OFFICE OF INTERNAL AUDIT

2021 Strategy & Plan

December 15, 2020

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Executive Summary

Introduction

This document serves as the Office of the Internal Auditor's (OIA) 2021 Strategy and Plan (Plan) for Citizens Property Insurance Corporation (Citizens). The contents of this document have been shared with executive management and is presented to the Audit Committee for consideration and approval.

The Chief of Internal Audit currently oversees three complementary assurance functions within Citizens which include internal audit, enterprise risk management, and internal control monitoring. This Plan provides a detailed description of our approach, focus, and expected deliverables for 2021 for each of the three functions.

Background and Approach

The mission of Citizens' OIA is to provide independent, objective assurance and consulting services designed to add value and improve Citizens' operations. OIA assists Citizens in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

- 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. Its 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. 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 form a major component of the Florida Comprehensive Annual Financial Report. Citizens has offices located in Tallahassee and Jacksonville.

- Approach

    In alignment with our mission, OIA uses a collaborative approach in supporting Citizens in the achievement of its strategic 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, risk, and control coverage by using resources available to the OIA. Since it is impractical to provide coverage to the entire corporation on an annual basis, the OIA, in consultation with business unit leadership, continuously considers risk across Citizens' process universe and determines the best type of service to address each set of risks and circumstances.

- Coordination with other Assurance Providers

    In developing this plan and approach, OIA consulted with other internal and external assurance providers, including Citizens' Inspector General, to ensure that the 2021
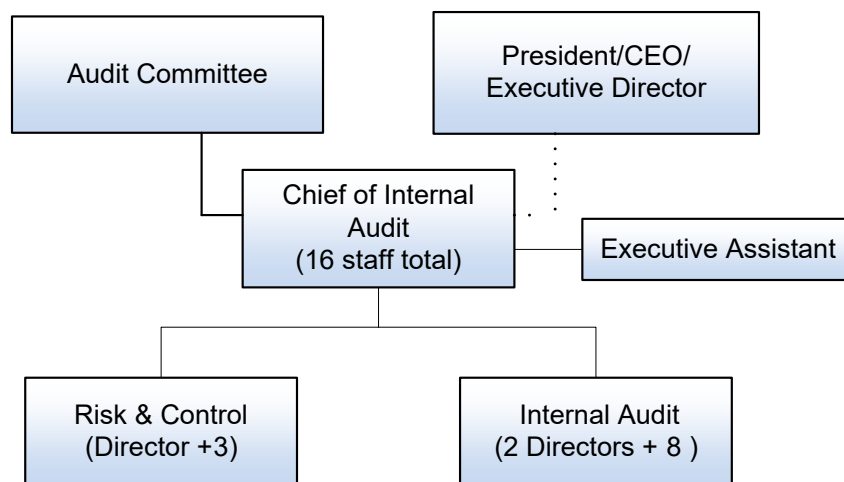
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OIA plan supports or complements other operational plans. This ensures duplication of work is minimized. Our schedule will be shared with the external auditors, Dixon Hughes Goodman, and we will continue our discussion with them as the year progresses and adjust the Plan, where appropriate, in order to provide them the opportunity to rely on OIA's work product.

Organization

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 Committee. Under the guidance of the Committee and in support of Citizens' management, the Chief of Internal Audit established a team of audit, risk and control professionals to provide assurance and consulting services, which are designed to add value and improve the corporation's operations.

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│ Audit Committee  │          │ President/CEO/   │
│                  │          │ Executive Director│
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    ┌────┴──────────────┐              :
    │ Chief of Internal │..............
    │ Audit             │      ┌──────────────────┐
    │ (16 staff total)  │──────│ Executive Assistant│
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│ Risk & Control│ │ Internal Audit  │
│ (Director +3) │ │ (2 Directors + 8)│
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OIA Mandate

The purpose, authority, and responsibility of the OIA is formally established through Citizens' enabling statute, specifically Section 627.351(6)(i) Florida Statutes. In addition, Citizens' Audit Committee further clarified OIA's role and authority through Citizens' 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 and is reviewed annually.

In addition to the International Standards for the Professional Practice of Internal Auditing, the OIA further uses accepted industry frameworks for guidance when conducting audits, risk assessments or internal control evaluations. These include the Control Objectives for Information and Related Technology (COBIT) as guidance for conducting IT audits; the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Framework (COSO 2013) for the development and management of Citizens'

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Internal Control Framework; and the COSO Enterprise Risk Management Framework (COSO ERM) for the development and management of Citizens' Enterprise Risk framework.

OIA Values

In support of OIA's mission and aligned with Citizens' values we adopted:

- Forward Thinking - we provide excellence by being insightful, proactive, and innovative
- Teamwork - we are a solidified team that works together collaboratively and efficiently
- Trusted and Respected - we embrace the highest level of confidentiality and integrity and treat all people with dignity and respect
- Professional and Courteous - we respectfully follow the relevant standards while being polite and courteous to others
- Responsive to Risk and Customers - we will understand the changing needs of Citizens and respond by being flexible in our planning and delivery
- Competent, Fair and Balanced - we provide unbiased, balanced, and practical solutions

OIA Strategy

OIA aligned its 2021 approach with Citizens' strategic objectives and goals to provide high quality audit, risk, and control services. To be a valued partner, the OIA team seeks opportunities to enable the OIA to effectively allocate its financial and human resources to meet the expectations of its key stakeholders.

We seek creative ways to maximize the value and impact of available audit, risk, and control resources and to be a valued partner. As such the OIA team seeks opportunities to:

- Learn about and understand our business partners' environment and the challenges they face
- Provide progressive thinking toward internal and external factors and trends that may prevent Citizens from successfully meeting its goals and objectives
- Be aware of and apply leading audit, risk, and control practices

Detailed Plan

This Plan provides a detailed description of our approach, focus, and expected deliverables for 2021 for each of the three OIA functions - Internal Audit, Enterprise Risk, and Internal Control:

1. **Internal Audit**

   Internal Audit (IA) follows a detailed annual planning process and prepares a themes-based audit plan which considers the possibility of dynamic risk fluctuations and process changes throughout the year. This necessitates regular re-evaluation of audit approach and scope so that appropriate audit focus is always given to important strategic and operational issues and risks. Throughout the year, the audit plan continuously evolves to support our dynamic risk environment, focusing on current and emerging reputational, compliance, operational, information technology and financial risks. To achieve the greatest impact, IA "rebalances" internal audit activities in a rolling audit plan to ensure adequate focus is given to Citizens' strategic issues and critical processes.

   1.1. Defining the audit universe

      In determining Citizens' audit universe (or range of all audit activities), we engaged with management across the organization and 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 2021, Citizens' key strategic themes are:

      - Ensuring scalability, flexibility, and resiliency in our operations to optimally serve customers
      - Identify and implement strategies to reduce Citizens' exposure
      - Invest in and leverage Citizens' greatest resource - our employees
      - Proactively manage risk to improve loss ratios

   1.2. Prioritizing work to be performed by Internal Audit

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

      - Risks/opportunities 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 comply with policies, standards, procedures and applicable laws and regulations

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- 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 affecting Citizens are recognized and addressed appropriately
- Prioritization of the units to be reviewed or audited are based on the relative risks/opportunities associated with each of them. Risk factors considered while reviewing the units in the universe include the control environment, business exposure, compliance requirements, reputation factors, organizational change or growth, and management discretion.

1.3. Determining the types of services to be performed

Following the completion of a detailed analysis of the Citizens' strategic goals and objectives, considering management's concerns, and Internal Audit's risk assessment, IA developed specific audit themes in identifying planned audit activities and audit coverage. Themes-based audit planning is a value-adding approach that helps IA to determine, consolidate, and provide high-level insights into the following periods' audit focus areas to the Audit Committee, Chief Executive Officer (CEO) and other key stakeholders through the grouping of internal audit outcomes into related higher-level topic areas (or themes).

Activities carried out by IA can take many forms. IA realizes that pure assurance activities are not the only solution to accomplish our goals and offers other services to add value to the company. Engagements are defined within the following categories:

- Audit (Assurance) engagement - involves the objective examination of evidence for the purpose of providing an independent opinion on the effectiveness of process governance, risk management, compliance, and internal control practices for the organization.
- Consulting (Advisory) engagement - is provided at the request of management and is intended to add value and improve Citizens' governance, risk management, compliance, and internal control processes without assuming management responsibility.
- Project engagement - provides a focused assessment on the effectiveness of the project development approach applied to ensure that fit for purpose processes, and systems are designed and implemented.
- Business Support - is provided at the request of management and is usually conducted to improve collaborative efforts and to assist in the identification of good business practice.

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- Targeted audit or Investigation - is used to research and validate activities to determine the legitimacy of a reported suspicion, a suspicious transaction, or noted red-flags by providing independent, objective financial and process related expertise.
- Training/Education - is aimed at educating management, employees and associated third parties on risk, control, process, and financial related matters.
- Risk Assessment - is used to assess, identify, and highlight current and emerging risks that may affect the efficiency and effectiveness of the organization.

