

# Office of the Internal Auditor

# Strategy & Plan 2023

December 2022



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## Executive Summary

### Introduction

The Chief of Internal Audit currently oversees three complementary assurance functions within Citizens: Internal Audit, Enterprise Risk Management, and Internal Control monitoring. This plan describes our approach, focus, and expected deliverables for 2023 and beyond for each of the three functions.

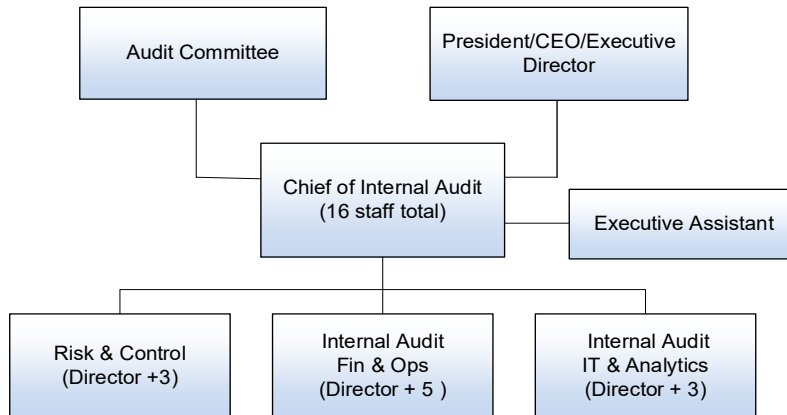
### Background and Approach

In alignment with our mission, the OIA uses a collaborative approach to deliver independent and objective assurance over the organization’s internal control environment to the Audit Committee, Board of Governors, and management. This plan offers a prompt and comprehensive scope of internal audit, enterprise risk, and internal control coverage using the available resources.

In developing this plan and approach, the OIA consulted with other internal and external assurance providers, including the Citizens’ Inspector General, to ensure that our 2023 Plan supports or complements other operational plans.

### Organization

The Chief of Internal Audit reports to the Citizens’ Audit Committee and, with their guidance and the support of Citizens’ Executive Management, sets up a team of audit, risk, and control professionals to provide assurance and consulting services that add value and improve the corporation's operations.



### Our Strategy

The 2023 OIA approach aligns with Citizens’ strategic objectives and goals to provide high-quality audit, risk, and control services. The OIA team seeks opportunities to effectively utilize allocated financial and human resources to meet the expectations of key stakeholders. As such, we seek creative ways to maximize the value and impact of available audit, risk, and control resources, and to be a valued partner and seek opportunities to:

- Learn about and understand our business partners’ environment and their challenges
- Provide progressive thinking toward internal and external factors and trends that may prevent Citizens from successfully meeting its goals and objectives
- Be aware of and apply leading audit, risk, and control practices



## Detailed Plan

### Our Plan

This Plan provides a detailed description of our approach, focus, and expected deliverables for 2023 for each of the three OIA functions: Internal Audit, Enterprise Risk, and Internal Control.

### 1. Internal Audit



Internal Audit follows a detailed annual planning process and prepares a themes-based audit plan which considers the possibility of dynamic risk fluctuations and process changes throughout the year. The audit plan continuously evolves to support our dynamic risk environment, focusing on current and emerging reputational, compliance, operational, information technology, and financial risks. Internal Audit “rebalances” audit activities to achieve the most significant impact in a rolling audit plan to ensure adequate focus on Citizens’ strategic issues and critical processes.

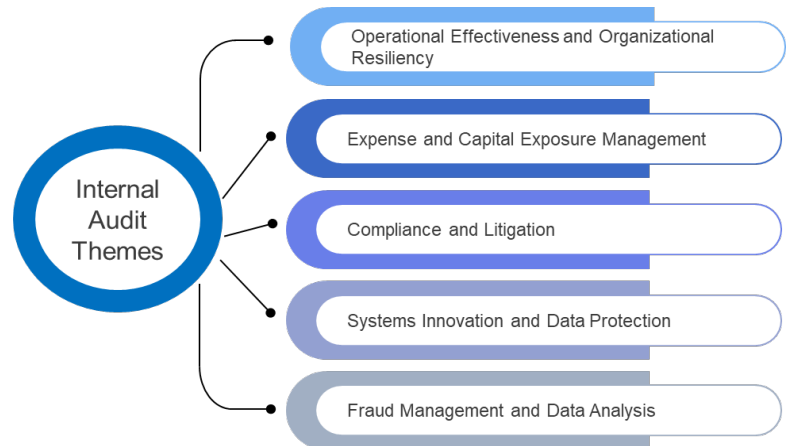
Internal Audit’s primary objective is to determine whether Citizens’ network of governance processes, risk/opportunity management, and internal control, as designed and represented by management, is adequate and functioning in a manner to ensure that:

- o Risks/opportunities are appropriately identified and managed
- o Significant financial, managerial, and operating information is accurate and timely
- o Employee actions comply with policies, procedures, and applicable laws and regulations
- o Resources are sourced economically, used efficiently, and protected adequately
- o Programs, plans, and objectives are achieved
- o Significant legislative or regulatory issues affecting Citizens are recognized and addressed appropriately

After completing a detailed analysis of Citizens’ strategic goals and objectives, considering management’s concerns, and Internal Audit’s risk assessment, we developed specific audit themes to identify planned audit activities and coverage. Themes-based audit planning helps us determine, consolidate, and provide high-level insights into audit focus areas.

