

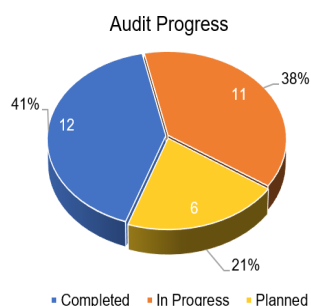
Executive Summary

Audit Committee Meeting, March 24, 2020
Board of Governors Meeting, March 25, 2020

THE OFFICE OF THE INTERNAL AUDITOR

Overview of Internal Audit Progress (presented by John Fox) [Pages 1 to 2 of Dashboard](#)

We have 29 engagements active for this period of which we completed five (5) since the last Committee meeting. Results from the work completed include:



- Automated Underwriting** - Underwriting management began an initiative to adjust the personal lines Automated Underwriting process to improve loss frequency, ensure critical rating variables are accurate, and positively impact expenses. Internal Audit was engaged by the project team to provide advice and project support related to controls associated with the streamlining of the automated underwriting back-end review process for new business applications. We concluded that process changes implemented align with underwriting regulatory requirements and that adequate monitoring and validation procedures are being implemented.
- Claims Litigation and Legal Billing** - With this audit OIA evaluated the adequacy and effectiveness of processes and controls in place to monitor and manage claims litigation expenses. Results from the audit work indicate the Claims Litigation and Legal Billing departments have made improvements to address the increasing case load and legal defense counsel expenses. Claims Litigation Management implemented a formal litigation budget approval process detailing projected costs by case and is piloting video trial prep sessions to reduce travel and related time expenses. It was also noted Claims Legal provided ample support to the Claims Litigation process.
- Claims Authority Limit Change Process** - The Claims Business Analysts group requested Internal Audit's support with a review of updated procedures associated with modifications/enhancements to the process for making changes to adjuster's approval authorities. We held several discussions with members of Claims Business Analysis and reviewed prospective changes and provided control recommendations and enhancements, which were agreed upon with management.
- Cloud Readiness** - The objective of this audit was to assess the current state of Citizens' Cloud Readiness to ensure the protection of Citizens' and customer information, and to avoid or minimize business disruptions as additional Cloud services are implemented. Results of our work showed overall good alignment between the Citizens' Cloud Program and accepted practices. Completed program components appeared to be suitable for their intended purpose and a few components are still in progress and will be finalized as the Cloud Program progresses from the foundation phase to

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the migration phase. Some opportunities for improvement were noted and shared with management for consideration.

- **Public Records Requests** - Chapter 119, Florida Statutes, commonly known as Florida's "Public Records Law," applies to Citizens and provides information on policies, definitions, exemptions, general information on records access, inspection, examination and duplication of records. Citizens implemented procedures and guidelines to ensure appropriate retention of records in accordance with regulation, including a public record request process. With this engagement Internal Audit supported the Citizens Records Custodian with an assessment of organizational responsiveness to public record requests and to confirm that such requests are appropriately routed for swift handling.

Internal Audit Work in Progress [Pages 3 to 5 of Dashboard](#)

We have eleven audit engagements in progress:

- **Agency Management System** - Provide control advice and project support during the system configuration and implementation.
- **Assignment of Benefits** - Validate that the processes developed are operating as intended and in compliance with the statute.
- **Background Checks** - Provide control advice and project support to help ensure that a comprehensive, consistent and defensible process is in place.
- **E-disbursements** - Provide consultative project advice during design and implementation to assess the security of ACH transactions.
- **Identity and Access Management** - Assess project governance and progress during the multi-year implementation of an identity and access management solution and provide advice throughout the project as needed.
- **Proof of Repairs** - Evaluate the adequacy and effectiveness of controls related to the proof of repairs processes.
- **Remittance Processing** - Evaluate the adequacy and effectiveness of controls related to remittance processing.
- **Software Asset Management** - IA was approached to provide consultative advice through a validation of frameworks, policies and processes associated with the ongoing development work to enhance the software asset management program.
- **Third Party Access** - Evaluate risks associated with third party access to the Citizens network and validate that third-party policies, inventories, user account management, connections and monitoring are appropriate for the organization in mitigating those risks.
- **Third Party Risk Management** - Evaluate the adequacy and effectiveness of controls related to VMO's third-party risk management process.
- **Wire Transfer/ ACH** - Evaluate the adequacy and effectiveness of controls related to the wire transfer and ACH processes.

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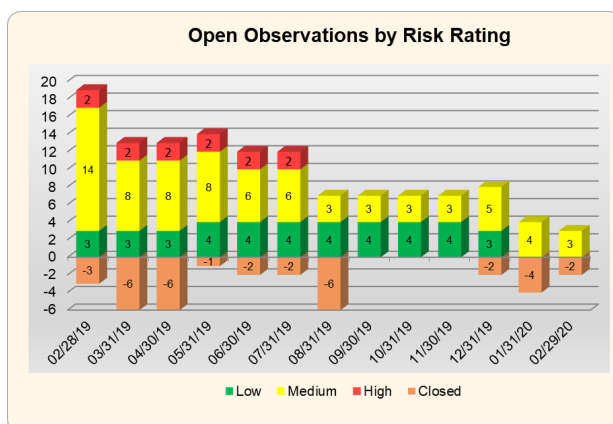
Internal Audit Work Planned [Pages 5 & 6 of Dashboard](#)

We have 6 audit engagements planned to commence during Q2 2020:

