

INTERNAL AUDIT



Audit Report

Third-Party Risk
Management Audit

December 2, 2020



Table of Contents

| | Page |
|--|-------------|
|  Executive Summary | |
| Background | 1 |
| Objectives and Scope | 1 |
| Results | 2 |
|  Appendix | |
| Distribution | 4 |



Executive Summary

Background

Citizens, in its capacity as an insurance company and as a government entity, relies upon third-parties to carry out vital business functions to increase efficiencies in daily operations, boost productivity and create flexibility in resources. These relationships continue to expand and evolve, introducing various risks that must be assessed and appropriately managed by the organization to achieve desired business outcomes.

A comprehensive third-party risk management program ensures risk exposures associated with third-parties are managed and monitored to the organization's agreed-upon third-party risk management framework and processes. Common characteristics include:

- Sufficient policies, procedures, and activities
- Effectual governance structures supporting the policies, procedures, and activities
- A structured support system with defined roles; a third-party inventory listing; reporting requirements; a risk-based review process; and escalation and tracking of findings that result from third-party monitoring activities

Currently, Citizens manages 374 vendors (or third-parties) and almost 500 contracts¹. This is accomplished with 43 contract managers across the organization, who are responsible for enforcing performance of the contract terms and conditions and serve as a liaison with the third-party.

| | Claims | CLEA | EO | Finance | HR | Legal | OIA | OIG | Total |
|-------------------|--------|------|-----|---------|----|-------|-----|-----|-------|
| Third-Parties | 157 | 2 | 58 | 29 | 60 | 50 | 16 | 2 | 374 |
| Managed Contracts | 183 | 4 | 120 | 38 | 80 | 51 | 16 | 2 | 494 |
| Contract Managers | 5 | 1 | 8 | 10 | 13 | 3 | 2 | 1 | 43 |

Objectives and Scope

The objective of this audit was to evaluate and conclude on the design effectiveness of Citizens' third-party risk management process. Furthermore, with this audit we:

- Assessed Citizens' third-party risk management activities and tools as compared to leading practices
- Evaluated and provided guidance on the maturity of the third-party risk management processes
- Understood how fourth-party risks are evaluated and managed

For the purposes of this audit, a third-party is any entity other than a Citizens employee. The scope of this audit focused on third-parties that are governed by Citizens' Vendor Management Program, which is the governance structure that supports the strategic lifecycle of a vendor, integrated with Citizens' procurement processes, to establish, manage and optimize business

¹ Citizens has other procurements and vendor relationships that do not rise to the level of requiring active contract management and are not included in these counts.