#### Audit Themes

Our audit themes consolidate and provide high-level insights into the year’s audit focus areas. As the year progresses, Internal Audit will use a quarterly rolling risk assessment process to identify engagements to be selected for every reporting period. The 2023 themes are as follows:

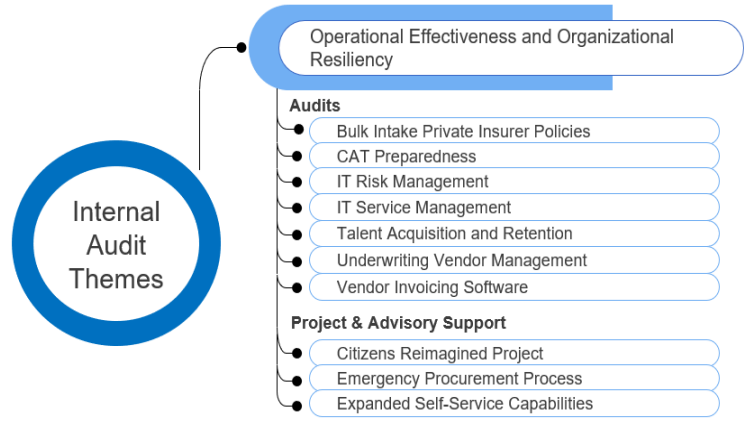




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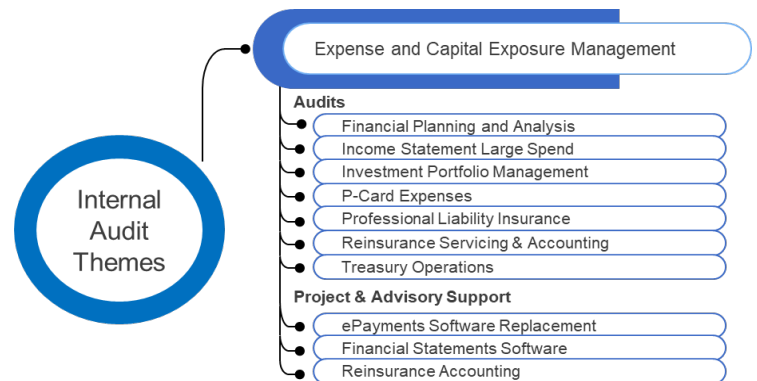
### a. Operational Effectiveness and Organizational Resiliency

b. Citizens is pursuing a strategic objective focused on ensuring scalability, flexibility, and resiliency during 2023 by investing in corporate initiatives and activities that deliver value and stabilize internal business operations and priorities. Traditionally, corporate effectiveness measures how successful an organization is in reaching the goals it sets out to achieve. The right people, processes, and structure to create efficacy and efficiencies leads to meeting goals. A variety of areas may contribute to corporate effectiveness, such as faster, leaner, and more cost-effective business processes, improved digital adoption, more efficient use of technology, management tools such as policies and procedures, and improved customer and employee experiences. Internal Audit will assess several significant business processes contributing to operational effectiveness and organizational resiliency.



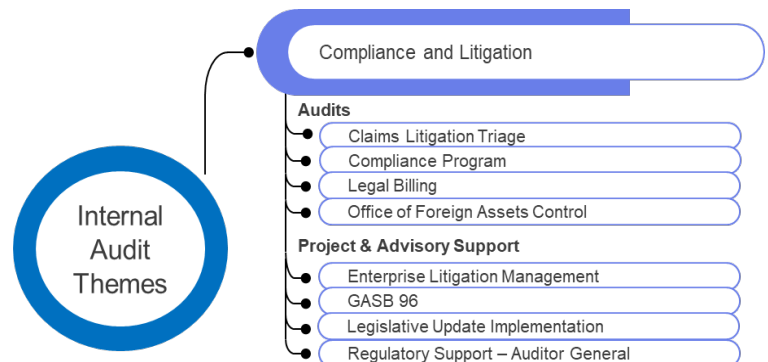
### b. Expense and Capital Exposure Management

Citizens continues to develop and improve existing strategies, programs, and processes geared toward reducing operating expenses and financial exposure as the organization's size grows exponentially. The organization remains focused on achieving a robust financial control environment and maintaining acceptable financial ratios. At the same time, it ensures the protection of a reasonable portion of the surplus capital in the three main accounts, thereby minimizing the potential for future assessments. Internal Audit will assess several important business processes that contributes to efficient financial planning, cost management, and reinsurance accounting.