1.4. Planned Audit Themes

The IA audit themes consolidate and provide high-level insights into the years' audit focus areas. As the year progresses IA will use its quarterly rolling risk assessment process to identify engagements to be selected for every reporting period.
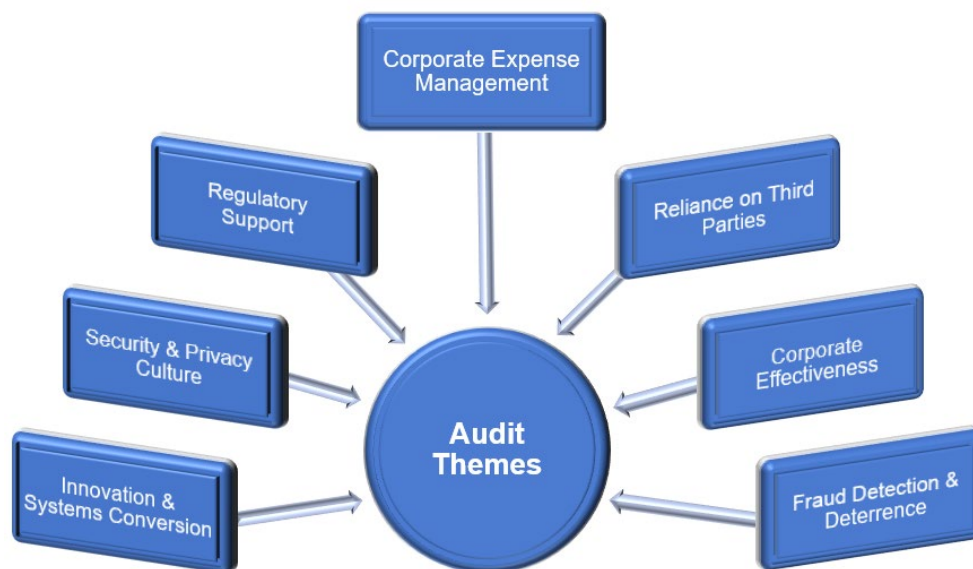
❖ Theme 1: Corporate Expense Management

Citizens continues to develop and improve existing strategies, programs, and processes geared toward reducing operating expenses across the organization. Citizens management has implemented or is in the process of exploring expense reduction activities in the areas of enhanced budgeting process and tools, a digital workflow computing platform, independent adjusting invoice management software, automated underwriting process redesign and proof of repairs requirements. Additionally, the organization remains focused to achieve and maintain an expense ratio that is aligned with

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the private market. In considering potential audit engagements we focused on the following:

- When a policyholder and Citizens have a disagreement with claims regarding the cost of repairing or replacing damaged property, the policyholder has various forums to resolve this dispute. One way to resolve the dispute is to invoke the appraisal clause within the insurance policy. When conducted properly, an appraisal can be a very effective alternative dispute resolution process that can help reduce resolution time and legal spend.
- From January 2020 through July 2020, Citizens was served with 4,120 claims lawsuits, averaging 589 new lawsuits per month. This reflects a 35% decrease in the number of new incoming lawsuits per month as compared to the same period in 2019. As of July 31, 2020, pending volume totaled 11,904 lawsuits which is 15% less than the same period last year.
  - CAT loss (primarily Hurricane Irma) remains the leading cause of loss for both new and pending lawsuits as of July 31, 2020. CAT lawsuits represent 50% of all new incoming lawsuits and 45% of all pending lawsuits.
  - AOB lawsuits (arising out of all causes of loss) represent 28% of new incoming lawsuits, a 17% decrease in distribution of incoming lawsuits as compared to this same period in 2019. Pending AOB lawsuits now represent 31% of total pending, which is consistent with the same period last year.
  - Non-Weather Water lawsuits represent 30% of new, incoming lawsuits, a 7% increase in distribution of incoming suits as compared to this same

period in 2019. In terms of pending volume, Non-Weather Water lawsuits currently account for 29% of total volume which is also consistent with this same time last year.

- o The plaintiff was represented at First Notice of Loss in 59% of incoming residential property lawsuits, which has increased slightly from 55% as compared to 2019 and 88% of the incoming residential property lawsuits arise out of the Tri-County area. This distribution has remained consistent since March 2014.

- o In 45% of the incoming residential property lawsuits the insured did not dispute Citizens' position or adjustment of the claim prior to filing suit. A review of the timing of incoming lawsuits reveals that 62% of lawsuits are brought more than 6 months after the First Notice of Loss (FNOL).

- During 2018, implementation of the Oracle Fusion Cloud Service, an integrated ERP solution, was completed. This system application, branded by Citizens as Centerpoint, replaced independent applications previously used by individual departments. This year, Citizens completed system redesigns and enhancements specific to functionality that supports accounts payable processing. This functionality includes those related to vendor master creation/editing, invoice processing and approval, payments, and recording to the general ledger.

- A suspense account is an account in the general ledger that is used to temporarily store transactions that require further analysis before a permanent assignment in the records can be made. The use of a suspense account allows time to research the nature of a transaction while still recording it on the company's books. Given the nature of these accounts' transactions should be cleared quickly. Transactions will be more difficult to clear as time passes, especially if there is minimal documentation as to why the transaction was initially placed in the account. For this reason, the age of items should be tracked and minimized. Suspense accounts are also considered a control risk.

- Citizens provides insurance products and services through a distribution channel of licensed insurance agents to Florida policyholders who are unable to find property insurance coverage in the private market. These agents are paid a commission for the service of new and renewal policies placed with Citizens. Agent commission rates are a fixed percentage of the policy premium paid by the policyholder minus mandatory surcharges and assessments. The commission percentage may vary depending on certain factors such as line of business, risk classification and where the property is in Florida.

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- A software as a service (SaaS) platform was implemented which provides the ability to create digital workflows such as user access management, incident, and problem management, change management, configuration management and IT asset management. The asset management module includes both software and hardware assets and provides tracking of asset life cycles, costs, utilization, and reporting. Software asset management also focuses on licensing and optimization for third party software.

- Claims management is exploring the benefits provided by third-party Invoice Management software to monitor, track, and manage the payment of independent adjusting firms. There is a need to automate and simplify the day rate time management and fee bill invoicing for independent adjusters to reduce expenses by minimizing manual touch points and improving accuracy. Procurement is going to the BOG 12/20 with implementation slated for Q3 2021.

- The Litigation Management System is a web-based system, used by both internal claims litigation and claims legal services and external stakeholders, to effectively manage litigated claims and associated litigation billing. Unlike other systems utilized by Claims, the Litigation Management System has separate interfaces/permissions for internal stakeholders (Claims and Legal staff) and external stakeholders (contracted outside counsel) which allow a secure environment that both parties can access and 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.

    o The current application, Acuity, is a SaaS based software solution used by both Citizens' internal staff and outside counsel to facilitate the management of all activity on legal matters, including trend analysis reporting; management and auditing of all firm and vendor billing; storage of all litigation related documents; and enhanced communication between Citizens and its outside defense counsel.

    o Based on the impending end of the contract term, an initiative is in progress to procure a litigation management system. In addition to the primary goal of continuation of this service, Citizens intends to seek a solution that provides enhanced capabilities in the areas of performance/data analytics and legal invoice review.

❖ Theme 2: Reliance on Third Parties

Citizens, in its capacity as an insurance company and as a government entity, relies upon vendors to carry out vital business functions, increase efficiencies in daily operations, boost productivity and create flexibility in resources. Reliance on third parties increases exposure to additional risks and potential

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compliance deficiencies which may result in business disruption. In considering potential audit engagements per division we focused on the following:
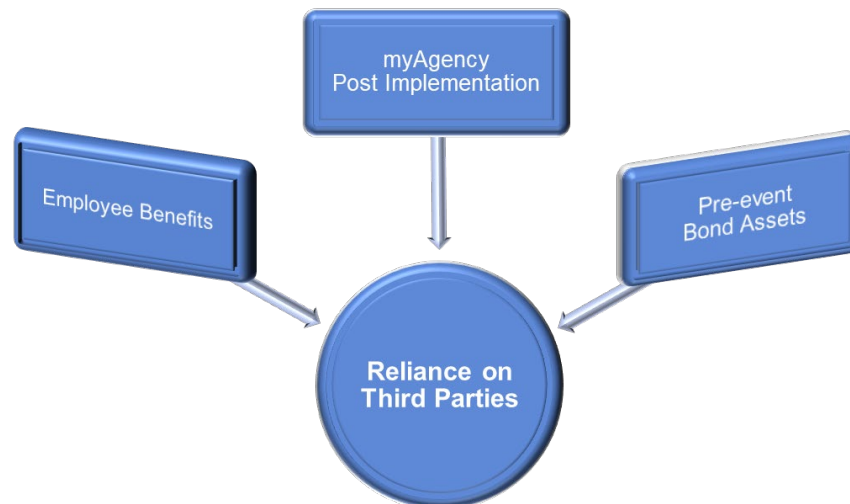
- The Agency Management System (myAgency) Phase 1 was successfully implemented July 13, 2020 with Phase 2 scheduled for implementation in Q4 2020, which replaced three of the legacy systems that supported agency related functions. The new platform will improve functionality and provide a more integrated solution that will support tracking and monitoring of agent licenses, commissions, investigations, complaints, and key performance indicators as well as provide self-service capabilities to agents. In lieu of an implementation vendor, Citizens' internal departments took the lead to implement appropriate configurations, access controls and processes for this web-based cloud solution.

