

The Office of the Internal Auditor 2015 Audit Strategy and Plan





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1. Introduction

This document serves as the Office of the Internal Auditor (OIA) 2015 Audit Strategy and Plan (Plan) for Citizens Property Insurance Corporation (Citizens). The contents of this document have been shared with executive management and further address:

- Audit focus areas
- Plan analysis and areas not covered by the audit plan
- Service delivery and assurance
- Staffing and budgets
- Challenges

The 2015 Audit Strategy and Plan are herewith presented to the Audit Committee for consideration and approval.

2. Executive Summary

The mission of the Citizens' OIA is to provide an independent, objective assurance and consulting activity designed to add value and improve Citizens' operations.

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. In essence Citizens was formed to provide affordable property insurance to applicants who are in good faith entitled to procure insurance through the voluntary market but are unable to do so (i.e. the insurer of last resort). 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 are a major component unit of the Florida Comprehensive Annual Financial Report. Citizens has offices in Tallahassee, Jacksonville and Tampa.

During 2014 Citizens management continued to redefine and implement organizational structure as agreed to in the 2013 organizational review. In addition, other significant system development and implementation projects continued (Citizens Insurance Suite and Clearinghouse) to ensure Citizens has the ability to provide expected service to policyholders and be ready in the event of a natural catastrophe. For 2015 the organization authorized the commencement of two additional large projects.



The first refers to the development and implementation of an enterprise resource planning (ERP) system. ERP is considered a vital organizational tool because it integrates varied organizational systems and facilitates error-free transactions. This development is intended to meet Citizens' financial and human resource management administrative processing needs by conducting a market scan of suitable software solutions and assessing associated costs and benefits.

The second large project refers to the development of a Citizens integrated control framework (CICF). The objective is to design and implement the best suited integrated internal control framework that will improve and strengthen Citizens current control environment. The benefits of a framework include, among other, greater confidence in organization's ability to identify and analyze and manage risks; implement a standard and universal framework to approach key business challenges; greater management visibility and understanding of operations.

2.2. Audit approach

In support of its mission, OIA's strategic focus is to support Citizens in the achievement of its 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 coverage to Citizens by using resources available to the OIA. Since it is impractical to provide audit coverage to the entire corporation on an annual basis, we performed a review of the audit universe and prioritized efforts consistent with risks with the highest likelihood and impact. As part of the analysis, we also determined the best type of service to effectively and efficiently address each set of risks and circumstances.

Further explanation and additional detail of the process used in developing the Audit Plan is included in the subsequent pages of this document.

2.3. Audit plan & process

OIA follows a detailed annual planning process which is regularly revisited throughout the year, and adjusted to accommodate for changes in the organization's risk profile.

- **Defining the audit universe**

In determining the corporation's audit universe (or range of all audit activities) we 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 2015, Citizens' strategic goals are:

- To operate as an efficient residual market
- To ensure a strong financial operating environment
- To operate a streamlined, scalable and customer focused organization, and
- To protect the public interest and maintain the integrity of the Corporation.

(See Appendix 1 for description of Citizens Strategic Objectives)

- Prioritizing work to be performed by Internal Audit

The primary responsibility of the OIA is to determine whether Citizens' network of risk management, internal control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure that:

- Risks 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.
- Employees' actions are in compliance 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 impacting Citizens are recognized and addressed appropriately.

Prioritizing the units to be reviewed or audited was based on the relative risks associated with each of them. Risk factors considered while reviewing the units in the Universe included:

- Control Environment
- Business Exposure
- Compliance Requirements
- Reputational / Image Factor
- Organizational Change or Growth
- Management and Internal Audit Discretion

It is important to note that for purposes of this document, the term "risk" is not intended as a negative reflection on the manner in which a department or business process unit conducts its affairs. There are different levels of inherent risk present in different activities. *Example - The inherent risk of loss of Citizens resources to theft*



is greater for some areas (e.g., cash) than other areas (e.g., buildings). In addition, the effect of good events (e.g., depopulation) may increase risk in some areas. (See Appendix 2 for definitions of each of the risk factors considered when prioritizing the Audit Work Plan.)

- Determining the types of services to be performed

Following the completion of a detailed analysis of the Corporation's strategic goals and objectives, management's concerns and OIA's risk assessment, OIA determined and planned audit activities to provide coverage. Engagements carried out by OIA can take many forms. OIA realizes that pure assurance activities are not the only solution to accomplish our goals and offers other services to add value to the company. These alternative activities include, but are not limited to:

- Consulting & Advisory Services - advisory service providing risk management, internal control, financial planning, or any other type of consultation
 - Project Audits/Special Projects - advisory services providing management with bandwidth to accomplish a specific objective while utilizing an independent, objective resource
 - Compliance Audits - advisory or audit support services to external auditors or regulators
 - Forensic Audits - assurance activity with a narrower scope, usually expanding the focus of an internal investigation or suspected risk related to fraud, waste and/or abuse
 - 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.
- Coordination with other Assurance Providers
- In developing this audit plan and approach OIA consulted with other internal and external assurance providers to ensure that 2015 operational plans support or complement the audit plan. This ensures duplication of work is minimized. We will also share this audit plan with Citizens' Inspector General.



3. OIA Mandate

The purpose, authority, and responsibility of the OIA are formally defined in the 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. The Chief of Internal Audit annually reviews the audit charter and presents it to senior management and the board for approval.

3.1. Duties and Responsibilities

In accordance with Section 627.351(6)(i) Florida Statutes, it is the duty and responsibility of Internal Auditor to:

- Provide direction for the OIA including supervising, conducting and coordinating audits, investigations and management reviews relating to Citizens' programs and operations.
- Conduct, supervise or coordinate other activities carried out or financed by Citizens for the purpose of promoting efficiency in the administration of, or prevention and detection of, fraud, abuse and mismanagement in its programs and operations.
- Submit final audit reports, reviews or investigative reports to the Board, the Executive Director, the members of the Financial Services Commission, the President of the Senate and the Speaker of the House of Representatives.
- Keep the Board informed concerning fraud, abuses and internal control deficiencies relating to programs and operations administered or financed by Citizens; make recommendations for corrective action; and report on the progress made in implementing corrective action.
- Cooperate and coordinate activities with the corporation's inspector general.

In addition, the Audit Committee approved a Charter for OIA which further clarifies its role and responsibilities.

3.2. Standards of Audit Practice

In addition to the requirements specified by Section 627.351(6)(i) Florida Statutes, OIA elected to follow the International Standards for the Professional Practice of Internal Auditing for all engagements.

The OIA also uses the following accepted industry frameworks for guidance when conducting audits: the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework for financial/operations/compliance audits; the Control Objectives for Information and related Technology (COBIT), the Information Technology Governance Institute (ITGI), the National Institute of

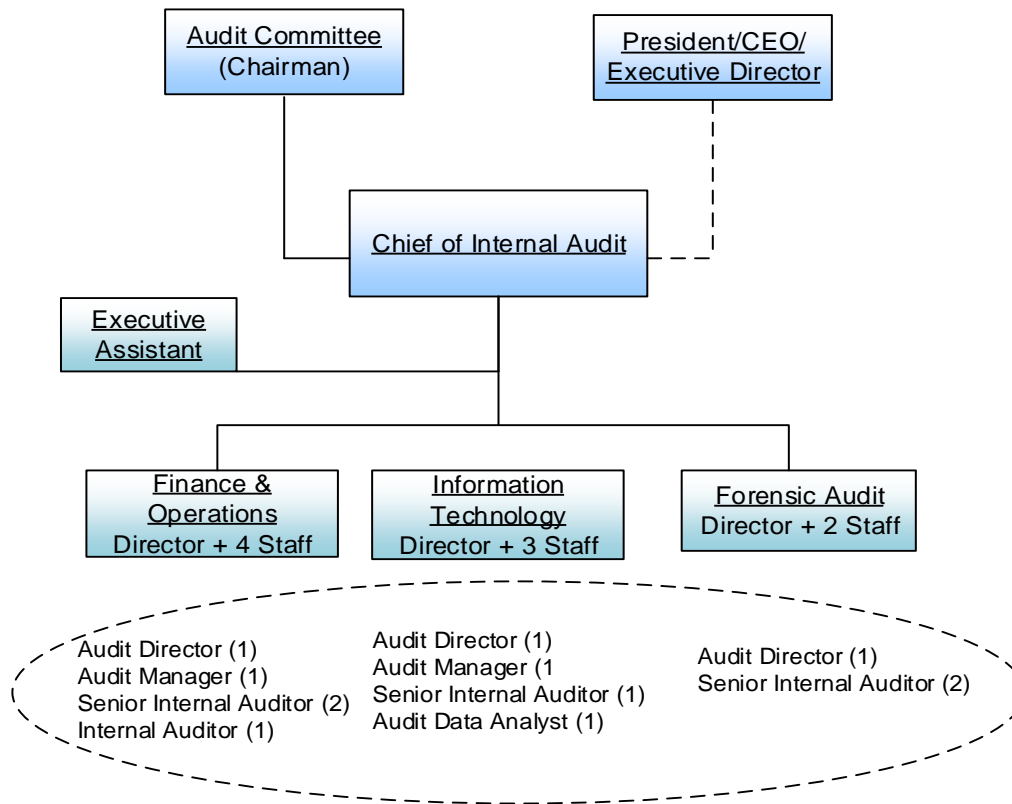


Standards and Technology (NIST) and Information Technology Infrastructure Library (ITIL) when conducting technology audits.