### c. Compliance and Litigation

Each year the Florida legislative session produces several bills which may directly affect Citizens' business processes and systems. Citizens responds to these changes by ensuring that internal processes and procedures are adjusted to accommodate compliance with current regulations. Compliance programs are designed to integrate ethical standards into the daily business activities of an organization



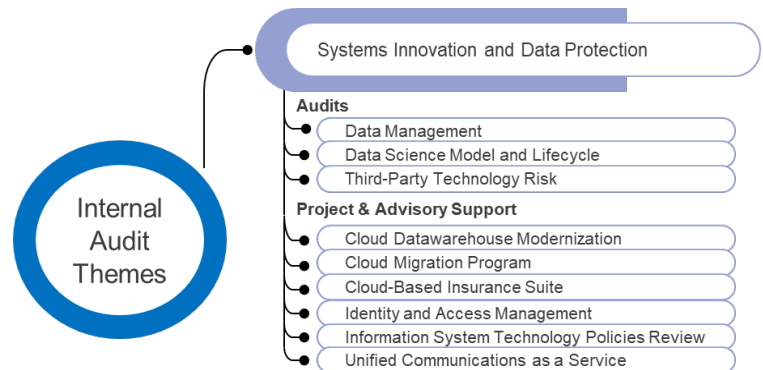


## Detailed Plan

through communication, education and training, monitoring, investigation, detection, and reporting. Additionally, Citizens is experiencing a massive influx of litigated claims and is pursuing a strategic objective focused on reducing claims litigation and enhancing litigation capabilities through developing and implementing innovative litigation and claims management practices. Internal Audit will provide assurance and advisory services to support the implementation of the processes and procedures.

### d. Systems Innovation and Data Protection

Citizens is changing how systems and services are delivered to employees and customers to provide improved productivity, eliminate the need to maintain excess capacity and related costs, and meet rapid increases in demand. Applications currently residing on premises are being migrated to Software as a Service (SaaS) solutions, and several new products are being implemented for modernization and improved productivity. Internal Audit will participate in projects or perform audits to validate that appropriate controls remain in place as these changes occur.

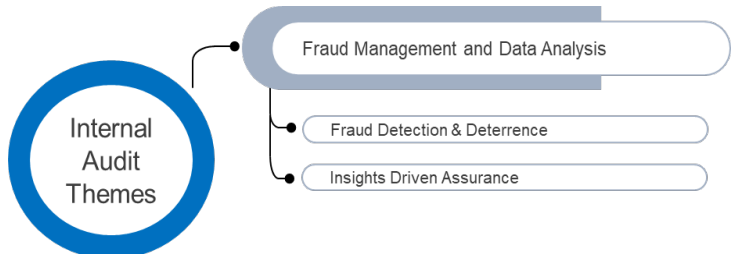


Cybersecurity protects organizations’ computer equipment and information from unintended or unauthorized access, change, or deletion. Data can be in many forms, including customer lists, customer and financial details in databases, paper documents, etc. A cyber-attack may cause financial losses and damage the organization’s reputation, so sound practices must be applied to protect data. IT Security and the Privacy Office continue to review and improve security and privacy policies, standards, and procedures to correspond with world events. Internal Audit will perform IT security audits due to the critical nature of controls and assess the adequacy of processes and controls. Internal Audit will provide assurance and advisory services to support the implementation of the processes and procedures, ensuring systems security and data protection.

### e. Fraud Management and Data Analysis

#### Fraud Detection & Deterrence -

Occupational fraud is a universally recognized business risk, and Internal Audit has a statutory commitment to prevent, detect, and respond to fraud, abuse, and mismanagement. This commitment is fulfilled through fraud training and awareness; fraud risk assessment; fraud analytics, and targeted audits.



**Insights-Driven Assurance** - In alignment with Citizens’ strategy and plan for advanced analytics, Internal Audit utilizes data analysis to support the integration of digital technologies into Internal Audit, Enterprise Risk, and Internal Control activities.



## Detailed Plan



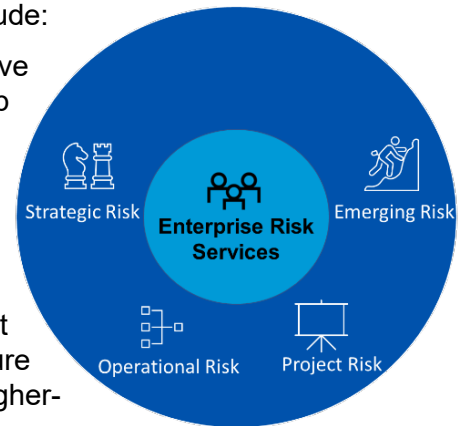
### 2. Enterprise Risk

In 2023, the Enterprise Risk team will support management in stabilizing the organization by continuing to integrate risk considerations seamlessly into everyday decisions. The Enterprise Risk plan focuses on two key themes: Enterprise Risk Services and Risk Awareness.

#### a. Enterprise Risk Services

Our risk-based approach, combined with insightful discussions and collaborative partnerships, supports management in making risk-informed decisions that contribute to the stabilization of the organization. Enterprise Risk services include:

- Facilitating the strategic risk assessment with the Executive Leadership Team (ELT) to identify and assess Citizens’ top risks.
- Periodically confirming that operational risk descriptions, assessments, and mitigation plans remain relevant through recurring touchpoints with management and Risk Champions.
- Promoting awareness of project risk assessments that assist management with decision-making and help ensure mitigating activities are designed and implemented for higher-rated risks.
- Performing scenario risk assessments for any new emerging risks that could significantly impact the organization.

