

## INTERNAL CONTROL FRAMEWORK



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### Introduction & Approach

Citizens is a Florida State entity and is as such not legally required to adhere to the requirements of the Sarbanes Oxley Act (SOX) or the Model Audit Rule (MAR). Citizens Board of Governors and the Executive Leadership Team (ELT) recognize and support the value of a strong internal control environment to ensure operational efficiency and fiscal responsibility. As a result, the Citizens' Internal Control Framework (ICF) was established, in 2014, to strengthen the governance, oversight, and accountability of Citizens' internal control environment.

Citizens' ICF leverages the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Integrated Framework and provides management with leading internal control practices to enhance operational, financial, and compliance objectives and controls. Our framework is customized to Citizens' unique corporate environment and promotes collaboration with risk management, compliance, and assurance frameworks to ensure alignment of goals, where applicable, so that business leaders will be better equipped to manage their risks and internal controls.

As part of the ICF, Citizens established a management control self-assessment approach designed to increase control awareness, and accountability and strengthen the control culture of the organization. The Internal Control team supports management by providing consultation on leading practices, facilitating control self-assessments, and conducting periodic objective reviews of management's control assessments. The ICF efforts culminate in the delivery of an opinion on the effectiveness of Citizens' system of internal controls while providing ongoing opportunities to proactively identify and address areas of improvement.

### Standards & Policies

Citizens' mission and Code of Ethics establish the standards that guide our business conduct and support a culture of accountability, transparency, and trust. Citizens' ICF is integrated throughout our corporate policies. The following policies specifically reference or directly align with the ICF Framework:

- Internal Audit
- Enterprise Resiliency
- Information Security & Privacy
- Information Technology Resources

### Roles & Responsibilities

The Internal Control team within the Office of the Internal Auditor (OIA) is responsible for the design and maintenance of the ICF framework. Citizens' management has the primary responsibility for internal control design and effectiveness. The Chief of Internal Audit is appointed by the Board of Governors, reports to, and is under the general supervision of the Board, 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 Internal Control and the Enterprise Risk functions.

### Three Lines Model

The ICF incorporates a widely accepted Three Lines Model approach to governance, risk, and controls. The model outlines the roles of various leaders within the organization to describe risk management and control responsibilities in three separate lines.

- **First Line: Business/ Management**

Citizens' managers, or Control Owners, have primary responsibility for identifying, controlling, and monitoring the risks within their processes and for maintaining appropriate internal controls. Control Owners establish business objectives, identify risks and controls, maintain appropriate documentation, and provide oversight of control self-assessments.

Control Owners may designate Control Champions to evaluate primary controls, perform control self-assessments, conclude on the effectiveness of primary controls, and provide recommendations, as needed.

- **Second Line: Internal Control & Enterprise Risk Management**

The Internal Control team is responsible for coordinating, developing, and monitoring Citizens' ICF and processes and supports the business with the identification and assessment of primary controls, as well as performs quality assurance reviews of management's control self-assessments.

Enterprise Risk is responsible for coordinating, developing, and monitoring Citizens' risk management framework and processes and supports the business with the identification, assessment, and mitigation of current or emerging risks.

- **Third Line: Internal Audit**

The Internal Audit team is responsible for developing a comprehensive risk-based internal audit program that provides independent assurance that Citizens' internal control infrastructure is designed well and operating effectively.

### Collaboration

The Internal Control team focuses on creating and maintaining a collaborative and engaging control identification and assessment environment across the organization. The Internal Control team also promotes information sharing, communication, and education on ICF throughout the organization by:

- Supporting management by providing consultation on leading control practices and facilitating control self-assessments.
- Enabling management across all levels of the organization to self-identify, evaluate, record, and manage controls through the provision of guidance and training on our governance, risk, and control (GRC) software solution.
- Partnering with IT Security and Risk to align Citizens' ICF to the Security and Risk Framework that includes leading practices from Control Objectives for Information and Related Technologies (COBIT), National Institute of Standards and Technology (NIST), International Organization for Standardization (ISO) and Critical Security Controls (CSC 18) Frameworks.
- Promoting a comprehensive understanding of internal control concepts and related tools to improve the business areas' ability to proactively manage risks and strengthen controls. The Internal Control and Enterprise Risk teams collaborate to provide various educational opportunities for business areas from introductory overviews for individuals new to risk and control concepts to comprehensive training on how to conduct risk and control assessments.
- Calibrating with the Enterprise Risk team to share information; to review recently completed operational risk assessments to determine any potential changes to primary controls; discuss

updated narratives to determine any impacts on operational risks, and to increase business acumen.

