

OFFICE OF THE INTERNAL AUDITOR

Annual Report 2020



February 12, 2021

To: Mr. Carlos Beruff, Citizens Board of Governors Chairman
Ms. Bette Brown, Citizens Audit Committee Chairperson
Mr. Marc Dunbar, Citizens Audit Committee Member
Mr. Carlos Lopez-Cantera, Citizens Audit Committee Member
Mr. Barry Gilway, President/CEO and Executive Director

CC: 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
Members of Citizens Property Insurance Corporation Board of Governors

Dear Messrs. Brown, Beruff, Dunbar, Lopez-Cantera, and Gilway

I am pleased to submit our Office of the Internal Auditor (OIA) Annual Report as required by Section 627.351(6)(i).2., Florida Statutes. The report summarizes the department's structure and staffing, applied audit methodology, and results from the audit work completed during 2020.




I welcome your comments and suggestions regarding this report, and appreciate the support provided by the Board of Governors, the Audit Committee and Senior Management. The OIA looks forward to serving the Board of Governors, the State of Florida and contributing to Citizens' efforts to achieve the corporation's goals and objectives. Thank you for your continued support as we move into 2021.

Respectively submitted,



Joe Martins, CIA, CRMA, CFE
Chief of Internal Audit
Office of the Internal Auditor

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Executive Summary

The Office of the Internal Auditor (OIA) is pleased to present the 2020 Annual Report for Citizens Property Insurance Corporation (Citizens).

Florida Statutes require the Chief of Internal Audit to submit an annual report on or before February 15, summarizing the activities of the OIA during the preceding fiscal year. Per Statute the report should include, but not be limited to, an evaluation of the effectiveness of internal controls; recommendations for corrective action, if necessary; and summaries of the audits, reviews and investigations conducted by the office.

This report is presented to Citizens' Board of Governors, the Executive Director, the members of the Financial Services Commission, the President of the Senate and the Speaker of the House of Representatives to comply with Florida Statutes and to provide information on how the OIA accomplishes its mission.

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The OIA is committed in developing a credible, sustainable, and value-added internal audit program to meet the statutory requirements as defined in the Citizens' statute and the expectations of the Board of Governors, Audit Committee and Management. To ensure that the OIA remains appropriately focused, we prepare a risk based annual audit plan that adequately focuses upon Citizens' strategic themes for the year.

In support of a collaborative assurance approach the Chief of Internal Audit oversees the Enterprise Risk Management and the Internal Control Framework functions, under the direction of the Audit Committee and the Risk Steering Committee.

The results of our work completed during the year indicated that Citizens has a well-established and functioning control environment. Audit work completed did not give rise to concerns regarding audit findings and overall impact on the control environment.

The OIA looks forward to serving the Board of Governors, the State of Florida and to support Citizens in its efforts to achieve its goals and objectives during 2021.



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Introduction

Background

Citizens operates according to statutory requirements created by the Florida Legislature and a Plan of Operation approved by the Florida Financial Services Commission. 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 are a major component of the Florida Comprehensive Annual Financial Report. Three types of insurance coverage accounts were established when Citizens was created: personal lines (PLA); commercial lines (CLA); and coastal (Coastal). The corporate headquarters for the organization is in Tallahassee while the Jacksonville office provides policy services and underwriting, claims and customer support as well as other administrative and organizational support functions.

Citizens' management continues to focus on process improvement and strengthening the control infrastructure, which supports building needed technology infrastructure, systems, and operational processes to support the corporation. There are several ongoing projects and operational changes that are at various stages of completion to ensure Citizens can continue to support its policyholders and is catastrophe ready.

OIA Duties and Responsibilities

The purpose, authority, and responsibilities of the Office of the Internal Auditor (OIA) are vested in Citizens' enabling Statute Section 627.351(6)(i) Florida Statutes. In addition to the statute the Board of Governors delegated oversight of the OIA to the Audit Committee who further defined the OIA's authority and responsibilities in the Internal Audit Charter. This charter is consistent with Citizens' enabling statute, 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 (the IIA Standards).

