

Executive Summary

Board of Governors Meeting, March 23, 2022

THE OFFICE OF THE INTERNAL AUDITOR

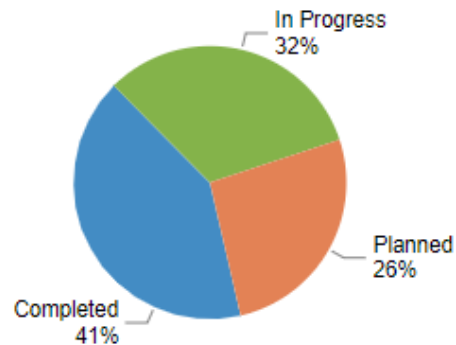
At the Audit Committee meeting, the Chief of Internal Audit presented progress to the 2022 plans for audit, internal control, and enterprise risk.

1. Internal Audit

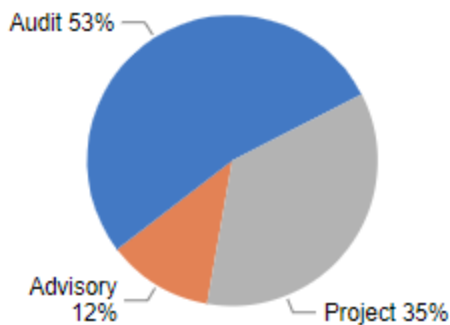
Overview of Audit Progress - Internal Audit follows a risk-based quarterly rolling plan approach in developing engagements and monitoring progress. As we review risks and consider operational challenges, we re-examine our plan and confirm that it continues to provide the expected assurance and that audit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

Audit Progress	Count
Completed	14
In Progress	11
Planned	9
Total	34

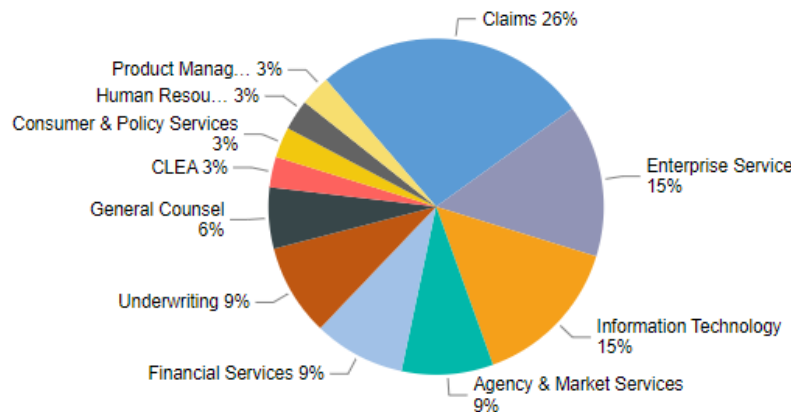
Audits by Audit Progress



Audits by Category



Audits by Business Area



Audit Engagements Completed - Following the last meeting we completed work on four (4) audit engagements:

- **Check Printing Software Implementation** - The objective of the engagement was to evaluate user access configuration to confirm that the processes and controls are in place to monitor and manage user access and the related provisioning of the new

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check printing software (CheckPlus) ensuring adequate segregation of duties. Results from our work indicate that CheckPlus has adequate access control capabilities and mechanisms, which allow for granting/restricting access to individual users and/or groups by assigning specific roles and permissions. We also validated that system users are appropriately segregated within the process and noted some realignment is needed with the Information System Access Management Policy. This conflict was discussed with management and remediation was implemented.

- **Claims & Litigation Legal Services Guidelines Revision** - Internal Audit provided advisory services and input where appropriate in support of the review and update of the Claims & Litigation Legal Services Guidelines. These guidelines are in place to help improve oversight and management of outside counsel. This review was part of our continued monitoring of progress with the work plan and implementation of business initiatives developed by claims management in response to EY's observations and improvement opportunities. The revision of the Guidelines was completed by a workgroup composed of staff from the Claims Vendor Management, Claims Legal, and Claims Litigation units and addressed previously identified observations and improvement opportunities to effectively handle litigated claims and legal spend. A draft was provided to management and is currently under review for approval.
- **Rate Override** - The rate override process was enhanced in August 2020 with the development and implementation of an automated system interface. The objective of the audit was to evaluate the adequacy and effectiveness of the processes, procedures, and control functions related to the implemented rate override process. Results from our audit work indicate the process operates effectively with well-designed process flows and controls in place that ensures proper rules, guidelines, and procedures are in place when a qualifying premium/rate change is identified.
- **SB1598 Implementation** - Internal Audit provided advice, where needed, in support of the initiatives developed in response to the requirements of SB1598. The approach and efforts were monitored to ensure that the requirements of the bill were addressed and ready for implementation by the January 2022 deadline.