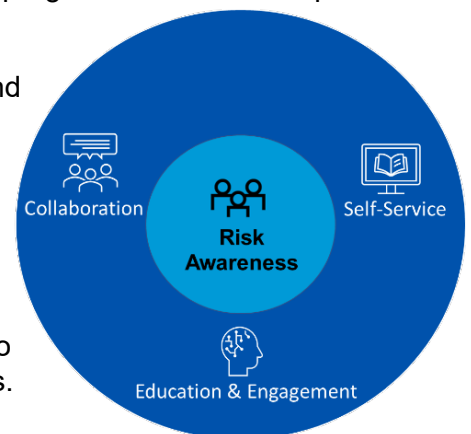


#### b. Risk Awareness

The Enterprise Risk team plans to increase risk awareness through expanding self-service capabilities, collaborative efforts to align Enterprise Risk Management with critical initiatives, and introducing new educational and engagement programs for Risk Champions.

Specific areas of focus include:

- Continuing collaboration with Compliance and Ethics and IT Security and Risk to leverage information and technology to increase efficiencies and risk awareness across the organization.
- Developing innovative training programs designed to enable the integration of risk considerations seamlessly into daily activities.
- Enabling risk dashboards for the business areas to enhance the monitoring of risk levels and mitigation plans.





Detailed Plan

effective  
internal  
controls

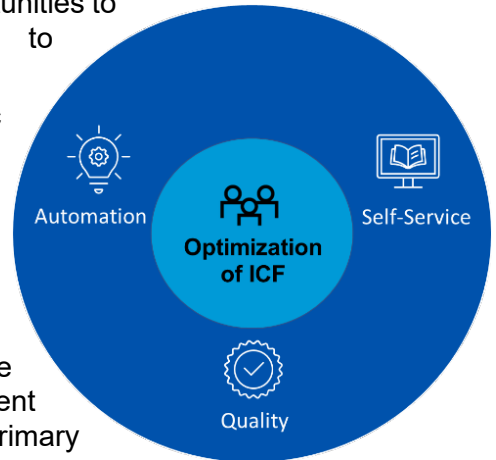
3. Internal Control

As the organization continues to experience significant growth due to market conditions, sustaining Citizens’ robust internal control environment is critical to our continued success. The Internal Control team will support management in these efforts by optimizing the performance of the Internal Control Framework (ICF) and providing value-added services to the organization.

a. Optimization of ICF

While our management control self-assessment process is well established, there are opportunities to optimize the performance of the ICF by pursuing opportunities to automate or streamline control self-assessment validation steps, expand the quality of the program, and promote self-service capabilities. The Internal Control team plans to optimize ICF by:

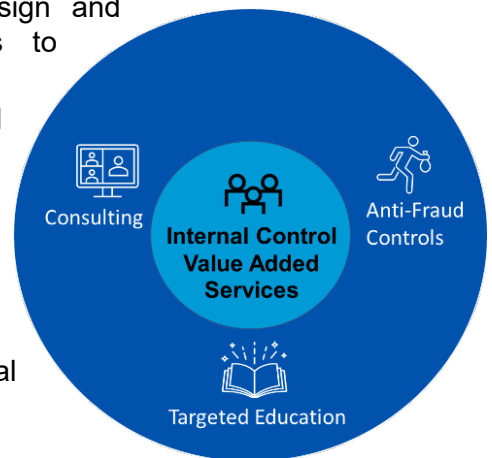
- o Continuing to partner with Internal Audit to explore opportunities to automate control self-assessment validation steps to increase efficiency and provide broader coverage.
- o Expanding the ICF quality program to include periodic reviews of the completeness of narratives to ensure our primary controls continue to align with current business practices and retrospective reviews after internal and external audits to identify opportunities to strengthen control self-assessments.
- o Continuing the roll-out of additional self-service capabilities within AuditBoard including the narrative module and control dashboards to provide management with additional insight into the effectiveness of Citizens’ primary controls.



b. Internal Control Value-Added Services

Throughout 2023, Internal Control will continue to ensure a collaborative and engaging control identification and assessment environment that adds value across the organization by providing additional consultative support for IT governance, designing targeted education for Control Champions, and promoting awareness of anti-fraud controls. Value-added services for 2023 include:

- o Engaging an external consultant to support the design and implementation of specific policies and standards to strengthen IT governance.
- o Designing targeted educational programs for Control Champions to acquire additional internal control knowledge that can be applied to the annual control self-assessments.
- o Collaborating with Enterprise Risk, Internal Audit, and SIU to provide consultative advice to the business areas regarding leading practices on internal controls to prevent and detect fraud and to include the importance of internal controls in fraud awareness campaigns.







# Appendix



## Appendix 1 - Overview of Identified Audit Engagements

The following table provides a detailed overview of Internal Audit’s view of risk and the engagement objective.

