

Office of the Internal Auditor

ANNUAL REPORT

2021



February 12, 2022

To: Mr. Carlos Beruff, Citizens Board of Governors Chairman & Audit Committee Member
Ms. Erin Knight, Citizens Audit Committee Chairperson
Mr. Scott Thomas, 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. Knight, Beruff, Thomas, 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 2021.




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 2022.

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 2021 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.

Annual Report

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. Work completed by the Office of internal Audit did not give rise to concerns regarding audit findings and overall impact on the control environment.



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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 (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.



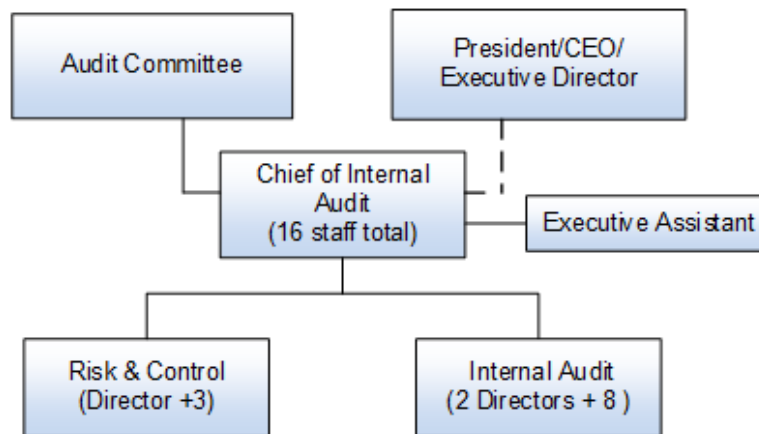
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In support of its mission, the OIA's focus is to support Citizens in the achievement of its goals and ultimately to provide independent and objective assurance over the organization's enterprise risk management practices and internal control environment 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 the Chief of Internal Audit also has leadership responsibility for the Enterprise Risk and Internal Control functions. Both Enterprise Risk and Internal Control operate independently from Internal Audit with its own staff, distinct processes, and individual administrative support systems. The following chart details the OIA departmental structure:



Training

In alignment with the Standards, the OIA staff is required to receive at least 40 hours of continuing education to maintain professional proficiency. During 2021 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 Information Systems Security Professional
- Certified Information Systems Auditor
- Chartered Insurance Professional
- Certified Internal Auditor
- Certified Litigation Management Professional
- Certified Public Accountant
- Certificate in Risk Management Assurance
- Certified Fraud Examiner
- Licensed Attorney (JD)
- Master of Accountancy
- Master of Business Administration
- Master of Science in Data Science
- All Lines Adjuster (620)
- Six Sigma



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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)
- Association for Intelligent Information Management (AIIM)
- Information Systems Audit and Control Association (ISACA)
- Insurance Accounting and Systems Association (IASA)
- Insurance Internal Auditing Group (IIAG)
- Project Management Institute (PMI)
- Society of Corporate Compliance and Ethics (SCCE)
- 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

The Internal Audit function provided independent, objective assurance through audit and advisory services that are designed to add value and improve Citizens' operations. During 2021 the Internal Audit Team conducted its work in conformance with the International Standards for the Professional Practice of Internal Auditing (Standards).

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).



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External Quality Assurance Review

The Standards require an internal audit activity complete a Quality Assurance Review (QAR) at least once every five years to verify conformance to the Standards. Conformance to the Standards is essential in meeting the responsibilities of internal auditors and the Internal Audit activity. It provides a measure of confidence that Internal Audit is operating to a strict code of ethics and defined professional standards, and that its staff is trained to specified standards of education and continued professional development.

During 2021 Internal Audit appointed an accredited vendor to perform an External Quality Assessment Review of Internal Audit to evaluate the level of conformance with The International Standards for the Professional Practice of Internal Auditing (“Standards”). The Standards contains four specific areas where conformance is deemed mandatory by the Institute of Internal Auditors (IIA), namely Core Principles for the Professional Practice of Internal Auditing; Definition of Internal Auditing; Code of Ethics; and International Standards for the Professional Practice of Internal Auditing.