Work in Progress - We are currently working on eleven (11) engagements which includes four (4) audit and seven (7) project support engagements:

Audit engagements:

- **Managed Repair Program** - The Managed Repair Program (MRP) is a customer focused turnkey service that returns the customers' property to pre-loss condition and helps reduce the rising cost of water loss litigation. The service is provided through a 3rd party vendor which manages 4th party contractors to repair the policyholder's property. Internal Audit will assess the vendor's contractor due diligence, management of contractors, after job quality inspections, contractor assignment process, and handling of customer complaints. In addition, Internal Audit will review MRP strategy

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and objectives, program performance, and the presence of embedded controls in the process to ensure operational failures are mitigated.

- **myAgency Post Implementation** - The Agency Management System (AMS) phase 1 was successfully implemented in July 2020 with phase 2 implemented in Q4 2020. The platform supports the tracking and monitoring of agent licenses, commissions, performance, investigations, complaints, and key performance indicators. Internal Audit will evaluate the adequacy and effectiveness of controls related to agency management processes and application, by reviewing agent appointments, reappointments & renewals, agent suspensions & terminations, book of business transfers, myAgency and Department of Financial Services (DFS) & Kubra interface controls, system defects handling and resolution processes, access to setup electronic funds transfers (EFT) for commission payments, provisioning and deprovisioning of agents and licensed customer service representatives, perform an agent satisfaction survey, validate user roles and permissions for appropriate transactional authority, and validate the accuracy of myAgency management reports and dashboards.
- **Self-Funded Benefit Plan** - Citizens moved to a self-insured health care benefits strategy in 2017 which, so far, produced approximately \$2M in savings driven by the reduction in administrative expenses. As a result, significant reliance is placed on a 3rd party vendor to provide Citizens with loss history analysis and benefit plan consulting to help Citizens administer the program. In addition, this information is relied on to adequately budget and plan for payments of medical claims and administrative expenses. The success of the process relies on key controls performed by vendors supporting the self-insured health plan, which could negatively impact the programs status if not working effectively. An audit was performed during the implementation of the self-insured benefits program at Citizens during 2018 and a follow-up audit is underway. Internal Audit will evaluate the adequacy of the process by assessing policies and procedures, compliance with regulatory changes, securing of confidential health data, quarterly reserving, stop loss insurance, payment of claim and administrative expenses, eligibility of participants, and service organization controls. In addition, Internal Audit will assess performance measures and the alignment of self-funded health care strategy with corporate objectives.
- **Underwriting Quality** - Personal lines underwriting (PL UW) processes new business submissions and policy change updates for key elements including coverage eligibility, insurability, risk characteristics, loss history and other required underwriting documentation. The personal lines underwriting quality assurance program is intended to provide a review of the PL UW underwriting tasks in accordance with procedures. Due to the challenges in the Florida market, Citizens experienced significant growth of personal lines policies and increased staffing. Internal Audit will evaluate the adequacy of underwriting quality by assessing the elements included in the quality assurance (QA) program, the frequency of program reviews and updates, communication to underwriting management, actions taken on results by

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management, alignment of QA elements with individual underwriters' performance objectives, analysis of holistic underwriting quality results to determine if objectives are being met at the individual and department level. In addition, Internal Audit anticipates reviewing quality assurance structure and oversight, and potentially deeper focus into any identified high-risk problematic areas.

Project engagements:

- **Citizens FMAP/Clearinghouse Eligibility** - Citizens' Policy Eligibility 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 while enhancing Citizens' ability to validate eligibility under current rules and eligibility statutes. The future workflow objective is to simplify the experience. Internal Audit will provide project advisory services in support of the ITN procurement to ensure the appropriate project management elements are in place. In addition, Internal Audit will provide process and control advice, where needed, as the ITN project evolves.
- **eiPaaS (Enterprise Integration Platform as a Service)** – Citizens is in the process of developing and implementing an eiPaaS. An enterprise integration platform as a service (eiPaaS) provides a suite of cloud services that addresses a variety of scenarios, including application and data integration, as well as some combination of process, ecosystems, etc. Internal Audit will provide consulting and advisory services for the implementation of a cloud-native enterprise integration as a service platform.
- **Holistic Inspection Program** - Citizens' staff developed a holistic inspection plan for 2022-2025. This plan presents an annual increase in inspection count for Personal Lines policies, while maintaining a robust approach for commercial lines policies. Management will increase use of inspections to provide better insight on a property's interior and exterior, including the condition of the roof, plumbing, electrical, and HVAC (heating, ventilation, and air conditioning) systems. Internal Audit will provide consultative advice related to controls of impacted business areas and the project management process to ensure effective and timely escalation and handling of project issues.
- **Identity and Access Management Program** - The IT Security and Risk department is implementing an enterprise-wide strategy to consolidate and centralize user identity and access management processes and technology capabilities. These are significant in the role of cybersecurity. New security applications which will provide Identity governance and administration as well as access management for applications are being procured, with implementation targeted to begin in 2022. Internal Audit will actively participate in the program development and implementation, review of processes and controls related to the new software solutions and advise on the alignment of processes and controls with policies, standards, and leading practices.

