Executive Summary

Audit Committee Meeting, September 21, 2021
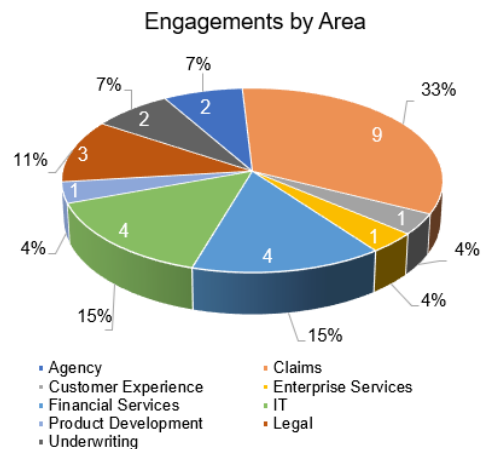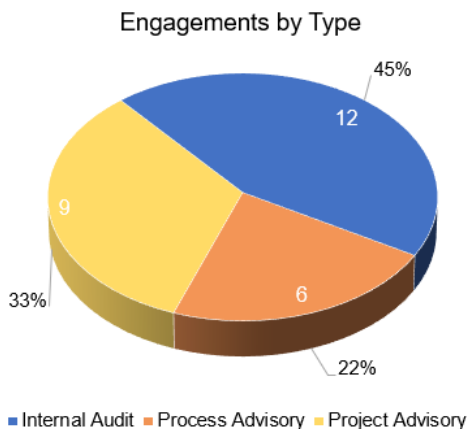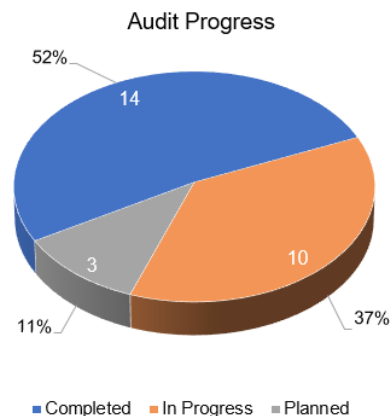
THE OFFICE OF THE INTERNAL AUDITOR

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. We are in the final stages of implementing the Audit, Risk and Control modules of the OIA's new integrated governance, risk, and controls (GRC) system (AuditBoard). The system provides a centralized risk and control repository, self-service capabilities for business areas to update audit issue progress, risk and control information and assessments, and risk and control reporting.

Internal Audit

Overview of Audit Progress

Internal Audit 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 (April 1, 2021 to March 31, 2022)	
Completed	14
In Progress	10
Planned	3
Total Projects	27

Audit Progress

Engagements by Type

Engagements by Area

Executive Summary

Audit Engagements Completed

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

- **In-House Counsel** - Internal Audit examined the subject of In-House Counsel as part of the EY implementation initiatives. EY had recommended defining the roles and responsibilities associated with senior counsel to promote consistency in tasks as well as to assist with the promotion of suit avoidance measures, including handling lower-severity litigated claims, holding that this would allow for greater efficiencies, as well as help manage legal spend. Through this advisory, OIA provided additional information and insights with respect to models and approaches for Management's consideration.

- **Cancellation Moratorium** - In response to a memorandum issued by the Florida OIR, Citizens stopped processing policy cancellations and non-renewals to ease the financial burden for policyholders caused by the impact of the COVID-19 health risk. The objective of the audit was to evaluate the adequacy and effectiveness of processes and controls in place to monitor and manage the billing and financial accounting impact of the policy cancellation moratorium. Results from our audit work indicate that there were effective processes and controls relating to management's estimate of the uncollectable premium receivable at 2020 year-end, monitoring and oversight of the billing aspects related to the moratorium, and systematic noncancellation of policy configurations.

- **Citizens Insurance Services** - The objective of the audit was to evaluate the adequacy and effectiveness of the processes, procedures, and controls of Citizens Insurance Services (CIS) internal agency. Results from our audit work indicate the processes and controls in place ensure the CIS rules, guidelines, and procedures are following Florida statutory requirements.

- **Cloud Migration Program** - Internal Audit (Audit) was asked to support the multi-year project in an advisory capacity and is providing insight related to risks and controls associated with the migration of applications and infrastructure to cloud services. We concluded that the project governance structure is well designed, several application development environments have successfully been migrated to the cloud, formal communications and training are provided to staff for initiatives that affect the overall company, and the migration of employee documents to One Drive is underway. As part of the advisory work, Audit was asked to validate pre-approved controls required to open internet access to two application development environments in the cloud. We provided the validation results and a process improvement to IT management to enhance the validation efforts required for future significant project milestones.