In accordance with Section 627.351(6)(i). Florida Statutes, it is the duty and responsibility of the Chief of Internal Audit to:

- Provide direction for the OIA including supervising, conducting, and coordinating audits, investigations and management reviews relating to Citizens' programs and operations.
- Conduct, supervise or coordinate other activities carried out or financed by Citizens for promoting efficiency in the administration of, or prevention and detection of, fraud, abuse and mismanagement in its programs and operations.
- Submit final audit reports, reviews or investigative reports to the Board, the Executive Director, the members of the Financial Services Commission, the President of the Senate, and the Speaker of the House of Representatives.
- Keep the Board informed concerning fraud, abuses and internal control deficiencies relating to programs and operations administered or financed by Citizens; make recommendations for corrective action; and report on the progress made in implementing corrective action.
- Cooperate and coordinate activities with the corporation's Inspector General.

Additionally, the OIA works collaboratively with the external auditors (Dixon Hughes Goodman LLP) to support their financial statement audit. Consideration is given to other regulatory reviews/audits to minimize the duplication of audit coverage within Citizens.



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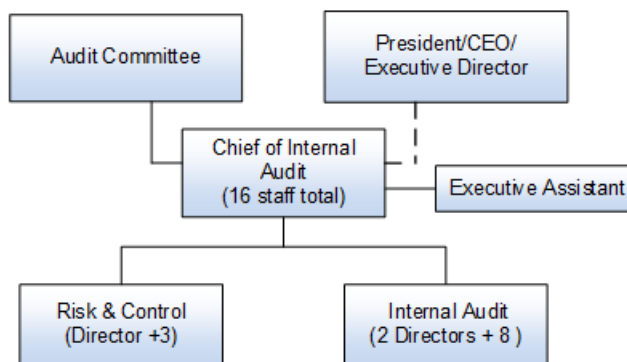
In support of its mission, the OIA's focus is to support Citizens in the achievement of its goals and ultimately to provide independent and objective assurance over the organization's enterprise risk management practices and internal control environment to the Audit Committee, Board of Governors and Management.

Organization and Administration

Organization Structure

The Chief of Internal Audit is appointed by the Board of Governors, reports to and is under direct supervision of the Audit Committee and is not subject to supervision by any Citizens' employee. The Chief of Internal Audit reports to the Board through the Audit Committee. Apart from Internal Audit (IA), the Chief of Internal Audit also has leadership responsibility for the Enterprise Risk (ER) and Internal Control (IC) functions. Both ER and IC operate independently from Internal Audit with its own staff, distinct processes, and individual administrative support systems. Per the IIA Standards, Internal Audit should align their efforts with assurance partners in order "to ensure proper coverage and minimize duplication of effort" (IIA Standard 2050).

The following chart details the OIA departmental structure:



Training

In alignment with the International Standards for the Professional Practice of Internal Auditing, the OIA staff is required to receive at least 40 hours of continuing education to maintain professional proficiency. During 2020 training was, for the most part, achieved through virtual attendance to industry provided seminars, conferences, work groups, and webinars.

Certifications and Advanced Degrees

The OIA brings various backgrounds of expertise to Citizens. Certifications and advanced degrees held by the Chief of Internal Audit and/or staff during the reporting period include:

- Certified Financial Services Auditor
- Certified Fraud Examiner
- Certified Information Systems Auditor
- Certified Information Security Manager
- Certified Internal Auditor
- Certified Litigation Management Professional
- Certified in Risk and Information Systems Control
- Licensed Attorney
- Master of Accountancy
- Master of Business Administration
- Master of Science in Information Assurance



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- Certified Public Accountant
- Certificate in Risk Management Assurance
- Master of Science in Computer Information Systems

Affiliations

The OIA participated in various affiliations during the reporting period, in support of the internal auditing profession, and gained insurance industry knowledge through attendance at chapter meetings and industry focused training:

- Association of Certified Fraud Examiners (ACFE)
- Information Systems Audit and Control Association (ISACA)
- Insurance Accounting and Systems Association (IASA)
- Insurance Internal Auditing Group (IIAG)
- Society of Corporate Compliance and Ethics
- The American Institute of Certified Public Accountants (AICPA) & affiliates
- The Institute of Internal Auditors (IIA) & affiliates
- The Risk Management Society (RIMS)

OIA Annual Plan

Annually the OIA prepares a Strategy and Plan (Plan) document that is shared with executive management and is presented to the Audit Committee for consideration and approval. 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.

Internal Audit

In executing the audit plan, the Internal Auditors (IA) provided independent, objective assurance through audit and advisory services that are designed to add value and improve Citizens' operations. Internal Audit managed a flexible audit plan that considers changes in business operations and ensured that audit engagements focused on areas of most importance. We completed an audit plan which included 25 engagements that provided independent assurance and delivered value to the organization in strengthening oversight and control.