Title	Audit Engagement Justification and Objective
Bulk Intake Private Insurer Policies	<p><b>Risk Rationale:</b> During 2022, there have been some carrier insolvencies and an OIR consent order allowing some carriers to exit certain territories and cancel policies. As a result, more than two hundred and thirty additional policies entered the marketplace, with Citizens estimated to pick up a sizeable percentage of these on short notice.</p> <p><b>Objective:</b> To evaluate and assess the adequacy and effectiveness of controls related to the BIPIP process and to ensure that eligibility and underwriting risk are effectively managed within the constraints of the OIR orders.</p>
CAT Preparedness	<p><b>Risk Rationale:</b> Catastrophe preparedness is critical when responding to disasters and providing local services and support to policyholders in a crisis. Citizens’ policies in force have significantly increased this year and combined with Citizens’ market concentration in South Florida, claims risk increased substantially.</p> <p><b>Objective:</b> To evaluate the CAT preparedness processes and controls, including the virtual onboarding process, to enhance the effectiveness and quality of service to our policyholders in the event of a disaster.</p>
Citizens Re-imagined (Procurement to Implementation)	<p><b>Risk Rationale:</b> Citizens’ policy eligibility re-imagined solution will replace the Clearinghouse and FMAP platforms. This solution will assist consumers and agents with obtaining and comparing offers for new business and renewals from available private carriers, facilitate the placement of property insurance away from Citizens to the private market, and enhance Citizens’ policy eligibility requirements.</p> <p><b>Objective:</b> To provide process, risk, and controls advice to the project team and to monitor the project management process to ensure effective and timely escalation and handling of project issues.</p>
Claims Litigation Triage	<p><b>Risk Rationale:</b> Claims Litigation continues to experience a high volume of litigated claims. The Triage Unit plays a key role in the litigation management process as it is tasked with the preliminary review of incoming litigation, the initial handling recommendation of lawsuits, and the assignment to the corresponding handling unit.</p> <p><b>Objective:</b> To assess the effectiveness of the controls, practices, and processes applied by the Triage Unit in the evaluation and assignment of litigated claims.</p>
Cloud-Based Insurance Suite (Procurement to Implementation)	<p><b>Risk Rationale:</b> The implemented Guidewire Insurance Suite currently handles over a million policies and is used to process thousands of claims each year. The solicitation and implementation of core business systems require significant planning and project governance to ensure the best value solution to meet Citizens' future needs.</p> <p><b>Objective:</b> To participate on the project team and provide process, risk, and controls advice and to monitor the project management process to ensure effective and timely escalation and handling of project issues.</p>



## Appendix 1 - Overview of Identified Audit Engagements

Title	Audit Engagement Justification and Objective
Cloud Datawarehouse Modernization (Procurement to Implementation)	<p><b>Risk Rationale:</b> Citizens relies on an on-premises hardware and software platform that houses the data used for business reporting. However, this platform cannot support the increasing policy-in-force count and other related business requirements. To support the changing business needs and to enable scalability, a new data warehouse is envisioned to be implemented in the cloud.</p> <p><b>Objective:</b> To participate on the project team and provide process, risk, and controls advice and to monitor internal requirements, system control implementation, cloud migration, and information management.</p>
Cloud Migration Program	<p><b>Risk Rationale:</b> Migration to cloud services and solutions means reliance upon service providers for applications and infrastructure provisioning and the delivery of agreed support services. When migrating critical applications and infrastructure to the cloud, ineffective cloud implementation processes may lead to business disruption, unnecessary expenses, and unauthorized access to confidential data.</p> <p><b>Objective:</b> To participate on the project team and provide advice on risks and controls associated with migrating applications and infrastructure to cloud services during 2023. Internal Audit will also validate that governance processes appropriately support the project and perform new controls implementation testing where requested.</p>
Compliance Program	<p><b>Risk Rationale:</b> Citizens, as a property insurance company, must have a compliance program to ensure the organization follows applicable state and federal regulatory requirements. The Compliance function, through a network of Compliance Champions, annually reviews, updates, and certifies compliance with applicable laws, rules, and regulations. A 2021 Internal Audit identified the need for significant enhancements to the compliance program governance oversight and the need for compliance roles with accountability and authority within the organization.</p> <p><b>Objective:</b> To evaluate whether process and control enhancements have been implemented and are working effectively.</p>
Data Management	<p><b>Risk Rationale:</b> Digital data enables business processes by creating, transforming, and analyzing information. However, when data is not actively managed, data can negatively impact cost management, the efficiency of computer system performance, legal discovery expense, and/or accuracy/completeness of transactions and/or reporting. With cloud computing, the volume of unstructured data typically also proliferates.</p> <p><b>Objective:</b> To evaluate and assess the adequacy and effectiveness of internal controls around data management.</p>
Data Science Model and Lifecycle	<p><b>Risk Rationale:</b> Data science ensures that Citizens produces models and solutions that meet our strategic goals and are secure, compliant, and of good quality. Citizens' ELT and BOG rely on the data science models' output for certain strategic decisions.</p> <p><b>Objective:</b> To evaluate and assess the adequacy and effectiveness of Data Science Models, their development life cycle, and the overall process to produce output.</p>