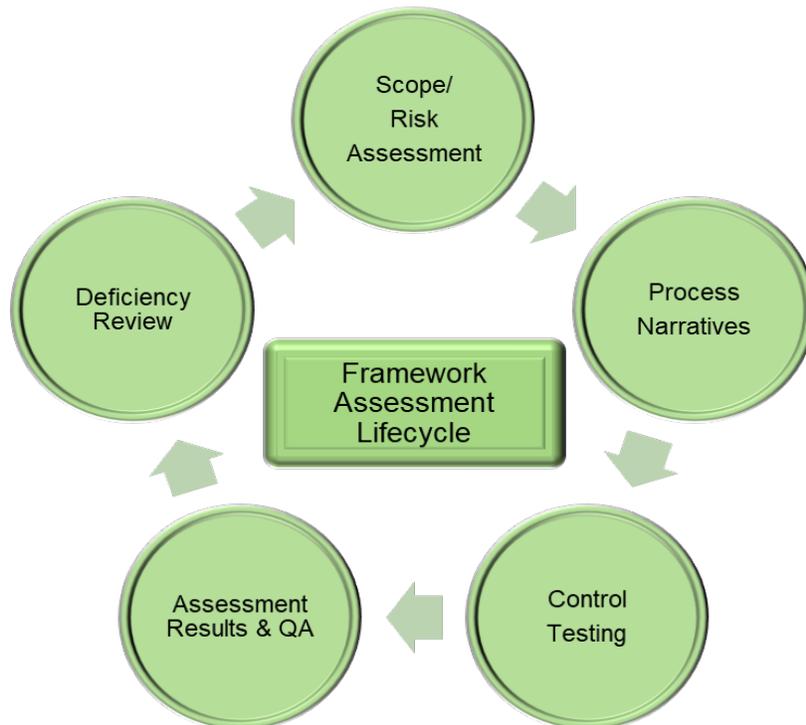
**Internal Controls**

Controls are actions taken by all levels within the organization to ensure risks are mitigated and Citizens’ objectives are achieved. Internal controls are designed and implemented to minimize risks, protect assets, ensure the accuracy of records, promote operational efficiency and compliance, and prevent fraud.

Types of Controls		
Preventive	Designed to keep the risk from occurring	Authorization, segregation of duties, securing confidential information, etc.
Detective	Designed to identify the risk after it occurs	Management reviews, quality assurance, reconciliation, exception reports, etc.
Corrective	Measures designed to repair damage or restore resources and capabilities to their prior state.	System patches, restoring data from system backups, etc.

**Framework Assessment Lifecycle**

The framework assessment lifecycle provides a proactive approach for ongoing validation of the effectiveness of Citizens’ primary controls. Control assessments are performed using a cyclical assessment covering major aspects such as scope assurance, and deficiency assessment.



### OIA Process Universe

The OIA process universe consists of the primary business processes of the organization and serves as the population for ICF. Process Owners are identified for each process and Control Champions may be designated for processes with primary controls.

The process universe is reviewed annually, or as significant organizational changes occur. Changes to the OIA process universe must be reviewed and approved by all OIA directors and the Chief of Internal Audit.

### Primary & Mitigating Controls

Primary controls are key activities that play a significant role in ensuring objectives are met and mitigate higher-rated inherent risks. Mitigating activities are designed and implemented to reduce any remaining inherent risks.

Primary controls are typically identified in the inherent risk assessment and/or the process narrative/walkthrough. Citizens' primary controls are subject to the annual control self-assessment process.