- **Assurance (Audit) Engagements**

Through audits the OIA evaluates Citizens' internal controls, corporate governance, and accounting processes. We provide reasonable assurance on compliance with laws and regulations and accurate and timely financial reporting and data collection, as well as helping to maintain operational efficiency by identifying problems and correcting lapses.

- AOB Implementation
- Claim Payment Analysis OIG
- Claims Payment Complaint OIG
- Proof of Repairs
- Remittance Processing
- RFP 20-005 Audit Report



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- Cloud Readiness
- OFAC (Office of Foreign Assets Control)
- Policyholder Claims Experience
- Service Organization Controls (SOC)
- Third Party Access
- Third Party Risk Management
- Wire Transfer/ ACH

• Consulting (Advisory) Engagements

Through advisories the OIA, usually at management’s request, assesses current business practices and provides value added guidance to improve governance, risk management, and control processes.

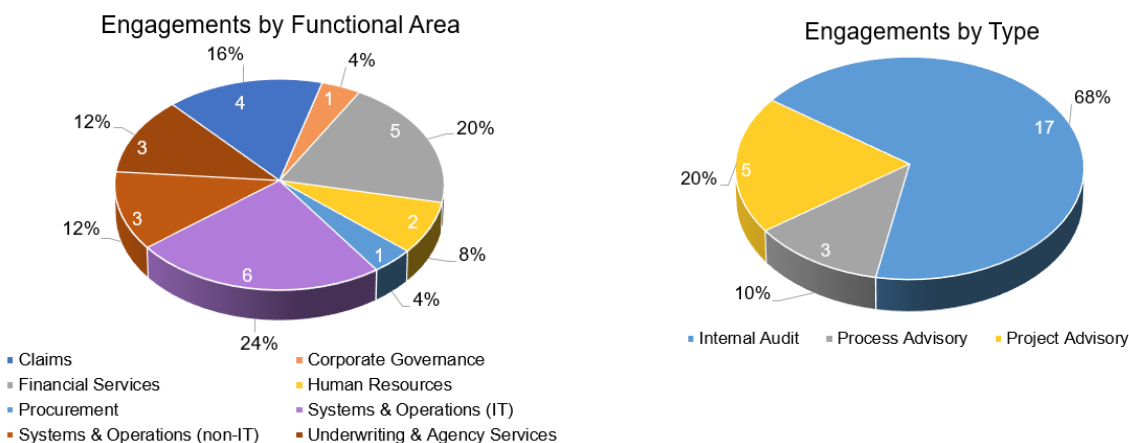
- Automated Underwriting
- Centerpoint Role Redesign Implementation
- CIS Disaster Recovery Exercise
- Claims Authority Limit Change Process
- ELT Recruitment & Selection
- Records Request Process
- Software Asset Management

• Project (Audit/Advisory) Engagements

Through active participation in new process or system development projects the OIA assesses project governance, risk management, and the development of control processes and provides value added guidance and support.

- Agency Management System
- Claims Payment Platform
- Identity and Access Management
- Microsoft Teams Cloud Phase I Implementation
- Rate Override Technology Development

The following diagram provides an overview of resource deployment:



Process Enhancements

We stay abreast of developments in the audit world and adopt leading practices where these will improve our service delivery. Some of the changes made to our audit approach include:

- Continued to enhance the continuous risk assessment and rolling audit planning approach to ensure that the audit plan remains current and aligned with changing business dynamics.



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- Further developed our insights driven assurance approach by enhancing our data analytics capability.

In the execution of audit engagements, OIA follows a phased approach to the completion of every audit engagement. This approach ensures that internal auditors follow a process that allows for consistent execution and thorough evaluation of risks and control effectiveness. The activities performed during each phase include, but are not limited to, the following:



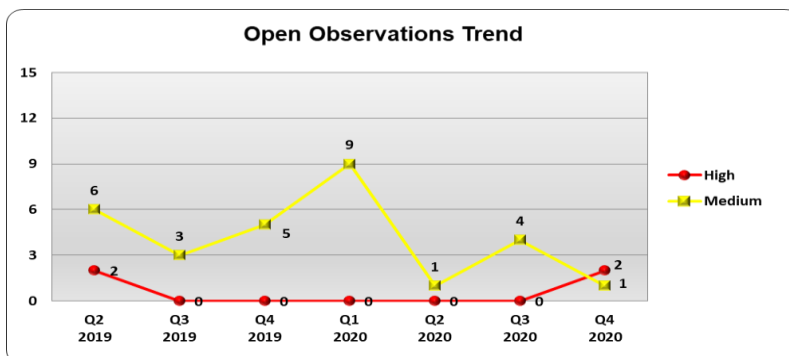
Standards of Audit Practice

Citizens operates according to *Section 627.351(6)(i), Florida Statutes*, and the *Plan of Operation* approved by the Florida Financial Services Commission. Given that the OIA statute does not include a specific requirement for auditing standards to govern the OIA’s operational processes, the OIA elected to follow the *International Standards for the Professional Practice of Internal Auditing (2017 edition)* for all audit engagements.

