Executive Summary

THE OFFICE OF THE INTERNAL AUDITOR

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

Also included in the Committee documents is a copy of the OIA 2020 Annual Report for reference.

Internal Audit

Overview of Audit Progress

Internal Audit (IA) follows a risk-based quarterly rolling plan approach in developing engagements and monitoring progress. As we review risks and consider operational challenges, we re-examine our plan and confirm that it continues to provide the expected assurance and that audit resources remain appropriately focused.

Internal Audit Plan (October 1, 2020 to September 30, 2021)	
Completed	7
In Draft	0
In Progress	8
Planned	7
Total Projects	22

Audit Progress

Engagements by Type

Engagements by Functional Area
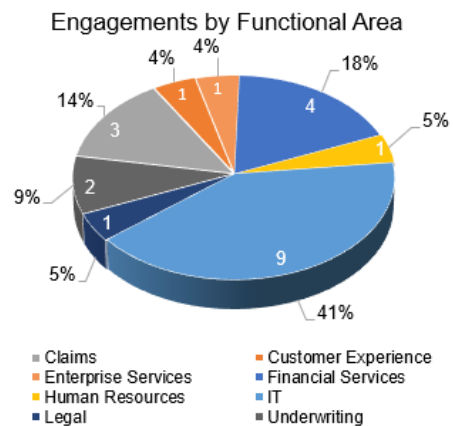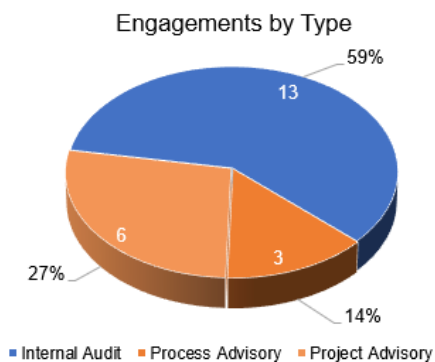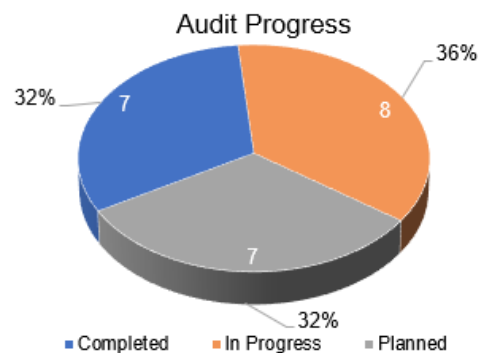
Audit Engagements Completed

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

- **Contingent Workforce** - Results from our assessment indicate that the contingent workforce program has adequate controls in place to ensure contingent workers are properly classified to prevent the unintentional creation of an employer-employee relationship between Citizens

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and contingent workers. Citizens' contingent worker policy and procedures were appropriately aligned with federal regulatory requirements and industry leading practices. In addition, the contingent worker policy and procedures were consistently applied by Citizens' contingent worker liaisons across the organization. IA noted an opportunity to enhance the controls around the HR contingent worker annual review process to ensure a thorough assessment of the appropriateness of any extension of a contingent worker assignment beyond the original anticipated services duration in accordance with the Contingent Worker Policy.

- **IT Security & Risk Incident Response Exercise** - Internal Audit was asked to participate in the incident response exercise and provide feedback regarding the attainment of exercise objectives, strengths and opportunities based upon the results, the validity of management's observations from the exercise, and the completeness of plan documents. Following the exercise, IA reviewed the results and agreed with Management's conclusion that the exercise met the objectives. Several strengths and opportunities were noted by IA: the Cybersecurity Incident Response Plan (CSIRP), Enterprise Data Incident Response Plan and CSIRP Checklist were reasonably followed during the exercise; formal training was provided as part of the exercise, benefitting staff who may not have participated in a prior test event; some sound areas of improvement were noted by the team post-exercise; and documentation can be expanded and/or updated to improve the execution of response processes.

The Office of Insurance Regulation also completed their exam:

- **Market Conduct Examination** – The final report for the Market Conduct Exam performed by the Florida Office of Insurance Regulation was distributed on January 28, 2021. The purpose of this market conduct examination was to determine Citizens' compliance with its plan of operation and its internal operational procedures. A detailed review of Citizens' procedures, operations, activities and records showed few deficiencies.