Results from the review were very positive concluding that Citizens’ Internal Audit activity is in general conformance with the Standards, which is the highest rating that can be assigned in a QAR.

The International Professional Practices Framework (IPPF) defines three ratings that may be assigned to document the results of a QAR, namely Generally Conforms; *Partially Conforms*; and Does Not Conform. *Generally conforms* means that an internal audit activity has defined and implemented documents and/or practices in accordance with the IPPF Requirements.

Internal Audit Execution

Internal Audit managed a flexible audit plan that considered changes in business operations and ensured that audit engagements focused on areas of most importance. We completed an audit plan which included 23 engagements that provided independent assurance and delivered value to the organization in strengthening oversight and control.

- *Assurance (Audit) Engagements*

Through audits the Internal Audit 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.

- | | |
|---|--|
| <ul style="list-style-type: none"> ○ Appraisal Process ○ Cancellation Moratorium ○ Centerpoint Configurations ○ Citizens Insurance Services ○ Clearinghouse Operations ○ Commercial Underwriting Compliance | <ul style="list-style-type: none"> ○ Compliance Program ○ Contingent Workforce ○ Escheatment Processing & Accounting ○ Financial Services Payables Process ○ Logging and Monitoring |
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- *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.

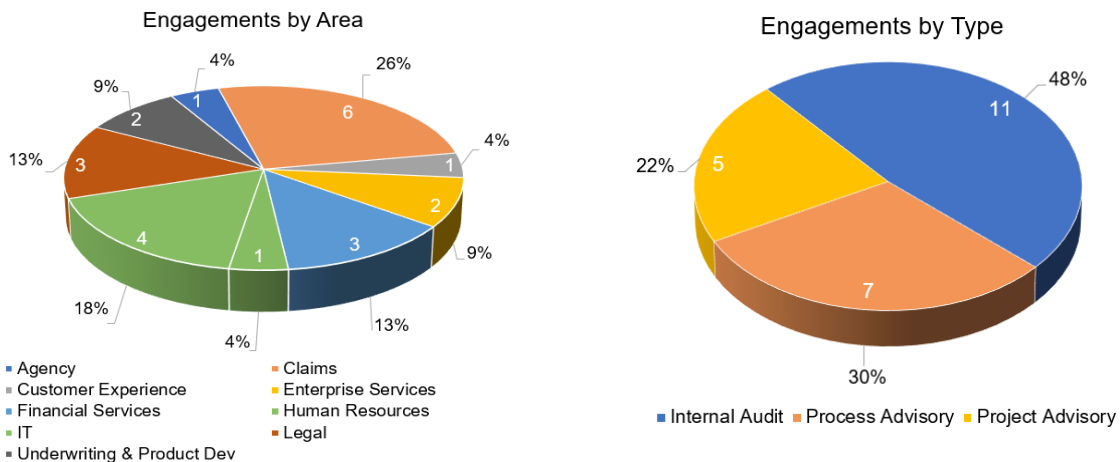
- Claims Legal Services Transfer
- Covid Contact Responses
- Independent Adjusters vs. Full Time Employees
- In-House Counsel
- IT Security & Risk Incident Response Exercise
- Legal Billing Transfer
- Underwriting Staffing Analysis

- *Project (Audit/Advisory) Engagements*

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

- Claims Consultant Recommendation Implementation
- Claims Litigation Management System Procurement
- Cloud Migration Program
- HB 1079 Implementation
- SB 76 Implementation

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

In the execution of audit engagements, Internal Audit follows a phased approach to the completion of every audit engagement. This approach ensures that internal auditors follow a process that



