

# Executive Summary

Board of Governors Meeting, July 13, 2022

## THE OFFICE OF THE INTERNAL AUDITOR

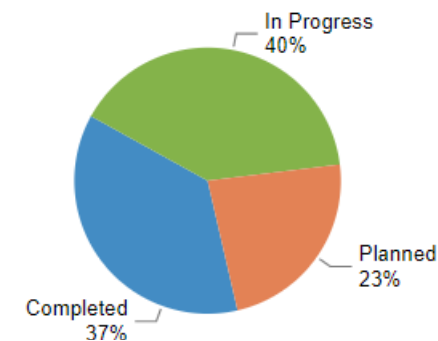
At the Audit Committee meeting, the Chief of Internal Audit presented progress on the 2022 plans for Audit, Internal Control, and Enterprise Risk. Changes to the Audit Committee Charter, the OIA Charter, and the Internal Audit Policies were presented and approved.

### 1. Internal Audit

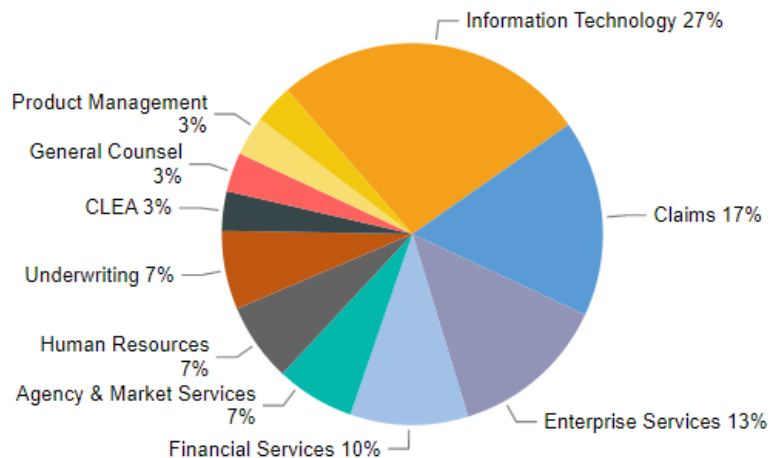
**Overview of Audit Progress** - Internal Audit follows a risk-based quarterly rolling plan approach in developing engagements and monitoring progress. As we review risks and consider operational challenges, we re-examine our plan and confirm that it continues to provide the expected assurance and that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

Audit Progress	Count
Completed	11
In Progress	12
Planned	7
<b>Total</b>	<b>30</b>

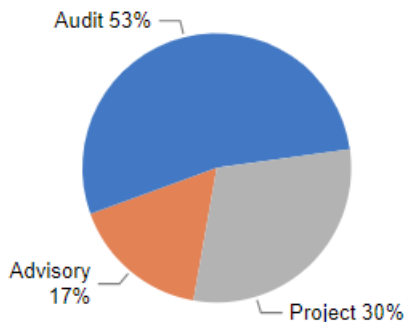
**Audits by Audit Progress**



**Audits by Business Area**



**Audits by Category**



**Audit Engagements Completed** - Following the last meeting we completed work on seven Internal Audit engagements:

- **Managed Repair Program** - This audit included an evaluation of the Managed Repair Program (MRP) processes, controls, and oversight procedures to ensure the program

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is effective and objectives are met. Our work indicated that there is effective management oversight to ensure that MRP claims are processed in accordance with Claims Best Practices and Estimating Guidelines and that the work performed by the MRP network contractors meets industry and quality standards. In addition, adequate metrics have been established to measure and monitor the success of the program.