## Appendix 1 - Overview of Identified Audit Engagements

Title	Audit Engagement Justification and Objective
Emergency Procurement Process	<p><b>Risk Rationale:</b> According to Florida Statutes the agency head may determine in writing that an immediate danger to the public health, safety, welfare, or other substantial loss to the state requires emergency action and the agency may proceed with the procurement of necessary commodities or contractual services without following the required competitive procurement process. Citizens used an emergency procurement process for procuring commodities and contractual services related to Citizens' response to Hurricane Ian.</p> <p><b>Objective:</b> To evaluate CAT/emergency procurements following the recovery period to evaluate the effectiveness and adequacy of the processes and controls followed during the emergency procurement activities.</p>
Enterprise Litigation Management Solution (Procurement to Implementation)	<p><b>Risk Rationale:</b> Citizens relies on 100+ outside defense firms to provide claims-related legal defense counsel services. Citizens' ability to manage complex legal bills submitted by contracted defense counsel continues to be an integral process supporting controlling costs and ensuring a strong financial operating environment. An Enterprise Litigation Management System is currently being procured to support the appropriate management of litigation expenses.</p> <p><b>Objective:</b> To provide process, risk, and controls advice for implementing the Claims Litigation Management System.</p>
ePayments Software Replacement	<p><b>Risk Rationale:</b> Citizens uses a third party to process online premium payments made through the external website. Processing payments via an Automatic Clearing House (ACH) is more efficient than processing checks manually. Citizens is migrating to a new vendor for these premium payments in 2022 and 2023. The primary concern is the security of ACH payments and related financial information. Inadequate monitoring can lead to the loss of money and financial information and expose Citizens to privacy risks.</p> <p><b>Objective:</b> To provide process, risk, and controls advice for implementing the new ePayments Software.</p>
Expanded Self-Service Capabilities	<p><b>Risk Rationale:</b> A future enhancement to myPolicy is planned for Q4 2022 to implement an electronic policy document delivery option allowing policyholders to elect paperless delivery of their policy documents (renewal only) to a registered e-mail on file. Management is considering diverse options to encourage policyholders to enroll in the paperless document delivery option to reduce the cost of U.S. Postal Mail delivery. However, paperless document delivery to policyholders must be done securely and in compliance with state and federal laws, rules, and regulations.</p> <p><b>Objective:</b> To provide advisory services to support the implementation of the electronic paperless delivery processes and procedures in myPolicy to ensure compliance with state and federal laws, rules, and regulations.</p>
Financial Planning and Analysis	<p><b>Risk Rationale:</b> Citizens successfully launched the budgeting module in Centerpoint in 2018, and training was conducted for budget users throughout the organization. As a result, a continuous budgeting model was</p>



## Appendix 1 - Overview of Identified Audit Engagements

Title	Audit Engagement Justification and Objective
	<p>adopted throughout the organization in 2019. The need for continuous budgeting and strategic forecasting is critical to have a clear understanding and communication surrounding financial expectations to make strategic decisions and adjust resource allocations in response to changing conditions.</p> <p><b>Objective:</b> To evaluate the adequacy and effectiveness of controls related to the Financial Planning and Analysis process.</p>
Financial Statements Software Implementation	<p><b>Risk Rationale:</b> Citizens is replacing the current financial statement software and vendor at the end of 2022 and the beginning of 2023.</p> <p><b>Objective:</b> To provide project support and evaluate the effectiveness of processes and key system controls of new financial statement software.</p>
GASB 96 Implementation	<p><b>Risk Rationale:</b> The Governmental Accounting Standards Board Statement 96 (GASB 96) will set a standard for the accounting and financial reporting for subscription-based information technology arrangements (SBITA) for government end users. Changes in accounting policies and presentation impact the financial statements of Citizens. Failure to meet reporting requirements could lead to inaccurate financial statements.</p> <p><b>Objective:</b> To assist management in identifying SBITA contracts and determine whether a contract conveys control of the right to use the underlying IT assets.</p>
Identity and Access Management	<p><b>Risk Rationale:</b> The IT Security and Risk department is implementing an enterprise-wide strategy to consolidate and centralize user identity and access management processes and technology capabilities. These are significant in the role of cybersecurity. New security applications which will provide Identity Governance and Administration, as well as Access Management for applications, are being procured, with implementation targeted to begin in 2023.</p> <p><b>Objective:</b> To provide advisory services and review processes and controls related to the new software solutions being implemented to validate that controls align with policies, standards, and common practices.</p>
Income Statement Large Spend	<p><b>Risk Rationale:</b> As part of being a cost-conscious organization, regular review of spending trends throughout the organization focusing on large cost categories, are necessary to ensure appropriate internal controls have been implemented. Large income statement items warrant close attention due to their complexity, effects on balance sheet items, and the potential for manipulation.</p> <p><b>Objective:</b> To assess income statement categories and related accounts focused on significant expenses.</p>
Information System Technology Policies Review	<p><b>Risk Rationale:</b> The IT function has policies, standards, and guidelines in place to establish requirements for handling data and applications in Citizens. These documents are foundational elements that are based on leading practices. Aside from the management of information technology, these governing documents support cybersecurity.</p>