- Citizens issued multiple senior secured bonds for the purpose of funding losses in the event of future catastrophes. If a claims catastrophe were to occur, Citizens would access the proceeds of these bonds held within secured trust accounts. Given the sheer value of these bonds, it is important that there are appropriate management oversight controls for these assets.

- In 2017 Citizens transitioned from a fully insured medical and prescription plan to a self-insured plan. In a self-insured arrangement, an organization funds their employee insurance health plan and hires an external party to perform specific administrative services. Citizens is responsible for the financial risk and obligation to pay enrolled participants covered medical and prescription claims. A benefit consulting firm advises Citizens in matters related to group insurance and employee benefits as well as performing periodic reviews of benefit and claim performance designed to identify improvements including potential opportunities to reduce costs and educational efforts. In addition, the firm performs actuarial services to support

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the recording and monitoring of Citizens' financial obligations related to the plan including projecting claim costs, estimating reserves, and calculating loss ratios.

❖ Theme 3: Corporate Effectiveness

Citizens continues to implement numerous initiatives to improve operational processes, implement new regulatory requirements and to enhance organizational effectiveness. IA selected a few of these changes:
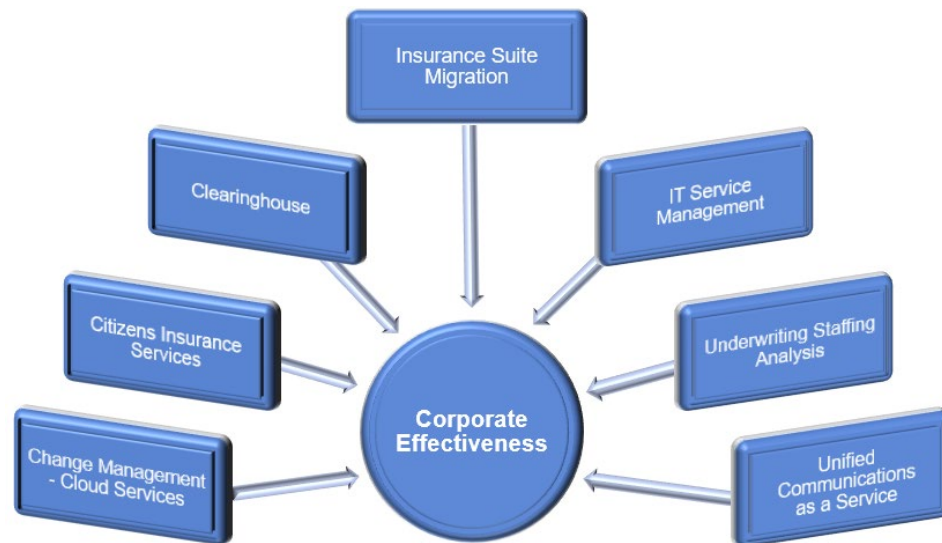
- Citizens Insurance Services is an internal agency staffed with licensed representatives. The agency was established to service policyholders (5,149 current policies) in the event the servicing agent is no longer able or eligible to fulfill the responsibilities of an agent of record. They work closely with the agency management team to support policyholders in the event an agent is terminated or suspended, and the policy is transferred to the internal agency. This agency services policyholder needs as an agent by responding via the telephone and/or in writing to concerns of both internal and external customers. In addition, the agency evaluates renewals and certain endorsements for acceptability in accordance with company guidelines and standards, utilizing underwriting and risk management techniques.
- Telephony services are a key enabler for the cloud migration initiative. The Unified Communications as a Service (UCaaS) project includes several components including the procurement of advisory services to provide insight and knowledge toward a telephony product solicitation, gathering cross business requirements and priorities, cataloging the current state of UCaaS within the enterprise, performing a market analysis of available UCaaS solutions and developing a UCaaS implementation approach and roadmap.

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Telephony systems in the data center will need to be migrated to the cloud to eliminate reliance upon the physical data centers. IA was asked to participate in the project in an advisory capacity.

- MyService is a SaaS platform which has several modules that provide the ability to create digital workflows to process and approve requests. The platform serves as a pivotal point of contact between internal service providers and users on a day to day basis for user access management, reporting incidents, change management and for users making other routine service requests. Some workflows have been added for processes outside of the standard IT cycles.

- SaaS delivery refers to a method of providing hosted software applications to customers in a cloud computing environment. SaaS vendors provide notification of upcoming scheduled changes as part of their Release Management process. The changes may include upgrades, enhancements, or bug fixes. These changes have the potential to impact business operations if they are not properly considered and notice provided to areas who have deployed processes which rely upon certain configurations and access roles. The standard change management process should apply for system changes that are the responsibility of Citizens.

- As part of the Citizens cloud strategy, a project is scheduled to create the future state and roadmap for the Citizens insurance suite platform. Output from the project will include options and a recommendation that aligns with business goals and the strategy as well as an implementation roadmap and other documents that will serve as the foundation for the migration.

- Citizens' Clearinghouse is an innovative, automated program that helps ensure that only risks eligible for Citizens are insured by the company. It requires agents to enter certain types of property risks into the clearinghouse so private-market options available for the policy can be identified and comparable private-market offers are written in the private-market rather than with Citizens. In doing so, it also gives consumers access to broader and potentially less expensive coverage options available in the private market.

❖ Theme 4: Innovation and Systems Conversion

Citizens is migrating toward a cloud-based approach when building and utilizing technical resources. Cloud computing offers advantages such as scalability, elasticity, mobility, a shift of maintenance functions to vendors which minimizes the demands on internal resources, and a lower capital expenditure. Cloud computing helps companies focus on improving efficiency and promoting innovation, not just building, and maintaining systems. Several significant projects are underway which will leverage innovative technologies and

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eliminate the data center footprint over a multi-year period. IA will focus attention on some of the most impactful initiatives scheduled for next year:
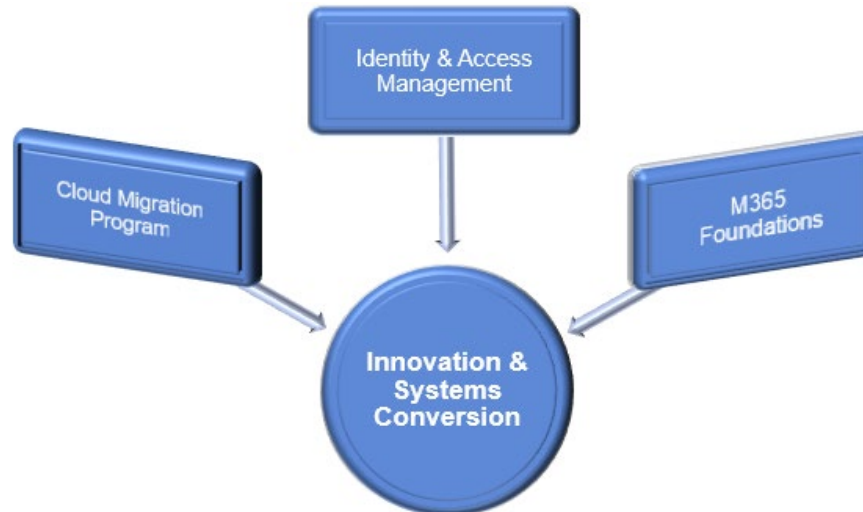
- Most cloud computing services fall into four broad categories: infrastructure as a service (IaaS), platform as a service (PaaS), serverless, and software as a service (SaaS). These are sometimes called the cloud computing "stack" because they build on top of one another. Citizens adopted a Cloud Strategy in 2017 to gradually transition from utilizing its own infrastructure to utilizing applications and infrastructure in the cloud. Many software as a service application have been implemented over the past several years. Citizens is further implementing the cloud strategy by reviewing options and acquiring or migrating services which will improve elasticity to support peak needs, minimize demands on internal resources, and enable faster delivery. IA was requested to participate in the Cloud Migration Program in an advisory capacity.
- User access controls and system configurations are foundational to application security and monitoring. Especially important are controls related to privileged users and audit logging. IT Security and Risk initiated a multi-year project during 2019 to implement a strategy to consolidate and centralize user identity and access management processes and technology capabilities. The program includes a gap analysis, roadmap and implementation of a user identity and access management life cycle to address Citizens' risks. There are projects within each of the three phases currently running in parallel with an implementation schedule over the next three years. IA was asked to participate in the project in an advisory capacity.
- Citizens has been in the process of implementing the Microsoft 365 suite of products, such as Outlook and Teams, and will implement additional

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applications, features, and control improvements during 2021. Data loss prevention techniques are being deployed as part of the implementation to assure sound security and risk practices are applied and staff are properly trained in their operation and use. IA was asked to participate in the M365 Foundations project in an advisory capacity.