- **Centerpoint Configuration** - Centerpoint (Oracle Fusion) module configuration is generally complex. IA will confirm that modules are properly configured to restrict access appropriately.
- **Co-employment** - Citizens leverages temporary contingent workers as needed for a variety of operational reasons. Substantial legal and practical pitfalls can occur if risks surrounding co-employment are not fully understood and/or properly managed. IA will evaluate the adequacy and effectiveness of current policies, practices, and controls to ensure an effective program is in place.
- **Policyholder Claims Experience** - There are many facets to the different types of claims losses which drive claims handled through various business models and rely on Citizens staff and independent adjusters to meet policyholder claim processing needs. IA will evaluate the adequacy and effectiveness of controls related to policyholder claims experience.
- **Microsoft Teams Cloud Implementation** - Implementation of the cloud-based Microsoft Teams collaboration platform is a key component of the Citizens unified communication and collaboration strategy. IA will provide project support and to provide advice and guidance related to the assessment of risk, policy implementation and potentially provide controls testing during the migration phases.
- **OFAC (Office of Foreign Assets Control)** - Activities were transferred to Financial Services from the Legal area during the fall of 2017 as a result of realignment stemming from an audit. IA will evaluate the adequacy and effectiveness of controls related to the current OFAC validation process.
- **Service Organization Controls** - The Vendor Management Office has implemented new processes and procedures to obtain 3rd party vendor Service Organization Controls (SOC) reports during the solicitation process and has centralized the ongoing SOC review process as of Q2 2019. IA will evaluate the adequacy and effectiveness of controls related to the SOC process.

Control deficiency resolution [Page 6 of Dashboard](#)

IA is currently tracking three (3) open observations, none of which are of high impact.



| Observations by Year Reported | | |
|-------------------------------|------|-------|
| 2019 | 2020 | TOTAL |
| 2 | 1 | 3 |

| Observation Source | |
|----------------------|----------|
| IA | 3 |
| External Auditor | 0 |
| Market Conduct - OIR | 0 |
| Auditor General | 0 |
| TOTAL | 3 |

All open items are being worked on and Internal Audit follows up monthly to assess progress.

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Internal Control Update (presented by Deena Harrison) [Page 7 of Dashboard](#)

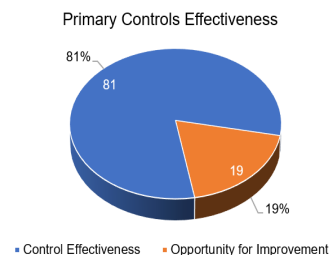
Citizens' Internal Control Framework (ICF) is designed to strengthen the governance, oversight, and accountability of Citizens' control environment.



During the 4th quarter of 2019, the multi-year project to roll-out Citizens' ICF was successfully completed. The Internal Controls (IC) team recently hosted events in Jacksonville and Tallahassee to celebrate the launch of the framework and to show appreciation for the partnership, contributions and ongoing support from the business areas in the success of this initiative.

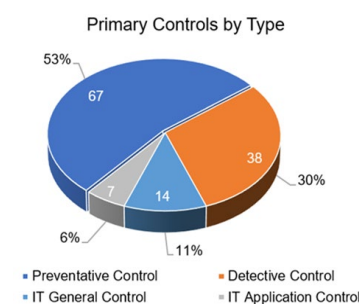
Control Self-Assessments (CSA) - As part of the ICF, management performs an annual control self-assessment to evaluate the overall operating effectiveness of their primary controls. A total of 126 primary controls were identified and documented. Key results from 2019 evaluations include:

- 100% participation from all divisions.
- CSA's completed for 100 of the 126 primary controls recorded. 26 CSA's were deferred for controls that are currently under review.
- Results from completed CSA's indicate control design efficiency and control operational effectiveness.



Control Monitoring - The monitoring of internal controls and communicating the assessment results are essential to ensuring controls are continuing to operate efficiently and effectively. The following activities are being scheduled or are already in progress:

- *CSA Kick-offs* - The annual control self-assessments commenced in the first quarter of 2020. The IC team has scheduled initial meetings with each division to communicate the ongoing ICF assessments and establish expectations for the year.
- *ICF Quality Reviews* – The IC team will perform quality reviews of completed CSA's to assess and enhance the current control environment. The quality reviews will target specific business processes, and will focus on the following topics:
 - Assessing the area's inherent risks
 - Understanding the changes to a process
 - Evaluating current primary controls
 - Identifying mitigating controls
- *New Processes* - The IC team is currently identifying new business processes to include in the ICF process universe. Throughout 2020, IC will collaborate with business unit leaders to ensure the ICF is focusing on those processes that address key inherent risks and provide value for Citizens.



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Update on Enterprise Risk [Page 8 of Dashboard](#)

ER is focused on creating and maintaining a collaborative and engaging risk identification and assessment environment across the organization.

Operational Risk - ER conducts risk assessment training and facilitates risk assessments that enable management to self-identify and assess risks that may impact the ability to achieve business objectives. Integrating the ERM framework with business activities and processes benefits the organization by:

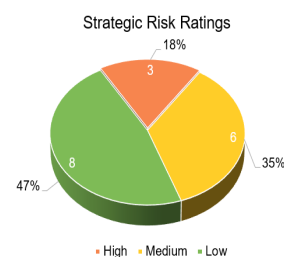
- Providing information to support decision making
- Anticipating risks
- Identifying and pursuing existing and new opportunities
- Understanding and responding to deviations in performance
- Developing and reporting a more comprehensive and consistent portfolio view of risk
- Improving collaboration and information sharing across the organization

As of February 2020, a total of 457 operational risks have been documented for over 70 business processes. Quarterly ER works closely with the risk owners to ensure existing risks are reviewed and updated.



