

# Executive Summary

Board of Governors Meeting, December 15, 2021

## THE OFFICE OF THE INTERNAL AUDITOR

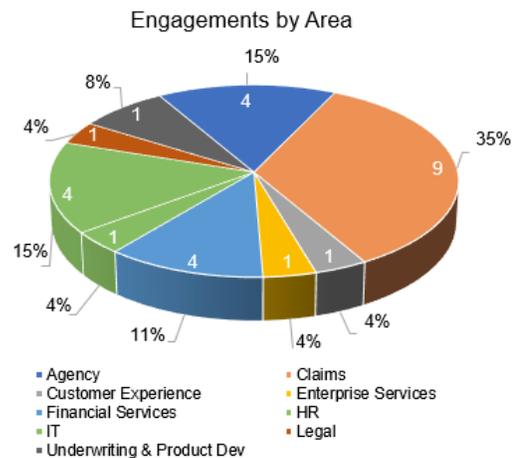
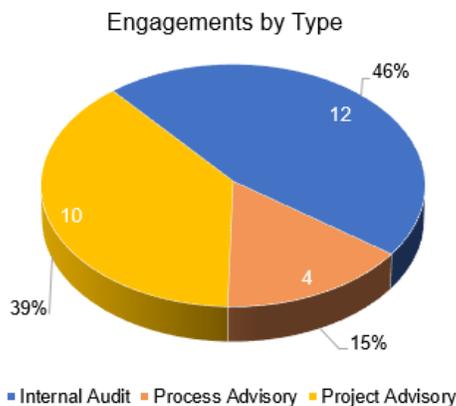
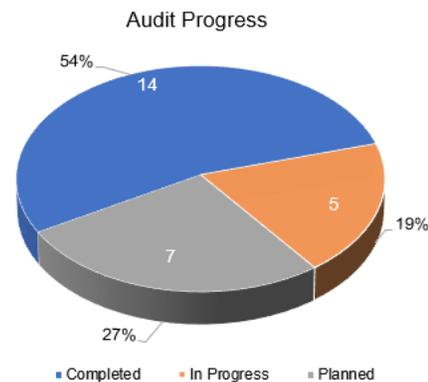
At the Audit Committee meeting, the Chief of Internal Audit presented progress to the 2021 plans for audit, internal control, and enterprise risk.

### 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 (July 1, 2021 to June 30, 2022)	
Completed	14
In Progress	5
Planned	7
<b>Total Projects</b>	<b>26</b>



### Audit Engagements Completed

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

- Claims Litigation Management System Procurement** - Citizens has completed the procurement process for the Claims Litigation Management System. ITN 21-007 was issued in March 2021 with thirty-two (32) vendors invited to submit competitive proposals for a system to handle litigated/legal matters. Internal Audit monitored the

# Executive Summary

Board of Governors Meeting, December 15, 2021

evaluation and negotiation processes of the procurement and provided advisory support where appropriate. Evaluation and Negotiation Teams composed of members from different business units ensured that the vendors could support a best value solution capable of meeting functionality and business needs, as well as previously identified recommended requirements and improvement opportunities. A total of nine (9) vendors responded, out of which three (3) were advanced to the negotiation phase. The Negotiation Team announced a unanimous recommendation of award to Mitrastech Holdings Inc. (Acuity) in a public meeting held October 21, 2021. This recommendation is expected to be presented to Citizens' Board of Governors for approval at the next scheduled meeting.