- **Covid Contact Responses** - As part of Citizens' COVID-19 contact response work group, Internal Audit independently validates and certifies the identification of

Executive Summary

individuals potentially exposed through contact with Citizens' independent adjusters. This is accomplished through data analytics that identify all claims and tasks assigned to the subject adjuster. Then thorough review of ClaimCenter files and notes is completed to ensure no additional individuals were impacted. During the quarter Internal Audit responded to four instances that required validation and certification, with one instance of close contact not originally identified by the independent adjuster.

- **HB 1079 Implementation** - Internal Audit was requested to provide advisory services in support of Citizens' implementation and compliance with the requirements of HB 1079. Consultative advice related to controls of impacted business areas and project management was provided upon request. Internal Audit also confirmed the effective and timely escalation and handling of issues. Internal Audit observed a collaborative approach leveraging a steering committee and cross-functional work groups. This approach provided visibility, an opportunity for resolution on topics of discussion, and allowed workgroups to align activities and associated metrics. Additionally, Internal Audit observed that potential risks were escalated as appropriate through an established risk management plan, including risk identification, risk analysis, risk response planning, and risk monitoring.

- **SB 76 Implementation** - The objective and scope of this engagement was to provide advisory services in support of the implementation and management of all requirements of SB 76 impacting Citizens' business units through consultative advice and project management. Internal Audit also confirmed the effective and timely escalation and handling of project issues. Internal Audit observed that the workgroups conducted regular meetings, escalated potential risks, appropriately created new processes, procedures, workflows, and strategies to complete phase 1 of the implementation before the legislation's effective date of July 1, 2021. A post-implementation audit has been requested by Claims Management and will take place as part of the OIA Plan for 2022.

Work in Progress

There are ten (10) audit engagements in progress:

- **Claims Consultant Recommendation Implementation** - 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 support during the design and implementation phases of the project.

- **Claims Litigation Management System Procurement** - Citizens issued 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

Executive Summary

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. Internal Audit is reviewing procurement criteria and is providing advice when necessary.

- **Clearinghouse Operations** - Citizens is experiencing growth in new business submissions due to the challenges in the Florida marketplace. The Clearinghouse process and system have not been reviewed since implementation. The audit will evaluate the effectiveness and adequacy of key business processes and control functions related to the Clearinghouse operations.

- **Compliance Program** - Following a prior audit the compliance governance framework, enhancements were made to the framework to strengthen and align the program with leading practice. Internal Audit will evaluate the adequacy of processes supporting the efficiency of the framework.

- **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 Internal Audit 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.

- **Litigation Guidelines Revision** - As part of the continued monitoring of the progress of the working plan and implementation of the initiatives developed by Claims Management in response to EY's observations and improvement opportunities, Internal Audit will provide advisory services as part of the review and update of the Claims Legal Services Guidelines. EY had noted that the claim litigation guidelines do not promote adequate control over outside counsel activities or effective expense management consistent with industry leading practices and recommended strengthening the guidelines to promote effective management over litigated claims.

- **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 supports the incident response process.

- **myAgency Post Implementation** - The Agency Management System (AMS) Phase 1 was successfully implemented in July 2020 with Phase 2 implemented in Q4 2020.

Executive Summary

The platform supports the tracking and monitoring of agent licenses, commissions, performance, investigations, complaints, and key performance indicators. The audit will evaluate the adequacy and effectiveness of controls related to the Agency Management processes and application.

- **SB 1598 Implementation** - Internal Audit is providing advisory services with regards to the implementation of processes and procedures necessary to comply with the requirements of Senate Bill 1598, which was recently signed into law with some provisions effective July 1, 2021 and others January 1, 2022.

- **Underwriting Staffing Analysis** - Internal Audit was requested to participate in Enterprise Operations' analysis of current underwriting staffing models and provide advice and project support where appropriate.

Work Planned

The following audit engagements are scheduled to be completed during Q1 2022:

- **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. Internal Audit will review elevated risk applications and infrastructure components against IT security and hardening standards to validate compliance.

- **Check Printing Software Implementation** - The Company's most common way of paying claims and refunded premiums is with physical checks. Citizens procured a new check printing software which will be implemented in a two-phased approach during the remainder of 2021 and 2022. With any process that generates high-value assets such as printed checks, it is critical that system access and permissions, as well as physical access to restricted rooms, are set up properly upon implementation.

- **Rate Override Technology** - 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. Since the process has changed significantly Internal Audit will validate the implemented control structure and ensure the controls are working as intended.