The OIA further uses other accepted industry frameworks for guidance when conducting audits, risk assessments and control evaluations. These include: The Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework for Internal Controls; the COSO Integrated Framework for Enterprise Risk Management; the Control Objectives for Information and related Technology (COBIT); the Information Technology Governance Institute (ITGI); the National Institute of Standards and Technology (NIST); and Information Technology Infrastructure Library (ITIL).

Issue Management

Internal Audit manages the Open Items Process, Corporate Policy 802. The Open Items Policy addresses the process administered by OIA for follow-up, escalation, and resolution of audit observations and recommendations. The process has been established to ensure that management action plans have been effectively implemented or that management has accepted the risk of not acting on audit results.





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Open Items statistics and those that are rated *high* or *past due* are provided to the Audit Committee on a quarterly basis. Management is taking appropriate action on the issues reported and the OIA monitors progress on the implementation of corrective action.

Enterprise Risk Management (ERM)

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. Citizens' management and business leaders have the primary responsibility for identifying, mitigating, and monitoring the risks within their processes.

ER 2020 Highlights

- In 2020, ER expanded the types of risk assessments performed to include pre- and post-implementation project and scenario risks. The scenario risk assessments are designed to evaluate emerging risk scenarios and mitigation plans that may need to be developed or considered to better prepare the organization to effectively mitigate risks in the event the scenario materializes. The organization embraced and leveraged this approach to support risk-based decision making and to ensure mitigating activities are identified, designed, and executed, as necessary.
- COVID-19 presented unprecedented challenges and risks which continued to create significant organizational, economic, and societal impacts for our employees, policyholders, agents, and vendors. Citizens prepared for the convergence of the storm season with COVID-19 and assessed the potential for new risks as well as considered the possibility of increased complexity for existing risks. Mitigating activities including business continuity and catastrophe response plans were established, closely monitored, and executed as necessary.
- Scenario risk assessments also focused on preparations for potential fluctuations of Citizens' policies in force count in the event private carriers are adversely impacted by market conditions.
- Pre- and post- implementation project risk assessments were requested and conducted for large scale system implementations including myAgency and Microsoft (MS) Teams.
- ER continued to strengthen the alignment, collaboration and partnership with IC, Ethics and Compliance, and IT Security and Risk to promote consistency, transparency and a holistic approach across the organization leveraging the ERM framework.
- ER increased visibility of the team and framework across the organization by supporting and participating in various cross functional workgroups for COVID-19, vendor management, IT risk and security, and the Strategic Evaluation Group.

Strategic Risk Management

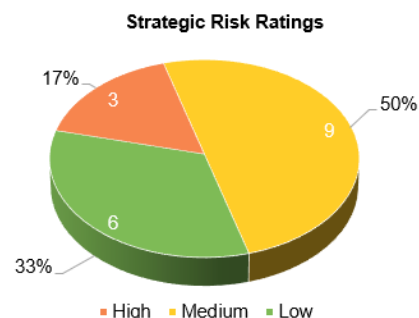
Citizens' ERM Framework defines strategic risk as the uncertainty of an event, or action, leading to a consequence which may result in an adverse impact on Citizens' ability to achieve the strategic objectives and key strategic initiatives over the next 12-18 months. Risks may occur from external and/or internal events leading to complexity in mitigating the risks.



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Annually, ER facilitates a strategic risk assessment with the Executive Leadership Team (ELT). The strategic risk assessment is preceded by individual risk discussions with each member of the ELT. During the first quarter, the 2020 strategic risk assessment was completed. A total of 18 strategic risks were identified. The risks were assessed by estimating the potential impact or severity level the risk event may have to Citizens if the event occurs and considering the probability of occurrence.