- **Clearinghouse Operations** - The objective of the audit was to evaluate the adequacy of key business processes and control functions related to Clearinghouse operations. Results from our audit work indicated that the processes are effective and are working adequately, however the current Clearinghouse processes and system are not very efficient for both agents and staff, which is being addressed through the upcoming FMAP/Clearinghouse Re-imagined Project to provide a more intuitive experience.
- **Compliance Program** - Internal Audit completed an assessment of Citizens' Compliance Program and noted that the following sound practices are in place: a complaint hotline and website, where employees, policyholders and vendors can file a complaint for suspected employee misconduct or illegal activity; a triage process to review and assign complaints reported through the hotline or website for appropriate handling; and corporate policies including a code of ethics that address employees' responsibilities and expectations with regards to performance and conduct. In addition, the Citizens Compliance Champion Network established in 2017 is comprised of representatives from business divisions within Citizens to ensure that all relevant laws, rules, and regulations are current, staff are trained on the new regulatory requirements, and the requirements are incorporated into the business processes and policies and procedures. The assessment noted that the Governance and Oversight component/element of the Compliance Program needs to have clear assigned roles with accountability and authority within the organization. Process improvement opportunities were identified and shared with management for consideration once the governance and oversight accountability and authority are reviewed and updated.
- **EY Implementation Progress** - Internal Audit has continued to monitor and report quarterly on the progress of the working plan and the twenty-eight (28) initiatives developed by Claims Management in response to EY's observations and improvement opportunities, as well as their implementation. Out of the developed initiatives, management has implemented eight (8) initiatives. Currently, there are twenty (20) active initiatives; 6 of which remain In Progress / On Hold and fourteen (14) are pending the implementation of the new litigation management system, for

# Executive Summary

Board of Governors Meeting, December 15, 2021

which a recommendation is expected to be presented at the next Citizens' Board of Governors meeting. Internal Audit has provided additional information for management consideration through four (4) advisories issued in connection with the initiatives and continues to provide advisory support as required.

- **Financial Services Payables** - The objective of the audit was to evaluate the effectiveness and adequacy of key business process and control functions for the payables process. Results from our audit work indicate that there are effective business process and controls in place to ensure timely, efficient, and accurate processing and recording of vendor payments. Internal Audit performed various manual and automated testing to ensure the controls are in place and working as intended. Two minor observations were shared with management and process enhancements are underway.
- **Logging and Monitoring** - The objective of this audit was to assess whether the logging and monitoring of systems, applications and databases is aligned with Citizens' policies and standards, authoritative guidance, and regulatory requirements. Results from our audit work indicated that logging has been implemented on most systems and various types of monitoring are performed for operational and security purposes. Internal Audit noted that the Technical Operations Center (TOC) procedural documentation for monitoring and event response is thorough, and daily TOC activities are aligned with the documentation. In addition, a managed security service provider (MSSP) has been engaged to provide Security Information and Event Management (SIEM) services using logs from Citizens' information assets. An opportunity was noted to elevate the maturity level of logging and monitoring governance.
- **Underwriting Staffing Analysis** - Internal Audit was engaged to obtain a detailed understanding of the UW Staffing Analysis process, including the various components and assumptions, and the tools and business units that contribute to the analysis. Internal Audit partnered with several business units to learn how each unit contributes to the process and based on this comprehensive understanding, Internal Audit composed a detailed narrative to provide a description of the entire process. In addition, Internal Audit validated and confirmed the accuracy of assumptions and data utilized in supporting the staffing analysis planning workbook and identified opportunities to enhance and optimize personal lines underwriting staffing.

## Work in Progress

There are five (5) audit engagements in progress:

- **Check Printing Software Implementation** - 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

# Executive Summary

Board of Governors Meeting, December 15, 2021

checks, it is critical that system access and permissions, as well as physical access to restricted rooms, are set up properly upon implementation.

- **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.
- **myAgency Post Implementation** - The audit will evaluate the adequacy and effectiveness of controls related to the Agency Management processes and application.
- **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.
- **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.

## Work Planned

The following audit engagements are scheduled to be completed during Q2 2022:

- **Application and Infrastructure Standards and Conformance** - Internal Audit will review elevated risk applications and infrastructure components against IT security and hardening standards to validate compliance.
- **Employee Benefits** - An audit was performed during the implementation of the self-insured benefits program at Citizens during 2018. A follow-up audit is planned to assess the management of Citizens self-insured benefit programs specifically focusing on vendor involvement.
- **FMAP/Clearinghouse Re-imagined Project** - Citizens' Policy Eligibility Re-Imagined is a proposed concept to combine the current Clearinghouse and FMAP capabilities into a comprehensive solution that provides the consumer with available options for coverage outside of Citizens. Internal Audit will participate as the project evolves and provide process and control advice.
- **Litigation Management System Implementation** - A new Litigation Management System is being procured in 2021 for implementation in 2022. Internal Audit will participate on the project team and provide process, risk, and controls advice for the implementation of the Claims Litigation Management System.