- **myAgency Post Implementation** - Internal Audit completed an assessment of the myAgency application, and the effectiveness and adequacy of its functions and controls. Audit work included the review of key areas and processes of the application, noting several favorable practices and results. In addition, we conducted an added value activity, which included an Agent Satisfaction Survey resulting in a 93% average Agent general satisfaction score. The assessment noted two elements related to a business unit's self-reported deficiency in need of enhanced temporary controls. In conclusion, management should limit the number of individuals with "Edit Agency Account" permission and regularly monitor and review changes to the bank account information of agencies, ensuring that changes are made in connection with a valid request from the agency or an automated clearing house (ACH) report from a financial institution.
- **Self-Funded Benefit Plan** - Our work confirmed that there are effective business processes and controls in place to ensure adequate management of the Citizens' self-insured health care plan. Specifically, Internal Audit noted that there are adequate processes and controls in place to sufficiently manage compliance with regulatory requirements, security of employee health-related data, quarterly reserve calculations and related journal entries, stop-loss claims reimbursement, and member eligibility. Additionally, Internal Audit validated that the self-funded health care strategy aligns with corporate objectives.
- **Underwriting Quality** - This audit included an evaluation of the effectiveness of key business processes and control functions of both Underwriting and the Underwriting Quality Improvement program. The evaluation included a review of performance trends, root cause analysis, dashboard metric reports, communication, and collaboration between each area to drive continual improvement in support of the underwriting processes. The audit results confirmed the Underwriter's performance and quality of work continued to meet and surpass expectations.
- **Integration Platform as a Service (IPaaS)** - Internal Audit provided project advisory services in support of the implementation of the Integration Platform as a Service. The objective of this initiative was to migrate Citizens' middleware platform to a cloud-native environment. The IPaaS project was closed following an impasse with the supplier capabilities.
- **Software as a Service (SaaS) Contract Language** – Following a request from management, Internal Audit evaluated the SaaS contract template utilized by the Enterprise Services' Vendor Management and Purchasing team in comparison to

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leading practices and trends. The current SaaS contract template was found to generally conform and align with leading practices and found reasonable in its requirements. Additional suggestions have been noted for management's consideration.

- **Occupational Fraud Consideration** - Internal Audit performs a variety of activities to prevent, detect, and/or respond to occupational fraud in the company's programs and operations. These activities include anti-fraud training & awareness; supporting Enterprise Risk on fraud risk identification and assessment; an occupational fraud risk review; targeted audits; and anti-fraud analytics. The results from the Internal Audit's work this quarter mainly focused on occupational fraud-focused risk assessments, and our anti-fraud analytics assessment. Two targeted reviews evolved from the assessments. Results from our work support confirmation of the strength of the internal control infrastructure in continuing to protect Citizens' programs and operations against occupational fraud.

**Audit engagements in progress** - We are currently working on twelve engagements which include six audits and six project support engagements:

#### Audit engagements:

- **Applications and Infrastructure Standards Conformance** - Applications and infrastructure components may not be configured in alignment with IT Security and/or hardening standards, potentially creating opportunities for unauthorized or undocumented access, and downstream business disruption or security events to occur. The purpose of this audit is to review high-risk applications and infrastructure components against IT Security and hardening standards to validate compliance.
- **ELT & OKR Metrics** - Monthly the Enterprise Performance Metrics team constructs and publishes an Executive Leadership Team (ELT) Metrics Report. The ELT Metrics Report is used by management to monitor organizational progress and make important business decisions. In addition, management has implemented Objectives and Key Results (OKRs) that help implement and execute strategy. Internal Audit will assess the adequacy and effectiveness of controls related to data quality and accuracy.
- **HB 1079 Post Implementation** - House Bill 1079 was introduced during the 2021 legislative session and signed into law, becoming effective July 1, 2021. The bill makes several changes relating to the evaluation, management, and oversight of competitively procured contracts for commodities and contractual services. Internal Audit will validate that the required components of the bill have been implemented into the daily processes to ensure regulatory compliance.
- **PCard Targeted Audit** - The PCard-type credit card allows for increased controls over spending and provides Citizens with real-time reporting capability. Restrictions are placed on the cards that limit the types of charges allowed and limit the amount of credit that may be extended in any monthly billing cycle. In correlation with Internal Audit's

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Anti-Fraud analytical activities, periodic targeted Audit validation testing will be performed. The objective of the targeted audit will be to ensure adequate processes and controls are in place for approving and monitoring PCard transactions.