Primary controls may change over time as new risks are identified, the control becomes no longer applicable as a result of new or revised processes and systems, or another primary control more appropriately addresses the risk. In these situations, the primary control should be removed from the control self-assessment process. Any addition or removal of a primary control from the control self-assessment process must have approval from the Director of Risk and Controls, the Chief of Internal Audit, and the applicable business area.

### Risk Assessment

As part of Citizens' Enterprise Risk Management (ERM) Framework, operational risk assessments are performed for a defined process universe. The risk assessment process enables the Internal Control team and management to identify Citizens' top primary controls or key activities that significantly impact the ability to achieve objectives and mitigate higher-rated inherent risks. During the operational risk assessment process:

- Management identifies inherent risks (without controls) that may prevent the achievement of business objectives.
- The inherent risks are rated using the impact and probability criteria defined in the ERM Framework.
- Management identifies any controls or key activities performed to mitigate the inherent risks to determine any residual risks that remain after considering mitigating activities in place.

### Process Narratives

Understanding business processes is a critical component in the proper identification and assessment of Citizens' primary controls. A narrative and flowchart are prepared and maintained for each process in scope for ICF from the OIA process universe. The ICF narratives provide a high-level overview of key business processes with a focus on internal controls. To supplement the narratives, flowcharts are prepared to visually represent the process. The collective documentation provides details of the internal controls embedded within Citizens' business

processes. Process narratives and applicable flowcharts are maintained in the narrative module of our GRC software solution which provides self-service capabilities to Control Champions and management.

The Internal Control team is responsible for documenting the initial narrative and flowchart for each process with input from management. The narratives follow a consistent format and include detailed summaries of key processes with a focus on internal controls. Beginning the subsequent year, management is responsible for reviewing narratives of processes within their area(s) of accountability to confirm the accuracy and revise, as necessary. Process narrative(s) should be reviewed annually or more frequently if significant changes occur. The Internal Control team assists management in updating narratives and flowcharts for any significant or complex changes.

### Control Self-Assessment

Citizens' 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 Internal Control team designs the control self-assessment test steps and performs the initial assessment with input from the applicable business area. In subsequent years, management is responsible for performing the annual control self-assessment.

Control self-assessment details and supporting evidence are maintained in the internal control module of the GRC software solution. ICF job aids provide additional guidance to management and Control Champions on how to complete the control self-assessments and utilize self-service capabilities.

Control Self-Assessment Conclusions	
Effective	The control is working and operating as intended.
Ineffective	The control is not adequately designed or working as intended.
Recommendations	Process improvements are recommended to further strengthen the control.
Unable to Conclude	The control self-assessment results are inconclusive. The Internal Control team provides additional consulting to further evaluate the level of risk for the items identified by management and to improve the effectiveness of the control where needed.

The Internal Control team reviews the completed management control self-assessments to ensure standards are followed and to ensure the reasonableness of conclusions. Any material weaknesses identified will be referred to Internal Audit for further evaluation.

### Monitoring

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

The Internal Control team is responsible for monitoring the completion of:

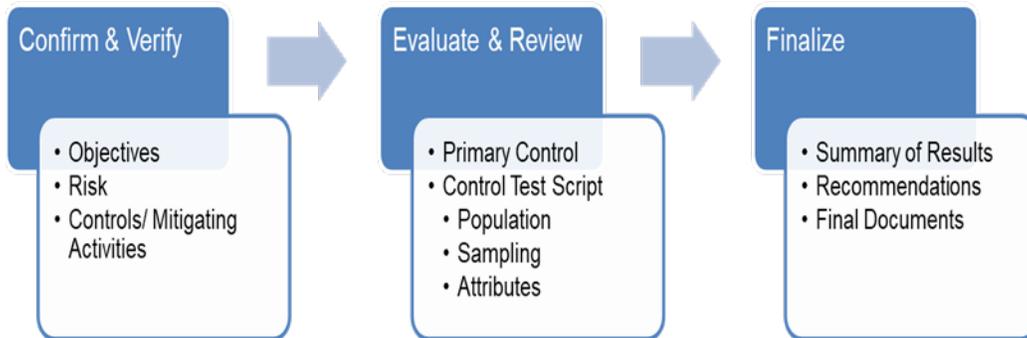
- Annual narrative updates
- Annual control self-assessments
- Implementation plans for any process improvements identified
- Mitigation plans for any ineffective controls.