4. Organization and Administration

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 professionals to provide assurance and consulting activity which is designed to add value and improve the corporation's operations.

The Office of the Internal Auditor Organization Chart



5. Audit Strategy and Plan

OIA aligned the 2015 audit strategy with Citizens' strategic objectives and goals utilizing information derived from OIA's Annual Enterprise Risk Assessment and consultation with Management. Additionally, OIA assesses risk at operational levels and performs detailed



risk assessments on specific risks (i.e., Occupational Fraud, Information Technology, Finance/Operations) to understand their likelihood and impact on the organization. This information is aggregated, allowing OIA to identify the risks that have the highest impact and likelihood to adversely affect the Company from achieving its' strategic goals and objectives. This "Top Down" approach allows for the proper alignment of audit activities to provide assurance and mitigate risk within the organization at the enterprise and process levels.

5.1. Audit Approach and Plan for 2015

Following the completion of a detailed analysis of the corporation, including an understanding of the organization's strategic direction and associated strategic objectives, an analysis of the organization's top business risks and its potential impact upon the audit universe, the OIA identified its audit priorities for 2015.

(See Appendix 3 for an overview of the planned 2015 audits)

It should be noted that this plan is flexible and changes as the risk profile of the organization changes. This flexibility allows for realignment of audit focus to areas or issues of most importance.

5.2. Finance and Operations

OIA has taken into consideration the 2014 Strategic Plan, 2014 and 2015 Strategic Initiatives and some significant changes effected throughout Citizens during 2014 and continuing into 2015, in developing its audit strategy and plan. Our audit plan for Finance and Operations is focused on core business areas and support functions with generally higher levels of risk and include the following:

- **Underwriting**

The Underwriting department has been working on several enhancements during 2014 including organizational structure, scalability through business process outsourcing and implementation of Citizens Insurance Suite Personal Lines PolicyCenter. Through the risk assessment process we identified three areas of focus which include personal lines underwriting, automated underwriting and vendor management.

- The final phase of the Citizens Insurance Suite implementation will be completed in December 2014 with the roll out of personal lines PolicyCenter. There will be significant changes in the way personal residential policies are underwritten and administered with the new PolicyCenter, combined with the implementation of the Clearinghouse. Clearinghouse was implemented as a result of legislation aimed at providing Citizen's customers with expanded access to private-market coverage. OIA performed a Commercial PolicyCenter Post implementation



review during 2014 and plans on performing a process focused personal lines PolicyCenter audit during 2015. The objective of this audit will be to review the new processes put in place and mitigating controls for policy administration, billing, clearinghouse and depopulation;

- Approximately 11% of personal lines new underwriting business goes through an automated underwriting process. Although a sample of these policies is reviewed daily for quality assurance, the design of the process has not been assessed since its original implementation approximately five years ago.
- As part of further developing of the audit plan strategy and enhancing our audit coverage OIA is expanding coverage to include third party vendors that Citizens relies on for significant support. There are two major vendors that support the underwriting function: MacNeill Group, Inc. and Novitex, formerly Pitney Bowes. MacNeill Group, Inc. has performed 82% of personal lines underwriting services and Novitex was responsible for printing and mailing 5,402,895 policyholder, mortgagee and agent documents for Citizens during 2014. The objectives of these audits will be to ensure adequate and effective quality assurance and vendor management controls are in place to effectively manage the outsource processes.

- **Claims**

During 2014, the Claims Department significantly restructured the claims litigation teams, added resources, implemented the sinkhole stabilization managed repair program and the Claims Special Investigation Unit was given the responsibility for agency investigations and fraud monitoring. Through the risk assessment process we identified the following areas of risk and plan OIA audit activities during 2015:

- OIA completed a forensic audit of legal billing during 2014 resulting in various improvements being recommended in the legal billing area to improve controls over the process in addition to a more robust vendor management program. There are currently over 13,000 active litigated cases and associated costs with legal billing remain a high risk. OIA will be performing a comprehensive audit of the legal billing process to evaluate the design and effectiveness of controls.
- The Sinkhole Managed Repair Program was implemented in April 2014 and is designed to save overall repair costs associated with sinkhole repairs as a result of due diligence of the contractors and pre-negotiated repair rates. The program provides a list of Citizens credentialed contractors to sinkhole claimants for the below-ground repairs (stabilization) on their properties. Participation is voluntary and the selection of the contractor is up to the insured. Risks are related to the selection of contractors, performance and the timeliness of repairs. The focus of the audit is the design of the control system and the effectiveness of the controls



related to selecting, credentialing and monitoring the performance of the repair program.

- Agency investigation activities were realigned under the Special Investigation Unit during 2014 and are assuming responsibility for agency fraud monitoring and investigations. In addition, proactive analytics is being developed to identify potential fraudulent activity. The focus of the audit is to evaluate the processes used to identify, investigate, track and resolve potential agency fraud including any proactive steps to identify possible fraud using analytics or other means.
- The 2014 initiatives for CAIS v.3 included the consolidation of data from and retirement of the CAIS v.2 system to allow for a single system of record for all contracted vendor companies and their resources. Generic Assignment Module (GAM) was implemented in May 2014 and is currently in use for the Sinkhole Managed Repair Program. The 2015 initiatives include further development of the CAIS/GAM modules to address assignment integration with Policy Center & Claim Center as well as development for use for all enterprise contingent staff with the Contingent Workforce Management project. The additional developments planned for the CWM project would include integration with Kronos via the Citizens Authentication Gateway application (CAG). Management has requested that OIA perform an MAS to review how the CAIS system is being utilized, and ensure the system and development process are being adequately managed.
- Finance and Accounting

In its risk assessment OIA noted a few areas where financial risk mitigation is critical to the successful continued operations of the company and will focus financial audit efforts in the following areas:

 - A record of 647,480 policies has been approved by the OIR to be removed from Citizens and placed with private carriers during November and December 2014. With the significant number of policies approved for Depopulation it is important to have adequate accounting controls in place to ensure funds are not lost with the increased activity of cash flow between take out companies and Citizens.
 - The Treasury Function provides planning and operations, cash and liquidity management, funding and capital markets and financial risk management for Citizens and currently manages approximately 1.5 billion in assets. The focus of this audit will be to evaluate the design and effectiveness of controls over the Treasury Management processes.
 - General expenses pose a significant reputation risk to the Citizens brand as was experienced during 2012. In addition, as a company serving the taxpayers of the



state of Florida, additional assurance should be provided by performing a General Expense Audit annually. The focus of the audit will be on the controls over general expenses to provide management with reasonable assurance that resources are used efficiently and economically.

- **Governance and Support Functions**

There are some strategically important projects included in the Citizens Annual Plan Initiatives and OIA agrees that the execution of these projects and continued success pose a risk to the organization and therefore have included the following projects in the 2015 audit activities:

- The continued implementation of the Target Operational Models (TOMs) will help meet the strategic goal to simplify, standardize and align the organization to reduce costs, maintain and improve current levels of customer service, in-source core competencies, and enhance Citizens' ability to expand and contract operations to meet fluctuating market needs. The focus of this audit is to compare the current structure and state of operations to those proposed by the KPMG study, perform a gap analysis, and determine the underlying reasons for any identified differences.
- In support of Citizens' strategic goal to ensure a strong financial operating environment, an annual plan initiative was established to define a long-term Enterprise Resource Planning (ERP) Strategy. This strategy is intended to meet Citizens' financial and human resource management processing needs by selecting a suitable software solution that meets cost and benefit restrictions. Due to the wide reach of the initiative and potential significant impact to the current state of operations, there is a high risk for errors in the solicitation as well as implementation of an ERP system across several support functions. The focus of this audit is to ensure that proper governance controls are followed throughout the solicitation, vendor selection, and pre-implementation processes.
- The Jacksonville Office Consolidation program is an initiative in support of the strategic goal to simplify, standardize and align the organization to reduce costs. The project will combine staff into a single facility (or joined facilities) in Jacksonville, decommission the prior spaces, and transition approximately 148 systems and operations resources from Tallahassee and Tampa to the new leased space. Although a project manager has been assigned in mid-October 2014, due to the complexity of the project as well as tight deadlines involved, there is an increased risk that certain project deliverables and objectives may not be met. As this is a significant procurement and project, OIA will observe the execution of the project and provide consultative and advisory services to the project management team where necessary.



- Citizen's spends in excess of \$900 million annually with contracted vendors and as a Government entity, has adopted and follows the competitive solicitation process for the procurement of commodities and contractual services in compliance with Section 627.351(6) (e), F.S. and Section 287.057, F.S. The purchasing area has had some challenges during 2014 successfully completing various procurements. The OIA conducted consulting activities for procurement during 2014, which resulted in control and process improvement recommendations. As procuring vendors is critical to the success of continued ongoing operations, OIA will follow-up on the implementation of the 2014 recommendations and take a more comprehensive focus on the overall process.
- The Rate Accuracy Audit was deferred from 2014 as a result of emerging risks that were addressed in additional audits. Audit will focus on the process and accuracy for which rates go from Actuarial Services, Product Development, OIR and the underwriting system table. There is risk inherent in this process, which was redesigned during 2014, as the data moves between groups and is modified and reformatted and then transferred into the Citizens Insurance Suite.