Strategic Risk - During the first quarter, ER facilitated the completion of the 2020 strategic risk assessment with the Executive Leadership Team (ELT). A total of 17 strategic risks were identified. The risks were assessed by estimating the potential impact or severity level the risk event may have to Citizens if the event occurs and considering the probability of occurrence. The specific ratings for each risk are listed in Appendix 1 ([Pages 11 & 12 of Dashboard](#)) and the overall strategic risk ratings are depicted in the following graph:

- 3 risks were rated high (Rate Differential, Claims Abuse and External Influences).
- 4 new risks were recorded (Talent Management, Leveraging Data and Technology, Assignment of Benefits, Litigation Management System).
- Citizens continues to closely monitor the emerging risk of the Coronavirus, COVID-19. Business continuity plans are in place and have been executed, as necessary.



Strategic and operational risks along with mitigating activities are now recorded in Citizens' centralized risk registry which will enable ER to begin to provide risk reporting in 2020. ER and risk owners will continuously update the risk registry as risks and mitigating activities change throughout the year.

Enterprise Risk presents a short description of the first four strategic risks listed in Appendix 1 of the dashboard. ([Pages 11 & 12](#))

Rate Differential Citizens is required by state law to submit a slate of actuarially sound rates to OIR annually for approval while complying with a legislative glide path that caps rate increases at 10 percent, excluding coverage changes and surcharges. As rate

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| | |
|------------------------------|--|
| Claims Abuse | <p>increases occur in the private market, the rate differential will continue to grow leaving Citizens with more competitive, lower premiums resulting in repopulation.</p> <p>Risk: <i>Citizens' competitive position in the market may be impacted by the combination of the statutory rate glide path of 10%, increasing litigation and approved rate increases for other Florida insurers leading to repopulation.</i></p> <p>Citizens is committed to fighting property insurance fraud, waste and abuse as an integral part of our mission to serve the people of Florida. Citizens continually assesses and pursues opportunities to strengthen our corporate control environment by mitigating the potential for fraud, waste or abuse, and integrating internal control measures into the organizational culture. Citizens has a specialized team of investigators who detect and investigate fraud. The Special Investigations Unit constantly educates claims and underwriting staff about how to identify signs of fraud and assist agents with procedures for reporting suspected fraud. During 2020, additional focus will be placed on employing predictive analytics to provide early indicators of potential claim fraud activity.</p> <p>Risk: <i>Failure to identify and stay in front of claims abuse schemes that increase litigation costs for Citizens.</i></p> |
| External Influences | <p>The financial stability of Florida's property insurance market is challenged by market wide issues as well as water loss claims and litigation stemming from Hurricanes Irma and Michael. Instability in the market has a direct impact on Citizens as our mission is to provide insurance protection to Florida policyholders who are entitled to but are unable to find property insurance coverage in the private market.</p> <p>Risk: <i>Uncertainty related to external events, including new or changing laws and regulations, and changing market conditions that require rapid adjustments where Citizens' mission and operations are disrupted resulting in a potentially significant financial impact.</i></p> |
| Litigation Management System | <p>Claims Litigation and Claims Legal Services currently utilize the Acuity system to manage a large volume of claims related litigation. In 2020, plans are to procure a Litigation Management System, a web-based SaaS solution, for use by both internal and external stakeholders to more effectively manage litigated claims and associated litigation billing. Unlike other systems utilized by Claims, the Litigation Management System requires separate interfaces and permissions for internal Claims and Legal staff and external counsel to provide a secure environment that both parties can access to collaborate on the handling of litigated claims as well as an integration with outside counsel billing systems to allow for submission and review of electronic legal invoices.</p> <p>Risk: <i>The outcome of the solicitation of the mission critical litigation management system, which is required to effectively manage litigation cases, may result in data conversion challenges and significantly impact internal and external resources.</i></p> |



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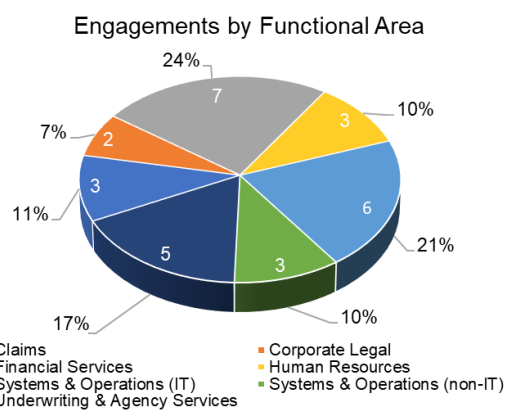
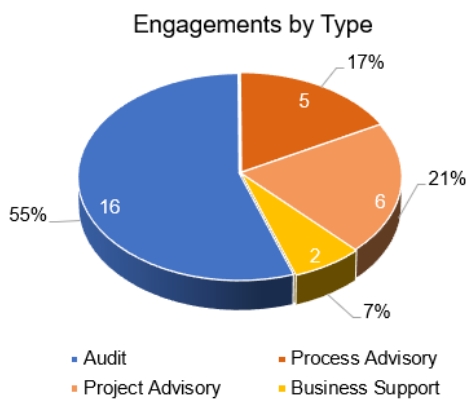
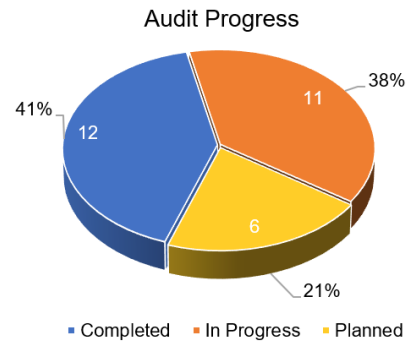
The Office of Internal Audit focuses its attention on areas where it can contribute the most by working with the organization to reduce risk, improve the control infrastructure and increase operational efficiencies. Since the last Audit Committee meeting, we focused on providing audit, risk management and internal control reviews to the corporation in alignment with our 2020 plan.