❖ Theme 5: Fraud Detection and Deterrence

Occupational fraud is a universally recognized business risk, and IA has a statutory commitment to prevent and detect fraud, abuse, and mismanagement. As our Insights Driven Assurance initiative develops, we will improve our data analytics capability to expand on our continuous assessment of fraud risk and the identification of red flags. Fraud red flags refer to potential undesirable situations or conditions that may contribute to fraud, waste, and abuse of resources.
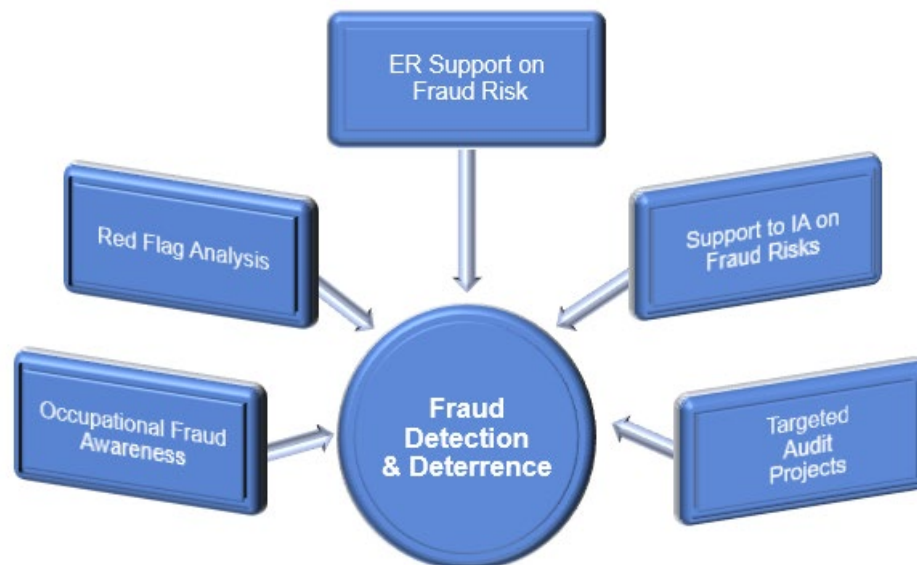
Due to the complexity of insurance processes and integrated systems storing copious amounts of financial and non-financial data, our internal audits and investigative reviews cannot be thoroughly conducted without considering supporting data and digital analysis. Valuable information may be inadvertently overlooked if IA does not understand how to mine data and connect seemingly unrelated data to draw accurate conclusions. Our Insights Driven Assurance initiative, supported by the data analytics expansion project, is improving our data analysis capability and we are assessing the use of basic robotic process automation to conduct continuous or routine analytic tasks thereby freeing the analyst to focus on higher value work.

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Internal audit in collaboration with the Office of the Inspector General focus on suspected fraud, abuse, and mismanagement through ad-hoc forensic audits. For 2021, IA will also participate in fraud risk discussions as part of Enterprise Risk's facilitated operational risk assessments to support each business unit in identifying potential fraud risks that may impact the efficiency of processes and controls.

❖ Theme 6: Security and Privacy Culture

Cybersecurity and privacy concerns remain on the radar of both corporate executives and IT Security professionals. Cyber-crime requires that Citizens remains vigilant, constantly reviewing risks and system vulnerabilities, and evolve protection mechanisms to adjust to the risk landscape. IT security initiatives are intended to align to corporate goals and objectives, address legal regulatory compliance needs, support key operational risks, place appropriate resources against the highest risks and deliver value on IT security investments. Citizens currently has several key security initiatives underway to further mitigate risks and optimize security processes in an environment that continues to transition to cloud based solutions in the future.
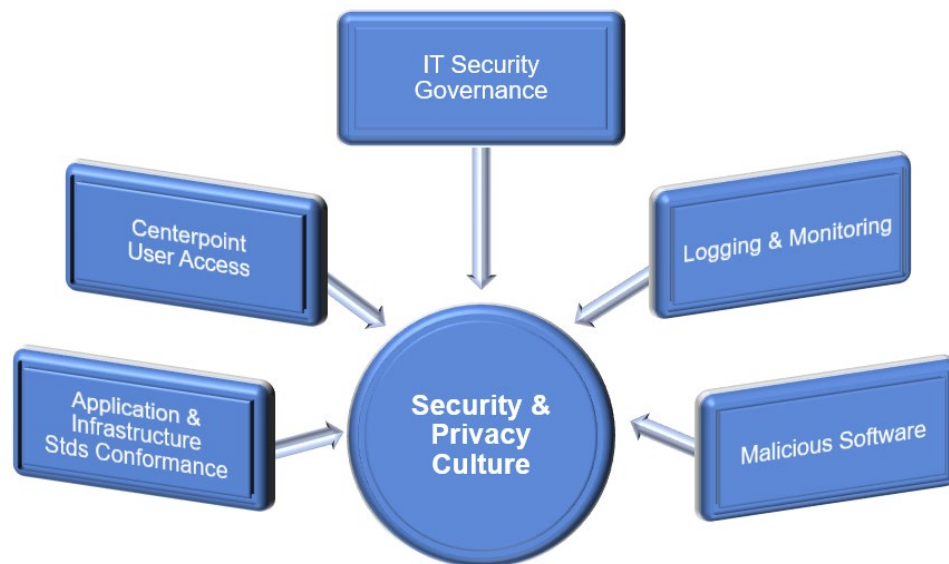
- With the implementation of the Centerpoint modules for Human Resources, Finance, and Procurement, the business reviewed and updated some access roles over the past year to improve segregation of duty conflicts. Managing user access in Centerpoint is relatively complex and periodic reviews of access roles ensure that segregation of duties controls remain in effect and that vendor updates to the roles do not increase the risk of excessive access.

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- Several enhancements are underway within IT Security Governance which will contribute to improved mitigation of security risks. These initiatives will provide more streamlined information in support of management decisions and future IT Security investment. Improvements continue in the areas of the compliance and risk management programs, updated policies and standards, and user training.

- System and application logging and monitoring have been enhanced with the implementation of additional logging agents deployed to servers and databases. In addition, a new cloud-based Security Information Event Management (SIEM) managed service has been deployed which aggregates logs from many systems and provides analysis and correlation, identifies anomalies, and provides alerts for potential malicious behavior. The implementation will have a direct and positive impact on incident response and management capabilities.

- Server configuration and hardening standards have been established to reduce the likelihood of unauthorized or malicious access to Citizens' infrastructure. As well, IT Security standards are a component of governance which outline guidelines for a secure environment and data protection. IT Security compliance is a significant operational program that ensures staff understand and are complying with security and hardening standards for applications and infrastructure.

- Malicious software (malware) refers to a type of computer program designed to infect a legitimate user's computer and inflict harm on it in multiple ways. Malware can infect computers and devices in several ways and comes in several forms, just a few of which include viruses, worms, Trojans, spyware and more. Personal vigilance, and protective tools remain the two most effective layers of protection against malware. One of the most popular ways to spread malware is by email (phishing attacks) which is best addressed through education to be more watchful and alert (personal vigilance). Robust antivirus software is the primary component of technological defenses against malware.

❖ Theme 7: Regulatory Support / Compliance

Internal Audit in its liaison role is responsible for coordinating with the Florida Office of Insurance Regulation (OIR) Market Conduct examiners and the State of Florida Auditor General auditors. The OIR exam is performed every two years and the Auditor General operational audit is performed every three years. In 2021 the Auditor General Audit engagement will be continuing from 2020 with most of the fieldwork to be performed and supported by the organization. Most of the coordination efforts constitutes meetings, planning, information

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request tracking and delivery, and overall ensuring the examiners/auditors receive the correct information timely.
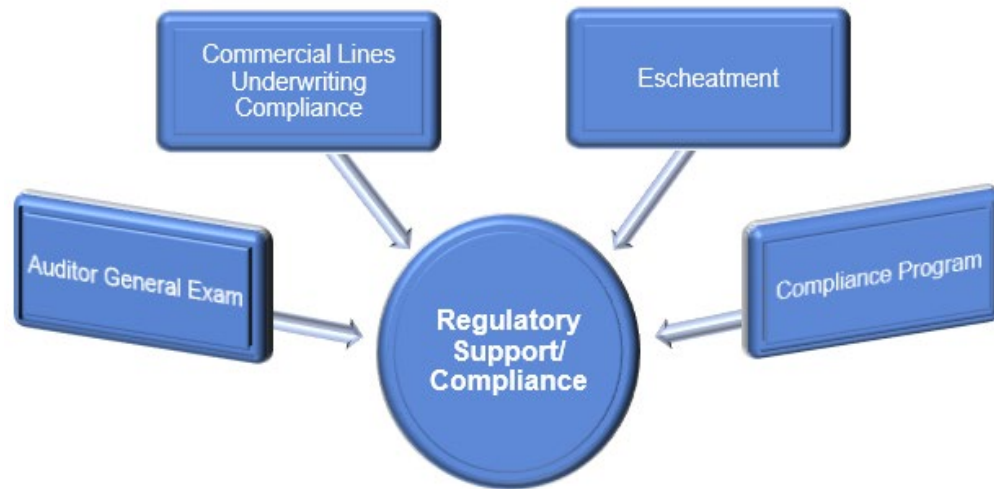
- The Commercial Lines Underwriting Department ensures that commercial policies written by Citizens meet eligibility guidelines, are insured at the appropriate levels based on filed and approved rates and correspond to Citizens' role as Florida's insurer of last resort. There are various State of Florida Statutory underwriting requirements which Citizens is required to follow for properties to be eligible for coverage under specific product types. Due to the large property values (exposure) associated with commercial structures, Citizens' underwriters focus on data quality by thoroughly reviewing new-business submissions, policy changes, renewal policies, and supporting other divisions and departments.