Specific audits included in the plan are:

Resource Allocation	Allocated Hours
FINANCIAL & OPERATION AUDIT ASSURANCE <u>Underwriting:</u> (1) <i>Personal Underwriting</i> – 350 hours (Q2) (2) <i>Automated Underwriting</i> – 350 hours (Q3) (3) <i>Underwriting Vendor Management (MacNeill)</i> –350 hours (Q4) (4) <i>Underwriting Vendor Management (Novitex)</i> – 350 hours (Q4) <u>Claims:</u> (5) <i>Legal Billing Process</i> – 350 hours (Q3) (6) <i>Sinkhole Managed Repair Program</i> – 350 hours (Q2) (7) <i>SIU Agency Investigation</i> – 350 hours (Q4) <u>Accounting & Finance:</u> (8) <i>Depopulation</i> – 350 hours (Q2) (9) <i>Treasury</i> – 350 hours (Q1) (10) <i>General Expense Management</i> – 350 hours (Q1)	4900



<u>Governance and Support:</u> (11) <i>Rate Accuracy</i> – 350 hours (Q1) (12) <i>Coordinating Counsel</i> – 350 hours (Q4) (13) <i>Procurement</i> – 350 hours (Q3) (14) <i>Target Operating Models</i> – 350 hours (Q3)	
CORPORATE PROJECT MONITORING (15) <i>Building Consolidation</i> – 300 hours (Q1-Q3) (16) <i>ERP Project Monitoring</i> – 300 hours (Q1-Q4)	600
ADVISORY & CONSULTING (17) <i>IMS/CAIS v.3 System</i> – 300 hours (Q2)	300
TOTAL:	5800

(See Appendix 3 for an overview of the planned Fin/Ops audits)

5.3. Information Systems and Technology

The 2015 IT activities were derived from several factors including specific exposures identified in the OIA risk assessment, the 2015 initiatives noted on the annual plan and solicited input from IT management. Two themes emerged from the above elements when combined with linkage to the Citizens goals and strategic objectives. These include new or enhanced processes and technology aligned with the Citizens objective to “Implement process and technology improvements that realize cost savings and improve performance” and cyber security/data security strategic initiatives aligned with the objective to “Adhere to a framework aimed at protecting private data in Citizens’ custody”.

- Processes and Technology

IT has been rolling out virtualization in the datacenter environment over the last few years supported by opportunities such as cost avoidance, improved availability and business continuity and increased agility. This service is approximately 80% complete. With the benefits of virtualization also come some additional security risks at the platform/infrastructure level, in administration of security access controls and implementation of proper monitoring within the environment. OIA has included a review of VMWare Server Virtualization in the 2015 plan.

A new Systems Development Life Cycle (SDLC) process was developed and



implemented during 2013 that provides a framework for system and software development. While the process has been implemented, rollout and adoption has not been consistent. Management has enhanced the process with the addition of an SDLC compliance checklist and monitoring process to ensure that the methodology is applied to development work products properly. OIA will review the SDLC Framework and Process enhancements and perform testing to validate use of the compliance checklist and the methodology.

A Change Management policy and procedures provides an enterprise with assurance that system changes are assessed in a structured way to determine impact to operational systems. Changes should be categorized, prioritized and authorized prior to implementation. During 2014, a Citizens Insurance Suite (Core) Change Management process is being developed to establish a framework for the intake of new changes associated with the Citizens Insurance Suite modules. Change process enhancements providing for a more robust and enterprise-wide review of changes will be implemented for additional applications during 2015. Management relies on the continued integrity of this process year over year and so OIA has included a review of Change Management in the audit plan.

- **Cyber Security/Data Security**

There are some strategically important security projects included in the Citizens Annual Plan Initiatives and OIA agrees that there are still some risk mitigation and process enhancements required in the cyber and data security areas. OIA will provide audit coverage of the Citizens Authentication Gateway application that acts as a front-end authentication tool for both the Citizens Insurance Suite and the Clearinghouse application. Additional assurance is planned via monitoring certain projects, two of which we plan to deliver quarterly or semi-annual Audit Memorandums reporting on the effectiveness of the project, progress against plan and quality of deliverables. These projects include Identity and Access Management and a Vulnerability Management Project that are both important facets of enterprise security.

Following the development of an enhanced Incident Response plan during Q4 of 2014, OIA will consult with IT in a supporting effort to this new plan to deliver reference materials related to logging, log backups, log access and other pertinent information that may be required in a potential security/privacy incident. OIA will work with the IT Security Department and create a Distributed Systems Logging reference document in lieu of an audit report since this is a value-add consulting project.



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OIA will continue to monitor other significant IT projects with advisory and consulting services as needed. Outside of the theme areas, the IT Audit Team will support the Financial/Operational Audit Team on initiatives requiring an integrated focus or where specific technical skills are needed.

Specific audits included in the plan are:

Resource Allocation	Allocated Hours
IT AUDIT ASSURANCE (1) <i>VMWare Server Virtualization</i> – 350 hours (Q1) (2) <i>Citizens Authentication Gateway</i> – 300 hours (Q2) (3) <i>SDLC Compliance</i> – 300 hours (Q3) (4) <i>Change Management</i> – 300 Hours (Q4) (5) <i>Identity and Access Management Project</i> – 350 hours (Q1 – Q4) (6) <i>Vulnerability Management Project</i> – 350 hours ((Q1 – Q4) (7) <i>Distributed Systems Logging Consulting Project</i> – 400 hours (Q1 – Q3)	2350
DATA ANALYTICS (1) <i>Continuous Auditing Data Analytics Project</i> – 800 hours (Q1 – Q4) (2) <i>General Audit Support</i> – 525 hours (Q1 – Q4)	1325
ADVISORY & CONSULTING (1) <i>Disaster Recovery Strategy Project</i> – 75 hours (2) <i>Physical Safety and Security Work Group</i> – 10 hours (3) <i>Platform Remediation Project</i> – 75 hours (4) <i>Security Privacy Remediation Project</i> – 75 hours	235
TOTAL:	3910

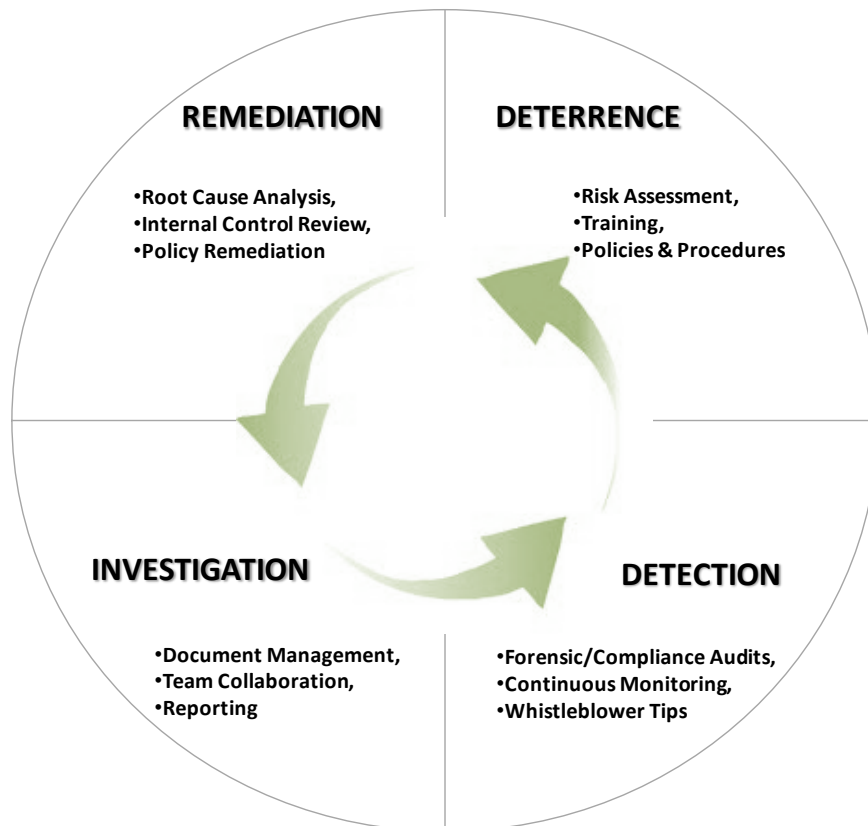
(See Appendix 3 for an overview of the planned IT audits)



5.4. Continuous Auditing and Forensic Audit

OIA continues to proactively develop and support a company culture that embraces mitigation efforts for fraud, waste and abuse and compliance with company policy and state regulation, thus reducing the costs of fraud, waste and abuse. This is accomplished by performing activities within the following categories:

- Deterrence - Performance of risk assessments, and training, as well as other activities geared at improving the Company's anti-fraud culture.
- Detection - performing forensic and continuous monitoring audits, all in an effort to proactively detect and mitigate fraud.
- Investigation - Responding to complaints of fraud, waste, and abuse as well as initiating appropriate investigative methods through document & case management and collaboration.
- Remediation - Identifying the root-cause and understanding the appropriate changes to implement to ensure effective and efficient business practices.





These categories and their related activities work in conjunction with one another to ensure the effective and efficient use of audit resources to accomplish the Team's vision and mission. Forensics now has the ability to further enhance proactive measures because of investigative assignments being reduced; thus, allowing OIA to meet its' fraud deterrence strategies as it results to proactive mitigation. A 'reassessment' of the 2014 Fraud Risks identified the need to further design procedures related to Vendor Spend. As seen below, the Forensic team is continuing to focus on this high risk fraud area. In addition, the Forensics team is working to assist in the implementation of Continuous Audit which not only focuses on fraud mitigation, but also on identifying process and cost improvement opportunities. The advent of Continuous Audit enhances Forensic Audit's ability to mitigate fraud, waste and abuse not only surrounding vendor risks, but also other internal fraud risks; thus, enhancing audit coverage.