Internal Audit

Overview of Audit Progress

Internal Audit (IA) follows a risk-based quarterly rolling plan approach in developing engagements and monitoring progress. 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.

| Internal Audit Plan (October 1, 2019 to September 30, 2020) | |
|---|----|
| Completed | 12 |
| In Progress | 11 |
| Planned | 6 |
| Total Projects | 29 |



Audit Engagements Completed

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

- Automated Underwriting** - Underwriting management began an initiative to adjust the personal lines Automated Underwriting process to improve loss frequency, ensure critical rating variables are accurate, and positively impact expenses. Internal Audit was engaged by the project team to provide advice and project support related to controls associated with the streamlining of the automated underwriting back-end review process for new business



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applications. Results from our work indicates that process changes align with underwriting regulatory requirements and adequate monitoring and validation procedures are being implemented.

- **Claims Litigation and Legal Billing** - The objective of this audit was to evaluate the adequacy and effectiveness of processes and controls in place to monitor and manage claims litigation expenses. Results from the audit work indicate the Claims Litigation and Legal Billing departments have made improvements to address the increasing case load and legal defense counsel expenses. Claims Litigation Management implemented a formal litigation budget approval process detailing projected costs by case and is piloting video trial prep sessions to reduce travel and related time expenses. It was also noted Claims Legal provided ample support to the Claims Litigation process.
- **Claims Authority Limit Change Process** - The Claims Business Analysts group requested Internal Audit's support with a review of updated procedures associated with modifications/enhancements to the process for making changes to adjuster's approval authorities. We held several discussions with members of Claims Business Analysis and reviewed prospective changes and provided control recommendations and enhancements, which were agreed upon with management.
- **Cloud Readiness** - The objective of this audit was to assess the current state of Citizens' Cloud Readiness to ensure the protection of Citizens' and customer information, and to avoid or minimize business disruptions as additional Cloud services are implemented. The scope of the audit included Cloud Governance, Cloud Security, Cloud Architecture, Cloud Migration, Cloud Operations, Cloud Service Providers, Cloud Financial Management, Cloud Skills and Organizational Change Management. Results of our work showed overall good alignment between the Citizens' Cloud Program and accepted practices. Completed program components appeared to be suitable for their intended purpose and a number of components are still in progress and will be finalized as the Cloud Program progresses from the foundation phase to the migration phase. One opportunity for improvement was noted and shared with management for consideration.
- **Public Records Requests** - Chapter 119, Florida Statutes, commonly known as Florida's "Public Records Law," applies to Citizens and provides information on policies, definitions, exemptions, general information on records access, inspection, examination and duplication of records. Citizens implemented procedures and guidelines to ensure appropriate retention of records in accordance with regulation, including a public record request process. With this engagement Internal Audit supported the Citizens Records Custodian with an assessment of organizational responsiveness to public record requests and to confirm that such requests are appropriately routed for swift handling.

Detailed copies of audit reports are included in this presentation.



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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 eleven audit engagements in progress:

- Agency Management System (in planning) The current agency management system, that supports agent distribution relationship management, is being replaced with the Salesforce Service Cloud Platform. This platform will support the tracking and monitoring of agent licenses, commission, performance, investigations, complaints, and key performance indicators. We will provide control advice and project support during the system configuration and implementation.
- Assignment of Benefits (in fieldwork) AOB legislation passed during 2019, resulting in the quick design and implementation of processes and procedures to meet the 7/1/2019 statutory implementation date. IA will validate that the processes developed are operating as intended and in compliance with the statute.
- Background Checks (in planning) The organization performs background checks during the pre-employment phase of the hiring process and is evaluating expanding the process to include periodic checks. These background checks are important to ensure Citizens does not employ anyone in violation of Florida Statutes or laws. IA will provide control advice and project support to help ensure that a comprehensive, consistent and defensible process is in place.
- E-disbursements (in planning) Citizens is seeking a solution which leverages debit card and Automated Clearing House (ACH) technology for two types of claims payments: Additional Living Expense payments to policyholders via vendor issued debit card and/or ACH options; and ACH payments to policyholders and/or other parties for claim related disbursements, including multi-party payment options and multiple external approvals (both in the event of a catastrophe and in usual operations). IA will provide consultative project advice during design and implementation to assess the security of ACH transactions.
- Identity and Access Management (in planning) Citizens' IT Security and Risk department is in the process of implementing an enterprise wide strategy to consolidate and centralize user identity and access management processes and technology capabilities. Complexity will continue to increase as new cloud solutions, systems and applications are adopted and integrated into the current environment. These complexities should be understood and appropriate controls for authentication and authorization should be implemented to mitigate risks associated with user access/privileged access, segregation of duties, oversight and monitoring and reporting capabilities. IA will assess project governance and progress during the multi-year implementation of a comprehensive identity and access



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management solution and corresponding processes and provide advice throughout the project as needed.

