

Executive Summary

Board of Governors Meeting, June 24, 2020

THE OFFICE OF THE INTERNAL AUDITOR

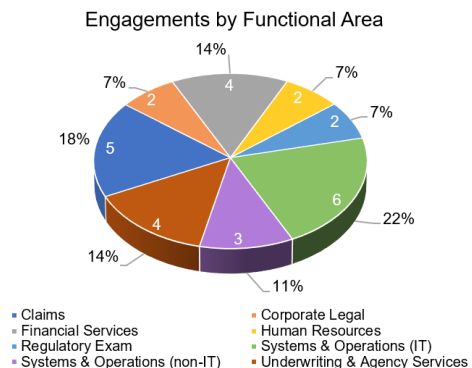
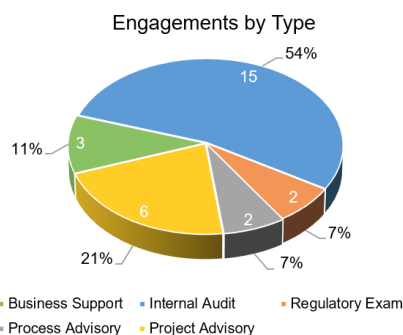
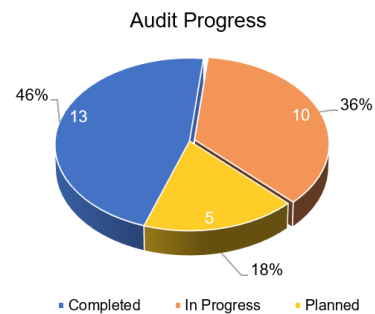
At the Audit Committee meeting, the Chief of Internal Audit presented progress against the 2020 plans, for audit, internal controls, enterprise risk and noted satisfactory progress.

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 (January 1, 2020 to December 31, 2020)	
Completed	13
In Progress	10
Planned	5
Total Projects	28



Audit Engagements Completed

Following the last meeting we completed work on seven (7) audit engagements:

- AOB Implementation** - The objective of this audit was to assess the readiness, adequacy and efficiency of AOB processes, controls and oversight procedures and to ensure the program is effective and department objectives are achieved. Our audit work indicated that management’s diligent efforts to develop and implement processes and procedures to comply with the provisions of HB7065 have been successful. Management implemented necessary processes to comply with HB7065, including a dedicated Claims AOB Project Team was created to handle

Executive Summary

Board of Governors Meeting, June 24, 2020

AOB receipts to ensure consistent processing and overall handling; four document submission methods were implemented to ensure AOB documents and other correspondences are routed and processed in a timely manner; a Notice of Intent (NOI) Roundtable Committee was created to respond to the NOIs in order to proactively address the AOBs; and the development of an AOB quality assessment to evaluate the accuracy of the AOB file elements. Process improvement opportunities were also noted and shared with management for consideration.

- **Microsoft Teams Cloud Phase I Implementation** - With this engagement, OIA provided advice and guidance relative to phase I of the project to implement the MS Teams collaborative workspace platform. The scope of work included facilitation of a project risk assessment to ensure risks are identified, prioritized and managed, evaluation of IT security governance and compliance processes, participation in user acceptance testing and controls recommendations where needed. While no significant issues have been observed since the phase I implementation in April, OIA suggested that continued focus be given to specific risks identified in the assessment.
- **Proof of Repairs** - In October 2018, Citizens began a proactive approach to communicate the need for proof of damaged property repairs for hurricane Irma impacted policyholders. Agents and policyholders were reminded to retain receipts as evidence of the repairs and as a requirement for policy renewal. The objective of the audit was to evaluate the adequacy and effectiveness of controls in place for the Hurricane Irma proof of repairs process for Personal and Commercial Line Policies focusing on timeliness and adequacy of agent and policyholder notification, documentation, renewal eligibility and the non-renewal process. Results from our audit work indicate that there are adequate and effective processes and controls in place over Hurricane Irma proof of repairs for Personal and Commercial Line Policies.
- **Remittance Processing** - The objective of this audit was to evaluate the effectiveness of processes and controls related to remittance processing. Results from our audit work indicate that there are effective processes and controls relating to the authorization of premium refund and suspense disbursements, completeness and accuracy of premium payments received from policyholders and adequate system controls surrounding premiums paid on behalf of agents.
- **Software Asset Management** - Internal Audit provided advice and guidance relative to Software Asset Management program enhancements. The scope of work included benchmark results for a Software Use Policy and Software Asset Management Committee Charter, leading practice standards, potential maturity models to benchmark program development and a checklist that includes third party software audit preparation, notification, and process details. We requested that management consider the materials provided to enhance the program and best serve the needs of the organization.
- **Support to the OIG on Claims Complaints** - Following a request from Citizens' Office of the Inspector General, IA conducted two (2) targeted claims audits to support the OIG's investigation following complaints received by the OIG. Results of the audits were shared with the OIG management in memorandums and included in their investigation.

