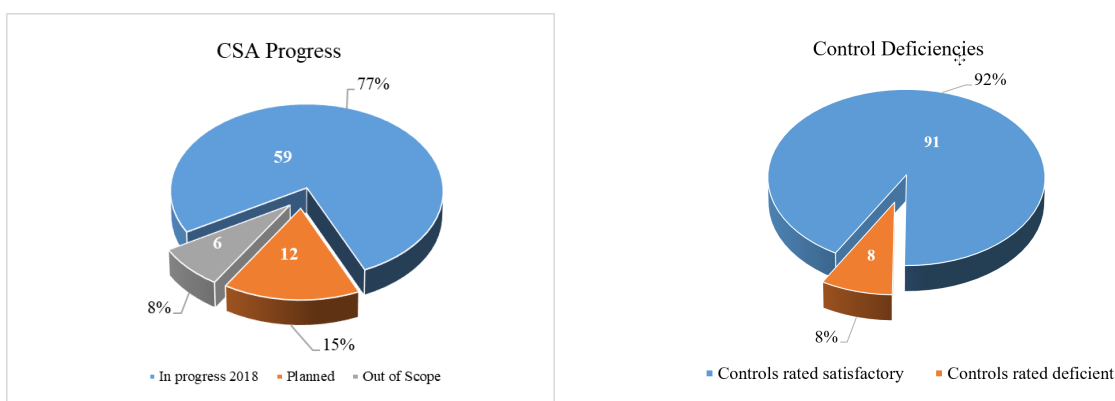
The IC team has engaged Clifton Larson Allen LLP as an external consultant to provide SOX implementation specialists that will assist in the completion of the 2018 planned process reviews and control evaluations.

Enterprise Risk

The Enterprise Risk Office (ER) continues to facilitate and embed Citizens Enterprise Risk Management Framework within the organization through facilitated risk identification and assessment workshops and the implementation of a risk management administration system.

Strategic Risk Management

During the first quarter ER facilitated the completion of the 2019 strategic risk assessment with the Executive Leadership Team (ELT). This assessment was preceded by individual interviews with each member of the ELT in which they were asked to identify their top 3-5 risks to achieving the key objectives and strategic initiatives. Results from these interviews were discussed at the February ELT strategic risk assessment meeting where 17 key risks were identified and prioritized. Of the 17 key strategic risks, 4 were newly identified and were not part of the 2018 Strategic Risk Profile. The newly identified and defined risks are: Ability to Adapt to Changing Revenue, Managed Repair Program, Market Dependence on Reinsurance and Rate Differential (see Appendix). Each of the 17 risks were assigned an ELT Risk Owner and the ER will work with the Risk Owners to further develop a summary of current and future mitigation activities.
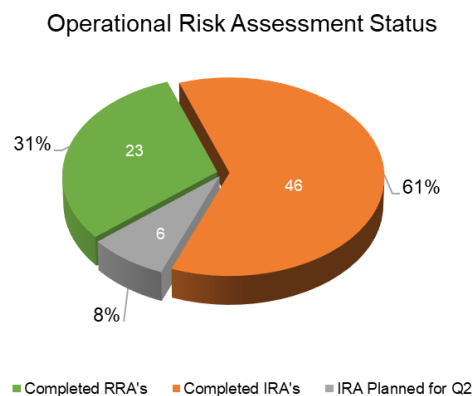
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Operational Risk Management

The ER continue to coordinate completing the operational risk assessments with the roll-out of the Internal Control Framework (ICF). In addition, the ER started implementing independent Operational Risk Management processes. The Q2 ORM plan includes:

- The completion of 6 operational inherent risk assessments.
- 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.

Operational Risk Assessment Status

31% — 23

6

8%

46 — 61%

■ Completed RRA's   ■ Completed IRA's   ■ IRA Planned for Q2

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APPENDIX 1:   STRATEGIC RISKS

Risk Title	Risk Description	Risk Owner
Claims Abuse	Failure to identify and stay in front of claims abuse schemes that increase litigation costs for Citizens.	Jay Adams
Ability to Adapt to Changing Revenue *	Ability to adapt / flex our administrative expenses to adjust to premium fluctuations, while maintaining required capabilities.	Jennifer Montero
CAT Response	Failure to have adequate resources to respond to a major catastrophic event.	Jay Adams
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
Data Quality and Availability	Lack of complete and accurate data available to support management decisions.	Kelly Booten
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 and Citizens either isn't ready to make or have a significant financial impact.	Christine Ashburn
Managed Repair Program *	Failure of the Managed Repair Program to be an effective customer alternative and implemented in support of the insurance contract.	Jay Adams
Market Dependence on Reinsurance *	The financial model of the Florida domestic property insurance market has a high dependence on the pricing and capacity available in the reinsurance market.	Jennifer Montero
Rate Differential *	The statutory rate glide path of 10%, combined with both increasing litigation, and approved rate increases for other Florida insurers, is impacting the availability of private market coverage and could lead to re-population of Citizens.	Jennifer Montero

* Risk added following the 2019 Strategic Risk Assessment

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APPENDIX 1:   STRATEGIC RISKS (continued…….)

Risk Title	Risk Description	Risk Owner
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
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
Vendor Management / Oversight	Given Citizens' reliance on vendors, it is critical to maintain adequate monitoring of third-party/vendor relationships, performance and contract compliance on an ongoing and periodic basis.	Kelly Booten
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
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
Product Offerings	Failure to have insurance products that balance the needs of the market, consumers, and Citizens.	Steve Bitar
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