- **Proof of Repairs (in planning)** During October 2018, Citizens began requiring proof of repairs for Hurricane Irma damage to determine renewal eligibility for policies renewing on or after March 6, 2019. Policyholders who have filed a claim for damage caused by Hurricane Irma are required to submit proof of repairs to Citizens as soon as any repairs are complete. For claims with repairs not completed by the policy's renewal date Citizens will accept documentation such as a contract that demonstrates repairs are underway to process the renewal.
- **Remittance Processing (in fieldwork)** In late 2018, remittance processing completed the migration of the remittance systems to the RT Lawrence software. It was noted that there have been some post implementation challenges, specifically with training, reporting, and system capabilities. During 2019, there was a change in the Assistant Controller who was responsible for project oversight. Due to the changes in systems and senior leadership, there is an increased risk related to remittance processing supported by the new system.
- **Software Asset Management (in fieldwork)** IT software assets are inventoried and tracked to avoid redundant purchases and allow operations personnel to proactively replace outdated software that is nearing the end of its life cycle. Citizens may face licensing fines if adequate controls are not in place to validate installed software against licenses. As part of an operational initiative, IA was approached to provide consultative advice through a validation of frameworks, policies and processes associated with the ongoing development work to enhance the software asset management program.
- **Third-party Access (in planning)** Third-party security access, visibility and monitoring controls are key to safeguarding the network and data from nefarious/malicious external users. Absent appropriate control of external connections and user activities, the number of IT incidents and corresponding business impact may rise. IA will evaluate risks associated with third-party access to the Citizens network and validate that third-party policies, inventories, user account management, connections and monitoring are appropriate for the organization in mitigating those risks.
- **Third-party Risk Management (in planning)** The VMO has established guidelines and tools for managing vendor relationships. Each third-party relationship brings with it several risks that need to be identified and assessed. These risks are often multi-dimensional as they extend across suppliers, vendors, contractors, service providers, and other parties, and can have an impact on different levels of the organization. IA will evaluate the adequacy and effectiveness of controls related to VMO's third-party risk management process.
- **Wire Transfer/ACH (in planning)** Citizens has recently completed the migration to a new vendor to provide all Company banking needs, including wire transfers and ACH services. Since Citizens periodically has the need to wire large sums of money, the Company



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must ensure the processes, controls, and authorities to do so are set up correctly and securely. The most significant risk of transferring to the new bank is to ensure the wire process is set up correctly with the appropriate access, segregation of duty controls and monitoring. IA will evaluate the adequacy and effectiveness of controls related to the wire transfer and ACH processes.

Work Planned

The following audit engagements are scheduled to commence during Q2/Q3:

- **Centerpoint Configuration** Centerpoint (Oracle Fusion) replaced independent applications previously used by Human Resources, Finance and Procurement. Oracle module configuration is complex and proper configuration of the modules is necessary to adequately restrict and/or eliminate the ability to override controls in place to prevent inappropriate transactions. Improper application configuration may lead to unauthorized transactions that may impair business operations or allow nefarious transactions. IA will confirm that Centerpoint modules are properly configured to ensure that security is adequate and prevents the override of key controls, appropriate logging is turned on and business operational process needs are met with configurations that are installed.
- **Co-employment** Citizens leverages temporary contingent workers as needed for a variety of operational reasons. Advantages of using contingent workers include scalable staffing flexibility, enabling access to broad talent pools, as well as reduced costs and increased operational efficiencies in some cases. While substantial practical benefits often accompany such arrangements, equally substantial legal and practical pitfalls can occur if risks surrounding contingent staffing are not fully understood and/or properly managed including misclassification and the unintentional creation of an employer-employee relationship between Citizens and a contingent worker. IA will evaluate the adequacy and effectiveness of current policies, practices, and controls surrounding contingent staff management to ensure an effective program is properly managed and executed.
- **Policyholder Claims Experience** There are many facets to the different types of claims losses which drive claims to be handled through various business models and rely on Citizens staff and independent adjusters to meet policyholder claim processing needs. IA will evaluate the adequacy and effectiveness of controls related to Policyholder Claims Experience.
- **Microsoft Teams Cloud Implementation** Implementation of the cloud-based Microsoft Teams collaboration platform is a key component of the Citizens Unified Communication and Collaboration Strategy which sets forth the direction for the related set of solutions. Teams will also include the implementation of SharePoint and OneDrive to enable



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the migration of some file share and document storage systems. IA was approached for project support and to provide advice and guidance related to the assessment of risk, policy implementation and potentially provide controls testing during the migration phases.