### Quality Reviews

Quality reviews are performed to confirm the accuracy and to ensure adherence to Citizens’ ICF standards by the Internal Control team, Control Champions, and management. The quality review program includes the following:

- The Director of Risk and Controls performs and oversees periodic quality reviews of work performed by the Internal Control team.
- The Internal Control team performs annual quality reviews of Control Champion and management control self-assessment results.
- The Internal Control team performs periodic reviews of control self-assessment test steps with business areas to ensure the assessment remains relevant and continues to add value.

### Quality Review Process



ICF quality review recommendations are intended to strengthen the management control self-assessment process and Citizens’ control environment.

### Reporting

Citizens operates according to statutory requirements established by the Florida Legislature and is governed by a Board of Governors. The Board and the Board committees receive regular updates on the effectiveness of the internal control environment and mitigation efforts from Citizens’ executive leadership and the Chief of Internal Audit, who oversees the ICF. The quarterly status of the control assessments and annual aggregate results are reported to the Risk Steering Committee, Audit Committee, and Board of Governors. Management and Control Champions have access to reporting capabilities within the internal control module of the GRC software solution.

**APPENDIX A: OIA PROCESS UNIVERSE**

<b>OIA Process Universe</b>		
<b>Assurance</b>	<ul style="list-style-type: none"> <li>Enterprise Risk Management</li> </ul>	<ul style="list-style-type: none"> <li>Internal Control Framework</li> </ul>
<b>Claims</b>	<ul style="list-style-type: none"> <li>Catastrophe Planning, Testing &amp; Coordination</li> <li>Claims Governance</li> <li>Claims Legal Billing</li> </ul>	<ul style="list-style-type: none"> <li>Claims Litigation</li> <li>Claims Operations</li> <li>Claims Vendor Management</li> <li>Special Investigative Unit</li> </ul>
<b>CLEA</b>	<ul style="list-style-type: none"> <li>Corporate Communications</li> <li>Insurance Technical Communications</li> </ul>	<ul style="list-style-type: none"> <li>Legislative &amp; Cabinet Affairs</li> <li>Public External Relations &amp; Outreach</li> </ul>
<b>Consumer &amp; Policy Services</b>	<ul style="list-style-type: none"> <li>CPS Processes</li> </ul>	<ul style="list-style-type: none"> <li>Customer Correspondence</li> </ul>
<b>Enterprise Governance</b>	<ul style="list-style-type: none"> <li>Corporate Governance</li> </ul>	
<b>Enterprise Operations</b>	<ul style="list-style-type: none"> <li>Agency Management</li> <li>Clearinghouse Operations</li> <li>Commercial Lines Underwriting</li> <li>Continuous Improvement</li> <li>Depopulation Operations</li> <li>Enterprise Performance Metrics</li> <li>Enterprise Strategy &amp; Planning Support</li> <li>FMAP</li> </ul>	<ul style="list-style-type: none"> <li>Personal Lines Underwriting</li> <li>Product Dev – Applications, Forms &amp; Rules</li> <li>Product Dev &amp; Rate Implementation</li> <li>Project Portfolio Management</li> <li>Purchasing</li> <li>Software Asset Management</li> <li>Quality Improvement Services</li> <li>Vendor Management</li> </ul>
<b>Enterprise Operations (IT)</b>	<ul style="list-style-type: none"> <li>IT Application Delivery</li> <li>IT Application Development</li> <li>IT Application Quality Assurance</li> <li>IT Change &amp; Release Management</li> <li>IT Configuration Management</li> <li>IT Enterprise Architecture</li> <li>IT Enterprise Resilience (BCP &amp; DRP)</li> <li>IT Governance</li> </ul>	<ul style="list-style-type: none"> <li>IT Information Management</li> <li>IT Infrastructure</li> <li>IT Knowledge Management</li> <li>IT Operations</li> <li>IT Problem Management</li> <li>IT Security &amp; Risk</li> <li>IT Service Request Management</li> <li>IT Systems Application Development</li> </ul>
<b>Financial Services</b>	<ul style="list-style-type: none"> <li>Accounts Payable</li> <li>Cash Management &amp; Treasury</li> <li>Claims Accounting &amp; Disbursements</li> <li>Commissions Payments &amp; Accounting</li> <li>Compliance FS</li> <li>Corporate Analytics</li> <li>Depop Billing, Settlements &amp; Acc.</li> <li>Escheatment Processing &amp; Accounting</li> <li>Financial Close</li> <li>Financial Planning &amp; Analysis</li> <li>Financial Reporting</li> </ul>	<ul style="list-style-type: none"> <li>Investments Accounting</li> <li>Investments Management &amp; Compliance</li> <li>Loss Reserve Development IBNR</li> <li>Pre- &amp; Post-Event Liquidity Bond Financing</li> <li>Premium Accounting</li> <li>Premium Invoicing, Refunds &amp; Suspense</li> <li>Premium Remittance Processing</li> <li>Rate Development Actuarial</li> <li>Reinsurance Servicing &amp; Accounting</li> <li>Risk Transfer Strategy &amp; Execution</li> </ul>
<b>Human Resources</b>	<ul style="list-style-type: none"> <li>Compensation</li> <li>Employee Benefits</li> <li>Facilities Management</li> <li>HR Systems &amp; Reporting</li> </ul>	<ul style="list-style-type: none"> <li>Learning &amp; Development</li> <li>Payroll</li> <li>Talent Acquisition</li> </ul>
<b>Office of the General Counsel</b>	<ul style="list-style-type: none"> <li>Claims Legal</li> <li>Compliance</li> <li>Corporate Insurance</li> <li>Corporate Legal</li> </ul>	<ul style="list-style-type: none"> <li>Ethics</li> <li>Privacy</li> <li>Records Management</li> </ul>