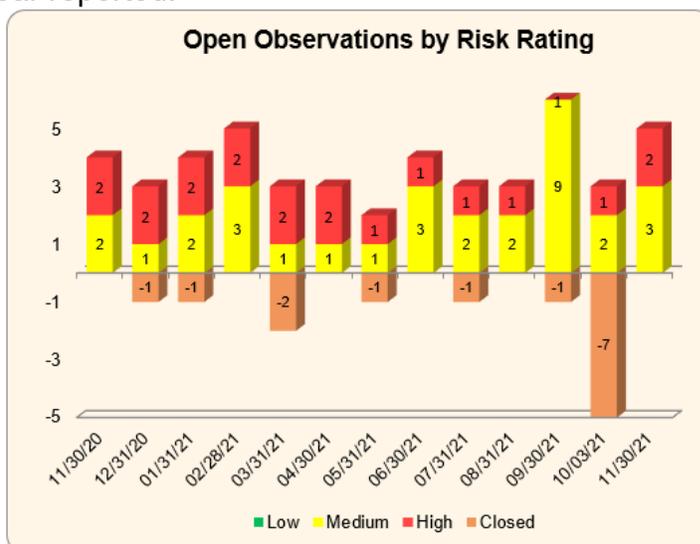
# Executive Summary

Board of Governors Meeting, December 15, 2021

- **Managed Repair Program** - In 2018, Internal Audit conducted an audit to assess the readiness, adequacy, and effectiveness of the MRP process including oversight of the end-to-end process, and vendor performance and capacity. A more comprehensive review of product revisions and process efficiency will be performed with this engagement.
- **Underwriting Quality Assurance** - The personal lines underwriting quality assurance program is intended to provide a review of the PL underwriting tasks in accordance with procedures. Internal Audit will evaluate the effectiveness and adequacy of key business processes and control functions related to the personal lines underwriting Quality Assurance review process.
- **Vendor Invoicing Software** - Claims Management will be implementing Vendor Invoicing Software (VIP), an integrated vendor invoice submission software. VIP Software is a cloud-based SaaS platform that automates invoicing processes and will replace the current manual processes for claims vendor invoices, ensuring consistency and compliance with contractual requirements. Internal Audit will provide advisory services in support of the implementation of VIP Software to ensure automation provides timely and accurate payments.

## 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. Open items receive priority focus from management and are generally addressed within an agreed period. We are currently tracking five (5) open observations of which two (2) are rated as high impact. 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	3	5

Observation Source	
Internal Audit	4
External Auditor	0
OIR Market Conduct	0
Auditor General	1

# Executive Summary

Board of Governors Meeting, December 15, 2021

## Internal Audit Quality Assurance Review (QAR) Results

One of OIA's vendors, CliftonLarsonAllen LLP (CLA), was engaged to perform an External Quality Assessment Review ("QAR") of the Internal Audit Activity to evaluate the level of conformance with The International Standards for the Professional Practice of Internal Auditing ("Standards"). The Standards require an internal audit activity complete a QAR at least once every five years to verify conformance to the Standards and contains four specific areas where conformance is deemed mandatory by the Institute of Internal Auditors (IIA):

- Core Principles for the Professional Practice of Internal Auditing
- Definition of Internal Auditing
- Code of Ethics
- International Standards for the Professional Practice of Internal Auditing

The International Professional Practices Framework (IPPF) defines three ratings that may be assigned to document the results of a QAR as follows:

- *Generally conforms* means that an internal audit activity has defined and implemented documents and/or practices in accordance with the IPPF Requirements.
- *Partially conforms* means the reviewer has identified deficiencies in practice design or operation that are judged to deviate from the IPPF Requirements, but these deficiencies did not prevent the internal audit activity from performing its professional responsibilities in an acceptable manner.
- *Does not conform* means deficiencies in practice are judged to be so significant as to impair seriously or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

The QAR focused on Internal Audit activity for the past 12 months to determine conformity to the IIA Standards. The scope of the QAR consisted primarily of meeting with internal audit management and a review of internal audit risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes and a sample of the workpapers and reports. A total of nine interviews were also conducted with a variety of stakeholders.