Executive Summary

Board of Governors Meeting, June 24, 2020

Work in Progress

There are ten (10) audit engagements in progress:

- **Agency Management System Advisory**- Provide control advice and project support during the system configuration and implementation.
- **Centerpoint Role Redesign Implementation Audit** - Validate the redesigned or customized roles for adequate segregation of duties in the Citizens production environment.
- **Background Checks Advisory** - Provide control advice and project support to help ensure that a comprehensive, consistent, and defensible process is in place.
- **E-disbursements Advisory** - Provide consultative project advice during design and implementation to assess the security of ACH transactions.
- **Identity and Access Management Advisory** - Assess project governance and progress for the multi-year implementation of an identity and access management solution and provide advice throughout the project as needed.
- **Policyholder Claims Experience Audit** - Evaluate the adequacy and effectiveness of controls related to Policyholder Claims Experience.
- **Service Organization Controls Audit** - Evaluate the adequacy and effectiveness of controls related to SOC process.
- **Third-party Access Management Audit** - 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 Audit** - Evaluate the adequacy and effectiveness of controls related to VMO's third-party risk management process.
- **Wire Transfer/ ACH Audit** - 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 Q3/Q4:

- **Centerpoint Configuration Audit** - Centerpoint (Oracle Fusion) module configuration is generally complex. IA will confirm that modules are properly configured to restrict access appropriately.
- **Co-employment Audit** - 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.
- **OFAC (Office of Foreign Assets Control) Audit** - Activities were transferred to Financial Services from the Legal area during the fall of 2017 because of realignment stemming from an

Executive Summary

Board of Governors Meeting, June 24, 2020

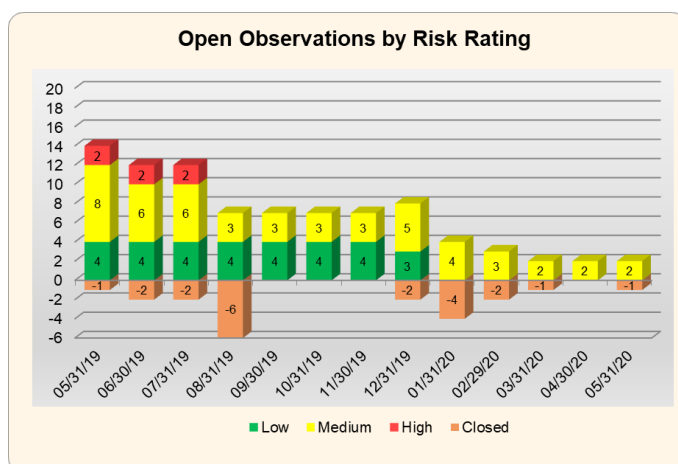
audit. IA will evaluate the adequacy and effectiveness of controls related to the current OFAC validation process.

Resources

Internal Audit is 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 two (2) 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
1	1	2

Observation Source	
IA	2
External Auditor	0
Market Conduct - OIR	0
Auditor General	0
TOTAL	2

Internal Control

The Internal Control team facilitates Citizens' internal control framework which is designed to strengthen the governance oversight and accountability of Citizens' control environment.

2020 Control Self Assessments

As part of the ICF, management performs an annual control self-assessment to evaluate the overall operating effectiveness of their primary controls. Through the performance of CSAs, management validates whether their controls are working as intended or identifies areas that may need improvement. The self-assessment results are utilized to continuously improve processes and enhance the control environment.

During the period, the Internal Control team continued to meet with control owners to communicate requirements and establish expectations for this year's control self-assessments.

There are currently 126 primary controls for 71 business processes. Management's annual updates to process narratives and the completion of the 2020 CSAs are due in November.

Executive Summary

Board of Governors Meeting, June 24, 2020

ICF Quality Reviews

The Internal Controls team performs quality reviews to assess and enhance the current control environment. Four quality reviews are currently in progress:

- Purchasing
- Compliance
- Vendor and Contract Management
- Special Investigations Unit

Staffing

The function is currently recruiting for a Senior Internal Controls Analyst who will support both the enterprise risk and internal controls management programs.