- 3 risks were rated high (Rate Differential, Claims Abuse and External Influences)
- 5 new risks were recorded (Talent Management, Leveraging Data and Technology, Assignment of Benefits, Litigation Management System and COVID-19)
- Comprehensive mitigation plans are in place, closely monitored and executed, as necessary



Operational Risk Management

ER facilitates engaging and 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.

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 risks are periodically updated through ER facilitated sessions and input from risk champions. The total number of operational risks in the risk registry fluctuate as risks are added, removed, and consolidated.

Project & Scenario Risk Management

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. The following risk assessments were completed in 2020:

- Microsoft (MS) Teams – The risk assessment focused on the timely and secure implementation of Phase 1 of MS Teams.



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- myAgency - Pre-implementation and post launch risk assessments were completed for the new agency management system.
- COVID-19 & Tropical Cyclone - Scenario risk assessments were conducted in April and August which focused on several emerging or present threats considering the state of COVID-19 occurring concurrently with the tropical cyclone season.
- Commercial Lines Underwriting (CL UW) Scalability – A scenario risk assessment was completed to identify and assess risks that may impact the department's ability to respond to market conditions resulting in increased volumes and to ensure that comprehensive mitigation plans are ready to be executed when needed.

Internal Control Framework (ICF)

With the ongoing maintenance, monitoring, and enhancements to the Citizens' Internal Control Framework, the internal controls 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.

As we continue to strengthen our partnership with the business areas through a more collaborative approach and focused educational efforts, the control self-assessment process has become more robust, resulting in increased value to the organization.

ICF 2020 Highlights

- At the beginning of the year (pre-Covid-19), the IC team hosted events in Jacksonville and Tallahassee to celebrate the launch of Citizens' ICF and to show appreciation for the partnership, contributions, and ongoing support from the business areas in the success of this initiative. Business unit leaders and internal stakeholders provided positive feedback on the event and the value received from the implementation of the framework.
- Annually every business unit performs a self-assessment on the control design and control effectiveness. For 2020 a 100% participation was recorded from all divisions in the completion of their self-assessments. In addition, a significant milestone was reached as 2020 was the first year of Citizens' ICF where 100% of the control assessments were performed by management and control champions while the IC team provided consultative support and performed quality reviews to ensure the assessments adhered to the ICF standards.
- The Internal Control team (IC) reviewed and improved the ICF quality reviews to strengthen the management control self-assessment process and Citizens' control environment. IC completed 10 quality reviews across 4 divisions noting minor process improvements and recommendations which are being addressed by management.
- Throughout the year the Enterprise Risk (ER) and IC teams collaborated to expand the educational opportunities for risk and control champions in the business areas by designing and providing introductory overviews for individuals new to Citizens' risk and control frameworks and providing more comprehensive training on how to conduct risk and control assessments.

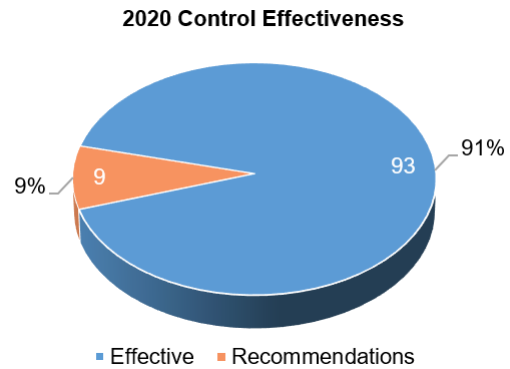
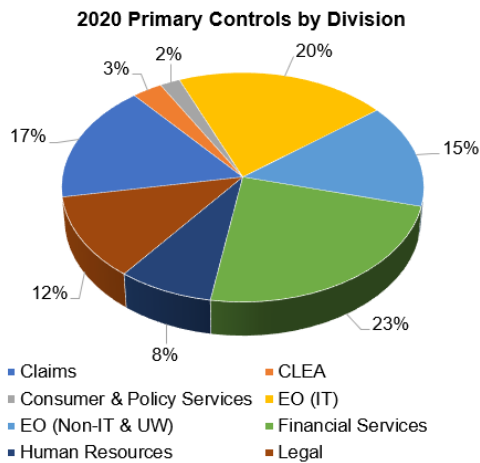


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Annual Control Self-Assessment

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 an 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.





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Audit Engagement Summaries

During the year, the OIA's risk-based approach covers many elements of the corporation's internal control systems; it is not intended to cover all areas of the corporation, nor all possible areas of risk. Instead, we focus our resources on those areas that were evaluated as the highest priority in terms of greatest risks and where our work could be most valuable, either by providing assurances through information or by effecting positive change.