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- **Integrated Vendor Invoice Submission System Implementation** - Claims management is in the process of implementing Vendor Invoicing Software (VIP), an integrated vendor invoice submission application. 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. A pilot implementation phase is targeted for April of 2022 with full implementation targeted for June 2022, prior to hurricane season. Internal Audit will provide project advisory services in support of the implementation of the VIP Software to ensure the appropriate project management elements are in place to enhance the likelihood of a successful project. In addition, Internal Audit will provide process, risk and control guidance throughout the application configuration development and implementation to ensure adequacy of design of controls and segregation of duties.
- **Litigation Management System Implementation** - Citizens relies on more than a hundred outside defense firms to provide claims-related legal defense counsel services. Citizens' ability to manage complex legal bills submitted by contracted defense counsel representing Citizens in litigated matters continues to be an integral process in support of controlling costs and ensuring a strong financial operating environment. A litigation management system was procured in 2021 for implementation in 2022. Internal Audit will provide project advisory services in support of the implementation of the application to ensure the appropriate project management elements are in place to enhance the likelihood of a successful project. In addition, Internal Audit will provide process, risk and control guidance throughout the application configuration development and implementation to ensure adequacy of design of controls and segregation of duties.

Software as a Service Contract Language - During the contract procurement negotiation process, management uses a contract template with basic language to protect Citizens' interest as the starting point for a contract. In alignment with Citizens' strategy to move software applications to a cloud environment, the standard software as a service (SaaS) provider language has become increasingly important to protect Citizens. The contract and related language sets expectations and outlines consequences in case a vendor fails to deliver. If the contract language is not complete and/or explicit enough this could lead to increased contract risks. Internal Audit will evaluate the current standard terms contract template used with SaaS vendors and complete a gap analysis to validate contract language, terms, and conditions to reduce contract risk.

Work Planned - The following audit engagements are scheduled to commence during Q2 2022:

Audit engagements:

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- **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.
- **ELT & OKR Metrics** - Internal Audit will assess the adequacy and effectiveness of controls related to data quality and accuracy of the metric reports.
- **HB 1079 Post Implementation** - Internal Audit will validate that the required components of the bill have been implemented into the daily processes to ensure regulatory compliance.
- **SB 76 Post Implementation** - Internal Audit has been asked by Claims Management to perform a post-implementation audit given the bill's impact on Claims operations. Internal Audit plans on evaluating the effectiveness and adequacy of the controls, processes, procedures, and workflows implemented by Claims Management in response to the bill's requirements.
- **Suspense Account Management** - A suspense account is an account in the general ledger that is used to temporarily store transactions that require further analysis before a permanent assignment in the records can be made. Internal Audit will assess the purpose and procedures in place to manage suspense accounts, review the reconciliation process, assess the current make-up of the suspense account balances and aging of transactions, and review a sample of historical reconciliations for proper handling.
- **Vulnerability and Patch Management** - Internal Audit will review vulnerability and patch management policies, procedures, and practices to ensure that the processes are working as intended to timely close security gaps which could potentially be exploited and reduce the risk level to a tolerable level.

Advisory engagement

- **Data Retention and Destruction** - Management has requested that Internal Audit perform an additional validation of retention guidelines and program guidance prior to the beginning of data destruction in alignment with procedures.