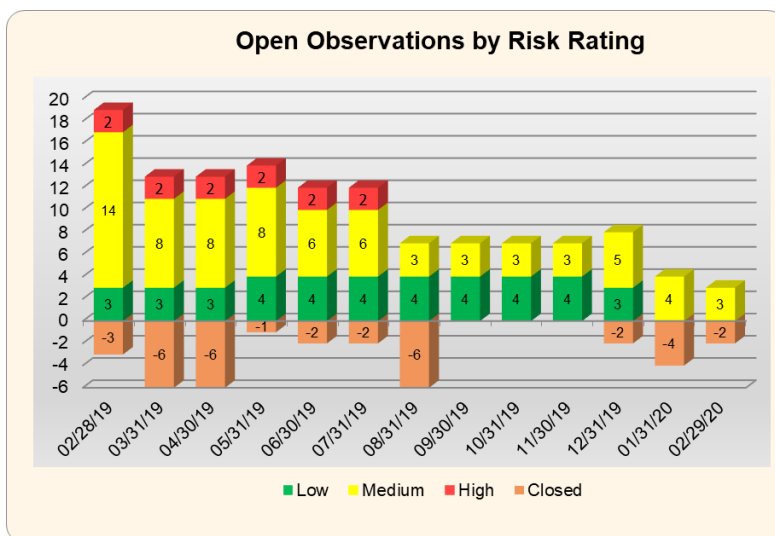
- OFAC (Office of Foreign Assets Control)** Activities were transferred to Financial Services from the Legal area during the fall of 2017 as a result of realignment stemming from an audit. Follow-up is needed to ensure compliance with the Federal Regulation. IA will evaluate the adequacy and effectiveness of controls related to OFAC validation process.
- Service Organization Controls** The Vendor Management Office has implemented new processes and procedures to obtain 3rd party vendor Service Organization Controls (SOC) reports during the solicitation process and has centralized the ongoing SOC review process as of Q2 2019. IA will evaluate the adequacy and effectiveness of controls related to the SOC process.

Resources

We are currently recruiting to fill a vacancy for an Internal Auditor Senior.

Control Deficiency Resolution

Internal Audit (IA) maintains a database containing reported audit observations, recommendations, management action plans and target completion dates originating from IA 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 three open observations. The following chart provides additional information on the number of current open observations over the previous thirteen months including the observation ratings, source of observation and year reported.



| Observations by Year Reported | | |
|-------------------------------|------|-------|
| 2019 | 2020 | TOTAL |
| 2 | 1 | 3 |

| Observation Source | |
|----------------------|----------|
| IA | 3 |
| External Auditor | 0 |
| Market Conduct - OIR | 0 |
| Auditor General | 0 |
| TOTAL | 3 |



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Internal Control

Citizens' Internal Control Framework (ICF) is designed to strengthen the governance, oversight, and accountability of Citizens' control environment. Based on the COSO Internal Control Integrated Framework, Citizens' ICF provides internal control principles that Citizens can utilize to enhance operational, financial, and compliance goals and objectives. The ICF enables management to identify and self-assess the effectiveness of primary controls for their respective business areas for 71 business processes.

Internal Control Framework

During the 4th quarter of 2019, the multi-year project to roll-out Citizens' ICF was successfully completed. The Internal Controls (IC) team recently hosted events in Jacksonville and Tallahassee to celebrate the launch of the framework and to show appreciation for the partnership, contributions and ongoing support from the business areas in the success of this initiative.



With the completion of the ICF project, the IC team will continue to maintain the ICF program, assist management with control evaluations and assessments, and improve the maturity level of the internal control environment.

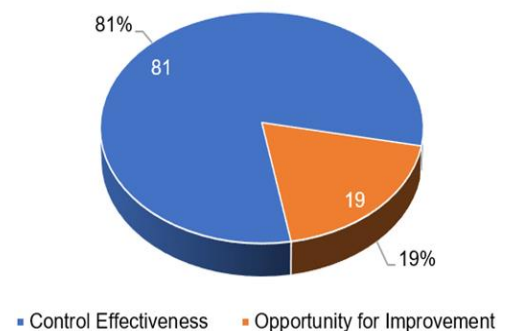
2019 Control Self-Assessment Results

As part of the ICF, management performs an annual control self-assessment to evaluate the overall operating effectiveness of their primary controls. In 2019, the Internal Control (IC) team increased educational efforts and implemented a more collaborative approach with the business to ensure management control self-assessment tests are appropriately designed and continue to add value to the business areas.

Key results:

- 100% participation from all divisions in the timely completion of the 2019 annual management control self-assessments.
- A total of 126 primary controls were identified. The majority (or 53%) of the primary controls identified are designed to prevent or avoid errors in transactions from occurring, while 30% are in place to identify errors in transactions or activities after they occur.
- Control Assessments were completed for 100 of the 126 primary controls identified. Control tests were deferred for 26 controls and are currently under IC and management review to ensure the control tests add value.
- Results from management's evaluation of primary controls:
 - 81% were determined to be effective.
 - Opportunities to improve control effectiveness were identified for 19%.

Primary Controls Effectiveness



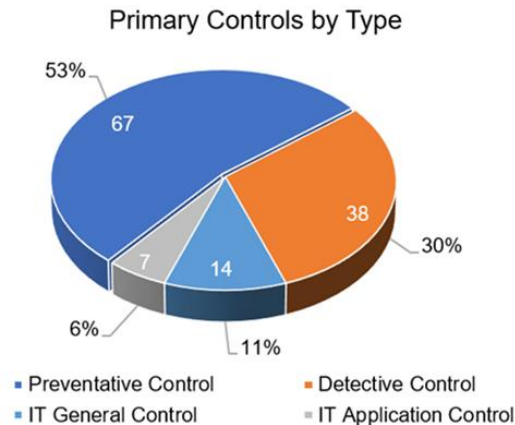


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2020 Internal Control Framework Monitoring

The IC team is focused on maintaining, monitoring, and enhancing the Internal Control Framework to help Citizens achieve the strategic, operating, compliance, and reporting goals and objectives. The monitoring of internal controls and communicating the assessment results are essential to ensuring controls are continuing to operate efficiently and effectively.