Citizens' management is responsible for establishing and maintaining an effective internal control structure. The OIA evaluates and reports on the design and effectiveness of that internal control structure. Areas of audit coverage include internal audits, advisory services, and financial statement audit support.

Internal Audits

Internal audits are designed to provide reasonable assurance to the Board of Governors and senior management that the controls designed and implemented by management can be relied upon to mitigate the risk within the organization to an acceptable level. There are various types of audits including operational, financial, forensic, compliance and information technology.

Advisory Services

Advisory services are generally less formal than audits, and as a result, an opinion is not being expressed as to the effectiveness of the controls. However, due consideration should be given by management to the adoption of internal control recommendations, to enhance the efficiency and effectiveness of the existing internal control environment under review.

Audit Engagement Summaries

The following internal audit summaries reflect reported audit results for areas in scope for 2020. All reports were issued to the Citizens Board of Governors (Audit Committee) and, in accordance with Florida Statutes, to the Financial Services Commission, Speaker of the House and President of the Senate. Detailed management reports are provided directly to the applicable management group.

- Agency Management System - With this engagement, OIA provided advice and guidance relative to phase I of the project to implement the myAgency platform. The scope of work included: facilitation of a project risk assessment to help identify and prioritize important project risks; reviewed end-to-end user acceptance testing; processes related to user access roles and permissions; automated clearing house (ACH) transactions; and the agent fee payment process. The risk assessment results were shared with Agency and Market Services and IT leadership as mitigating activities and recommended controls were implemented. Internal Audit provided consultative support over areas of elevated risk prior to implementation to provide relative assurance of the design of controls for key activities.
- AOB Implementation - The objective of this audit was to assess the readiness, adequacy, and efficiency of AOB processes, controls, and oversight procedures and to ensure the program is effective and department objectives are achieved. Our audit work indicated that management's diligent efforts to develop and implement processes and procedures to comply with the provisions of HB7065 have been successful. Management implemented necessary processes to comply with HB7065, including a dedicated Claims AOB Project Team was created to handle



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

- Automated Underwriting - Underwriting management began an initiative to adjust the personal lines Automated Underwriting process to improve loss frequency, ensure critical rating variables are accurate, and positively impact expenses. Internal Audit was engaged by the project team to provide advice and project support related to controls associated with the streamlining of the automated underwriting back-end review process for new business applications. Results from our work indicates that process changes align with underwriting regulatory requirements and adequate monitoring and validation procedures are being implemented.
- Centerpoint Role Redesign Implementation - Past internal audits noted instances of inadequate segregation of duties and excessive access permissions that were not adequately monitored. In response to these audit findings, Citizens contracted a vendor with extensive Oracle Fusion Cloud Applications experience to verify and validate the implementation and configuration of specific Centerpoint roles, recommend custom roles and assist in the design of the custom roles. Internal Audit tested the redesigned and new roles to provide reasonable assurance that the changes addressed the controls issues noted in the prior audits. We found that roles had been adjusted to align with segregation of duties or management reporting remains in place for appropriate monitoring.
- Citizens Insurance Suite (CIS) Disaster Recovery Exercise – Internal Audit (IA) was asked to participate in the DR exercise and provide feedback regarding the attainment of plan objectives, the validity of management’s observations from the exercise and a list of strengths and opportunities based upon the results. Following conclusion of the exercise IA reviewed the exercise results and agreed with management’s conclusion that the exercise met the failover plan objectives. Several strengths and one opportunity were noted by IA, i.e. operational procedures were executed in less time than is required by the business impact analyses; user testing was completed; reporting and change management processes were followed; and research continues for one application recently migrated to a software as a service that encountered some errors.
- Claims Authority Limit Change Process - The Claims Business Analysts group requested Internal Audit’s support with a review of updated procedures associated with modifications/enhancements to the process for making changes to adjuster’s approval authorities. We held several discussions with members of Claims Business Analysis and reviewed prospective changes and provided control recommendations and enhancements, which were agreed upon with management.
- Claims Litigation and Legal Billing - The objective of this audit was to evaluate the adequacy and effectiveness of processes and controls in place to monitor and manage claims litigation expenses. Results from the audit work indicate the Claims Litigation and Legal Billing departments have made improvements to address the increasing case load and legal defense counsel expenses. Claims Litigation Management implemented a formal litigation budget



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approval process detailing projected costs by case and is piloting video trial prep sessions to reduce travel and related time expenses. It was also noted Claims Legal provided ample support to the Claims Litigation process.