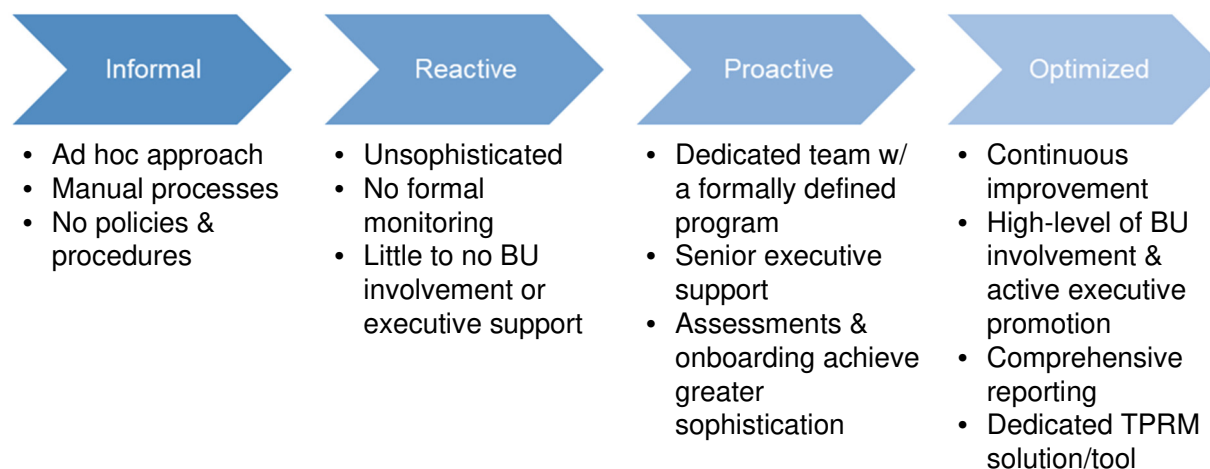
Executive Summary

relationships with third-parties. This includes the out-sourcing decision, strategy and demand management, procurement execution, and ongoing oversight through vendor and contract management. However, some third-parties are intentionally managed and monitored differently, and the following were therefore excluded from the audit: regulators; insurance agents; non-contracted vendors; and customers.

Results

Overall, the Citizens' third-party risk management process is designed effectively to adequately manage third-party related risks. The third-party risk management activities and tools used to manage contracts and third-parties, coupled with the key roles and responsibilities related to managing third-party providers, creates a robust process to provide effective risk management. In addition, when comparing these activities to leading practices the process effectively includes the full vendor life cycle: sourcing, due diligence, contracting, monitoring, issue resolution, and termination.

Additionally, Internal Audit evaluated the maturity of the Citizens' third-party risk management process. An independent evaluation provides context for the Organization to reach its desired state. Our evaluation was based on the maturity model below:



Internal Audit determined Citizens' third-party risk management process to be mostly proactive with several optimized activities, namely:

- Outsourced expertise is utilized when needed/applicable.
- Employees are trained in all relevant policies & procedures.
- The business units actively participate in third-party risk activities.
- On-site control assessments occur for critical third-parties, while under contract.
- Third-parties actively maintain their own company and/or service profiles.

It should be noted that a maturity model provides guidance to measure a specific process on a spectrum, and it is management's discretion to determine what level to strive to achieve on the spectrum by considering risks, cost/benefit factors, and organizational constraints. Currently there are two vendor systems being implemented that will further enhance the process and move the



Executive Summary

activities closer to optimized. These implementations are ongoing and expected to be completed in a phased approach during 2021.

Fourth-Party Considerations

All indications show Citizens takes fourth-party risks into consideration and addresses appropriately, when necessary. The increased use of outsourced services is more apparent in Citizens' use of software-as-a-service (or cloud) providers which creates potential fourth-party risks. A fourth-party exists when a vendor has a contract for a product or service but is not directly contracted with Citizens. Fourth-party risks can be difficult for organizations to evaluate and are generally left to contracted third-party to manage. At Citizens, third-parties are generally not contractually permitted to use fourth-party vendors and requires approval by Citizens management.

We would like to thank management and staff for their cooperation and professional courtesy throughout the course of this audit.



Distribution

Addressee(s) Stephen Guth; VP – Enterprise Services

Business Leaders:

Barry Gilway, President/CEO/Executive Director
Christine Turner Ashburn, Chief, Communications, Legislative & External Affairs
Kelly Booten, Chief Operating Officer
Mark Kagy, Acting Inspector General
Keri Dennis, Manager – Vendor Relationship Management

Audit Committee:

Marc Dunbar, Citizens Audit Committee Chair
James Holton, Citizens Audit Committee Member
Bette Brown, Citizens Audit Committee Member

Following Audit Committee Distribution:

The Honorable Ron DeSantis, Governor
The Honorable Jimmy Patronis, Chief Financial Officer
The Honorable Ashley Moody, Attorney General
The Honorable Nikki Fried, Commissioner of Agriculture
The Honorable Wilton Simpson, President of the Senate
The Honorable Chris Sprowls, Speaker of the House of Representatives

The External Auditor

*Completed by Patrick Lynch, Internal Audit Manager
Under the Direction of Joe Martins, Chief of Internal Audit*