## Appendix 1 - Overview of Identified Audit Engagements

Title	Audit Engagement Justification and Objective
	<p><b>Objective:</b> To review the current classification of governing documents by type (policy, standard, procedure, or guideline), relevance, completeness, consistency, as well as administration, conformance verification, and training, and advise on opportunities for improvement.</p>
Investment Portfolio Management	<p><b>Risk Rationale:</b> Citizens’ total portfolio market value for July 2022 was \$9.58 billion, of which approximately 92% (\$8.77 billion) is managed by ten external investment managers, and 8% (820 million) is managed internally. When considering the multiple portfolio management firms and the volume of purchases and sales made in any given period, the risk of non-compliance is increased. It may result in insufficient liquidity and/or loss of principal. In addition, in Q4 2021, a new SAAS vendor, Clearwater Analytics, took over the compliance management, monitoring, and reporting process for the investment portfolio.</p> <p><b>Objective:</b> To evaluate and assess the adequacy and effectiveness of controls related to investment portfolio management.</p>
IT Risk Management	<p><b>Risk Rationale:</b> The availability, confidentiality, and integrity of information systems that Citizens relies upon from its systems are dependent on the implementation and continued execution of strong internal controls. The Information Technology Risk Management team achieves this through risk assessment, risk treatment, and regular monitoring of internal controls.</p> <p><b>Objective:</b> To evaluate and assess the adequacy and effectiveness of IT Risk Management processes and the alignment of these processes with the ERM Framework.</p>
IT Service Management	<p><b>Risk Rationale:</b> Citizens relies upon adequate, accurate, and approved IT services being managed timely in support of internal customer requests and incidents. Some IT services have been migrated to Managed Workplace IT Services beginning in early 2022.</p> <p><b>Objective:</b> To evaluate the adequacy and effectiveness of processes developed for handling IT service requests, incidents, and other digital workflows, as well as data integrity, appropriate approvals, service level agreements, and user access controls.</p>
Legal Billing	<p><b>Risk Rationale:</b> Citizens’ Legal Billing Review Team is responsible for reviewing all external claims defense counsel invoices, playing a key role in the management of litigated claims, with a litigated claims rate that continues to increase. In 2020 and 2021, Internal Audit issued two advisory memoranda which provided governance guidance and support for the proposed initiative of transferring the Legal Billing Review Team from the Claims Legal Department to the Claims Department, which was completed in 2021.</p> <p><b>Objective:</b> Review and assess the effectiveness of the process, methodology, and results of the Legal Billing Review Team under its new purview.</p>
Legislative Update Implementation	<p><b>Risk Rationale:</b> Citizens monitors State of Florida legislative changes during the session, and once bills are signed impacting Citizens’ processes,</p>



## Appendix 1 - Overview of Identified Audit Engagements

Title	Audit Engagement Justification and Objective
	<p>project teams are assembled to interpret and implement regulatory changes.</p> <p><b>Objective:</b> To provide consultative advice related to controls of impacted business areas and the project management process to ensure effective and timely escalation and handling of project issues.</p>
Office of Foreign Assets Control	<p><b>Risk Rationale:</b> The Office of Foreign Assets Control (OFAC) administers and oversees a series of laws that impose economic and trade sanctions against hostile entities. U.S. insurers are among organizations that must exercise due diligence in checking the specially designated nationals (SDN) list to ensure that the individuals they insure are not specially designated nationals. An audit was performed in 2020, requiring the enhancement of OFAC processes and controls related to expanding screening practices and developing a sanctions compliance program.</p> <p><b>Objective:</b> To evaluate and assess whether process and control enhancements have been implemented and are working effectively.</p>
P-Card	<p><b>Risk Rationale:</b> Citizens uses Purchasing Cards (P-Cards) as the payment method for employees approved to use a credit card for certain business expenses. P-Card expenditures may circumvent the procurement process.</p> <p><b>Objective:</b> Review P-Card expenditures for high dollar spending and validate that expenditures align with the procurement policy.</p>
Professional Liability Insurance	<p><b>Risk Rationale:</b> As an expert business, vendor professionals must adhere to certain standards and best practices for their prospective industries. If a policyholder believes a mistake was made by the professional, they could claim that the organization and/or employee did not meet the standards and sue the company for financial damages. A process needs to be in place to identify, research, and file claims regarding Citizens' vendors, which may not have performed to the standards and best practices for their prospective industries.</p> <p><b>Objective:</b> To help perform research regarding leading practices and approaches, advise, and assist with developing alternative claims process solutions.</p>
Regulatory Support (Auditor General Operational Audit)	<p><b>Risk Rationale:</b> Internal Audit, in its liaison role, is responsible for coordinating with the Florida Auditor General's 2023 Operational Audit. This audit is expected to be completed by August 2024. Most of the coordination efforts constitute meeting planning, information request tracking, delivery, and ensuring the examiners/auditors receive the correct information in a timely manner.</p> <p><b>Objective:</b> To coordinate the regulatory audit across the organization.</p>
Reinsurance Accounting (Software Implementation)	<p><b>Risk Rationale:</b> The BOG approved the purchase of reinsurance management software at the September 2022 meeting. The software supports the management of reinsurance contracts including but not limited to attachment points, reimbursement, and financial statements. Hurricane Ian devastated several counties in Florida during September of 2022, and</p>