Specific audits included in the plan are:

Resource Allocation	Allocated Hours
FORENSIC ASSURANCE	
(1) <i>Claims' Vendor Billing (Q1) – 500 Hours</i>	
(2) <i>Core Project Spending (Q1) – 300 Hours</i>	
(3) <i>Contract Management (Q2) – 300 Hours</i>	
(4) <i>AP Vendor Spend (Q3) – 500 Hours</i>	
(5) <i>Continuous Audit (Ongoing) – 400 Hours</i>	2,000
ADVISORY & CONSULTING	
(1) <i>Fraud Prevention (Ongoing) – 200 Hours</i>	200
TOTAL:	2,200

(See Appendix 3 for an overview of the planned forensic and continuous audits)



6. 2015 Financial Budget

The 2015 budget for Citizens' OIA presented hereunder is \$2.324 million as compared to \$2.256 million budgeted for 2014. The growth in expenses for 2015 as compared to 2014 is mainly reflected in an increase in salaries and benefits. As we continue to develop our staff and hire more business qualified individuals we improve upon the type and quality of audits we complete but this has a direct impact upon cost. For 2015 we plan to reduce staff augmentation as we should have sufficient coverage when all positions are filled. This budget aligns with our objective of controlling operating expenses while improving the level and quality of assurance provided.

2015 Budget Analysis					
OIA Expense Categories	2013 Approved Budget	2014 Approved Budget	2015 Proposed Budget	2015 vs 2014	% of Total Proposed Budget
Salaries & Benefits	1,555,960	1,753,601	1,925,491	10%	82%
Contingent Staffing	78,540	200,878	0	-	0%
Professional Services	250,000	50,000	120,000	140%	5%
Training	24,000	27,020	24,200	-10%	1%
Operating Expenses	52,844	46,421	52,545	13%	2%
Technology Chargeback	0	129,763	160,422	24%	7%
Legal	50,000	48,000	72,000	50%	3%
Total	2,011,344	2,255,683	2,354,658	4%	
Number of Audit Staff	12	12	13		

The table above provides a detailed comparison between the proposed 2015 budget in relation to projected expenses for previous years. In relation to the 2014 budget we note the following:



- Salaries > 10%. During 2014 OIA requested and received approval for the addition of one staff member, at audit manager level, to lead the implementation of Citizens Internal Control Framework. In this amount we also budgeted for a nominal performance based annual salary increase as well as the promotion of one member of staff to the position of audit manager. Continuous consideration of staff development and recognition helps with the maintenance of a real career path in audit as well as secures the retention of staff. During 2014 we developed a very comprehensive Internal Audit Competency model which help defines staff growth opportunities to the next staffing level.
- Contingent Staffing & Professional Services < 48%. With development and implementation of the Citizens Insurance System and the Clearinghouse, OIA assessed that the contingent resource supporting these initiatives will not be needed during 2015. We recognize that there are other large system development projects scheduled but are of the opinion that we have sufficient capacity to address the need.
- Training < 10%. It is foreseen that with the availability of local institutional training as well as the development of less expensive web based seminars there will be a marginal savings in the total cost of training per member of staff.
- Operating expenses > 13%. The increase in operating expenses reflects an increase in professional membership fees as we skill our staff as well as an increase in our software licensing expense due a planned transformation from a server based environment to a web-based environment. Budget items included in operating expenses are printing, supplies, subscriptions, postage, travel and software licensing.

Recommendation

The Chief of Internal Audit requests approval of the 2015 Audit Budget.



7. Allocation of Audit Hours

Audit Plan Component	Allocation	Explanation
Planned Audits	75%	Includes audits selected through the risk assessment and prioritization process.
Requests	15%	This category includes requests from the Audit Committee, Senior Management, etc. This may be planned requests or contingency for unplanned events (such as investigations). Requests should be within the internal audit mandate and may include consulting engagements, as long as such engagements have the potential to improve management of risks, add value and improve operations.
Issue follow-up	5%	Represents approximately one day at each month end to follow-up on open findings and validate closure of closed findings.
Contingency	5%	Part of the audit plan set aside for other and unforeseen items such as: assistance for external auditors and quality assurance reviews, employee turnover, overruns, etc.
Direct hours	100%	Total hours available for audit (total hours net of vacation, statutory holidays, PD, etc.).

Appendix 1: Citizens Goals and Strategic Objectives

To fulfill its mission, Citizens has identified four strategic goals. These, along with the associated strategic objectives guide the organization's work over the next several years.

1. Operate as an efficient residual market.

- Regularly evaluate products offered in the property insurance marketplace and adjust Citizens' products to fill voids in the market, in compliance with Florida law.
- Reduce assessment risk for Citizens policyholders and all Floridians by moving toward and maintaining rate adequacy within the framework established by Florida law.
- Provide Citizens customers with expanded access to private-market coverage and provide private insurance carriers with greater access to the consumer market.
- Identify, effectively communicate with, and educate internal and external stakeholders

2. Ensure a strong financial operating environment.

- Ensure strong corporate governance and fiscal prudence, including risk transfer and debt financing, as appropriate, in order to minimize the likelihood, timing and amount of assessments to all Floridians.
- Implement process and technology improvements that realize cost savings and improve performance.
- Strengthen Citizens' corporate control environment to mitigate the potential for fraud and abuse, and integrate fraud prevention and detection into the organizational culture.

Appendix 1: Citizens Goals and Strategic Objectives (continued....)

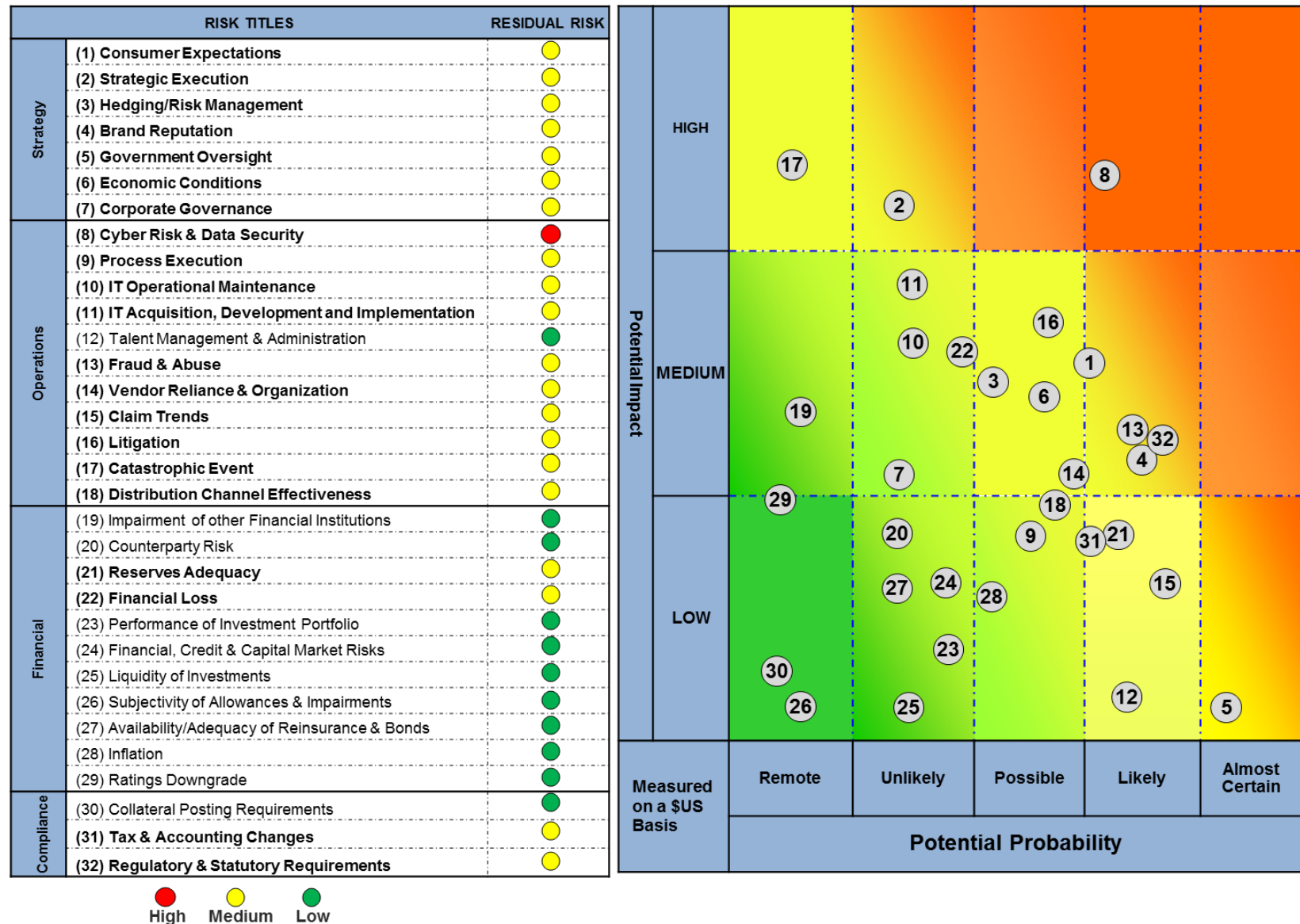
3. Operate a streamlined, scalable and customer-focused organization.