Work in Progress

There are eight audit engagements in progress:

Centerpoint Configuration	Centerpoint (Oracle Fusion) replaced independent applications previously used by Human Resources, Finance and Procurement. Oracle module configuration is complex and proper configuration of the modules is necessary to adequately restrict and/or eliminate the ability to override controls in place to prevent inappropriate transactions. Improper application configuration may lead to unauthorized transactions that may impair business operations or allow nefarious transactions. IA will confirm that Centerpoint modules are properly configured to ensure that security is adequate and prevents the override of key controls, appropriate logging is enabled, and business operational process needs are met with configurations that are installed.
Commercial Underwriting Compliance	There are various State of Florida Statutory underwriting requirements which Citizens needs to follow for properties to be eligible for coverage under specific product types. An example would be coverage eligibility for properties with transient public lodging. We plan to assess the adequacy

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and effectiveness of controls in place to meet State of Florida Statutory underwriting requirements.

- Escheatment

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, unclaimed property refers to money due to customers resulting from uncashed checks. IA will evaluate the adequacy of key business processes and control functions related to the escheatment process.

- Financial Services Payables Process

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 payables process and related controls. The payables process 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.

- Appraisal Process

A substantial portion of claims are being referred to appraisal to settle claims and are now a more centrical part of the claims settlement process. IA will evaluate the adequacy and effectiveness of controls related to the Appraisal process.

- Cloud Migration Program

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. 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.

- Identity and Access Management

Citizens' IT Security and Risk department is in the process of implementing an enterprise-wide strategy to consolidate and centralize user identity and access management processes and technology capabilities. Complexity will continue to increase as new cloud solutions, systems and applications are adopted and integrated into the current environment. These complexities should be understood and appropriate controls for authentication and authorization should be implemented to mitigate risks associated with user access/privileged access, segregation of duties, oversight and monitoring and reporting capabilities. IA will assess project progress, and corresponding processes, during this multi-year implementation.

CITIZENS
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- Logging and Monitoring

  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 research and follow-up. Absent appropriate logging practices being implemented, there is a risk for lack of accountability for system changes and potentially an inability to surface information to detect or reconstruct system events and/or possible threats when required. We will assess the implementation of system and application logging and monitoring to ensure that operational and security risks have been identified, corresponding logging practices have been implemented and appropriate event monitoring is occurring. We will also validate that logging fully supports the incident response process.

The OIA continues to provide regulatory support to the:

- Auditor General Audit

  Internal Audit in its liaison role is responsible for coordinating with the State of Florida Auditor General auditors who are conducting their triennial operational audit. Most of the coordination efforts constitute meeting planning, information request tracking and delivery, and overall ensuring the examiners/auditors receive the correct information timely.

Work Planned

The following audit engagements are scheduled to be completed during Q3 2021:

- Application and Infrastructure Standards and Conformance

  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. IA will review elevated risk applications and infrastructure components against IT security and hardening standards to validate compliance.

- Citizens Insurance Services

  The internal agency services 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. IA will evaluate the adequacy and effectiveness of controls related to the internal agency processes.

- Claims Litigation Management System Procurement

  Citizens will be issuing an Invitation to Negotiate (ITN) to request competitive sealed replies from firms capable of providing a web-based Software-as-a-Service (SaaS) Litigation Management System (System). The proposed System will be utilized to manage Citizens' litigated and disputed claims activity and other legal matters customary to property and casualty insurance carriers.

- Compliance Program

  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. IA will evaluate

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	the adequacy of processes supporting the efficiency of the compliance framework.
• IT Service Management	Citizens relies upon accurate and approved IT services being handled timely in support of internal customer requests and incidents. MyService is a SaaS platform which has several modules that provide the ability to create digital workflows to process and approve requests. IA will evaluate the adequacy and effectiveness of processes developed for handling service requests, IT incidents, problems and other digital work flows as well as data integrity and user access controls.
• Claims Consultant Recommendations Implementation	Ernst & Young LLP (EY) was engaged by Citizens to perform an operational assessment to assist with improving the efficiency and effectiveness of its claims litigation process. The objective of the engagement was to complete a current state assessment and gap analysis of the litigated claims management process against industry leading practices. Internal Audit will be providing advice and project support during the design and implementation phases of the project.
• 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.

Resources

Internal Audit filled the vacancy for an Internal Audit Manager with the appointment of Juan Carlos Rivera. Juan Carlos will initially focus exclusively on claims litigation processes.

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. Open items receive priority focus from management and are generally addressed within an agreed period. We are currently tracking 5 open observations of which 2 are rated as high impact. Both high rated open items relate to the recent OFAC (Office of Foreign Assets Control) completed by Internal Audit and focus mainly on developing a formal OFAC Sanctions Compliance Program and tightening the OFAC screening practices at Citizens.