- The escheatment process is an Accounting function responsible for identifying unclaimed payments, performing due diligence, and annually reporting and remitting funds to the various states based on the payee's mailing address. The process is governed by Statutes for each State. Types of unclaimed payments that have been outstanding for more than one year include uncashed claims checks, returned premiums, and agent commission payments.

- An effective organization-wide ethics and compliance management system will result in the organization being able to demonstrate its commitment to compliance with relevant laws, statutes, regulations, and industry codes and standards as well as corporate policies, best practices, and stakeholder expectations. A study conducted by Citizens, identified over 600 Federal and State laws, regulations and statutes which may apply to Citizens. Several hundred additional citations were also identified which provide definitions,

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standards, and other informational references relative to Citizens' business. In addition, Citizens currently has thirty-seven corporate level policies which either support compliance with one or more of the statutes or laws mentioned above, or that support Citizens' overall business objectives.

2. Enterprise Risk

Enterprise Risk Management (ERM) is a continuous enterprise program designed to support Citizens in the achievement of strategic and operational objectives by identifying, assessing, and mitigating risks. Citizens' Enterprise Risk Framework, based on the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) ERM Framework, provides the foundation for the program. The framework provides a disciplined and consistent methodology that is utilized across the organization to identify and assess risks. Through the framework, ER facilitates, enables, and supports management in identifying and assessing risks while management has the primary responsibility for mitigating and monitoring the risks within their processes.

2.1. ERM Maturity: Risk Informed Decision Making

Throughout 2020, ER continued to mature the ERM framework by engaging cross-functional groups in collaborative, forward-thinking and insightful risk assessments that enhanced decision-making in all aspects from daily activities through the strategic performance of Citizens.

Previously, ER primarily focused on the facilitation and enablement of strategic and operational risk assessments. Beginning in 2020, ER expanded support for additional types of risk assessments. ER, in partnership with various business areas, successfully leveraged the framework to support risk informed decision making through various project and scenario risk assessments. As a result of the focused project and scenario risk assessments, an additional 95 risks were identified and assessed. For higher rated project risks, mitigation plans were developed and implemented as needed. For the scenario or emerging risks, teams are well prepared with action plans to mitigate risks in the event the scenarios occur in the future. The assessments have further enhanced the value and maturity of ER by moving Citizens to the next level of optimizing ERM as depicted in the model below. The additional types of cross-functional risk assessments provide more opportunities to promote the consistency and uniformity of the ERM framework across the organization and to broaden the use of the framework by management as an additional tool for risk-informed decision-making.

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Enterprise Risk Maturity Model
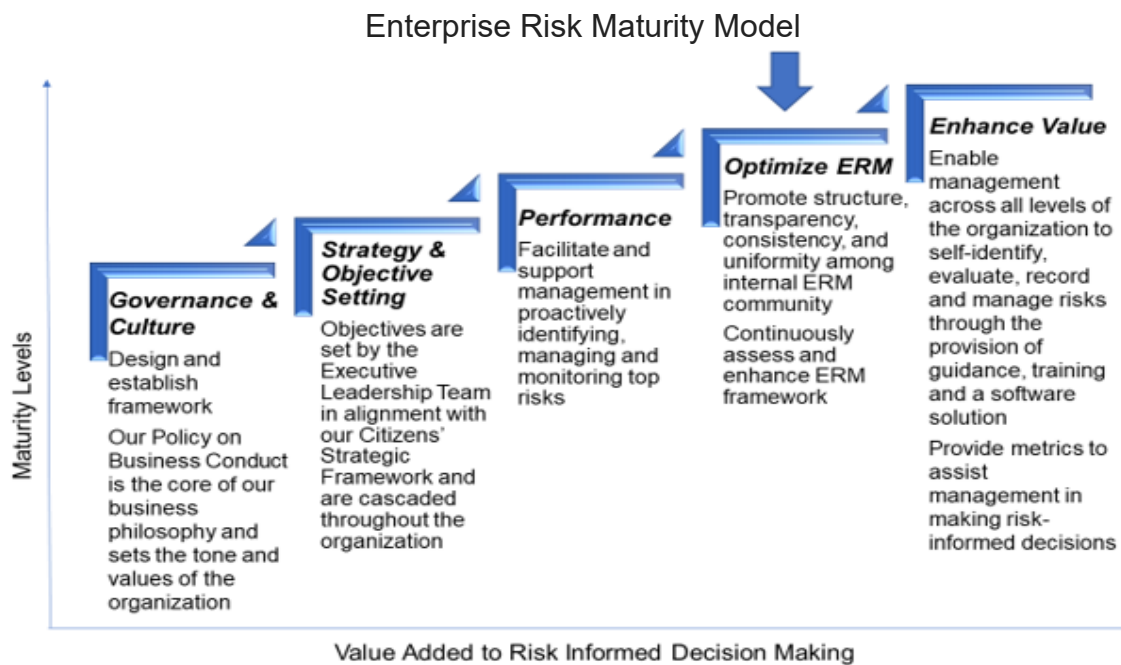
2.2. 2021 Planned Deliverables

Risk Assessments

In 2021, ER will continue to facilitate and enable risk assessments from four different perspectives, namely: strategic; operational; fraud; project and scenario.

- Strategic risk - Citizens defines strategic risks as the uncertainty of an event, or action, leading to a consequence that results in an adverse impact on Citizens' ability to achieve strategic objectives and key strategic initiatives over the next 12-18 months. During the first quarter, ER will facilitate a strategic risk workshop with the ELT to identify and assess the 2021 strategic risks. Comprehensive mitigation plans will be documented and executed, as necessary. Throughout 2021, ER will partner with the Risk Owners to update the mitigation plans as needed and where possible develop key strategic risk indicators or leverage existing metrics to monitor the effectiveness of mitigation efforts.

- Operational risk - Operational risks are events or circumstances that can affect the achievement of operational initiatives or goals. ER facilitates interactive operational risk assessments that enable Risk Champions and management to self-identify and assess risks that may impact the ability to achieve business objectives. Operational risk assessments are performed for a defined process universe of 77 business processes across all of Citizens' divisions (refer to Appendix 4) As of the end of the 3rd quarter of

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2020, a total of 385 operational risks have been identified and assessed across the organization. The risks are updated periodically as needed.

- Fraud risk - During 2021, ER will include fraud risk discussions in the facilitated operational risk assessments as a tool for management to identify and assess risks to businesses processes that may present potential fraud risks to the organization. ER will collaborate with the OIA Forensics Team and SIU on this initiative. The following chart provides an overview of the process:

Perform Fraud Risk Assessment	Establish Fraud Risk Profile & Ranking of Fraud Risks	Evaluate Anti-Fraud Mitigating Activities	Educate & Reinforce Fraud Awareness

- Project & scenario risk - Upon request, ER provides facilitation services and consultative support through project and scenario risk assessments. The risk assessment discussions assist management in identifying risks that should be closely monitored and additional controls that should be considered or implemented.

  - Pre-implementation risk assessments are performed to assist with decision making and to help ensure that adequate mitigating activities are designed and implemented where needed prior to implementation.

  - Post implementation risk assessments are performed to identify and assess any new risks that occurred during the launch of a new project or application and revisit the pre-implementation risks as needed to accurately reflect the post-implementation status.

  - Scenario risk assessments are conducted to evaluate emerging risk scenarios and discuss mitigation plans that should be developed or considered to better prepare the organization to mitigate the risks in the event the scenario occurs. Scenarios include situations where multiple significant risks are predicted to occur simultaneously and emerging risks that have impacts anticipated to significantly vary across different time intervals.

Leveraging Technology

In 2021, OIA plans to implement an integrated GRC solution that supports collaboration across OIA while maintaining audit, risk, and control independence. Specifically, for ER this solution is anticipated to:

- Provide scalability, efficiency, and a holistic view for the several types of risk assessments that ER facilitates across the organization.
- Enable the Risk Champions and management to self-identify, evaluate, record, and manage risks in the solution.

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- Enhance ER's ability to provide management with real-time risk reporting capabilities including dashboards.