Results from the review were very positive with CLA concluding that the OIA Activity is in general conformance with the Standards, which is the top rating that can be assigned in a QAR. Specifically, CLA noted particular strengths as well as areas of improvement:

Strengths, Internal Audit:

- Has a positive, collaborative relationship with Management and understands Management's value expectations of Internal Audit.

# Executive Summary

Board of Governors Meeting, December 15, 2021

- Leadership is viewed as strong, involved in executive leadership meetings, and well-respected throughout the Company.
- Is composed of staff with a diverse skill sets, including IT, data analytics and fraud.
- Has a well-documented and thorough Internal Audit policy, charter, and strategic plan, with both its strategic plan and internal audit plan tied to the Company's strategic plan.
- Competency framework incorporates elements of the IIA's Global Competency Framework.
- Has adopted a rolling quarterly risk-assessment practice, which facilitates agility to address the highest risks within the organization with timely internal audits of those areas.
- Consulting projects are deemed value-added by Management and demonstrate the Internal Audit activity's versatility in meeting Management's needs.
- Audit reports are well-written, concise, accurate containing no surprise audit results.
- Leadership oversees ERM and the organization's internal control framework without compromising independence of Internal Audit.
- The Audit Committee is fully and frequently apprised of the status of audit plans and results.
- Management values the Internal Audit's input on new regulations or laws that might impact Citizens' business.

Improvement Opportunities, Internal Audit should:

- Include an evaluation of its conformance to the Standards, Code of Ethics and Core Principles as part of its annual internal assessment as required by IIA Standards 1311 and 1320.
- Adhere to the five-year requirement for an external quality assessment, per IIA Standard 1312.
- Annually, affirm and document whether any conflicts of interest exist between Internal Audit professional staff and the Company.
- Consider opportunities to educate the Audit Committee on their role and responsibilities to Citizens.

## Enterprise Risk & Internal Control

Citizens' proactive approach to mitigating risks and ensuring strong internal controls includes 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 designed to mitigate risks and strengthen Citizens' control environment.



# Executive Summary

Board of Governors Meeting, December 15, 2021

In September, the ER and IC teams initiated a phased approach to launch the Risk and Control modules of AuditBoard, our new governance, risk, and control (GRC) software solution. The initial phase includes training Risk and Control Champions and management on self-service capabilities. The business area users have provided positive feedback on the training as well as the user-friendly design of the modules.

## Internal Control

IC collaborates with Control Champions and management to ensure the annual control self-assessments (CSAs) continue to add value to the organization. The accuracy of the control descriptions and validation techniques are periodically reviewed to ensure that the CSAs remain relevant and appropriate to validate the ongoing effectiveness of the primary controls and to proactively identify any areas of improvement. IC provides oversight of the process through consultative support and quality reviews.

During 2021, 119 primary controls were identified and recorded for business processes across the organization.

- Management control self-assessments are being performed for 106 primary controls. Several business areas have already completed their control self-assessments and the remaining areas are on track for timely completion by the end of the year. The remaining 13 primary controls are excluded from management control self-assessment as these require IC expertise to perform a refresh due to the complexity or volume of process changes.
- One process refresh is currently underway with the remaining processes scheduled for refreshes throughout 2022.
- As of November, the team provided AuditBoard training to 60 individuals within the business areas that are responsible for performing and reviewing CSAs for 45 business processes which represents 92% (97) of the primary controls that will be assessed by management. The business areas are utilizing the self-service capabilities to complete CSAs in progress or upload documentation for the completed CSAs. For the remaining 9 primary controls, IC will assist with updating the system with the completed CSAs and ensure training is provided to the remaining business users.

In Q1, IC plans to begin training Control Owners, Control Champions, and management on self-service capabilities available to update process narratives within AuditBoard on an annual basis or when significant process changes have occurred.