- **SB 76 Post Implementation** - SB 76, which became effective on July 1, 2021, amended existing Florida Statutes, and created new ones, impacting several Citizens' business units, in particular Claims operations. In 2021, Claims Management implemented changes in processes, procedures, and workflows to conform operations to the new requirements and Internal Audit has been asked by Claims Management to perform a post-implementation audit given the bill's impact on Claims operations. Internal Audit will evaluate the effectiveness and adequacy of the controls, processes, procedures, and workflows implemented by Claims Management in response to the bill's requirements.
- **Vulnerability and Patch Management** - Managing cyber risks includes identifying, evaluating, resolving, and reporting security vulnerabilities in systems and software. The process and corresponding threat mitigation are important to minimizing the attack surface and proactively managing the risk within a network environment. The purpose of this audit is to review vulnerability and patch management policies, procedures, and practices to ensure that the processes are working as intended to timely close security gaps, reducing the risk to an acceptable level. Failure to do so could potentially be exploited.

## Project/Advisory engagements:

- **Citizens FMAP/Clearinghouse Eligibility ITN** - 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 invitation to negotiate (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.
- **Cloud Migration Program** - Internal Audit is providing project advisory services in support of the implementation of the Cloud Migration of on-premises applications. The objective of this program is to move Citizens' physical, on-premises infrastructure to a cloud-based Infrastructure-as-a-Service (IaaS) solution that provides an ideal platform to support Citizens' unique business model.
- **Data Retention and Destruction** - The data retention process ensures that records are kept as long as legally and operationally required and that obsolete records are disposed of in a systematic and secured manner. Retention periods in the schedule are based upon federal and state laws and regulations, general administrative practices, and fiscal management principles and Citizens may choose to retain records

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longer due to operational practices or for legal purposes. Maintaining records for an indefinite period can present risks such as additional storage costs, lost time searching for documents, and legal or security risks associated with over-retained documents. Management has requested Internal Audit to participate and evaluate the adequacy of decisions made before data selected for destruction is deleted.

- **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. Citizens will also begin taking the necessary steps to significantly expand the use of inspections by leveraging existing and emerging technologies to gain efficiencies to positively impact underwriting results. Internal Audit will provide consultative advice related to controls of impacted business areas.
- **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. Internal Audit will provide project advisory services in support of the implementation of VIP Software to ensure the appropriate project management elements are in place to enhance the likelihood of a successful project.
- **Legislative Update Implementation** – Following this year's legislative sessions bills passed and signed into law that affect Citizens' operational processes which will need to be readied and implemented. Citizens monitor State of Florida legislative changes during the session, and once bills are signed impacting Citizens' processes, project teams are assembled to interpret and implement these regulatory changes. 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 issues.

**Work Planned** - The following audit engagements are scheduled to commence during Q4 2022:

#### Audit engagements:

- **Distributed Workforce** - The pandemic forever changed assumptions about the workforce and Citizens has adapted to meet the needs of the work environment, the organization, and employees. The hybrid Distributed Workforce Model was implemented on February 1, 2021, and includes a workforce strategy with employees in the office, employees working remotely or in the field, and teams distributed at any given time. Internal Audit will evaluate the performance management process developed to ensure adequate oversight is in place to manage and monitor distributed

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employee performance, productivity, and compliance with applicable corporate policies.

