

Executive Summary

Audit Committee Meeting, December 6, 2022
Board of Governors Meeting, December 7, 2022

THE OFFICE OF THE INTERNAL AUDITOR

The Office of Internal Audit focuses on areas where it can contribute the most value by working with the organization to reduce risk, improve the control infrastructure and increase operational efficiencies. The Chief of Internal Audit oversees Internal Audit, Enterprise Risk, and Internal Control.

1. Internal Audit

Overview of audit progress – This report focuses on a 12-month audit period between July 1, 2022, to June 30, 2023.

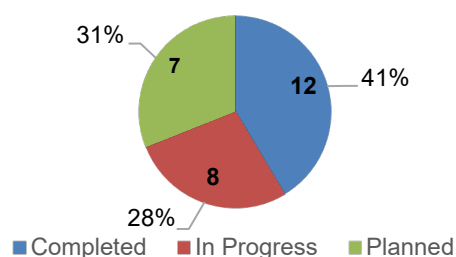
Audit Progress:

For the period we have 27 Audit Engagements listed of which 12 were completed, 8 are in progress, and 7 are planned to commence during Q1 2023.

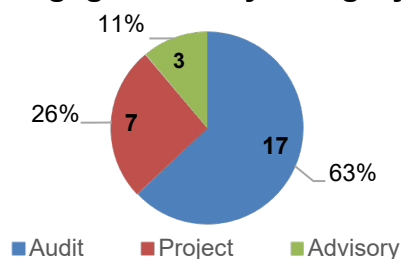
Since the last Audit Committee meeting, we completed six of the planned engagements. Following Hurricanes Ian and Nicole we reassessed our plan and delayed the start date of some of the audit engagements planned for commencement during October/ November and added a few audits to the plan that focuses on catastrophe procurement, PCard, and other business expenses incurred, manual check processing procedures, and lessons learned which may affect future catastrophe response planning.

Audit Progress	Count
Completed	12
In Progress	8
Planned	7
Total	27

Engagement Progress



Engagements by Category



Engagements by Business Area



Executive Summary

Audit Committee Meeting, December 6, 2022
Board of Governors Meeting, December 7, 2022

Engagements completed - Following the last meeting, we completed work on six Internal Audit engagements:

- **HB 1079 Post Implementation (Audit)** - The audit focused on the HB1079 provisions that the Vendor Management and Purchasing department implemented. Results from the audit indicated adequate processes and controls are in place to ensure compliance with the requirements.
- **Legislative Update Implementation (Project Advisory)** - The 2022 Special Legislative Session on property insurance produced Senate Bills 2D and 4D. Citizens identified the need for system changes, training, and updates to procedural guidelines to implement some of the bills' requirements. Pending the presentation before the Board of Governors, Internal Audit will continue to monitor the implementation of changes necessary to meet the bills' requirements.
- **PCard (Targeted Audit)** - The audit evaluated the reasonableness of anomalies identified as part of our analytics program. Results from the audit work found that reimbursed employee expense documentation and related files were maintained and available, and supporting documentation reviewed reflected allowable and approved purchase transactions. Overall, the employee reimbursement process is operating effectively and efficiently. Internal Audit did identify two control improvements needed over the tuition reimbursement and expense report review and approval processes.
- **Quality Monitoring (Targeted Audit)** - The audit assessed the management of privacy risks (concerns) related to quality monitoring and recording personal/sensitive information in the Virtual Observer system. Our work indicates that the controls around the Virtual Observer system are adequate to ensure the quality monitoring and recording of personal/sensitive information complies with state and federal statutes and internal policies and procedures.
- **Suspense Account Management (Audit)**- The audit evaluated procedures to monitor and manage the increasing number of transactions that flow through the premium payment suspense account. Overall, the accounting department has adequate controls and processes to monitor and manage suspense account transactions.
- **Vulnerability and Patch Management (Audit)** - The audit reviewed whether applied processes are working as intended to timely close security gaps which could potentially be exploited. Internal Audit completed the assessment of vulnerability and patch management. Our assessment results indicated that there is a need to formally develop reporting of tracking and metrics around vulnerability and patch management and to reassess penetration testing frequency based on risk assessment of the asset class.