Enterprise Risk

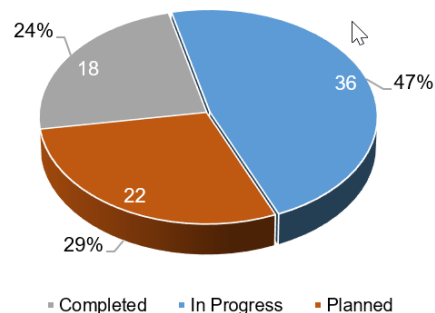
The Enterprise Risk team delivers risk identification and management support to the organization through three distinct processes namely Operational Risk, Project and Scenario-Based Risk, and Strategic Risk.

Operational Risk Management

For the period Enterprise Risk continued to facilitate and assist the business units with their operational risk assessments. This enable management to 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.

As of the end of April, a total of 387 operational risks have been identified across 76 business processes. Enterprise Risk is working with all business areas to refresh their risks, improving overall quality and alignment of risks with business process objectives.

Operational Process Reviews



Project and Scenario-Based Risk Assessments

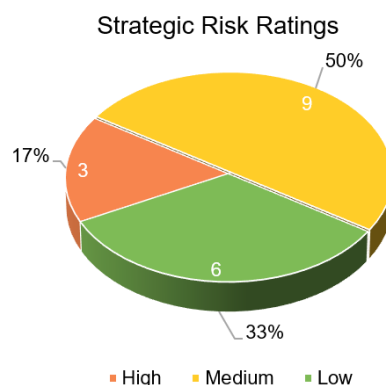
Enterprise Risk rolled out the project and scenario-based risk assessment process during April. At the request of business area leaders, Enterprise Risk facilitated a scenario-based risk assessment focused on several emerging or present threats considering the state of COVID-19 occurring concurrently with the upcoming tropical cyclone season. Enterprise Risk also provided a project risk assessment focused on the timely and secure implementation of Phase 1 of Microsoft Teams implementation project. Both risk assessments included participants from various divisions across Citizens. Risk assessment results are being utilized to assist with decision making and to ensure additional mitigating activities are designed and implemented where needed.

Executive Summary

Board of Governors Meeting, June 24, 2020

Strategic Risk Management

Seventeen (17) Strategic Risks were originally identified and presented at the last meeting. At the time, COVID-19 was an emerging risk; however, was recently added to Citizens' 2020 Strategic Risks. COVID-19 continues to create significant organizational, economic, and societal impacts for our employees, policyholders, agents, and vendors. During the upcoming storm season, these risks may become even more pronounced with the combination of a hurricane and COVID-19. In addition, COVID-19 may add complexity to the other 17 strategic risks. Mitigating activities including business continuity and catastrophe response plans are in place, closely monitored and executed, as necessary. A list of 2020 Strategic Risks along with specific ratings for each risk is included in Appendix 1.



Strategic and operational risks along with mitigating activities are recorded and periodically updated in Citizens' centralized risk registry, Resolver.

Annual Charter Reviews

OIA Charter

The Office of the Internal Auditor Charter establishes the internal audit activity's position within the organization, including the nature of the Chief of Internal Audit's functional reporting relationship with the board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

Annually, the Chief of Internal Audit completes a review of the Charter against industry best practice, Citizens Statute, and the Audit Committee Charter. Following this assessment, the Chief of Internal Audit noted some statements in the Charter that require revision. The revised Charter was approved by the Audit Committee at the meeting on June 3, 2020.

Audit Committee Charter

The Audit Committee Charter is the formal written document that defines the authority and responsibility of the Committee as delegated by the Board. This year, under the direction of the Committee Chair, the Office of Internal Audit also completed an assessment of the Committee's execution of its duties through an analysis of past Committee meeting minutes. Following this assessment, the Chief of Internal Audit noted specific statements in the Charter that require revision.

The revised Charter was approved by the Committee and an Action Item is included in the pack for Board consideration.

Executive Summary

Board of Governors Meeting, June 24, 2020

Appendix 1 – Strategic Risk

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
COVID-19	COVID-19 continues to create significant organizational, economic, and societal impacts for our employees, policyholders, agents, and vendors.	Medium
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

Executive Summary

Board of Governors Meeting, June 24, 2020

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