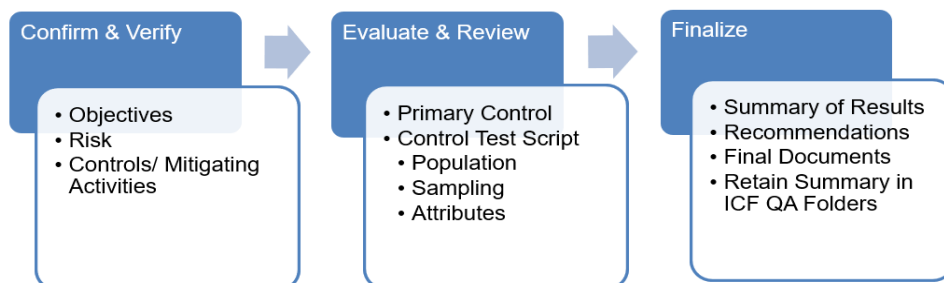### Strengthening the Risk Champion Network

ER will continue to explore engaging and creative ways to promote the participation and education of both new and existing Risk Champions as well as any risk assessment participants. Planned educational efforts include sharing information on how to identify and assess fraud risks and the functionality of the new GRC solution as appropriate.

3. Internal Controls

Internal Controls (IC) is responsible for maintaining and monitoring Citizens' Internal Control Framework (ICF), which is designed to strengthen the governance, oversight, and accountability of Citizens' internal control environment. ICF leverages principles from the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Integrated Framework. Citizens' ICF incorporates COSO principles that complement the uniqueness of our operations, business goals and objectives. There are three major control objectives that ICF focuses on: operations, financial and non-financial reporting, and compliance. Through the ICF, IC guides and assists management to enhance internal controls, while also helping Citizens transform with the changing and complex insurance environment.

3.1. Value Added Process: Quality Reviews

As the ICF continued to mature in 2020, the quality review program evolved to a more structured approach while remaining focused on ensuring that the CSA process continues to add value to the business areas. Quality assurance reviews are performed by IC to ensure that business areas with primary controls adhere to Citizens' ICF standards when performing the CSAs. The quality review consists of three phases:

Confirm & Verify	Evaluate & Review	Finalize
• Objectives • Risk • Controls/ Mitigating Activities	• Primary Control • Control Test Script • Population • Sampling • Attributes	• Summary of Results • Recommendations • Final Documents • Retain Summary in ICF QA Folders

During 2020, quality reviews were completed for 10 processes in the divisions of Claims, Legal, Financial Services, and Enterprise Operations. ICF quality review recommendations are intended to strengthen the management of the

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control self-assessment process and Citizens' control environment. Examples of results and recommendations provided include the following: updated business objectives and risks; added primary controls and/or mitigating activities; shared leading practices on performing CSAs; and adjusted sample sizes per control frequency to improve efficiencies. The quality review also includes a collaborative discussion with the business areas to ensure the CSA assessment documents remain relevant, the test steps are clearly understood and performed efficiently, and the control test continues to add value.

3.2. 2021 Planned Deliverables
Internal Controls Framework
In 2021, IC will focus on ensuring the consistency and sustainability of ICF throughout the organization while expanding consultative services to include advice on anti-fraud controls.

- <u>Annual Control Self-Assessments</u> - Control self-assessments (CSAs) are performed annually by management to validate the effectiveness of primary controls. Currently, 128 primary controls have been recorded across the business processes based on the defined process universe (refer to Appendix 4). The CSA results are utilized to continuously improve processes and enhance the control environment. IC has periodic touchpoint meetings with management to ensure that the CSAs are progressing and to provide consultative advice as needed.

- <u>Process Narratives</u> - Detailed process narratives are created and maintained for business processes from the defined process universe, (refer to Appendix 4). The narratives document the business objectives, process flows, key systems, and primary and mitigating controls. Management periodically updates the narratives and flowcharts to reflect any changes in processes, technology, and controls. During 2021, IC will document any new processes, perform refreshes for any processes with significant changes, and provide support to management as needed.

- <u>Quality Reviews</u> - Quality reviews are performed by IC to ensure that business areas with primary controls adhere to Citizens' ICF standards when performing the CSAs. The quality reviews are performed on a recurring 3-year cycle consisting of annual reviews of approximately one third (1/3) of the processes with primary controls. The next 3-year cycle begins in 2021 and ends in 2023. For 2021, quality reviews are planned for 19 business processes with a total of 43 primary controls representing 34% of the processes subject to review. (refer to Appendix 3)

- <u>Anti-Fraud Controls</u> - As the operational risk assessments are expanded to include fraud risks, IC will collaborate with ER, OIA Forensics, and SIU to

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provide consultative advice to the business areas regarding leading practices on internal controls to prevent and detect fraud.

Leveraging Technology

In 2021, IC plans to support the implementation of an integrated GRC solution that will support collaboration across OIA while maintaining independence where needed. Specifically, for IC this solution is anticipated to:

- Provide scalability, efficiency, and a holistic view for the ICF quality reviews and control self-assessments across the organization.
- Enable the Control Champions to perform and manage the control self-assessments directly in the solution.
- Provide a centralized repository for ICF process narratives and flowcharts
- Leverage control information across the solution including a more efficient alignment of controls to risks.
- Enhance IC's ability to provide management with real-time internal control reporting capabilities including dashboards.

Strengthening the Control Champion Network

IC will continue to explore engaging and creative ways to enhance the education of both new and existing Control Champions as well as individuals that contribute to the ICF processes. Planned educational efforts include sharing information on controls designed to mitigate fraud risks and the functionality of the new GRC solution as appropriate.

4. Insights Driven Assurance

As a support function to OIA, the OIA data analytics team is currently developing the foundation for OIA's Insights Driven Assurance initiative. This initiative aligns with Citizens' strategy and plan for advanced analytics.

Insights Driven Assurance	
OIA Data Analytics Program (DAP)	**OIA Cognitive Analytics Program** (CAP)
• Dashboards and Reporting • Red Flag Analysis • Internal Audit Engagement Support	• Automation & RPA • Predictive & Machine Learning • Cognitive Analysis
Foundation (Environment; infrastructure; platform; tools; data security; capabilities)	

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We are currently developing the foundation for the Insights Driven Assurance initiative and will continue to develop and evolve internal capabilities throughout 2021. While relying on our Enterprise Operations (EO) business partners, we have plans to be more self-sufficient by mid-2021 by expanding our knowledge base, improving access to available data sources and better utilizing application and system resources either procured or already available within the organization.

As the foundation becomes more capable, we will utilize RPA's (Robotic Process Automation) to expand on our continuous monitoring capabilities. This will improve our continuous fraud red-flag analysis, monthly dashboards and understanding of risk drivers throughout the organization. We will also focus on the creation of some basic machine learning capabilities as we continue to develop our Cognitive Analytics Program.

Enhanced data analytics for audit, enterprise risk management and internal control monitoring can include benefits such as comprehensive coverage and improved assurance through the analysis of the whole population within a short period of time as opposed to assessing samples of the population of data.

Appendix 1: Aligning the Audit Plan to Citizens' Strategic Themes

Internal Audit uses a collaborative risk-based approach in supporting Citizens in the achievement of its strategic goals. The following table aligns the audit plan with Citizens' strategic themes for 2021.

Citizens' Strategic Themes	OIA Themes	Potential Engagements
Ensure scalability, flexibility, and resiliency in our operations to optimally serve customers	• Corporate effectiveness • Corporate expense management • Fraud detection and deterrence • Innovation & system conversion • Regulatory support/compliance • Security & privacy culture	• Accounts payable • Agency management system • Application and infrastructure standards conformance • Centerpoint user access • Change management - cloud services • Citizens insurance services • Cloud migration program • Commercial underwriting compliance • Commissions • Identity and access management • Insurance suite cloud migration • IT asset management • IT security governance • IT service management • Logging and monitoring • M365 foundations • Malicious software • Pre-event bond assets • Suspense accounts • Unified communications as a service
Identify and implement strategies to reduce Citizens' exposure	• Corporate effectiveness • Corporate expense management	• Clearinghouse operations • OIA data analytics • OIA risk analysis & red flags
Invest in and leverage Citizens' greatest resources - our employees	• Corporate effectiveness • Corporate expense management • Regulatory support/compliance	• Auditor General exam • Compliance program • Employee benefits • Occupational fraud awareness
Proactively manage risk to improve loss ratios	• Corporate effectiveness • Corporate expense management • Fraud detection and deterrence	• Appraisal process • Claims automated independent adjuster billing • Claims litigation management process • Claims litigation management system implementation

Appendix 2: Overview of Potential Audit Engagements

The following table provides a detailed overview of Internal Audit's view of risk and the engagement objective.