- Simplify, standardize and align the organization to reduce costs, maintain and improve current levels of customer service, in-source core competencies, and enhance Citizens' ability to expand and contract operations to meet fluctuating market needs.
- Promote and enhance a performance-based culture, internally and externally, that provides a common set of expectations and maximizes organizational effectiveness.
- Recognizing compensation limitations, create an environment in which quality employees are hired and retained; develop human resources; and maintain a work environment that is comparable to responsible private employers.
- Streamline and implement uniformity in the processes for disputed and litigated claims to facilitate timely and fair claims resolution for our policyholders.

4. Protect the public interest and maintain the integrity of the corporation.

- Adhere to a framework aimed at protecting private data in Citizens' custody.
- Prepare for and respond to catastrophic events using a scalable resource model to ensure that claims are paid and handled promptly, fairly and appropriately.
- Ensure public confidence by instilling a culture of ethical behavior and integrity in all that we do.

Appendix 2: 2015 OIA Risk Assessment & Universe



Appendix 2: 2015 OIA Risk Assessment & Universe – Audit & Activity Risk Coverage (continued...)

2015 OIA ACTIVITIES & RISK COVERAGE ---->		Continuous Audit	AP Vendor Spend Audit	ERP Project Monitoring	Target Operating Models	Depopulation Audit	General Expense Mngt Audit	Treasury Audit	Fraud Prevention Consulting	Rate Accuracy Audit	Core Project Spend Audit	Distributed Systems Logging	Identity & Access Management	VMWare Configuration Audit	Core Authentication Gateway Security Audit	Network Vulnerability Project	Change Management Audit	SDLC Compliance	Strategic Security Projects	Claims Vendor Spend Audit	Automated UW Audit	Legal Billing Process Audit	Sinkhole Managed Repair Program	Coordination Counsel	SIU Agency Investigation	Contract Management Audit	Building Consolidation Audit	Procurement Audit	Personal UW Audit	UW Vendor Mngt – McNeal	UW Vendor Mngt – Piney Bowes
Strategy	(1) Consumer Expectations	✓	✓				✓		✓	✓										✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓
	(2) Strategic Execution	✓		✓	✓	✓							✓						✓		✓		✓		✓	✓	✓	✓	✓	✓	✓
	(3) Hedging/Risk Management																											✓			✓
	(4) Brand Reputation	✓	✓				✓		✓	✓		✓			✓	✓			✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓
	(5) Government Oversight																														
	(6) Economic Conditions	✓	✓						✓											✓						✓					
	(7) Corporate Governance	✓	✓	✓	✓		✓	✓	✓	✓			✓							✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Operations	(8) Cyber Risk & Data Security					✓		✓				✓	✓		✓	✓			✓									✓		✓	✓
	(9) Process Execution	✓	✓	✓	✓			✓	✓	✓			✓			✓		✓		✓	✓	✓	✓		✓	✓		✓	✓		
	(10) IT Operational Maintenance													✓			✓														
	(11) IT Acquisition, Development and Implementation															✓	✓										✓				
	(12) Talent Management & Administration			✓																											
	(13) Fraud & Abuse	✓	✓					✓	✓		✓									✓	✓	✓	✓		✓	✓		✓	✓	✓	✓
	(14) Vendor Reliance & Organization	✓	✓					✓	✓											✓	✓	✓	✓		✓	✓		✓	✓	✓	✓
	(15) Claim Trends	✓	✓						✓											✓			✓			✓					
	(16) Litigation	✓																				✓									
	(17) Catastrophic Event						✓																								
	(18) Distribution Channel Effectiveness	✓																							✓						
Financial	(19) Impairment of other Financial Institutions																														
	(20) Counterparty Risk																									✓					
	(21) Reserves Adequacy	✓																													
	(22) Financial Loss	✓		✓	✓	✓	✓	✓		✓											✓	✓	✓	✓	✓	✓	✓		✓	✓	✓
	(23) Performance of Investment Portfolio	✓																													
	(24) Financial, Credit & Capital Market Risks							✓																							
	(25) Liquidity of Investments	✓						✓																							
	(26) Subjectivity of Allowances & Impairments							✓																							
	(27) Availability/Adequacy of Reinsurance & Bonds																														
	(28) Inflation							✓																							
	(29) Ratings Downgrade																														
Compliance	(30) Collateral Posting Requirements							✓																							
	(31) Tax & Accounting Changes								✓	✓	✓										✓	✓				✓		✓	✓		
	(32) Regulatory & Statutory Requirements		✓																												

Appendix 2: 2015 OIA Risk Assessment & Universe - Definitions (continued...)

RISK TITLES		RISK DEFINITION
Strategy	(1) CONSUMER EXPECTATIONS	<i>Due to role as the insurer of last resort we face many unexpected and/or unreasonable expectations from consumers based upon perceived expectations of the Company's role.</i>
	(2) STRATEGIC EXECUTION	<i>The inability to successfully implement the strategic plan.</i>
	(3) HEDGING/RISK MANAGEMENT	<i>The failure of any of the loss limitation methods (i.e. quantify catastrophe exposure, risk accumulations) we employ could have an adverse effect on our results of operations or financial condition.</i>
	(4) BRAND REPUTATION	<i>The company's brand reputation can suffer adverse effects causing unnecessary external and/or internal constraints.</i>
	(5) GOVERNMENT OVERSIGHT	<i>The regulatory and political systems under which we operate, and their volatility, could have an adverse effect on our business.</i>
	(6) ECONOMIC CONDITIONS	<i>Due to geographical concentration in our U.S. property and casualty business, changes in economic, regulatory and other conditions in the regions where we operate could have a significant negative impact on our business as a whole. Additionally, difficult conditions in global capital markets and the economy could have a material adverse effect on our investments, capital position, premiums, and liquidity and harm our business.</i>
	(7) CORPORATE GOVERNANCE	<i>Failure to maintain a sound corporate governance infrastructure may lead to personnel turnover, loss of leadership, unrealistic regulatory expectations and/or loss of consumer/government support and adversely effect operations, potentially ceasing the Company's existence.</i>
Operations	(8) CYBER RISK & DATA SECURITY	<i>Failure to protect assets from destruction or unapproved access may lead to loss of consumer/government confidence, regulatory impositions (i.e. Privacy Laws) and the ability to sustain operations.</i>
	(9) PROCESS EXECUTION	<i>Failure for the systems, processes and people to adequately complete underwriting and claims processes resulting in ineffective insurance processes and deliverables; thus, resulting in loss of consumer confidence and increasing applicable risks.</i>
	(10) IT OPERATIONAL MAINTENANCE	<i>Ineffective management of systems availability and operability via general computer controls and governance structures.</i>
	(11) IT ACQUISITION, DEVELOPMENT AND MAINTENANCE	<i>Business applications and related infrastructure are not designed, developed, purchased and implemented in line with business objectives.</i>
	(12) TALENT MANAGEMENT & ADMINISTRATION	<i>The inability to recruit, develop and retain skilled employees has adverse effects on the ability to ensure stability and/or sustainability of our operations.</i>
	(13) FRAUD & ABUSE	<i>A wrongful or criminal deception intended to result in financial or personal gain.</i>
	(14) VENDOR RELIANCE & ORGANIZATION	<i>The overreliance and/or under reliance on vendors may expose the company to the inability to sustain operations due to a change in vendor's or organization's structure, alignment or direction.</i>
	(15) CLAIM TRENDS	<i>Emerging claims and coverage issues could adversely affect us.</i>
	(16) LITIGATION	<i>Current or emerging litigation could adversely affect us.</i>
	(17) CATASTROPHIC EVENT	<i>One or more successive catastrophic events can adversely impact our financial and/or operational condition.</i>
	(18) DISTRIBUTION CHANNEL EFFECTIVENESS	<i>Because our business is dependent upon insurance agents to distribute our products, we are exposed to certain risks arising out of distribution channels that could cause our results to be adversely affected.</i>

Appendix 2: 2015 OIA Risk Assessment & Universe - Definitions (continued...)