**APPENDIX B: ALIGNMENT TO COSO**

COSO provides guidance to management on evaluating the effectiveness of their internal controls system. According to COSO, five components must be present in the design, implementation, and ongoing functioning for internal controls to be considered effective. Our framework includes these five COSO components as a foundation and incorporates leading practices of a traditional control assessment lifecycle used by organizations required to comply with SOX and MAR. The chart below provides a high-level overview of how COSO’s five key framework components and supporting principles align to Citizens’ ICF.

	Control Environment	Risk Assessment	Control Activities	Information & Communication	Monitoring Activities
<b>COSO</b>	<p>Organization demonstrates a commitment to integrity</p> <p>Board of Governors demonstrates independence from management and exercises oversight of the development and performance of internal control and ethical values</p> <p>Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives</p> <p>The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives</p> <p>The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives</p>	<p>Specifies objectives with sufficient clarity to enable the identification and assessment of risks related to objectives</p> <p>Identifies risks to the achievement of its objectives across the entity and analyzes risk as a basis for determining how the risks should be managed</p> <p>Considers the potential for fraud in assessing risks to the achievement of objectives</p> <p>Identifies and assesses changes that could significantly impact the system of internal control</p>	<p>Selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels</p> <p>Selects and develops general control activities over technology to support the achievement of objectives</p> <p>Deploys control activities through policies that establish what is expected and procedures that put policies into place</p>	<p>Obtains, generates or uses relevant, quality information to support the functioning of the internal control</p> <p>Internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control</p>	<p>Selects, develops and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning</p> <p>Evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate</p>
<b>CITIZENS ICF</b>	<p>Introduction &amp; Approach</p> <p>Standards &amp; Policies</p> <p>Roles &amp; Responsibilities</p> <p>Three Lines Model</p>	Risk Assessment	<p>Internal Controls</p> <p>Process Narratives</p>	<p>Collaboration</p> <p>Reporting</p>	<p>Framework Assessment Lifecycle</p> <p>Control Self-Assessment</p> <p>Monitoring</p> <p>Quality Review</p>