- Claims Payment Platform - With this engagement, Internal Audit provided advisory services in support of the project through consultative advice related to controls of project management, as well as confirmed the effective and timely escalation and handling of project issues. The scope of work also included a review of user access and permissions developed during the project, as well as 3rd party vendor controls.
- Cloud Readiness - The objective of this audit was to assess the current state of Citizens' Cloud Readiness to ensure the protection of Citizens' and customer information, and to avoid or minimize business disruptions as additional Cloud services are implemented. The scope of the audit included Cloud Governance, Cloud Security, Cloud Architecture, Cloud Migration, Cloud Operations, Cloud Service Providers, Cloud Financial Management, Cloud Skills and Organizational Change Management. Results of our work showed overall good alignment between the Citizens' Cloud Program and accepted practices. Completed program components appeared to be suitable for their intended purpose and a few components were in progress and were finalized as the Cloud Program progresses from the foundation phase to the migration phase. One opportunity for improvement was noted and shared with management for consideration.
- Executive Leadership Team (ELT) Recruitment Selection Advisory - Internal Audit performed a comprehensive analysis of the Board of Governors role in the executive recruitment, selection, promotion, and termination/ separation processes for senior managers. We benchmarked Citizens' practice with standards applied by comparable state entities to provide advice and guidance to the members of the Audit Committee where appropriate. Results from our work indicated that the Board has the ultimate responsibility to engage the Executive Director and Senior Managers, who serve at the Board's pleasure and are subject to engagement, suspension, or dismissal at the discretion of the Board. This ultimate responsibility may not be delegated. The Board may accomplish this engagement in any manner of its choosing and establish any other employment policies and procedures, as it deems appropriate to fulfill its public purpose. We also noted that the past recruitment and selection process relative to the Executive Director and Senior Management has conformed to Statute and Citizens' Plan of Operation. The benchmark study involving similar types of state entities confirmed that the legal authority and obligations of the Board relative to the recruitment and selection process of the Executive Director and Senior Management are substantially the same as other similarly positioned entities.
- Identity and Access Management - With this engagement, Internal Audit provided risk and controls advice as the multi-year project progresses. Overall, we noted that adequate processes are in place to support and ensure the effective completion of the project. The project governance structure is designed well, the project is on target in accordance with the timeline defined in the Implementation Roadmap, standard control processes were used in system implementations and a process enhancement related to change management for cloud services was provided to management for consideration.
- Microsoft Teams Cloud Phase I Implementation - With this engagement, OIA provided advice and guidance relative to phase I of the project to implement the MS Teams collaborative



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workspace platform. The scope of work included facilitation of a project risk assessment to ensure risks are identified, prioritized, and managed, evaluation of IT security governance and compliance processes, participation in user acceptance testing and controls recommendations where needed. While no significant issues have been observed since the phase I implementation in April, OIA suggested that continued focus be given to specific risks identified in the assessment.

- OFAC (Office of Foreign Assets Control) – Internal Audit evaluated current OFAC screening practices and procedures and to assess the effectiveness of the program against a framework for OFAC compliance published by the Department of Treasury. Results from our audit work indicated that Citizens procured and has access to an OFAC compliance software platform which is used to screen third parties against OFAC’s most up-to-date and accurate SDN (Specially Designated Nationals) listings. When compared with recorded leading practices, published whitepapers and guidance provided by the framework for OFAC compliance published by the Department of Treasury, we assessed that there is an opportunity to improve and strengthen Citizens’ current screening practices, governance, and control activities to ensure comprehensive OFAC screening is conducted going forward. Specifically, OIA identified an opportunity to expand current pre-screening and ongoing/periodic screening of 3rd parties in Citizens. Additionally, OIA identified that there is an opportunity to provide an enhanced governance structure around OFAC compliance at Citizens by developing and maintaining a written OFAC Sanctions Compliance Program (SCP).
- Policyholder Claims Experience - The objective of the audit was to evaluate the adequacy, effectiveness, and efficiency of the Claims Customer Experience processes and controls as it relates to claims customer service. Results from our audit work indicate that the key controls and processes over the Claims Customer Experience are adequate to capture customer feedback, measure customer satisfaction, and identify opportunities to improve the claims handling process. Internal Audit noted an opportunity to enhance access controls over the Voice of the Customer survey data storage. Process improvement opportunities were also noted and shared with management for consideration.
- Proof of Repairs - In October 2018, Citizens began a proactive approach to communicate the need for proof of damaged property repairs for hurricane Irma impacted policyholders. Agents and policyholders were reminded to retain receipts as evidence of the repairs and as a requirement for policy renewal. The objective of the audit was to evaluate the adequacy and effectiveness of controls in place for the Hurricane Irma proof of repairs process for Personal and Commercial Line Policies focusing on timeliness and adequacy of agent and policyholder notification, documentation, renewal eligibility and the non-renewal process. Results from our audit work indicate that there are adequate and effective processes and controls in place over Hurricane Irma proof of repairs for Personal and Commercial Line Policies.
- Public Records Requests - Chapter 119, Florida Statutes, commonly known as Florida's "Public Records Law," applies to Citizens and provides information on policies, definitions, exemptions, general information on records access, inspection, examination, and duplication of records. Citizens implemented procedures and guidelines to ensure appropriate retention of records in accordance with regulation, including a public record request process. With this engagement Internal Audit supported the Citizens Records Custodian with an assessment of