RISK TITLES		RISK DEFINITION
Financial	(19) IMPAIRMENT OF OTHER FINANCIAL INSTITUTIONS	<i>The impairment of other financial institutions could adversely affect us by impairing our liquidity or increasing counterparty risk.</i>
	(20) COUNTERPARTY RISK	<i>Our purchase of reinsurance subjects us to third-party risk.</i>
	(21) RESERVES ADEQUACY	<i>Actual claims incurred may exceed current reserves established for claims and may adversely affect our operating results and financial condition.</i>
	(22) FINANCIAL LOSS	<i>The inability to effectively conduct financial transactions in a controlled manner allows for the loss of funds; thus, resulting in ineffective cost containment.</i>
	(23) PERFORMANCE OF INVESTMENT PORTFOLIO	<i>Unexpected volatility or illiquidity in investment portfolio could significantly and negatively affect our investment portfolio, results of operations and financial condition.</i>
	(24) FINANCIAL, CREDIT & CAPITAL MARKET RISKS	<i>We are exposed to significant financial, credit and capital markets risk which may adversely affect our results of operations, financial condition and liquidity, and our net investment income can vary from period to period. Risk includes, but is not limited to, changes in interest rates, credit spreads, credit access, equity prices, market volatility and foreign exchange rates.</i>
	(25) LIQUIDITY OF INVESTMENTS	<i>Some of our investments are relatively illiquid and are in asset classes that may experience significant market valuation fluctuations. Additionally, the amount of our investments held as illiquid may affect our ability to generate cash within a timeframe to meet consumer demands.</i>
	(26) SUBJECTIVITY OF ALLOWANCES & IMPAIRMENTS	<i>The determination of the amount of impairments taken on our investments is highly subjective and could materially impact our results of operations or financial position.</i>
	(27) AVAILABILITY/ADEQUACY OF REINSURANCE & BONDS	<i>Reinsurance, retrocessional reinsurance and bonds may not be available at all or on acceptable terms, which could adversely impact our ability to write new business or mitigate the effect of large or multiple losses.</i>
	(28) INFLATION	<i>Inflationary pressures may negatively impact reserves and the value of investments.</i>
Compliance	(29) RATINGS DOWNGRADE	<i>A downgrade in our financial strength or credit ratings by one or more rating agencies could materially and negatively impact our business, financial condition, results of operations, consumer confidence and/or liquidity.</i>
	(30) COLLATERAL POSTING REQUIREMENTS	<i>We may be required to post additional collateral because of changes in our reinsurance liabilities to regulated insurance companies, or because of regulatory changes that affect our companies.</i>
	(31) TAX & ACCOUNTING CHANGES	<i>Potential changes to the tax code or accounting requirements could potentially increase operational costs or adversely affect liquidity.</i>
	(32) REGULATORY & STATUTORY REQUIREMENTS	<i>Non-conformance with laws, rules and regulations, prescribed practices or ethical standards in any jurisdiction in which the entity operates will result in a disruption in business and financial loss.</i>

Appendix 2 (Continue....) OIA's Enterprise Risk Impact & Occurrence Definitions

Potential Impact		Potential Probability	
HIGH > \$20M	Potential loss of ability to sustain ongoing operations <ul style="list-style-type: none"> Major impact to company's brands/reputation Increase in costs with major impact on long term profitability/viability Major inability to maintain current operational performance Downgrade of credit rating with major impact on costs Major Federal, State or International legal action 	Almost Certain	<i>Event is expected to occur in most circumstances – almost a certainty.</i>
		Likely	<i>Event will probably occur in most circumstances</i>
MEDIUM < \$10M	Moderate impact on achievement of business objectives <ul style="list-style-type: none"> Temporary, but recoverable, reduction in company reputation Increase in costs with a moderate impact to cash flow Federal, State, International, Local, Civil legal action with moderate implications 	Possible	<i>Event should occur at some time</i>
LOW < \$2.5M	Insignificant impact on the achievement of business objectives <ul style="list-style-type: none"> Notable event with insignificant impact 	Unlikely	<i>Event could occur at some time</i>
		Remote	<i>Event may only occur in exceptional circumstances</i>

Appendix 3: Overview of the 2015 Audits by Process Owner

Chief Financial Officer	AP Vendor Spend ERP Project Monitoring	Depopulation General Expense Management	Treasury
Chief Risk Officer	Fraud Prevention Consulting	Rate Accuracy	
VP, Communications, Legislative and External Affairs			
Chief Systems & Operations	Core Project Spend Distributed Systems Logging Consulting Identity and Access Management Project Target Operating Model	VMWare Configuration Citizens Authentication Gateway Security Network Vulnerability Project	Change Management SDLC Compliance Strategic Security Projects Monitoring
VP, Consumer and Agent Services			
Chief Claims Officer	Claims' Vendor Spend Legal Billing Follow-up	Coordinating Counsel Sinkhole Managed Repair Program	SIU Agency Investigation Target Operating Model
Chief Legal Officer & General Counsel	Contract Management	Procurement	
Chief Human Resources Officer	Building Consolidation Project		
VP, Underwriting	Personal Underwriting	UW Vendor Mngt - McNeal	UW Vendor Mngt - Pitney Bowes

Appendix 3: Overview of the 2015 Audits (Finance & Operations)

Detailed Audit Description

Personal Underwriting Audit (350 Hours) – 2nd Quarter

Risk Rationale: There will be significant changes in the way personal residential policies are underwritten and administered with the release of PolicyCenter 2.0 which is set to occur in December, 2014. Many processes which were performed in ePAS will now be completed through the Core Insurance Suite including the automated Clearinghouse component for new business and policy renewals.

Objective: The objective of this audit will be to review the new processes put in place and mitigating controls for policy administration, billing, clearinghouse and depopulation objectives.

Automated Underwriting Audit (350 Hours) – 3rd Quarter

Risk Rationale: Due to the large volume of new daily policy submissions, Citizens utilizes an automated underwriting process for policies deemed low risk or noncomplex when assessed for risk and insurability. Although a sample of these policies are reviewed daily for quality assurance, the design of the process has not been reviewed since implementation approximately five years ago.

Objective: The objective of this audit will be to review the design and structure of the auto-approval process to ensure that auto-approval objectives are being met in the most efficient and effective manner.

ERP Project Monitoring Audit (300 Hours) – Continuously throughout Year

Risk Rationale: In support of Citizens' strategic goal to ensure a strong financial operating environment, an annual plan initiative was established to define a long-term Enterprise Resource Planning (ERP) Strategy. This strategy is intended to meet Citizens' financial and human resource management processing needs by selecting a suitable software solution that meets cost and benefit restrictions. Due to the wide reach of the initiative and potential significant impact to the current state of operations, there is a high risk for errors in the solicitation as well as implementation of an ERP system across several support functions.

Objective: The objective of this audit is to ensure that proper governance controls are followed throughout the solicitation, vendor selection, and pre-implementation processes.

Finance & Operations continued

Detailed Audit Description

Target Operating Models Audit (350 Hours) – 3rd Quarter

Risk Rationale: In 2013, Citizens hired KPMG to analyze the organizations composition, reporting, and authority structures to determine the most effective and efficient utilization of resources. This analysis ("study") resulted in several recommendations, most of which have been implemented throughout several areas in the organization.

Objective: The objective of this audit is to compare the current structure and state of operations to those proposed by the KPMG study, perform a gap analysis, and determine the underlying reasons for any identified differences.

Building Consolidation Audit (300 Hours) – Continuously throughout Year

Risk Rationale: In an effort to improve efficiency and reduce costs, Citizens is reducing the number of buildings to 1 per city, if possible. The Jacksonville Office Space project will combine staff into a single facility (or joined facilities) in Jacksonville, decommission the prior spaces, and transition approximately 148 Systems and operations resources from Tallahassee and Tampa to the new leased space. Although a project manager has been assigned in mid-October 2014, due to the complexity of the project as well as tight deadlines involved, there is an increased risk that certain project deliverables and objectives may not be met.

Objective: The objective of this audit is to observe the execution of the project and to provide consultative and advisory services to the project management team where necessary.

Legal Billing Process Audit (350 Hours) – 3rd Quarter

Risk Rationale: An Audit performed in 2014 resulted in various improvements being recommended in the legal billing area to improve controls over the process in addition to a more robust vendor management program. Management is currently implementing these controls, however because of the over 13,000 active litigated cases and the associated costs with legal billing this area remains a high risk. Contributing to this risk factor is the potential of fraud through over billing or billing errors.

Objective: The objective of this audit will be to evaluate the design and effectiveness of controls to monitor and process legal billing.

Finance & Operations continued

Detailed Audit Description

Sinkhole Managed Repair Program Audit (350 Hours) – 2nd Quarter

Treasury Audit (350 Hours) – 1st Quarter

Risk Rationale: The Citizens Treasury Function provides planning and operations, cash and liquidity management, funding and capital markets and financial risk management. The Treasury area currently manages approximately 1.5 billion in assets.

Objective: The objective of this audit will be to evaluate the design and effectiveness of controls over the Treasury Management processes.

Sinkhole Managed Repair Program Audit (350 Hours) – 2nd Quarter

Risk Rationale: The Sinkhole Managed Repair Program was implemented in April 2014. The program provides a list of contractors to sinkhole claimants for the below-ground repairs (stabilization) on the properties. Contractors are under contract with Citizens and have passed credentialing procedures. The program is available for both litigated and non-litigated sinkhole claims. Participation is voluntary and the selection of the contractor is also up to the insured. Risks are related to the selection of contractors, performance and the timeliness of repairs.

Objective: Evaluate the design of the control system and the effectiveness of the controls related to selecting, credentialing and monitoring the performance of the repair program contractors to ensure quality and timeliness of service and satisfactory settlement of the claim.

Coordinating Counsel Audit (350 Hours) – 4th Quarter

Risk Rationale: In 2014 Citizens expanded the coordinating counsel program to cover all claims litigation. The program is intended to provide strategic oversight and specialized legal guidance and training in the handling of claims litigation matters while optimizing the process in an effort to reduce overall litigation expenses. Ultimately the goal is to equip in-house counsel with the skills necessary to carry forward the efficiencies, economies and enhanced service levels realized through a coordinated counsel approach.

Objective: To determine that the controls are in place and operating effectively to monitor the ongoing coordinated counsel program to ensure that planned efficiencies, economies, knowledge transfer and enhanced service levels are being realized.