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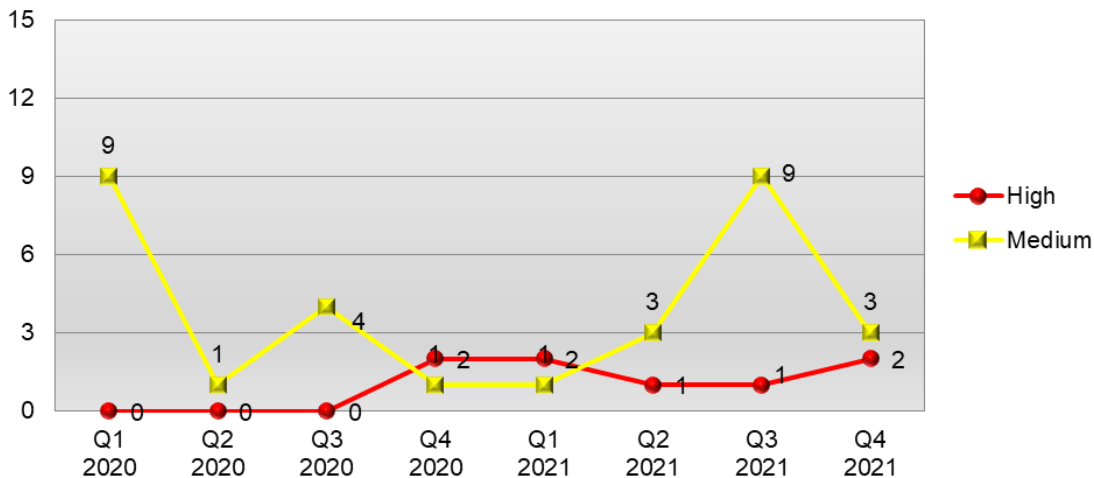
allows for consistent execution and thorough evaluation of risks and control effectiveness. The activities performed during each phase include, but are not limited to, the following:



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.

Open Observations Trend



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 & Internal Control Framework

Citizens' proactive approach to mitigating risks and ensuring strong internal controls includes comprehensive risk and control frameworks. The Enterprise Risk and Internal Control teams within OIA are responsible for the design, maintenance, and enhancement of Citizens' Enterprise Risk Management (ERM) Framework and Internal Control (ICF) 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. The frameworks are modeled after COSO and customized to fit the unique needs of our organization.



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In September, the Enterprise Risk and Internal Control 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.

Enterprise Risk

Enterprise Risk 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.



Citizens' Risk Perspectives

Strategic	Annually, Enterprise Risk facilitates a strategic risk assessment with the Executive Leadership Team (ELT). Strategic risks are assessed by estimating the potential impact or severity level the risk may have to Citizens if the event occurs and considering the probability of occurrence.
Operational	Enterprise Risk 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.
Project	At the request of the business area or management, 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.
Emerging	At the request of business area or management, 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.

Citizens' Top Strategic Risks for 2021

- Market Instability
- Rate Differential
- Claims Abuse
- External Influences
- Litigation Management System
- Market Dependence on Reinsurance
- CAT Response
- Data Security and Privacy

Market instability was assessed as Citizens' top risk as unstable market conditions may adversely impact private carriers continued participation in the Florida insurance market or geographic locations due to capital limitations or insolvency resulting in fluctuations in Citizens' costs, exposure, and number of policies in force.



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Enterprise Risk partnered with a subset of the Strategic Evaluation Group (SEG) to provide a cross-functional identification and assessment of key risks that may impact Citizens' operations as a result of market changes and the uncertainly related to the timing and quantity of policy fluctuations, as well as provide insights and recommended actions for planning and addressing any future impacts across the organization as necessary. The SEG raised awareness of mitigation plans and ensured efforts were complementary to activities already in flight within other parts of the organization. After the assessment, additional efforts were made to further explore Citizens' downstream abilities to effectively manage technical and operational capabilities with projected policy counts. The results from this assessment are being considered in additional scenario planning and operational resilience activities.

Collaborative Approach

Our collaborative approach has enabled partnerships throughout the organization that have been instrumental in elevating the awareness and utilization of the Enterprise Risk Management (ERM) Framework to support management in making risk-informed decisions.

Enterprise Risk 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.