The following activities are being scheduled or are already in progress:

- *CSA Kick-offs* - The annual control self-assessments commence in the first quarter of 2020. The IC team has scheduled initial meetings with each division to communicate the ongoing ICF assessments and establish expectations for the year.
- *ICF Quality Reviews* – The IC team will perform quality reviews of completed CSA's to assess and enhance the current control environment. The quality reviews will target specific business processes, and will focus on the following topics:
 - Assessing the area's inherent risks
 - Understanding the changes to a process
 - Evaluating current primary controls
 - Identifying mitigating controls
- *New Processes* - The IC team is currently identifying new business processes to include in the ICF process universe. Throughout 2020, IC will collaborate with business unit leaders to ensure the ICF is focusing on those processes that address key inherent risks and provide value for Citizens.



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Enterprise Risk

The Enterprise Risk (ER) team continues to facilitate and embed Citizens' Enterprise Risk Management (ERM) Framework within the organization through facilitated risk identification and assessment workshops and the implementation of a centralized risk registry, Resolver. ER is focused on creating and maintaining a collaborative and engaging risk identification and assessment environment across the organization.

Operational Risk Management

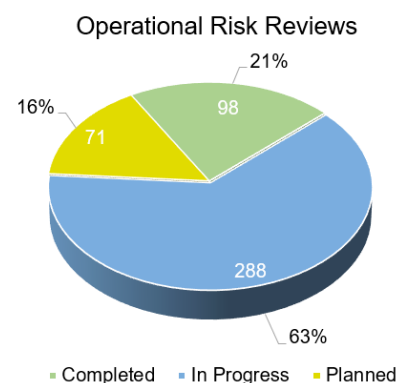
ER facilitates operational risk assessments that enable management to self-identify and assess risks that may impact the ability to achieve business objectives and to determine the effectiveness of mitigation plans in place to reduce the risks.

In February, ER completed the roll out of a new risk educational program across all divisions. The training was designed to provide a refresher of the risk framework, assessment criteria and introduce the centralized risk registry. Integrating the ERM framework with business activities and processes benefits the organization by:

- Providing information to support decision making
- Anticipating risks
- Identifying and pursuing existing and new opportunities
- Understanding and responding to deviations in performance
- Developing and reporting a more comprehensive and consistent portfolio view of risk
- Improving collaboration and information sharing across the organization

ER is currently conducting risk assessments focused on Citizens' ability to bulk intake policies from private insurers should this action be necessary. During the risk assessment, Citizens management will identify and assess risks and controls to determine if further mitigation efforts are necessary to prepare for the possibility of future events.

As of February, a total of 457 operational risks have been identified for over 70 business processes across Citizens. On a quarterly basis, ER works closely with the risk owners, in the business areas, to ensure existing risks are reviewed and updated as appropriate and facilitates a risk assessment for any newly identified risk. The assessment process includes identifying and documenting the mitigating activities in place to reduce each operational risk. ER and the risk owners recently completed updates for 21% (98) of the operational risks and 63% (288) are in progress. The remaining updates for 16% (71) are scheduled to be completed by the end of 2020.





Dashboard

Strategic Risk Management

Citizens' ERM Framework defines strategic risk as the uncertainty of an event, or action, leading to a consequence which may result in an adverse impact on Citizens' ability to achieve the Strategic Objectives and Key Strategic Initiatives over the next 12-18 months.

During the first quarter, ER facilitated the completion of the 2020 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 strategic risks. Results from these interviews were discussed at the February ELT strategic risk assessment meeting where 21 strategic risks were assessed and prioritized:

- 13 risks carried over from the 2019 Strategic Risk Profile and were updated as needed
- 4 risks were removed, replaced or reclassified as operational
- 4 newly identified risks were added (Litigation Management System, Talent Management, Leveraging Data and Technology, and Assignment of Benefits)
- 3 high risks were identified (Rate Differential, Claims Abuse and External Influences)

A total of 17 strategic risks were identified (see Appendix I). The risks were assessed by estimating the potential impact or severity level the risk event may have to Citizens if the event occurs and considering the probability of occurrence. The specific ratings for each risk are listed in Appendix I and the overall strategic risk ratings are depicted in the following graph. Summaries of current and future mitigation activities will be developed for the new risks and updated for existing risks beginning in March.



Citizens continues to closely monitor the emerging risk of the Coronavirus, COVID-19. Business continuity plans are in place and will be executed as necessary.

Strategic and operational risks along with mitigating activities are now being recorded in Citizens' centralized risk registry which will enable ER to begin to provide risk reporting in 2020. ER and risk owners will continuously update the risk registry as risks and mitigating activities change throughout the year.