Detailed Audit Description

SIU Agency Investigation Audit (350 Hours) – 4th Quarter

Risk Rationale: SIU has historically been responsible for investigation potentially fraudulent claims. However, they are currently in the process of assuming the responsibility for the agency fraud monitoring and investigation process from Agency Services. The process is at a low level of maturity with staffing currently being performed. Identification of possible frauds is primarily from referrals from DFS, consumer complaints, etc. Developing analytics to proactively identify potential frauds is an ultimate goal, but may not be in the plan in the short term.

Objective: The objective of this audit is to evaluate the processes used to identify, investigate, track and resolve potential agency fraud including any proactive steps to identify possible fraud using analytics or other means.

Depopulation Accounting Audit (350 Hours) – 2nd Quarter

Risk Rationale: Approximately 647,480 policies has been approved by the OIR to be removed from Citizens and placed with private carriers in November 2014 and December 2014. Under the current statute, whenever a private insurance company offers to "take out," or take over, the insurance policies held by Citizens, Citizens is required to assign those policies to the private company. With the significant number of policies approved for Depopulation at the end of 2014 it is important to have adequate accounting controls in place to ensure funds are not lost with the increase activity of cash flow between take out companies and Citizens.

Objective: The objective of this audit is to review the processes in place and mitigating accounting controls for the ongoing Depopulation.

Procurement Audit (350 Hours) – 3rd Quarter

Risk Rationale: Citizen's spends in excess of \$900 million annually with contracted vendors. The Contractual Services team is responsible for assisting business units in the development of competitive procurements for goods or services valued at \$25,000 and above. The Contractual Services unit administers the ITB/RFP/ITN process by identifying appropriate procurement methods, receiving all responses, assisting with developing scopes of work and business units with annual needs planning. The OIA conducted consulting activities of procurement during 2014, which resulted in control and process improvement recommendations. As a Government entity, Citizens has adopted and follows the competitive solicitation process for the procurement of commodities and contractual services in compliance with Section 627.351(6) (e), F.S. and Section 287.057, F.S.

Objective: The objective of this review is to ensure the internal controls over the procurement process are effective.

Finance & Operations continued

Detailed Audit Description

General Expense Management Audit (350 Hours) – 1st Quarter

Risk Rationale: General expenses pose a significant reputation risk to the Citizens brand as was experienced during 2012. In addition as a company serving the taxpayers of the state of Florida additional assurance should be provided by performing a General Expense Audit annually.

Objective: To determine whether controls over general expenses provide management with reasonable assurance that resources are used efficiently and economically.

Underwriting Vendor Management (MacNeill Audit) Audit (350 Hours) – 4th Quarter

Risk Rationale: MacNeill is Citizens only third party vendor contracted to support underwriting operations. Underwriting is one of the core operations of the Citizens Property Insurance Company with substantial amount of compliance and credit risk. The services provided by MacNeill support approximately 75-80% of underwriting activities. As of September 2014 YTD, MacNeill processed over 717,980 underwriting transactions. In addition, Citizens pays MacNeill approximately \$850,000 monthly during 2014 for the underwriting services provided.

Objective: The objective of this audit will be to ensure adequate and effective quality assurance and vendor management controls are in place to adequately manage the outsourced underwriting processes.

Underwriting Vendor Management (Novitex) Audit (350 Hours) – 4th Quarter

Risk Rationale: Novitex (formerly Pitney Bowes) is responsible for printing and mailing policyholder, mortgagee and agent documents for Citizens. Novitex processed 5,402,895 pieces of mail costing Citizens \$4,911,064.38 as of September 2014 YTD month-end. There is a risk that systemic and on-going error, training or staffing deficiencies, backlog and turnover issues could prevent timely and accurate output of the policy documentation to the policy holders.

Objective: The objective of this audit will be to ensure adequate and effective quality assurance and vendor management controls are in place to adequately manage the outsourced print documentation process.

Finance & Operations continued

Detailed Audit Description

Rate Accuracy Audit (350 Hours) – 1st Quarter

Risk Rationale: Audit will focus on the process and accuracy for which rates go from Actuarial Services, Product Development, OIR and to underwriting system table. There is risk inherent in this process as the data moves between groups and is modified and reformatted.

Objective: The objective of this audit will be review data integrity controls for rate information from development through input to the policy system.

IMS/CAIS v.3 System Audit (300 Hours) – 2nd Quarter

Risk Rationale: The 2014 initiatives for CAIS v.3 included the consolidation of data from and retirement of the CAIS v.2 system to allow for a single system of record for all contracted vendor companies and their resources. Generic Assignment Module GAM was implemented in May 2014 and is currently in use for the Sinkhole Managed Repair Program. The 2015 initiatives include further development of the CAIS/GAM modules to address assignment integration with Policy Center & Claim Center as well as development for use for all enterprise contingent staff with the Contingent Workforce Management project. The additional developments planned for the CWM project would include integration with Kronos via the Citizens Authentication Gateway application (CAG). Management has requested that OIA perform an MAS to review how the CAIS system is being utilized, and ensure the system and development process are being adequately managed.

Objective: The objective of this audit will be to review how the IMS/CAIS v.3 system is being utilized, and ensure the system and development process are being adequately managed.

Appendix 3: Overview of the 2015 Audits (Information Systems and Technology)

Detailed Audit Description

VMWare Configuration Audit (350 Hours) – 1st Quarter

Risk Rationale: Virtualization technologies allow organizations to utilize their existing infrastructure more effectively. Physical servers are partitioned into multiple operating systems and applications, emulating multiple servers, thereby decreasing cost and providing operational efficiencies. Virtualization introduces security complexities and associated risks within the environment.

Objective: Assess the effectiveness of the governance, configurations, controls, and security of the virtualized servers operating under VMware in the enterprise's computing environment, with emphasis on control issues specific to virtualized environments.

Citizens Authentication Gateway (CAG) Audit (300 Hours) – 2nd Quarter

Risk Rationale: Citizens Authentication Gateway provides authentication to all of the Citizens Insurance Suite modules as well as the Clearinghouse application and third party carriers. If sound security administration processes are not developed and followed, inappropriate or undocumented access additions, modifications or deletions to the gateway may occur.

Objective: Review security processes and procedures and examine privileged access, segregation of duties, audit trails and other inherent security risks associated with this internally developed application.

SDLC Compliance Audit (300 Hours) – 3rd Quarter

Risk Rationale: Products and services delivered by IT may not address customer needs, resulting in delays, rework or increased costs if development projects are not managed via an effective SDLC methodology.

Objective: Review and understand the SDLC methodology and validate that the organization manages the information systems using the SDLC method that includes information security considerations. OIA will examine a sample of projects to validate compliance with the methodology and use of the new compliance checklist.

Change Management Audit (300 Hours) – 4th Quarter

Risk Rationale: Products and services may not meet expected business benefits and application/system changes may cause downtime/business disruption if approved process steps are not applied. The change process is being enhanced during 2014 and early 2015 to include a broader perspective and more detailed analyses.

Objective: Review the enhanced change process and procedures and validate that changes are following the new process.

Information Systems and Technology continued

Detailed Audit Description

Distributed Systems Logging Consulting Project (400 Hours) – 1st Quarter through 3rd Quarter

Risk Rationale: An Enterprise Incident Response Plan was documented during 2014 that expands the previous plan to include enterprise level roles, responsibilities, process flows, response teams and documentation. This consulting project will directly support IT and the new plan by providing reference materials related to audit logs, backups, archive periods and security access to the logs.

Objective: Assist IT by creating reference materials to be used in support of the new Enterprise Incident Response Plan related to applications and systems logging. Interview relevant business analysts and systems personnel and obtain validation for audit logs that are turned on, archival time periods, log file backups currently implemented, and logical security access to log files and backups. Include internet based applications and systems, applications containing restricted or sensitive data and other critical systems determined at the time of the walk-through. Document any gaps for future discussion and remediation. An audit report will not be issued for this project.

Vulnerability Management Project (350 Hours) – Continuously throughout Year

Risk Rationale: A network assessment project was completed during 2014 from which a list of remediation efforts was detailed requiring research, discussion, prioritization and remediation.

Objective: Provide assurance in project management for this initiative. Participate in the project calls and review documentation to validate appropriate project management oversight, tools, documentation, objectives are met timely and project is within budgeted target dates. Provide quarterly reporting in the form of a memorandum.

Identity and Access Management Project (350 Hours) – Continuously throughout Year

Risk Rationale: The purpose of this project is to establish a corporate Identity and Access Management (IAM) program, which includes an appropriate governance framework with defined roles, responsibilities and processes that ultimately support assuring appropriate access to Citizens' information assets. This project also will assist in a follow-up project to implement an organizational IAM technical solution to support our defined requirements and processes. This is a required first step effort to define our needs and processes prior to implementing a technical solution.

Objective: Provide assurance in project management for this strategic initiative. Participate in the project calls and review documentation to validate appropriate project management oversight, tools, documentation, objectives are met timely and project is within budgeted target dates. Provide quarterly reporting in the form of a memorandum.

Information Systems and Technology continued

Detailed Audit Description

Strategic Security Project Monitoring (235 Hours) – Continuously throughout Year

Risk Rationale: There are additional projects scheduled to continue from 2014 to 2015 that are significant to the goals and objectives of the company.

Objective: OIA will continue to attend meetings and provide advisory services as needed to the project teams for these three projects.

Financial/Operational Audit Assistance (220 Hours) – Specific audits throughout the Year

Risk Rationale: IT Risks may be inherent in financial and operational areas due to IT systems and processes that support the business.