In 2021, Enterprise Risk facilitated 4 cross-functional risk assessments designed to enable risk-based decisions and the proactive mitigation of risks. In addition to the Market Conditions and Policy Growth scenario risk assessment referenced above, Enterprise Risk facilitated the following cross-functional project risk assessments:

- *HB 1079*: Enterprise Risk facilitated pre-implementation and interim risk assessments to identify and assess risks and mitigation plans for the implementation of HB 1079 requirements. The assessment focused on the Vendor Management and Purchasing's responsibilities for the evaluation, management, and oversight of contractual service contracts.
- *OFAC Risk Assessment*: Following an Internal Audit recommendation, Enterprise Risk commenced with cross-functional OFAC risk assessments with 10 impacted business areas. The objective of the assessments was to record OFAC related risks and impacts across the organization to inform the extent of due diligence efforts for screening practices and support managements' risk-based decisions. The assessment also supports OFAC's recommendation for organizations to periodically perform risk assessments and enables a risk-based approach in the prioritization of resources and mitigating activities for the Enterprise OFAC Project as they implement mitigation plans for the open Internal Audit observations. The next periodic assessment is planned for Q2 2022.

2021 Risk Assessment Results

The risk assessment process begins with a review of the applicable strategic and business objectives for the process, project, or scenario to be evaluated. Material risks that may impact Citizens' ability to achieve these objectives are identified and assessed. Mitigating activities, or controls, that are in place are reviewed and considered to determine the remaining, or residual, level of risks.



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Strategic Risk

Overall, a total of 19 strategic risks were identified and assessed for 2021.

- 17 risks carried over from the 2020 Strategic Risk Profile. Risk descriptions and ratings were updated as needed.
- 2 newly identified risks were added (Market Instability and Workforce Transformation).
- 42% (8) of the risks were rated high; 21% (4) rated medium; and 37% (7) rated low.
- The 8 high rated risks may be impacted by external and internal factors contributing to the complexity of these risks.
- Mitigation plans were developed and executed, as necessary. Enterprise R, ELT and Risk Owners periodically monitor the risks and mitigation plans to ensure the risk descriptions, ratings and plans reflect any changes that occurred throughout the year.



Operational Risk

As of December, a total of 316 operational risks were identified and assessed across the organization. The total number of operational risks fluctuate as risks are added, removed, and consolidated.

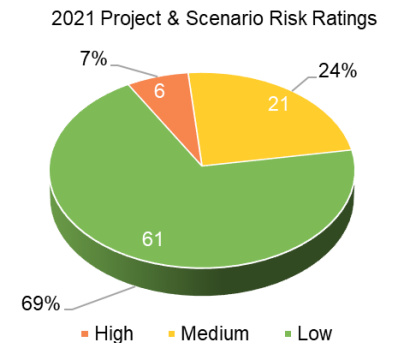
- The overall operational residual risk ratings which include consideration of controls are 83% (263) rated low and 17% (53) rated medium. Currently, there are no operational risks with a high-risk residual rating.



Project & Scenario Risk

A total of 88 project and scenario risks were identified and assessed.

- The 6 high rated risks align to the Market Instability strategic risk and organizational initiatives. Additional scenario planning and operational resilience activities are in progress.
- As a result of the pre-implementation risk assessment, mitigation plans were implemented, and the interim project risk assessment was updated to reflect the removal of 4 risks and the reduction of all remaining risks to a low rating.





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Internal Control

Internal control frameworks enable organizations to effectively and efficiently develop internal control systems that adapt to changing business and operating environments, mitigate risks, and support decision making and governance. 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 team supports management by providing consultation on leading practices, facilitating control self-assessments, and conducting periodic quality reviews of managements' assessment of their control environment.

Self-Service Capabilities

The Internal Control team continues to mature the process with the implementation of the Control and Narrative modules within AuditBoard 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 control self-assessments (CSAs).

- The Internal Control 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 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, the Internal Control team assisted management by uploading their CSA documentation and results in AuditBoard.

Primary Controls

During 2021, 119 primary controls were identified and recorded for business processes across the organization. As a result of quality reviews performed by the Internal Control team, 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.
- 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.

Quality Reviews

The Internal Control 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



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reviews for 15 controls within 8 processes noting improvements to CSA validation techniques and recommendations to strengthen controls which are being addressed by management.