Control Deficiency Resolution

Internal Audit maintains a database containing reported audit observations, recommendations, management action plans and target completion dates originating from 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

Executive Summary

tracking three (3) open observations of which one (1) is rated as high impact. The high rated open item relates to the recent OFAC (Office of Foreign Assets Control) completed by Internal Audit and focuses 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.
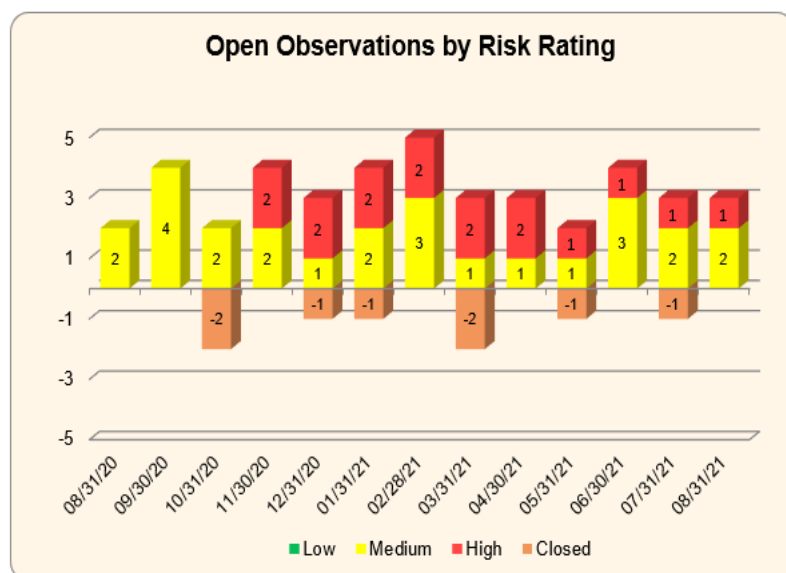
Observations by Year Reported		
2020	2021	TOTAL
2	1	3

Observation Source	
Internal Audit	3
External Auditor	0
OIR Market Conduct	0
Auditor General	0
Total	3

Enterprise Risk & Internal Control

The complex property insurance environment combined with changes in Florida's market conditions contribute to the complexity of enterprise-wide risks. Citizens is committed to a proactive approach to managing risks and internal controls which includes the utilization of comprehensive risk and control frameworks. The Internal Controls (IC) and Enterprise Risk (ER) teams within OIA are responsible for the design, maintenance, and enhancement of Citizens' Internal Control Framework (ICF) and Enterprise Risk Management (ERM) Framework. As part of each framework, the teams facilitate, enable, and partner with Risk and Control Champions and management in each division to perform assessments and monitoring designed to mitigate risks and strengthen Citizens' control environment.

Internal Control

As of August, 119 primary controls have been identified and recorded for business processes across the organization. As part of the ICF, annual control self-assessments (CSAs) are performed by management or designated Control Champions to validate whether the primary controls for their processes are working as intended and to identify any areas of improvement.

Executive Summary

For 2021, 90% (107) of the primary controls are currently being assessed by management or Control Champions while 10% (12) of the primary controls are scheduled for a refresh by the IC team. IC has periodic meetings with management to ensure that the CSAs are progressing and to provide consultative advice as needed. All business areas are on track for timely completion of the 2021 CSAs by the end of November.

Through various touchpoints with the business areas and ICF quality assurance reviews, the IC team ensures that the Citizens' ICF standards are followed and that control assessments continually add value and strengthen Citizens' control environment.

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. Our risk profile reflects a comprehensive view of risks from various perspectives including strategic, operational, project and emerging.

- **Strategic Risk Management** - Comprehensive mitigation plans are in place for each of the 19 strategic risks. The mitigation plans are closely monitored, updated, and executed as appropriate. During Q4, Enterprise Risk will begin planning for the 2022 strategic risk assessment.

- **Operational Risk Management** - Operational risk assessments are performed for a pre-defined universe of 81 processes throughout the organization. During Q4, ER plans to facilitate and update operational risk assessments for approximately 25% of the processes. In addition to ER facilitated sessions, operational risks are also periodically updated throughout the year as needed by management and Risk Champions. As of August, there are a total of 366 active operational risks identified across the organization. Currently, there are no operational risks with a high-risk residual rating. The total number of operational risks fluctuate as risks are added, removed, and consolidated.

- **Project & Scenario Risk Assessments** - Upon request, Enterprise Risk facilitates cross-functional project and scenario risk assessments designed to enable risk-based decisions and the proactive mitigation of risks:

  o *HB 1079:* In June, ER facilitated a pre-implementation risk assessment to identify and assess risks and mitigation plans for the implementation of HB 1079 requirements related to the evaluation, management, and oversight of contractual services contracts. A post-implementation risk assessment is scheduled for Q3.

  o *Market Conditions and Policy Growth:* In July, ER and the Strategic Evaluation Group (SEG) completed the cross-functional identification and assessment of key risks that may impact Citizens' operations as a result of market changes and the uncertainty related to the timing and quantity of policy fluctuations to provide

Executive Summary

insights and recommended actions for planning and addressing any future impacts across the organization, as necessary.

o *Pre-Suit Notice:* In September, ER will begin the facilitation of a risk assessment focused on the processes and requirements for the notice of intent to litigate.