## 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

# Executive Summary

Board of Governors Meeting, December 15, 2021

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

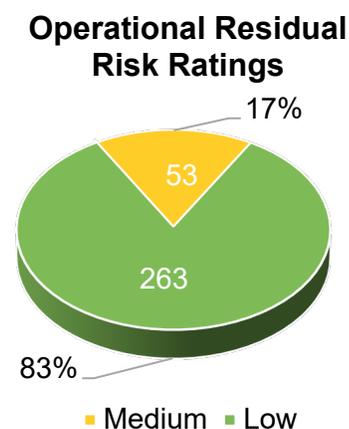
- **Strategic Risk Management** - The 2022 annual strategic risk assessment with the Executive Leadership Team (ELT) is planned for Q1. The strategic risk assessment is preceded by individual risk discussions with each ELT member. The objective of the strategic risk assessment is to identify risks that may adversely impact Citizens' ability to achieve strategic objectives and key strategic initiatives over the next 12-18 months.

The ER and Enterprise Strategy and Planning teams continue to collaborate and more closely align the processes utilized to identify strategic initiatives and strategic risks. In October, the teams partnered to highlight the alignment of the current strategic risks with the proposed 2022 strategic themes and initiatives. This information was presented earlier in the process in an Enterprise Continuous Investment Planning session. After the 2022 strategic risk assessment, the alignment will be updated as needed to reflect any changes.

Mitigation plans continue to be monitored and executed as necessary for the 19 strategic risks identified in 2021.

- **Operational Risk Management** - Operational risk assessments are currently in progress for 4 processes with 2 additional processes scheduled to begin risk assessments in December. In Q1, ER plans to perform operational risk assessments for 25% of the processes within the pre-defined process universe.

- As of November, a total of 316 operational risks have been identified and assessed across the organization. The total number of operational risks fluctuate as risks are added, removed, and consolidated.
- The overall operational residual risk ratings which include consideration of controls are 83% (263) rated low and 17% (53) rated medium. Currently, there are no operational risks with a high-risk residual rating.



In addition to ER facilitated sessions, operational risks are also periodically updated throughout the year as needed by management and Risk Champions. Enterprise Risk is training Risk Champions and management on the self-service features available in AuditBoard to update risk descriptions, risk ratings and mitigation plans for their areas of accountability.

# Executive Summary

Board of Governors Meeting, December 15, 2021

- **Project Risk Assessments** - Upon request, Enterprise Risk facilitates cross-functional project risk assessments designed to enable risk-based decisions and the proactive mitigation of risks:
  - *HB 1079*: In November, an interim risk assessment was conducted to update the pre-implementation risk assessment results for HB 1079 requirements related to the evaluation, management, and oversight of contractual service contracts. A post-implementation assessment is planned for Q3 2022.

In Q1, ER plans to increase organizational awareness of the availability of project risk assessment services to support key initiatives.

## 2022 OIA Strategy & Plan

At the meeting the OIA presented, for review and approval, its 2022 Strategy and Plan (Plan). The Plan was developed using a risk-based approach to understand and assess Citizens' operations and associated risks. Additional consideration was given for future work to be conducted by the Auditor General, Market Conduct Examinations, and planned strategic initiatives.

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 risk and control coverage to the entire corporation on an annual basis, we collaborated with business unit leadership to determine the best focus areas for Internal Audit, Enterprise Risk and Internal Control given the current risk environment.

## Internal Audit

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

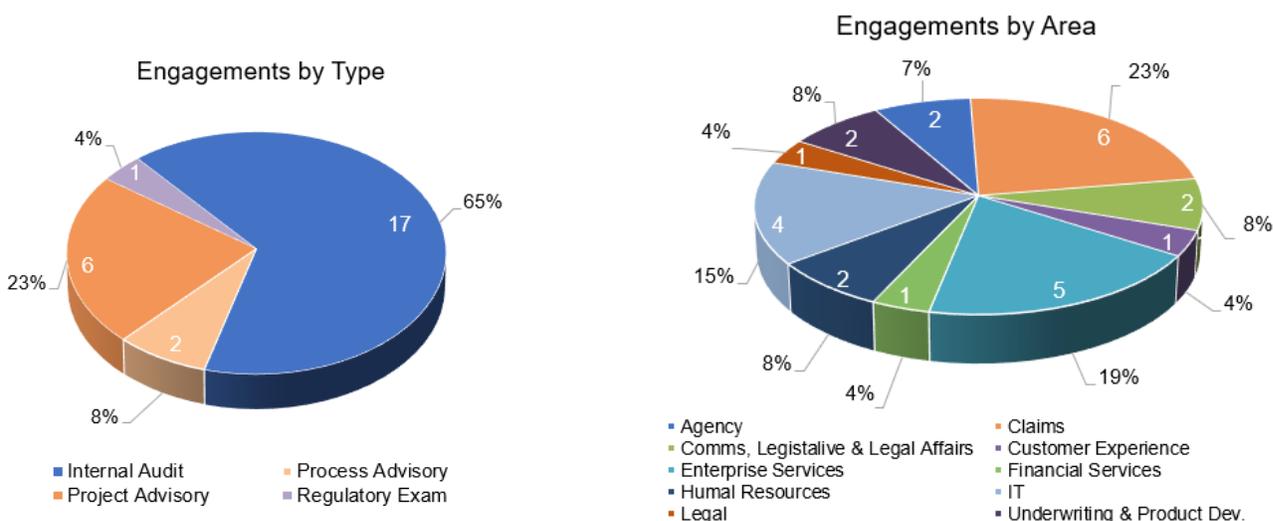
Internal Audit documented seven (7) specific audit themes which consolidate and provide high-level insights into the years' audit focus areas. As the year progresses Internal Audit will use its quarterly rolling risk assessment process to identify engagements to be selected for every reporting period.