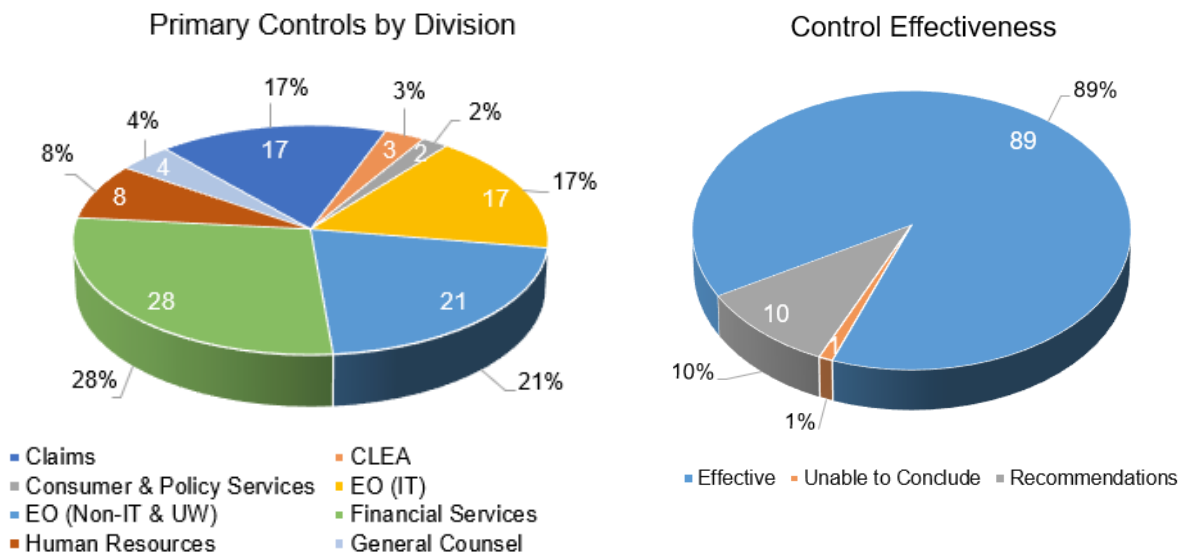
Annual Control Self-Assessment Results

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 has been 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 Internal Control 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.





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 2021. 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.

- *Appraisal Process* - With this audit we evaluated processes, procedures, and controls for appraisal and mediation claim handling. Results from our audit work indicated that appraisal and mediation claims handling processes are adequate and in alignment with Citizens' policy language and Florida Statutes. Internal Audit noted an opportunity to enhance metrics reporting for accuracy and transparency and a process improvement was also noted and shared with management.
- *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,



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monitoring and oversight of the billing aspects related to the moratorium, and systematic noncancellation of policy configurations.

- *Centerpoint Configurations* - We validated that all Centerpoint configuration settings are properly configured to ensure adequate security which prevents the override of key controls, business operational process requirements, and that the configuration settings are aligned with settings commonly used for Oracle Fusion Cloud modules to ensure effective and efficient controls. Our testing confirmed that Centerpoint configuration settings are generally aligned with settings commonly used and are appropriate for Citizens. Internal Audit noted some configuration settings for the Financial module which differed from settings commonly used. These settings were discussed with management and determined to present only a low risk due to the existence of compensating controls. We also noted that there are effective controls and processes related to making changes to Centerpoint configuration settings and implementing the Oracle quarterly updates for the application.
- *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.
- *Claims Consultant Recommendation Implementation* - Internal Audit monitored the progress of the working plan and initiatives developed by Claims Management in response to EY's observations and improvement opportunities, as well as the implementation of the initiatives. Twenty-eight (28) initiatives were developed and distributed amongst the corresponding business units. Internal Audit reported quarterly on the progress of the work plan developed by Claims Management to address the twenty-eight (28) initiatives. 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. 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.
- *Claims Legal Services Transfer* - Internal Audit evaluated observations and improvement opportunities made by EY in a report issued December 15, 2020 and considered implications associated with the potential transfer of the Claims Legal Services unit, currently attached to the Legal Department, under the purview of the Claims Department. Additional information and advisory guidance were provided to management for consideration of this initiative.
- *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 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 Mitratech Holdings Inc. (Acuity) which was approved by Citizens' Board of Governors.