Project engagements:

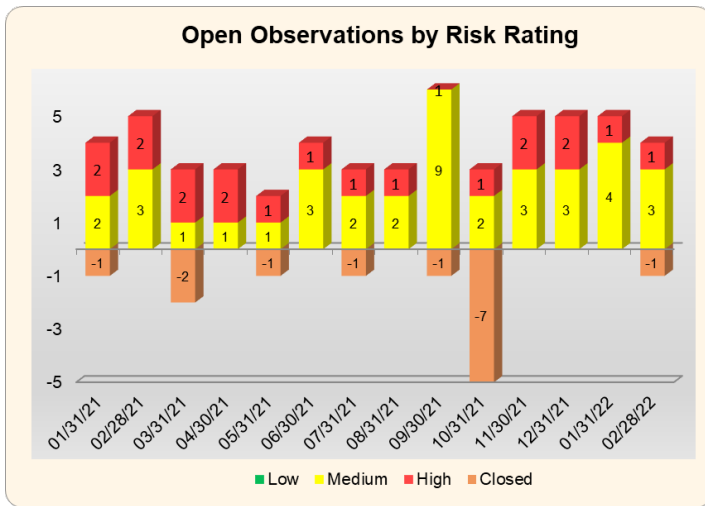
- **Anti-Fraud Activities** - Occupational fraud is a universally recognized business risk, and Internal Audit has a statutory commitment to prevent and detect fraud, abuse, and mismanagement. As our insights driven assurance initiative develops, we plan to improve our data analytics capability and expand into the continuous assessment of fraud risk and the identification of red flags. Additionally, Internal Audit has implemented targeted reviews, quarterly fraud brainstorming sessions for audit engagements, and will begin anti-fraud training awareness, enterprise risk support, and the operationalization of recurring anti-fraud analytics.
- **Legislative Update Implementation** - Internal Audit will provide consultative advice related to processes and controls of impacted business areas and monitor the project management process to ensure effective and timely escalation and handling of project

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issues associated to bills passed and signed into law, this session, that affect Citizens’ operational processes.

Open Audit Items - 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 four (4) open observations of which one (1) is rated as high impact, expected resolution is June 30th, 2022. 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
1	3	4

Observation Source			
	High	Med	Total
Internal Audit	1	2	3
External Auditor			0
OIR Market Conduct			0
Auditor General		1	1

2. Enterprise Risk Management & Internal Control Frameworks

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

- **Strategic Risk** - Our annual strategic risk assessment identifies the top risks that may adversely impact Citizens’ ability to achieve strategic objectives and key strategic initiatives over the next 12-18 months.
 - In Q4, ER partnered with Enterprise Strategy and Planning to increase awareness of the alignment between Citizens’ strategic initiatives and strategic risks. A well-established connection of strategic risks and initiatives assists management in the prioritization and execution of business decisions.
 - ER facilitated the 2022 strategic risk assessment with the Executive Leadership Team (ELT) in January. The strategic risk assessment was preceded by individual risk discussions with each ELT member. In March, ER will work with the applicable

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risk owners to develop and/or update mitigation plans as appropriate. The 2022 strategic risks will be reported in Q2.

- **Operational Risk** - ER facilitates and enables Risk Champions and management to identify and assess operational risks for up to 81 business processes across Citizens. Our target goal is to update 25% of the processes per quarter or when processes or risks significantly change to ensure the operational risk profile remains relevant and timely. The Q2 operational risk assessments are currently being scheduled.

As of February, a total of 342 operational risks were 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 82% (281) rated low and 18% (61) rated medium. Currently, there are no operational risks with a high-risk residual rating.



- Project and scenario risk assessments are scheduled upon request. During Q2, Enterprise Risk will promote awareness of the project risk assessment services available to support key initiatives:
 - Pre and post implementation project risk assessments are performed to assist management with decision making and to ensure mitigating activities are designed and implemented for high profile projects that may result in higher rated project risks.
 - Scenario risk assessments are conducted to evaluate emerging risk scenarios to assist the organization in preparing to mitigate risks in the event the scenario materializes.
 - The annual Office of Foreign Assets Control (OFAC) risk assessment is planned for Q2. The assessment supports OFAC's recommendation for organizations to periodically perform risk assessments and enables a risk-based approach in the prioritization of resources and mitigating activities for the Enterprise OFAC Project as they implement mitigation plans for the open Internal Audit observation.
- With the introduction of self-service capabilities, the risk administration module allows risk champions to manage risk directly in the AuditBoard system. The risk module designed to support management in self-identifying, assessing, mitigating, and recording risks. The module provides a centralized repository of risk descriptions, risk

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ratings, and mitigation plans. In Q4, ER began a phased approach to train the business areas on the self-service features.

Internal Control - Citizens' Internal Control Framework (ICF) provides a structured approach to enable management and Control Champions to identify and assess the strength of the top primary controls for their respective business areas. The ICF assessment lifecycle provides a proactive approach for ongoing validation of the effectiveness of Citizens' primary controls.

The Internal Control (IC) team provides oversight and support to management by providing consulting on leading practices, facilitating control assessments, and conducting periodic, objective reviews of management Control Self-Assessments (CSAs).