In identifying the types of audit engagements Internal Audit invited management requests for consultative support and ensures that there is a healthy balance between assurance (audit) engagements and consulting (advisory) engagements. This plan includes 65% audit

# Executive Summary

Board of Governors Meeting, December 15, 2021

and 35% advisory type engagements. We also focus on every division within the organization and ensure that there is a healthy coverage throughout Citizens as a whole.



## Enterprise Risk

For 2022 ER will continue to facilitate and enable risk assessments from five different perspectives, namely: strategic, operational, fraud, project, and scenario.

- Strategic risk - ER will facilitate a strategic risk workshop with the ELT to identify and assess the 2022 strategic risks. Comprehensive mitigation plans will be documented and executed, as necessary.
- Operational risk - ER facilitates interactive operational risk assessments that enable Risk Champions and management to self-identify and assess risks that may impact the ability to achieve business objectives. Risk Champions are being trained on AuditBoard system capabilities and are encouraged to utilize the self-service capabilities within the risk module.
- Fraud risk - ER will include fraud risk discussions in the facilitated operational risk assessments as a tool for management to identify and assess risks to businesses processes that may present potential fraud risks to the organization. ER will collaborate with the OIA Forensics Team and SIU on this initiative.
- Project & scenario risk - Upon request, ER provides facilitation services and consultative support through project and scenario risk assessments. The risk assessment discussions assist management in identifying risks that should be closely monitored and additional controls that should be considered or implemented. ER will continue to promote the value of these assessments.
- Now that the AuditBoard system is in place ER will expand on the availability of dashboards and reporting capabilities to ELT, Risk Owners, Risk Champions, and management.

# Executive Summary

Board of Governors Meeting, December 15, 2021

## Internal Control

In 2022, IC will continue to ensure consistency and sustainability of ICF throughout the organization while expanding consultative services to include advice on anti-fraud controls. IC will specifically focus on:

- Annual Control Self-Assessments - Control self-assessments (CSAs) are performed annually by management to validate the effectiveness of primary controls. IC will provide consultative support to Control Champions and management as needed.
- Process Refreshers – As processes change, IC works with Control Champions and Management to update control narratives, which document business process objectives, process flows, key systems, and primary and mitigating controls.
- Quality Reviews - Quality reviews are performed by IC to ensure that business areas with primary controls adhere to Citizens' ICF standards when performing the CSAs. The quality reviews are performed on a recurring 3-year cycle consisting of annual reviews of approximately one third (1/3) of the processes with primary controls.
- Anti-Fraud Controls - As the operational risk assessments are expanded to include fraud risks, IC will collaborate with ER, OIA Forensics, and SIU to provide consultative advice to the business areas regarding leading practices on internal controls to prevent and detect fraud.
- Training on the use of the AuditBoard control module is in progress and Control Champions are encouraged to utilize the self-service capabilities within the control and narrative modules.

## 2022 OIA Budget

The 2022 budget for Citizens' OIA presented is \$3.42 million as compared to \$3.33 million budgeted for 2021. Specific budget changes were discussed and agreed with the committee.