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- *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.
- *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.
- *Commercial Underwriting Compliance* - The objective of this audit was to assess the controls associated with Commercial Lines Underwriting to ensure that underwriting activities are executed in compliance with Florida Statutes and Citizens' underwriting rules and guidelines. The results from our audit confirmed that an adequate control structure is in place to ensure commercial lines underwriting activities, underwriting rules, guidelines, and procedures follow Florida statutory requirements. Internal Audit observed that the Commercial Underwriting staff has extensive underwriting knowledge and experience with assessing complex risk; there is a dedicated compliance champion who is responsible for monitoring and certifying 16 rules, laws and regulations as a part of the Citizens Compliance Annual Certification process; and quality assurance reviews are conducted monthly by the Quality Assurance Team to ensure compliance with underwriting rules, guidelines and state statutory requirements.
- *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.



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- *Contingent Workforce* - Results from our assessment indicate that the contingent workforce program has adequate controls in place to ensure contingent workers are properly classified to prevent the unintentional creation of an employer-employee relationship between Citizens and contingent workers. Citizens' contingent worker policy and procedures were appropriately aligned with federal regulatory requirements and industry leading practices. In addition, the contingent worker policy and procedures were consistently applied by Citizens' contingent worker liaisons across the organization. Internal Audit noted an opportunity to enhance the controls around the HR contingent worker annual review process to ensure a thorough assessment of the appropriateness of any extension of a contingent worker assignment beyond the original anticipated services duration in accordance with the Contingent Worker Policy.
- *Covid Contact Responses* - As part of Citizens' COVID-19 contact response work group, Internal Audit independently validates and certifies the identification of 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.
- *Escheatment Processing & Accounting* - The audit focused on the effectiveness of process and controls in place to monitor and manage the escheatment process. Results from our audit work indicated that processes and procedures developed to manage unclaimed property and the escheatment of funds are generally well designed and operating effectively. Internal Audit noted two opportunities to strengthen the control structure which include monitoring system administrator activity in the escheatment compliance system and process segregation of duties. The enhancements have been shared with management and remediation has been completed.
- *Financial Services Payables Process* - 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.
- *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.



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- *Independent Adjusters vs. Full Time Employees* - As part of our monitoring of initiatives developed by Claims Management in response to EY's observations we also advise on some of the actions taken. This advisory pertains to one of the twenty-eight (28) initiatives developed by Claims Management, specifically initiative number four (4), Staffing Model: Staff Adjuster vs. Independent Adjusters (IA's) - Claims Litigation. Internal Audit examined the analysis made by Claims Litigation Management and provided additional information for management consideration as well as alternative options/approaches to optimize the ratio of FTE's vs. IA's. Claims Management in general agreed with Internal Audit's observations and provided detailed response to the alternative options/approaches presented.
- *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.
- *IT Security & Risk Incident Response Exercise* - Internal Audit was asked to participate in the incident response exercise and provide feedback regarding the attainment of exercise objectives, strengths and opportunities based upon the results, the validity of management's observations from the exercise, and the completeness of plan documents. Following the exercise, Internal Audit reviewed the results and agreed with Management's conclusion that the exercise met the objectives. Several strengths and opportunities were noted by Internal Audit: the Cybersecurity Incident Response Plan (CSIRP), Enterprise Data Incident Response Plan and CSIRP Checklist were reasonably followed during the exercise; formal training was provided as part of the exercise, benefitting staff who may not have participated in a prior test event; some sound areas of improvement were noted by the team post-exercise; and documentation can be expanded and/or updated to improve the execution of response processes.
- *Legal Billing Transfer* - The objective of this advisory was to provide insights on the proposed initiative of transferring the Legal Billing Review Team from the Legal Department to the Claims Department. Internal Audit examined observations made by CLM Advisors and EY in previous assessments and provided management with additional information for the consideration of this initiative.
- *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.



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- *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.
- *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.