- As of December 2021, 119 primary controls were identified and recorded for business processes across the organization. As a result of quality reviews performed by IC, the number of primary controls was reduced to 116.
 - Four primary controls were removed as the risks were either already addressed by another primary control or the business process changed, and the primary control was no longer applicable.
 - One new primary control was added.
 - For 2021, management control self-assessments were performed for 100 primary controls. The remaining 16 primary controls across 15 processes were excluded from management control self-assessment as these require Internal Control 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.
- IC continues to mature Citizens' ICF with the implementation of the control and narrative modules within the internal controls module of the AuditBoard system. The controls module is designed to strengthen managements' understanding and ownership of controls and provide self-service capabilities. The modules provide a centralized repository for process narratives and primary control descriptions as well as the supporting documentation for the CSAs.
 - From September through December, the IC team created job aids and trained 64 individuals within the business areas that are responsible for performing and reviewing CSAs for 45 business processes.
 - For 91% (91) of the 2021 control self-assessments, Control Champions and management utilized AuditBoard's self-service capabilities to complete their CSAs and upload documentation. For the remaining 9 primary controls, IC assisted management by uploading their CSA documentation and results in AuditBoard.
 - As part of Citizens' ICF, management is responsible for periodically reviewing narratives of processes within their area(s) of accountability to confirm accuracy

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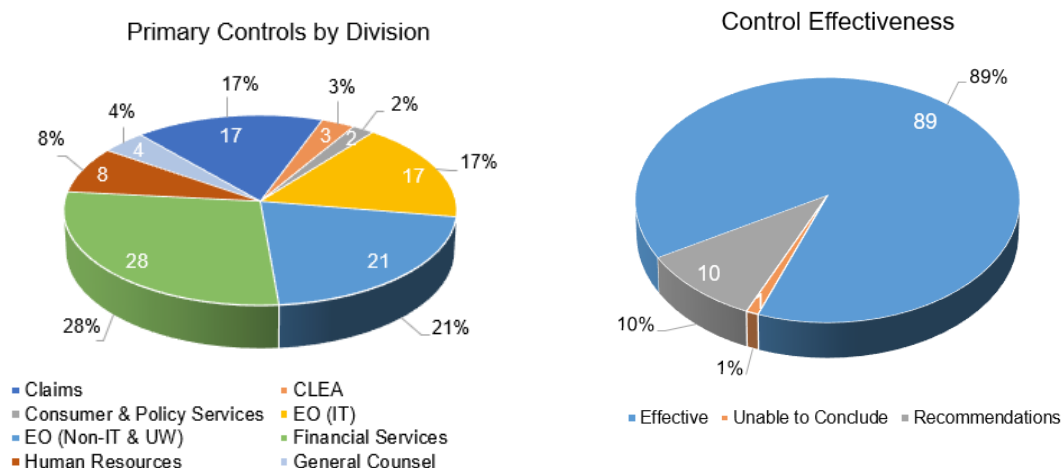
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and provide updates as necessary. The narrative provides a high-level overview of key processes, with a focus on function responsibilities, systems/technology utilized, and controls. In March, IC will provide training sessions on how to update narratives within AuditBoard.

- **2021 Annual Control Self-Assessment Results** - Management CSAs are performed annually to ensure ongoing evaluation of the control design and operating effectiveness of Citizens' primary controls. 2021 was the second year that 100% of the CSAs were performed by Control Champions and managers. Results from the 2021 management CSAs, for 100 primary controls, indicate the following:
 - 89% (89) of the primary controls are effectively designed and operating as intended.
 - 1% (1) primary control was assessed as unable to conclude. Management was requested to revisit the self-assessment as the original sample selection may not have been representative of the population.
 - 10% (10) opportunities were identified to strengthen the control design and/or improve processes.

The slight increase in the overall number of opportunities to strengthen controls from the prior year reflect the experience level of the individuals performing the CSAs as well as the ability for the IC team to view all supporting documents in AuditBoard to perform more comprehensive quality reviews. The proactive identification of opportunities to strengthen controls enables management to address any concerns in a timely manner.

The graphs below depict the current distribution of primary controls by division and the aggregate results.



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The 2022 CSAs are currently in progress and are on track to be completed by the end of the year.

- **Quality Reviews** - The IC team performs periodic reviews to confirm that the management CSAs adhere to Citizens' ICF standards and continue to add value. In 2021, the team performed quality reviews for 15 controls within 8 processes noting improvements to CSA validation techniques and recommendations to strengthen controls which are being addressed by management. Quality reviews will be performed throughout 2022 for approximately one-third of the business processes with primary controls.