The chart below provides information on the number of current open observations over a period including the observation ratings, source of observation and year reported.

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Audit Committee Meeting, March 2, 2021

Open Observations by Risk Rating

Legend: ■ Low ■ Medium ■ High ■ Closed
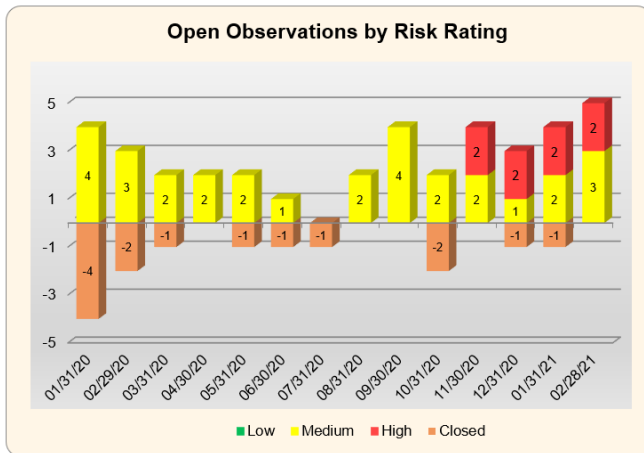
Observations by Year Reported		
2020	2021	TOTAL
2	3	5

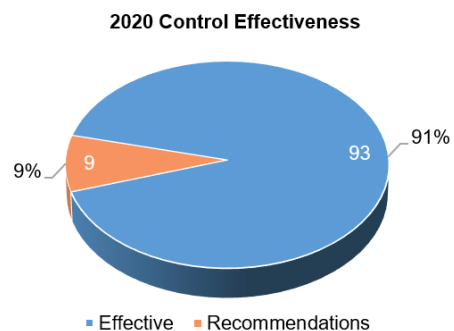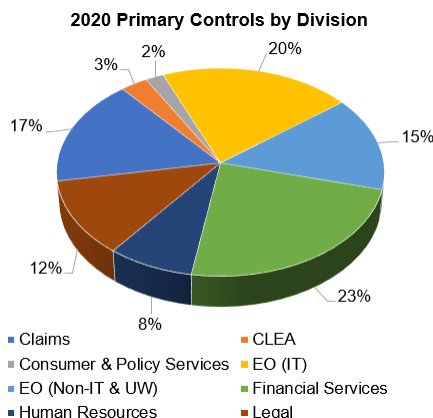| Observation Source	
IA	3
External Auditor	0
Market Conduct - OIR	2
Auditor General	0
Total	5

Internal Control

With the ongoing maintenance, monitoring, and enhancements to the Citizens Internal Control Framework (ICF), the Internal Controls (IC) team continues to refine the program to evolve and strengthen the maturity level of the organization's internal control environment. The ICF continues to utilize and leverage the COSO Internal Control Integrated Framework and provide management with leading internal control practices to enhance operational, financial, and compliance goals and objectives.

2020 Annual Control Self-Assessment

Management control self-assessments (CSAs) are performed annually to ensure ongoing evaluation of the control design and operating effectiveness of Citizens' primary controls. During 2020, 131 primary controls were identified and recorded for business processes across the organization with 102 primary controls assessed and 29 primary controls excluded due to the need for a control design refresh (21 controls) or there were no transactions during 2020 (8 controls).

Results from the 2020 CSAs indicate that 91% (93) of the primary controls are effectively designed and operating as intended while improvement opportunities were noted for 9% (9) of the primary controls. The graphs below depict the current distribution of primary controls by division and the aggregate results.

2020 Primary Controls by Division

Legend: ■ Claims ■ CLEA ■ Consumer & Policy Services ■ EO (IT) ■ EO (Non-IT & UW) ■ Financial Services ■ Human Resources ■ Legal

2020 Control Effectiveness

Legend: ■ Effective ■ Recommendations

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Enterprise Risk

Enterprise Risk (ER) facilitates, enables, and partners with business areas to deliver forward-looking and insightful risk perspectives that enhance the decision-making process and strategic performance of Citizens. The framework provides a consistent approach across the organization in the identification, assessment, and mitigation of strategic, operational, project and emerging risks.

The ER team continues to align, collaborate, and partner with Internal Controls, Ethics and Compliance, and IT Security and Risk to promote consistency, transparency and a holistic approach across the organization that leverages the ERM framework.