Objective: Provide IT audit assistance to the Financial/Operations audit team as required for three audits.

Appendix 3: Overview of the 2015 Audits (Forensic)

Detailed Audit Description

Claims' Vendor Billing Audit (500 Hours) – 1st Quarter

Risk Rationale: Vendor Schemes and Cash Misuse/Larceny continue to be ranked as management's top fraud risks within the organization. Due to the volume, dollars and reliance on adjusting firms and contracted services vendors which provide services for the processing of claims OIA believes a thorough review and understanding of the processes surrounding billing and spend related to such vendors is warranted.

Objective: Evaluate the effectiveness and efficiency of controls developed and implemented within the Claims function to ensure that payments made to vendor firms are appropriate and accurate.

Contract Management Audit (300 Hours) – 2nd Quarter

Risk Rationale: CPIC relies heavily on various vendors to assist them in meeting corporate objectives. The use of vendors by any organization comes with a variety of risks that could adversely affect operations. Management uses contracts as a control to mitigate vendor risks. Formal contracts provide management with a tool to manage vendors and guide them in meeting corporate objectives while also protecting the entity.

Objective: Evaluate the effectiveness and efficiency of controls developed and implemented to assist management in ensuring that entities providing services to CPIC have a formal agreement and are abiding to it.

AP Vendor Spend Audit (500 Hours) – 3rd Quarter

Risk Rationale: Vendor Schemes and Cash Misuse/Larceny continue to be ranked as management's top fraud risks within the organization. Due to the volume, dollars and reliance on vendors OIA believes a thorough review and understanding of the processes surrounding vendor spend through the Accounts Payable department is warranted.

Objective: Understand, document and assess the control structure as well as test transactions to ensure that payments made to vendors are appropriate and accurate as well as ensure compliance with applicable standards.

Detailed Audit Description

Core Project Spending Audit (300 Hours) – 1st Quarter

Risk Rationale: Capital projects are prone to being behind schedule and fraught with cost overruns. Companies expend substantial sums of money through various types of contractual agreements. Frequently, risks exist such as erroneous or duplicate contractor charges, excessive contractor time and inadequate processes associated with the monitoring of capital costs. OIA should perform reviews to identify opportunities for cost recovery and to provide valuable insights and recommendations to improve processes and controls. Successful and highly effective capital project spending audits utilize advanced tools, such as data analytics, across the end-to-end capital project life cycle to provide the organization with deeper insights and real-time monitoring of key risks to help promote more effective capital project planning and execution.

Objective: Select a sample of capital projects and review initial budget projections versus actual over the same period and determine if projected spending increases were approved. Also, determine if initial budget compared to final cost is significantly different and, if so, ensure the appropriate requests and approvals were provided.

Fraud Prevention (200 Hours) – Continuously throughout Year

Risk Rationale: Fraud & Abuse continues to plague organizations throughout the world. Citizens' strategic objectives directly address mitigating, through proactive and reactive measures, fraud risk. Various departments are committed to achieving this objection.

Objective: Provide proactive fraud activities to further reduce fraud risk.

Continuous Audit (400 Hours) – Continuously throughout Year

Risk Rationale: Audit Data Analytics (ADA) is the science and art of discovering and analyzing patterns, identifying anomalies, and extracting other useful information in data underlying or related to the subject matter of an audit through analysis, modeling, and visualization for the purpose of planning or performing the audit. ADA includes methodologies for identifying and analyzing anomalous patterns and outliers in data; mapping and visualizing financial performance and other data across operating units, systems, products, or other dimensions for the purpose of focusing the audit on risks; building statistical (for example, regression) or other models that explain the data in relation to other factors and identify significant fluctuations from the model; and combining information from disparate analyses and data sources for the purpose of gaining additional insights.

Objective: For the initial year the objective is to build a Script Tool Box and roll out tests on a quarterly basis. Also, provide OIA management with Monthly Reports detailing findings for their review and assessment. The program will also work to implement a periodic risk management process to ensure appropriate continuous audit coverage is followed.

Appendix 3: *Overview of the 2015 Audits (Continuous Auditing)*

Continuous Audit Test Description

During 2015 we will expand our audit footprint by developing a continuous audit model and framework. The first step in this process is an understanding of where the data is housed, what information is held and how this can be used in future analysis and review. As a first step OIA identified a large selection of standard types of scripts that are generally used by insurance companies. Through data analytics and assessment OIA intend to further develop these during 2015.

Audit Data Analytics (ADA) is the science and art of discovering and analyzing patterns, identifying anomalies, and extracting other useful information in data underlying or related to the subject matter of an audit through analysis, modeling, and visualization for the purpose of planning or performing the audit. ADA includes methodologies for identifying and analyzing anomalous patterns and outliers in data; mapping and visualizing financial performance and other data across operating units, systems, products, or other dimensions for the purpose of focusing the audit on risks; building statistical (for example, regression) or other models that explain the data in relation to other factors and identify significant fluctuations from the model; and combining information from disparate analyses and data sources for the purpose of gaining additional insights. ADA will help OIA obtain better evidence for the audit opinions and understand fundamental causes not only on a transactional basis but over a period of time. The first step in the design of an ADA program is performing confirmatory (i.e. Bottoms-Up) transactional tests to ensure consistency with prescribed models. 2015 represents the first step in OIA developing a full-fledged ADA program.

Appendix 4: Audit SWOT Analysis

<p>STRENGTHS</p> <ol style="list-style-type: none"> 1. Defined internal audit vision, mission, values, and charter 2. Respect and credibility of CAE with senior management 3. Defined and validated audit universe 4. Formal risk-based planning process with management validation (Risk assessment mapped to organization's strategy) 5. Flexible audit plan focus upon trends and changes in the risk landscape 6. Individual staff training/certification plans 7. Independent and objective organization-wide perspective 8. Staff adaptable to change; positive attitude 9. Diverse skills, backgrounds, and business knowledge of staff 10. Process focus vs. transactional focus 11. Increased partnering with the business 12. Formalized follow-up process 13. Fully aligned with IIA <i>Standards</i> 	<p>WEAKNESSES</p> <ol style="list-style-type: none"> 1. Undefined staff rotation model (Limited staff career opportunities – not a talent source for the business) 2. Limited identification of emerging risks 3. Limited understanding of stakeholder expectations 4. Inconsistent communication with stakeholders 5. Lack of formal knowledge-sharing program 6. Limited focus on operational efficiency vs. effectiveness 7. Limited use of data analytics and data mining 8. Performance evaluations only occur annually 9. Long audit cycle time
<p>OPPORTUNITIES</p> <ol style="list-style-type: none"> 1. Improve perception of staff skill, knowledge, and capabilities 2. Confirm and clarify stakeholders' evolving expectations 3. Educate stakeholders on internal audit's role and capabilities 4. Greater involvement in organization's strategic decisions 5. Become involved in new initiatives early to incorporate controls 6. Educate management on recurring/common issues 7. Collaborate with other assurance/risk management functions throughout the year and during risk assessment 	<p>THREATS</p> <ol style="list-style-type: none"> 1. Predisposition of board to focus on financial and compliance exposures without balanced attention to operational risks 2. Implementation of findings constrained by budgets, staffing, and governance 3. Reduction in management cooperation 4. Emphasis on findings ("gotcha" and "policeman" mentality) 5. Emerging and changing risks increase skill gaps 6. Lack of awareness of business initiatives 7. Adapting to higher IIA <i>Standards</i> and stakeholder expectations

Appendix 5: 3 Year Audit Plan

<u>2015</u>	<u>2016</u>	<u>2017</u>
Personal Underwriting Audit Automated Underwriting Audit ERP Project Monitoring Audit Target Operating Models Audit Building Consolidation Audit Legal Billing Process Audit Treasury Audit SIU Agency Investigation Audit Sinkhole Managed Repair Program Audit Coordinating Counsel Audit Depopulation Accounting Audit Procurement Audit General Expense Management Audit Underwriting Vendor Mngt (McNeal) Audit Underwriting Vendor Mngt (Novitex) Audit Rate Accuracy Audit IMS/CAIS v.3 System Audit VMWare Configuration Audit Citizens Authentication Gateway Audit SDLC Compliance Audit Change Management Audit Distributed System Logging Consulting Project Vulnerability Management Project Identify and Access Management Project Strategic Security Project Monitoring Claims' Vendor Billing Audit Contract Management Audit AP Vendor Spend Audit Core Project Spending Audit Fraud Prevention Continuous Audit	Distributed Systems Security Config. Audit Investment Impairment Audit Continuous Audit Insurance Operations Compliance Audit Transportation Fleet Audit Fraud Prevention Backup/Recovery Ops Audit General Computer Controls Audit Cloud Strategy/Governance Audit Underwriting QA Audit Organizational Structure Audit Payroll Audit Agency Governance Mngt/Monitoring Audit Depopulation Audit Business Continuity Audit Personal Administration Records Audit Recruitment & Selection Audit Corporate Governance Audit Claims Payment Processing Audit Litigation Vendor Management Audit Remittance Processing Audit Accounts Payable Audit CAT Readiness Audit Procurement Audit Identify and Access Management Project Third Party Security Audit Underwriting Vendor Mngt (Pitney Bowes) Audit	General Computer Controls Audit Staff Augmentation Audit Fraud Prevention Continuous Audit Financial Reporting Compliance Audit Subrogation and Recovery Audit Escheatment Audit 3rd Party Vendor Audit Enterprise Performance Metrics Audit