Title	Audit Engagement Justification and Objective
Accounts Payable	**Risk Rationale:** With the recently implemented system enhancements in the financial module of Oracle's integrated ERP solution (Centerpoint), there is an opportunity for IA to evaluate the accounts payable process and related controls. Accounts payable has inherent risk associated with financial misstatement and potential for monetary loss through duplicate payments, unauthorized payments, and payments made on non-received goods or services. **Objective:** Evaluate the effectiveness and adequacy of key business processes and control functions related to accounts payable.
Application & Infrastructure Standards Conformance	**Risk Rationale:** Applications or Infrastructure components may not be configured in alignment with IT Security and / or hardening standards, potentially creating opportunities for unauthorized or undocumented access and downstream business disruption or security events to occur. **Objective:** Review elevated risk applications and infrastructure components against IT Security and hardening standards to validate compliance.
Appraisal Process	**Risk Rationale:** A substantial portion of claims are being referred to appraisal to settle claims and is now a more centrical part of the claim's settlement process. **Objective:** Evaluate the adequacy and effectiveness of controls related to the Appraisal process.
Call Center Vendor Procurement and Onboarding	**Risk Rationale**: Vendor procurement and onboarding requires process evaluation and training which may impact efficiency and effectiveness of the processes. **Objective**: Provide control advice and project support to management.
Cancellation/nonrenewal moratorium	**Risk Rationale:** The moratorium on policy cancellations and nonrenewal creates challenges for tracking, monitoring, and establishing payment plans. Policyholders have an extended period to pay premiums, there by deferring or delaying cash flows and ability to collect outstanding premium.

🔍 Appendix 2: Overview of Potential Audit Engagements

Title	Audit Engagement Justification and Objective
	Objective: Evaluate the strength of controls tracking and collecting past-due premium payments. Also evaluate plans designed to end the moratorium with a soft landing from a Policyholder experience perspective.
Centerpoint User Access	**Risk Rationale:** Access roles within the Centerpoint modules are layered and complex. Periodic reviews of access roles ensure that role changes by vendor updates or Citizens do not inflate risks. In 2020, Centerpoint process owners, supported by IT, redesigned high risk roles to eliminate segregation of duties conflicts and implemented monitoring of privileged users. **Objective:** Review access roles in all Centerpoint modules to validate that privileges are appropriate, and duties are segregated to provide adequate financial controls and oversight.
Change Management - Cloud Services	**Risk Rationale:** Regularly scheduled changes of application code by the cloud vendor or configuration changes which are the responsibility of Citizens without appropriate consideration and/or testing, may cause disruption in business operations or segregation of duties conflicts in access roles. **Objective:** Evaluate risks associated with periodic mandated vendor application changes or Citizens-owned configuration changes and ensure change control and testing processes are appropriate for the organization in mitigating those risks.
Claims Automated Independent Adjuster Billing	**Risk Rationale:** Independent adjusters are paid on either a day rate or fee bill basis. Day rate payments are calculated on a flat rate per day of work completed while fee bill payments are based on a variable percentage of the gross claim amount calculated. Currently most of the day rate and fee bill payment processes are manual and claims management is considering the use of third-party software to automate the management of independent adjuster payments. **Objective:** Provide control advice and project support to ensure automation provides timely and accurate payments.
Claims Litigation Management	**Risk Rationale:** The reduction in litigation volume and expenses may be a temporary event downturn due to Covid-19 and legal matters being put on hold through the court systems. Total legal spend is however projected to be close to $100M for 2020, which is still a significant expense to the organization.

Appendix 2: Overview of Potential Audit Engagements

Title	Audit Engagement Justification and Objective
	Objective: Perform a detailed study of Citizens Litigation Management process (including matter management) and compare to leading practices.
Claims Litigation Management System (Implementation)	**Risk Rationale**: Citizens relies on 100+ outside defense firms to provide claims-related legal defense counsel services. Citizens' ability to manage complex legal bills submitted by contracted defense counsel representing Citizens in litigated matters continues to be an integral process in support of controlling costs and ensuring a strong financial operating environment. **Objective:** Internal Audit will participate in the project team and provide process, risk, and controls advice for the implementation of the Claims Litigation Management System.
Clearinghouse Operations	**Risk Rationale:** Citizens is having an uptick in new business submissions due to the challenges in the Florida Market and increased reinsurance costs. The Clearinghouse process and system have not been reviewed since Internal Audit's advisory work with regards to the design of controls during buildout and implementation. **Objective:** This audit is to evaluate the effectiveness and adequacy of key business processes and control functions related to the Clearinghouse operations.
Cloud Migration Program	**Risk Rationale:** Migration to cloud services and solutions means reliance upon service providers for applications and infrastructure along with some support services. When migrating critical applications and infrastructure to the cloud, ineffective cloud implementation processes may lead to business disruption, unnecessary expenses and/or unauthorized access to confidential data. **Objective**: IT management requested that IA support this project in an advisory capacity. IA will provide insight related to risks and controls associated with migration of applications and infrastructure to cloud services. IA will also validate that governance processes appropriately support the project and perform new controls implementation testing where requested.
Commercial Underwriting Compliance	**Risk Rationale:** There are various State of Florida Statutory underwriting requirements which Citizens needs to follow for commercial properties to be eligible for coverage under specific

🔍 Appendix 2: Overview of Potential Audit Engagements

Title	Audit Engagement Justification and Objective
	product types. An example would be coverage eligibility for properties with transient public lodging. **Objective:** Evaluate the adequacy and effectiveness of controls in place to meet State of Florida Statutory underwriting requirements.
Commissions	**Risk Rationale:** It was noted during an IA review that Citizens has paid commissions on uncollected premiums resulting from the cancellation/nonrenewal moratorium. Commissions are due back to Citizens for policies where the premiums were not collected. **Objective:** To evaluate whether controls associated with commission rates and calculations are effective and ensure that commissions paid to agents are accurate, authorized, and timely.
Compliance Program	**Risk Rationale:** Following an audit completed in 2016, of Citizens operational compliance governance framework, enhancements were developed and implemented to strengthen and align the program with leading practice. **Objective:** To evaluate the adequacy of processes supporting the efficiency of the compliance framework.
Citizens Insurance Services	**Risk Rationale**: This internal agency service 5,149 policies which has increased from 4,687 over the past year. In addition, the Internal Agency evaluates renewals and certain endorsements for acceptability in accordance with company guidelines and standards, utilizing underwriting and risk management techniques. **Objective:** Evaluate the adequacy and effectiveness of controls related to the Internal Agency processes.
Employee Benefits	**Risk Rationale**: Actions of the vendor supporting the self-insured medical aid program could negatively impact the programs status. **Objective**: To assess the management of Citizens Medical Aid programs specifically focusing on vendor involvement.
Escheatment	**Risk Rationale:** Citizens is required by state laws and statutes to turn over unclaimed property to the states after a certain period, which varies by state. In this case, the unclaimed property refers to money due customers uncashed checks. **Objective:** This audit is to evaluate the adequacy of key business processes and control functions related to the escheatment process.

Appendix 2: Overview of Potential Audit Engagements

Title	Audit Engagement Justification and Objective
Financial Planning and Analysis	**Risk Rationale:** Citizens successfully launched the budgeting module in Centerpoint in 2018 and training was conducted for budget users throughout the organization. As a result, a continuous budgeting model was adopted throughout the organization in 2019. The need for continuous budgeting, strategic forecasting, and reforecasting is critical to have clear understanding and communication surrounding financial expectations to make strategic decisions and adjust resource allocations in response to changing conditions **Objective:** Evaluate the adequacy and effectiveness of controls related to the Financial Planning and Analysis process.
Identity and Access Management Program Project	**Risk Rationale**: Citizens' IT Security and Risk department is 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. **Objective**: Management requested that IA participate in this project in an advisory capacity. IA will assess project governance and progress during the multi-year implementation of a comprehensive identity and access management solution and corresponding processes and provide risk and controls advice and/or controls testing where requested, throughout the project.
Income Statement Large Spend	**Risk Rationale:** As part of being a cost-conscious organization regular review of spending trends throughout the organization focusing on large cost categories are necessary to ensure appropriate internal controls have been implemented. **Objective:** To assess Income statement categories and related accounts focused on large expenses.
Insurance Suite Cloud Migration Project	**Risk Rationale:** Ineffective cloud migration planning and processes may lead to business disruption and unnecessary expenses.