- **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. The use of a suspense account allows time to research the nature of a transaction while still recording it on the company's books. Included in these types of accounts could be monetary transactions such as cash receipts, cash disbursements, and journal entries. Given the nature of suspense accounts, transactions should only be in these accounts for a short period. 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.
- **Third-Party Technology Risk** - Citizens has several vendors and business partners integrated into their business processes. Some of these vendors and business partners may lack sufficient controls to protect Citizens' data. An audit of third-party IT technology will evaluate risks that can be mitigated to reduce the likelihood and impact that Citizens may experience related to brand damage, legal issues, business and revenue loss, and cost implications while conducting business with vendors and business partners. The audit will also vet the cyber security posture of Citizens' third-party suppliers and partners.
- **Regulatory Support (Market Conduct Exam)** - Internal Audit, in its liaison role, is responsible for coordinating with the Florida Office of Insurance Regulation (OIR) Market Conduct examiners and the State of Florida Auditor General's auditors. The OIR Market Conduct exam is performed every two years and the Auditor General operational audit is performed every three years. In 2022 the Office of Insurance Regulation will be conducting the Market Conduct Exam which will begin in September and finish by February 2023. The coordination efforts constitute meetings, planning, information request tracking, delivery, and overall ensuring the examiners receive the correct information timely.

## Project/Advisory engagements

- **Identity and Access Management Program** - Internal Audit will provide project advisory services and actively participate in the program development and implementation in support of the identity governance administration, access management, (IGA/AM), and related products. We will also review processes and controls related to the new software solutions and advise on the alignment of processes and controls with policies, standards, and leading practices.
- **Information System Technology Policies Review** - The Information Technology department has several policies, standards, and guidelines to guide staff toward best practices in handling data and applications across the enterprise. These documents

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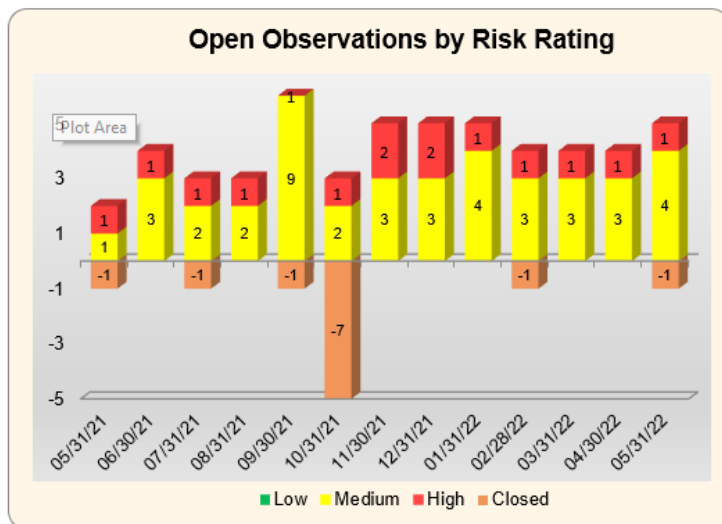
are foundational elements that are based on industry best practices and help in combating cyber security and ransom attacks. Internal Audit will participate in the process of updating these artifacts and guide the IT team in formalizing the process to regular updates on an agreed-upon schedule.

- UCaaS (Unified Communication as a Service)** - Internal Audit will provide project advisory services in support of the UCaaS and CCaaS (Customer Communication as a Service) initiatives. Citizens management is interested in obtaining these services to improve and modernize communication and call center systems. Reliable telephony and contact center services are important not only to daily business operations but more significantly to Citizens' call centers which support agents and policyholders.

## Resources

Internal Audit filled two vacancies in June. Peter Schellen is an Internal Audit Manager specializing in IT Auditing, and Satish Jampa joined as a Data Analytics Analyst. We also have a vacancy for an Audit Manager that specializes in property insurance.

**Open Audit Observations** - 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 open observations of which one (1) is rated as high impact, expected resolution is June 30<sup>th</sup>, 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		
2021	2022	TOTAL
3	2	5

Observation Source			
	High	Med	Total
Internal Audit	1	3	4
External Auditor			0
OIR Market Conduct			0
Auditor General		1	1