Strategic Risk Management

In February, ER will facilitate the 2021 strategic risk assessment with the Executive Leadership Team (ELT). The objective of the annual strategic risk assessment is to identify risks that may adversely impact Citizens' ability to achieve strategic objectives and key strategic initiatives over the next 12-18 months. The strategic risk assessment is preceded by individual risk discussions with each member of the ELT. The individual discussions were completed in January.

Mitigation plans continue to be monitored and executed as necessary for the 18 strategic risks that were identified and assessed in 2020. Upon completion of the 2021 strategic risk assessment, ER will work with the risk owners to develop and/or update mitigation plans where appropriate. The 2021 strategic risks will be reported in Q2.

Operational Risk Management

ER facilitates interactive operational risk assessments to enable Risk Champions and management to self-identify and assess risks that may impact the ability to achieve business objectives and to determine the effectiveness of mitigating activities to reduce risks.

2020 Operational Risk Assessments

As of the end of December, a total of 372 operational risks have been identified across the organization. Residual risk assessments, which consider how the risk is reduced by controls, have been completed for 69% (257) of the operational risks:

- 84% (217) of the risks were rated low
- 16% (40) of the risks were rated medium
- There are currently no operational residual risks with a high-risk rating

Operational Risk Ratings
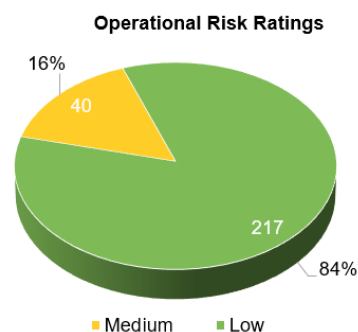
Operational risks are periodically updated through ER facilitated sessions and input from Risk Champions. The total number of operational risks fluctuate as risks are added, removed, and consolidated.

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Project & Scenario Risk Assessments

ER, upon request, facilitates cross-functional project and scenario risk assessments designed to enable risk-based decisions and the proactive mitigation of risks.

- *Market Conditions and Policy Growth*: ER partnered with a subset of the Strategic Evaluation Group (SEG) to provide a cross-functional identification and assessment of key risks that may impact Citizens' operations as a result of market changes and the uncertainly related to the timing and quantity of policy fluctuations, as well as provide insights and recommended actions for planning and addressing any future impacts across the organization as necessary. The risk assessment kick-off session was held in November. The risk assessment sessions are scheduled for Q1.

- *OFAC Risk Assessment:* Following an Internal Audit recommendation ER commenced with cross-functional OFAC risk assessments with 10 impacted business areas. The objective of these assessments is to record OFAC related risks and impacts across the organization in order to inform the extent of due diligence efforts for screening practices and support managements' risk-based decisions. The assessment also supports OFAC's recommendation for organizations to periodically perform risk assessments and enables a risk-based approach in the prioritization of resources and mitigating activities for the Enterprise OFAC Project as they implement mitigation plans for the open Internal Audit observations.

AuditBoard

The ER and IC teams are currently planning and preparing for the design and implementation of the risk and control modules in AuditBoard, OIA's new integrated governance, risk and controls (GRC) solution. The risk module is scheduled for a soft launch in March followed by the control module in April.

Action Items:

- ### Audit Committee Charter Approval

   The Audit Committee on an annual basis reviews the adequacy of the Committee Charter and presents the Charter and suggested edits to the Board for approval.

   The Charter is a formal document that sets out the authority of the Committee to carry out responsibilities established for it by the Board of Governors. The Charter defines that the purpose of the Committee is to assist the Board in fulfilling its oversight responsibilities for the integrity of Citizens' financial statements; Citizens' compliance with legal and regulatory requirements; the independent auditor's qualifications and independence; and the performance of the Office of the Internal Auditor (OIA) and independent auditors. In discharging its responsibilities, the Committee will have unrestricted access to members of management, employees, and information it considers necessary to discharge its duties.

   The Office of Internal Audit completed a review of the Charter against industry best practice and the Citizens Statute and found the Charter to be appropriate and have no suggested changes.

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- ## Office of the Internal Auditor Charter Approval

  The Audit Committee on an annual basis reviews the adequacy of the Office of the Internal Auditor Charter.

  The Charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The Charter, in accordance with Section 627.351(6)(i). Florida Statutes, 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.

  The Office of Internal Audit completed a review of the Charter against industry best practice and the Citizens Statute and found the Charter to be appropriate and have no suggested changes.

- ## Recommendation

  Staff recommends that the Citizens Audit Committee

  1. Approve the Citizens Audit Committee Charter for presentation to the Board of Governors at the next meeting on March 3, 2021
  2. Approve the Office of the Internal Auditor Charter as presented