🔍 Appendix 2: Overview of Potential Audit Engagements

Title	Audit Engagement Justification and Objective
	Objective: Evaluate planning, testing and migration processes associated with the Citizens Insurance Suite to ensure processes are effective in reducing business disruption risk.
IT Asset Management	**Risk Rationale**: IT hardware/software assets are inventoried and tracked to avoid redundant purchases and allow operations personnel to proactively replace outdated hardware/software that is nearing the end of its life cycle. Inadequate or ineffective infrastructure life cycle methods with associated roles and responsibilities to track infrastructure (e.g. servers, workstations, laptops, network devices, etc.) may lead to unnecessary expenses. As well, Citizens may face licensing fines if adequate controls are not in place to validate installed software against licenses. **Objective**: Assess controls associated with the hardware lifecycle to ensure data is reliable for decisions associated with asset expenses and disposal. Validate that processes are implemented to manage and monitor system capacity and performance.
IT Security Governance	**Risk Rationale:** Sound policies and processes within the IT Security department ensure appropriate risk management, enterprise compliance to policies and standards and effective use of resources. Strategies and objectives should be developed to align with business goals with underlying foundational programs and processes supporting those objectives. Absent appropriate oversight, lack of appropriate IT security risk mitigation may impair business performance. **Objective**: Evaluate governance processes related to the strategy, policies, programs, and metrics to direct, manage and monitor IT Security for the enterprise.
IT Service Management	**Risk Rationale:** The organization relies upon adequate, accurate and approved IT services being handled timely in support of internal customer requests and incidents. **Objective:** Evaluate the adequacy and effectiveness of processes developed for handling IT incidents, service requests and other digital work flows as well as data integrity and user access controls.
Logging and Monitoring	**Risk Rationale**: System and application logging is required to provide an audit trail of business and system transactions to monitor access and correlate events that may require additional

Appendix 2: Overview of Potential Audit Engagements

Title	Audit Engagement Justification and Objective
	research and follow-up. The corporate information classification and handling policy requires that certain audit and logging configurations be implemented for systems which contain restricted confidential and confidential data. Absent appropriate logging and monitoring practices being implemented there is a risk for lack of accountability and potentially an inability to surface information to detect or reconstruct system events when required. **Objective**: Assess the implementation of system logging and monitoring to ensure that risks have been determined, appropriate logs have been turned on and event monitoring is occurring. Validate that logging also fully supports the incident response process.
M365 Foundation Project	**Risk Rationale**: The cloud application environment and processes may not contain all the controls required to capture and manage threats when migrating confidential data to the cloud. The integrity and privacy of data for which Citizens is the custodian, should be well controlled to avoid malicious internal or external attacks that may result in data exposure, data loss and/or reputational damage. **Objective**: IA was asked to participate in this project in an advisory capacity. IA will assess the risks and determine appropriate participation in providing insight related to risks and controls associated with future phases of the Microsoft Office 365 implementation including data migration.
Malicious Software	**Risk Rationale:** The speed and complexity of threat vectors such as malware continues to rise. It is important to understand the threats and deploy solutions and processes to gain insight and deter successful attacks. IT Security will be deploying additional solutions over the next year for improved protection against these threats. **Objective:** Citizens deploys a defense-in-depth strategy when securing the network and extended network environments. Evaluate threat prevention solutions, processes, and user training related to malware to ensure risks are aligned with tolerance.
MyAgency Post Implementation	**Risk Rationale:** The Agency Management System (AMS) Phase 1 was successfully implemented in July with Phase 2 scheduled for implementation in Q4 2020. This platform will support the tracking and monitoring of agent licenses, commission,

🔍 Appendix 2: Overview of Potential Audit Engagements

Title	Audit Engagement Justification and Objective
	performance, investigations, complaints, and key performance indicators. **Objective:** Evaluate the adequacy and effectiveness of controls related to the Agency Management processes and application.
Pre-event Bond Assets	**Risk Rationale:** Citizens has issued multiple senior secured bonds for the purpose of funding losses in the event of future catastrophe. If a claims catastrophe should occur, Citizens would access the proceeds of these bonds held within secured trust accounts. It is critical that there is appropriate management of these assets and proper controls exist surrounding the ability to access the proceeds located in the trust account to pay out claims to the Company's policyholders. **Objective:** Evaluate the adequacy and effectiveness of controls related management of assets and access to trust account proceeds.
Rate Override Technology	**Risk Rationale**: PolicyCenter now enables authorized Underwriters to correct the system-generated premium for new-business and renewal policies. Premium changes are necessary under certain circumstances, such as for rate capping adjustments to maintain Citizens' glide path. As the process has significantly changed the audit is important to validate the implemented control structure and ensure the controls are working as intended. **Objective**: The audit is to evaluate the effectiveness and adequacy of key business processes and control functions related to the rate override process.
Risk Analysis & Red Flags	The cornerstone of OIA's fraud awareness program, transactional risk analysis and identifying red flags, provides the context needed to share the knowledge with the company through training sessions, but also direct our data analytics and targeted audit efforts to the most relevant risks.
Succession Planning	**Risk Rationale:** Succession planning was rolled out to Citizens for the first time in 2019. Succession planning is an essential component of Citizens' ability to identify and develop key talent while minimizing the loss of institutional knowledge and negative impacts that are associated with turnover in critical positions. **Objective:** To assess the application of succession planning throughout the organization to ensure continuation of critical roles

🔍 Appendix 2: Overview of Potential Audit Engagements

Title	Audit Engagement Justification and Objective
	and minimize disruption while protecting the dignity and promotability of identified successors.
Suspense Account	**Risk Rationale:** A suspense account is a temporary holding place for accounting entries until the destination for the entry is confirmed. Included in these types of accounts could be monetary transactions such as cash receipts, cash disbursements and journal entries. It is important to periodically review these accounts to ensure the timeliness of researching and clearing transactions to their appropriate account. **Objective:** Determine whether the suspense accounts are being used for the intended purpose and transactions are resolved in a timely manner.
Underwriting Staffing Analysis	IA was requested to participate in Enterprise Operations analysis of current underwriting staffing models and provide advice and project support where appropriate.
Unified Communications as a Service Project	**Risk Rationale:** Citizens relies on voice communications to support employee, customer, and vendor activities in daily operational activities. Telephony services should be secure, reliable, and assessed periodically to validate that services meet business requirements and risks are mitigated to avoid business disruption. **Objective:** IA was asked to participate in the Unified Communications as a Service Project. IA will assess the risks and determine appropriate participation in providing advice and guidance regarding risks and controls during some of the project phases to be determined.
Xactware - Mobile Application	**Risk Rationale**: Following the procurement of the Xactware mobile application Citizens plan to implement a product that will assist with remote evaluation of property damage through mobile technology. IA will provide project and process control advice and support. **Objective**: Provide control advice and project support during the product development and implementation.

Appendix 3: Overview of Planned Control Quality Assessments

The following table aligns the internal control quality assurance plan with Citizens' strategic themes for 2021. IC plans to complete 19 QA reviews.

Citizens' Strategic Themes	Potential Quality Reviews
Ensure scalability, flexibility and resiliency in our operations to optimally serve customers	• Customer Correspondence • Insurance - Technical Communications • Claims Catastrophe Planning, Testing, Coordination • Claims Operations • Financial Close • Financial Reporting • Commission Payments & Accounting • Escheatment Processing & Accounting • IT Governance • IT Security & Risk • IT Enterprise Resilience (BCP/DRP)
Identify and implement strategies to reduce Citizens' exposure	• Risk Transfer Strategy & Execution
Invest in and leverage our employees	• Payroll • Corporate Governance
Proactively manage risk to improve loss ratios	• Loss Reserve Development/IBNR • Reinsurance Servicing & Accounting • Commercial Lines Underwriting • Personal Lines Underwriting • Product Development -Applications, Forms, Rules

Appendix 4: OIA's View of Citizens Process Universe

Assurance
Enterprise Risk Management
Internal Control Framework

Communications, Legislative, & Ext Affairs
Corporate Communications
Insurance Technical Communications
Legislative & Cabinet Affairs
Public/External Relations & Outreach

Claims
Catastrophe Planning, Testing, Coordination
Claims Governance
Claims Litigation
Claims Operations
Special Investigations Unit (SIU)
Vendor Management - Claims

Customer Experience
Consumer & Policy Services
Customer Correspondence

Enterprise Governance
Corporate Governance

Financial Services
Accounts Payable
Cash Management & Treasury
Claims Accounting & Disbursements
Commissions Payments & Accounting
Depopulation Billing, Settlements & Accounting
Escheatment Processing & Accounting
Financial Close
Financial Planning & Analysis
Financial Reporting
Investment Accounting
Investments Management & Compliance
Pre- & Post-Event Liquidity Bond Financing
Premiums
Reinsurance Servicing & Accounting
Risk Transfer Strategy & Execution
Corporate Analytics
Loss Reserve Development/IBNR
Rate Development

Human Resources
Payroll
Compensation
Employee Benefits
HR Strategic Services
Talent Acquisition
Learning & Development
HR Systems & Reporting
Facilities Management

Legal
Claims Legal Billing
Compliance
Privacy
Ethics
Corporate Insurance
Corporate Legal
Purchasing
Records Management

Enterprise Operations
IT Services & Delivery
IT Knowledge Management
IT Infrastructure
IT Application Development
IT Application Quality Assurance
IT Application Delivery
IT Operations
IT Configuration Management
IT Change Management
IT Problem Management
IT Service Request Management

Enterprise Architecture & IT Strategy
IT Enterprise Architecture
IT Governance
IT Enterprise Resilience (BCP/DRP)
IT Security and Risk

Underwriting & Product Development
Personal Lines Underwriting
Commercial Lines Underwriting
Product Development & Rate Implementation
Product Development - Applications, Forms, Rules

Agency & Market Services
Agency Management
Clearinghouse Operations
Depopulation Operations
FMAP

Enterprise Services & Vendor Management
Enterprise Strategy & Planning Support
Project Portfolio Management (PPO)
Enterprise Performance Metrics
Underwriting Quality Improvement (QA)
Continuous Improvement
Vendor Relationship & Contract Management