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organizational responsiveness to public record requests and to confirm that such requests are appropriately routed for swift handling.

- Remittance Processing - The objective of this audit was to evaluate the effectiveness of processes and controls related to remittance processing. Results from our audit work indicate that there are effective processes and controls relating to the authorization of premium refund and suspense disbursements, completeness and accuracy of premium payments received from policyholders and adequate system controls surrounding premiums paid on behalf of agents.
- Request for Proposal (RFP) 20-005 Audit Report - Internal Audit periodically reviews procurements which could be considered as sole source or single-bid. For this procurement we evaluated the effectiveness of controls surrounding this single-bid procurement and noted that adequate and appropriate controls were exhibited in compliance with Company policies and Florida statute.
- Service Organization Controls (SOC) - The objective of the audit was to evaluate the adequacy and effectiveness of the processes, procedures, and controls over the SOC report governance process. Our audit work indicated that key controls and processes over the SOC report governance process are adequate to ensure annual SOC reports are obtained from the vendors in accordance with the contractual agreement. Internal Audit noted an opportunity to enhance the SOC governance control process by implementing an exception tracking and monitoring process. Corrective action is in progress.
- Software Asset Management - Internal Audit provided advice and guidance relative to Software Asset Management program enhancements. The scope of work included benchmark results for a Software Use Policy and Software Asset Management Committee Charter, leading practice standards, potential maturity models to benchmark program development and a checklist that includes third party software audit preparation, notification and process details. We requested that management consider the materials provided to enhance the program and best serve the needs of the organization.
- Support to the OIG on Claims Complaints - Following a request from Citizens' Office of the Inspector General, Internal Audit conducted two (2) targeted claims audits to support the OIG's investigation following complaints received by the OIG. Results of the audits were shared with the OIG management in memorandums and included in their investigation.
- Third Party Access - Internal Audit (IA) evaluated risks associated with third-party access to the Citizens information resources and validated that third-party access policies, inventories, user account management, connections and monitoring are appropriate for the organization in mitigating these risks. We noted policy and process improvements since our last audit of third-party access. The Information Technology Security Policy, Information Technology Security Standards, the Vendor Management Office (VMO) contract template and the Vendor and Contract Management Playbook have been updated to include specific provisions concerning third-party access. IA also noted that a Third-Party IT Security Governance and Access Matrix has been developed to delineate program responsibilities. Our work indicated two areas where operational controls can be strengthened to ensure that third-party access to Citizens' information resources is properly managed. This has been discussed with management and corrective action is in progress.



Appendix 1

- Third Party Risk Management - Internal Audit (IA) evaluated the design effectiveness of Citizens' third-party risk management process and found the process to be 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. Additionally, IA found the process to be mostly proactive with several optimized activities based on a maturity model used to measure Citizens. Finally, IA found that Citizens takes fourth-party risks into consideration and addresses these appropriately.
- Wire Transfer/ ACH - In late 2019, Citizens completed migration to a new vendor to provide commercial banking services, including wire transfers and ACH services. The objective of the audit was to evaluate the adequacy and effectiveness of processes and controls in place to monitor and manage the execution of both wire transfer and ACH payments. Results from our audit work indicate that there are effective processes and controls relating to the authorization of wire transfers and ACH transactions, completeness and accuracy of activity paid via ACH, oversight of third-party banking relationships, and system access controls surrounding online banking systems.