Dashboard

Appendix 1 – Strategic Risk

During the first quarter the Executive Leadership Team (ELT) assessed and prioritized 17 strategic risks.

| 2020 Strategic Risks | | |
|----------------------------------|---|---------------|
| Risk Title | Risk Description | Rating |
| Rate Differential | Citizens' competitive position in the market may be impacted by the combination of the statutory rate glide path of 10%, increasing litigation and approved rate increases for other Florida insurers leading to repopulation. | High |
| Claims Abuse | Failure to identify and stay in front of claims abuse schemes that increase litigation costs for Citizens. | High |
| External Influences | Uncertainty related to external events, including new or changing laws and regulations, and changing market conditions that require rapid adjustments where Citizens' mission and operations are disrupted resulting in a potentially significant financial impact. | High |
| Litigation Management System | The outcome of the solicitation of the mission critical litigation management system, which is required to effectively manage litigation cases, may result in data conversion challenges and significantly impact internal and external resources. | Medium |
| 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. | Medium |
| CAT Response | Failure to have adequate resources to respond to a major catastrophic event. | Medium |
| Data Security and Privacy | The growing sophistication and variety of cyberattacks may adversely impact the organizations' performance and reputation. | Medium |
| Talent Management | Ability to acquire, retain and develop critical talent to achieve strategic objectives. | Medium |
| Vendor Management/ Oversight | Given Citizens' reliance on vendors, it is critical to ensure an appropriately right-sized vendor base, validate a vendor's capability to fully perform the contract, and adequately monitor vendor relationships, performance, and contract compliance. | Medium |
| Managed Repair Program | Failure to fully implement the Managed Repair Program as an acceptable alternative customer solution in support of the insurance contract. | Medium |



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Dashboard

Appendix 1 – Strategic Risk (continued...)

| 2020 Strategic Risks | | |
|--|--|---------------|
| Risk Title | Risk Description | Rating |
| Product Offerings | Failure to have insurance products that balance the needs of the market, consumers, and Citizens. | Medium |
| Leveraging Data and Technology | The ability to leverage data and new technology in pace with market demands and expectations of Citizens by its stakeholders to ensure delivery of strategic initiatives. | Low |
| Assignment of Benefits | Failure to be fully responsive to House Bill 7065, AOB Reform, may result in reputational damage as Citizens is in the forefront of this effort. | Low |
| Ability to Adapt to Changing Revenue | Ability to recalibrate and reprioritize administrative expenses to adjust to premium fluctuations, while maintaining required capabilities. | Low |
| Compliance with Laws & Regulations | Unintentional acts or decisions by the company that are not in accordance with rules and regulations may result in regulatory, civil or criminal penalties and reputational damage. | Low |
| Ethics, Integrity, Conflicts of Interest | Violation of Citizens' code of ethics, commitment of illegal and unauthorized acts, management fraud, employee fraud or situations where multiple, conflicting interests could possibly corrupt motivation or decision-making may result in criminal charges, reputational damage or financial loss. | Low |
| 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. | Low |



Dashboard

Appendix 2 – Overview of Top 4 Strategic Risks

Upon request from the Committee, Enterprise Risk presents a short description of the first four strategic risks on the listing provided above in Appendix 1. It is our objective to present all the Medium and High rated risks to the Committee over the next three meetings.

Rate Differential

The result of market changes may make Citizens a more competitive insurer in the overall Florida marketplace as Citizens cannot statutorily keep pace with the same level of rate increases as the private market. Citizens is required by state law to submit a slate of actuarially sound rates to OIR annually for approval while complying with a legislative glide path that caps rate increases at 10 percent, excluding coverage changes and surcharges. As rate increases occur in the private market, the rate differential will continue to grow leaving Citizens with more competitive, lower premiums resulting in repopulation.

- *Risk:* Citizens' competitive position in the market may be impacted by the combination of the statutory rate glide path of 10%, increasing litigation and approved rate increases for other Florida insurers leading to repopulation.

Claims Abuse

Claim abuse schemes evolve slowly over time and are difficult to identify in the short term. Citizens is committed to fighting property insurance fraud, waste and abuse as an integral part of our mission to serve the people of Florida. Citizens continually assesses and pursues opportunities to strengthen our corporate control environment by mitigating the potential for fraud, waste or abuse, and integrating internal control measures into the organizational culture. Citizens has a specialized team of investigators who detect and investigate fraud. The Special Investigations Unit constantly educates claims and underwriting staff about how to identify signs of fraud and assist agents with procedures for reporting suspected fraud. During 2020, additional focus will be placed on employing predictive analytics to provide early indicators of potential claim fraud activity.

- *Risk:* Failure to identify and stay in front of claims abuse schemes that increase litigation costs for Citizens.

External Influences

The financial stability of Florida's property insurance market is challenged by market wide issues as well as water loss claims and litigation stemming from Hurricanes Irma and Michael. Instability in the market has a direct impact on Citizens as our mission is to provide insurance protection to Florida policyholders who are entitled to but are unable to find property insurance coverage in the private market. Citizens continues to closely monitor market conditions to ensure that we are well prepared to provide coverage when needed.

- *Risk:* Uncertainty related to external events, including new or changing laws and regulations, and changing market conditions that require rapid adjustments where Citizens' mission and operations are disrupted resulting in a potentially significant financial impact.



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Litigation Management System

Claims Litigation and Claims Legal Services currently utilize the Acuity system to manage a large volume of claims related litigation. In 2020, plans are to procure a Litigation Management System, a web-based SaaS solution, for use by both internal and external stakeholders to more effectively manage litigated claims and associated litigation billing. Unlike other systems utilized by Claims, the Litigation Management System requires separate interfaces and permissions for internal Claims and Legal staff and external counsel to provide a secure environment that both parties can access to collaborate on the handling of litigated claims as well as an integration with outside counsel billing systems to allow for submission and review of electronic legal invoices.

- *Risk:* The outcome of the solicitation of the mission critical litigation management system, which is required to effectively manage litigation cases, may result in data conversion challenges and significantly impact internal and external resources.