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Title	Audit Engagement Justification and Objective
	<p>Citizens is expecting over 200,000 claims which may result in substantial reinsurance recoveries.</p> <p><b>Objective:</b> To provide process, risk, and controls advice, in addition to monitoring the project management process services for the software implementation, as it will be needed over the next several years to process the expected reinsurance claims and recoveries from Hurricane Ian.</p>
<p>Reinsurance Servicing &amp; Accounting</p>	<p><b>Risk Rationale:</b> Traditional reinsurance is a historically proven financial tool that helps Citizens manage significant and difficult-to-predict financial impacts by transferring losses to other organizations, which can free up capital or provide additional stability to manage potential shocks. Hurricane Ian devastated several counties in Florida during September of 2022, and Citizens is expecting over 200,000 claims which may result in substantial reinsurance recoveries.</p> <p><b>Objective:</b> To review and assess the effectiveness of the processes in place to submit reinsurance claims and recoveries.</p>
<p>Talent Acquisition and Retention</p>	<p><b>Risk Rationale:</b> Florida’s property insurance market instability and Citizens’ exponential policy growth have created the need for more staff to manage the influx of policies, call center activity, and claims handling. Recruiting qualified staff to fill these open positions is strategically important to ensure that Citizens continues to deliver the expected quality and standard of services to its customers.</p> <p><b>Objective:</b> To evaluate and assess the adequacy and effectiveness of controls related to talent recruitment and employee retention processes to ensure staff recruitment and retention is aligned with leading marketplace practices.</p>
<p>Third-Party Technology Risk</p>	<p><b>Risk Rationale:</b> IT is critical in supporting Citizens’ mission by providing applications, data, and tools that enable effective and efficient business processes. IT at Citizens, as in most organizations, is highly dependent on various vendors to provide software and managed services. Careful vetting and oversight of IT vendors are therefore key to maintaining the availability, confidentiality, and integrity of Citizens’ applications, data, and tools.</p> <p><b>Objective:</b> To evaluate and assess the adequacy and effectiveness of controls related to third-party technology risk.</p>
<p>Treasury Operations</p>	<p><b>Risk Rationale:</b> The Treasury Department’s role includes managing wire transfers, debt service payments, and monitoring Automatic Clearing House (ACH) and positive pay transactions by Company guidelines. The ACH, wire transfer, and check payment processes are used for transferring significant amounts of money between Citizens and vendors, policyholders, and other organizations, and pose a substantial risk if the proper controls are not in place and working effectively.</p> <p><b>Objective:</b> To evaluate the adequacy and effectiveness of the processes, procedures, and controls associated with Treasury operation practices.</p>
<p>Underwriting Vendors</p>	<p><b>Risk Rationale:</b> Citizens relies on third-party vendors to support several areas across the company, including underwriting operations. Citizens’</p>





## Appendix 1 - Overview of Identified Audit Engagements

Title	Audit Engagement Justification and Objective
	<p>policies have significantly increased and in addition, Hurricane Ian devastated several counties, putting significant strain on insurers and the marketplace with anticipated results of moving even more policies to Citizens over the next couple of years.. These vendors are experiencing similar challenges in finding resources to perform work that poses a risk to Citizens.</p> <p><b>Objective:</b> To evaluate the adequacy and effectiveness of controls related to data quality, accuracy, processes, and effective management of the outsourced vendors.</p>
<p>Unified Communications as a Service (Implementation)</p>	<p><b>Risk Rationale:</b> When migrating critical infrastructure and applications to cloud services, ineffective implementation processes may lead to business disruption or unnecessary expenses. Reliable telephony and contact center services are important to daily business operations and Citizens’ call centers that support agents and policyholders.</p> <p><b>Objective:</b> To provide advisory services and perform a review of the new cloud telephony and contact center solutions to ensure they include appropriate controls and support business operations.</p>
<p>Vendor Invoicing Software</p>	<p><b>Risk Rationale:</b> To help automate manual Independent Adjuster and vendor invoice handling processes, Claims Management implemented an integrated vendor invoice submission software during the summer of 2022. This software will ensure consistency and compliance with contractual requirements. Hurricane Ian has generated a need to add 1,000+ adjusters to address the significant expected number of claims.</p> <p><b>Objective:</b> To ensure the application is working as intended, as many payments rely on the application’s accuracy.</p>
<p>Enterprise Operational Readiness</p>	<p><b>Risk Rationale:</b> Citizens' policies have significantly increased from 687,079 on 8/31/21 to 1,026,829 as of 8/31/2022, with no foreseeable slowdown in sight because of deteriorating market conditions and impacts to the Florida insurance industry and future reinsurance as a result of hurricane Ian. Citizens is expected to grow to over 2 million policies by the end of 2023. The recent and projected growth significantly increases enterprise operational risk resulting in concerns that Citizens may not be able to perform administratively at these volume levels.</p> <p><b>Objective:</b> To provide advisory services and analysis to provide insight into what is needed for Citizens to sustain the projected growth.</p>
<p>Retirement Plan Migration</p>	<p><b>Risk Rationale:</b> The migration of over \$84 million from the former employee retirement plan administrator’s system to the new administrator’s system occurred in September 2022. There is a risk that not all the funds were adequately moved over to the new administrator’s system.</p> <p><b>Objective:</b> To review and validate there is adequate documentation and reconciliations to ensure asset balances were moved from the former administrator system to the new vendor system.</p>



## **Appendix 1 - Overview of Identified Audit Engagements**

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