Executive Summary

Audit Committee Meeting, December 6, 2022
Board of Governors Meeting, December 7, 2022

Engagements in progress - We are currently working on eight engagements:

- **Bulk Intake Private Insurer Policies (Audit)** - This process is utilized to help manage and streamline the influx of large volumes of new policy applications due to market instability and carrier insolvencies. The audit will evaluate and assess the adequacy and effectiveness of controls related to the BIPIP process to ensure management is mitigating risk within the constraints of the order.
- **Claims Litigation Management System (Project Advisory)** - Citizens is procuring a web-based Software-as-a-Service (SaaS) Litigation Management System, which will be utilized to manage Citizens' litigated and disputed claims activity and other legal matters customary to property and casualty insurance carriers. Internal Audit provides project advisory services to support the new system's solicitation and implementation.
- **Claims Litigation Triage (Audit)** - The Triage unit plays a vital 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. The audit will assess the effectiveness and success of the controls, practices, and processes applied by the Triage unit in the evaluation and assignment of litigated claims.
- **Cloud Migration Program (Project Advisory)** - Internal Audit provides project advisory services supporting the migration of on-premises applications to the cloud. This program aims 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.
- **Information System Technology Policies Review (Advisory)** - Internal Audit will review and advise on the current classification of governing documents by type (policy, standard, procedure, or guideline), relevance, completeness, consistency, administration, conformance verification, and training.
- **Professional Liability Insurance (Project Advisory)** - Professional liability insurance, also known as errors and omission insurance, is designed to protect an organization and its employees against negligence or inadequate work claims. Citizens is developing a process to identify and investigate errors or omissions by vendors. Internal Audit has been engaged to help perform research and assist with developing alternative claims process solutions.
- **Underwriting Audit (Targeted Audit)** - During emergencies such as Hurricane Ian, operational processes and procedures sometimes change to address policyholder and regulatory requirements. The audit will focus on a targeted review of cancellations during Hurricane Ian and policy coverage limits.

Executive Summary

Audit Committee Meeting, December 6, 2022
Board of Governors Meeting, December 7, 2022

- **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. The OIR is wrapping up the Market Conduct Exam and will distribute the final report by February 2023.

Engagements Planned - The following audit engagements are scheduled to commence during Q1 2023:

- **CAT Preparedness (Audit)** - Following Citizens' CAT response during the 2022 hurricane season, many lessons were learned regarding vendor capabilities and other process enhancements. The audit will focus on management response and improvements that ensure Citizens' readiness for the 2023 CAT season.
- **Emergency Procurements (Audit)** - On September 24, 2022, Citizens staff were authorized to proceed with the Emergency Purchases procedures to the extent necessary for the procurement of commodities and contractual services related to Citizen's response to Hurricanes Ian and Nicole. Internal Audit will audit procurement and vendor management procedures related to CAT/emergency procurements following the recovery period.
- **Enterprise Operational Readiness (Advisory)** - Given the deteriorating market conditions for Florida's insurance industry, Citizens' policies have significantly increased over the last year. Recent and projected policy growth significantly increases operational risk across all business areas and may impact Citizens' ability to perform optimally. Internal Audit will provide an analysis of current practices and, where appropriate, insight into potential operational improvements.
- **Identity and Access Management Program (Project Advisory)** - New security applications that will provide identity governance and administration and access management for applications that are being procured, with implementation targeted to begin in 2023. Internal Audit will actively participate in the program development and implementation and complete a review of processes and controls related to the new software solutions and advise on the alignment of processes and controls with policies, standards, and leading practices.
- **Third-Party Technology Risk Audit (Audit)** - Citizens has several vendors and business partners integrated into its systems and business processes. Some of these vendors and business partners may lack sufficient controls to protect Citizens' data. The audit will assess third-party information technology selection, safeguards, and oversight and evaluate practices and controls to mitigate the risk of brand damage, litigation, business and revenue loss, and cost implications associated with vendor technology/security failure.

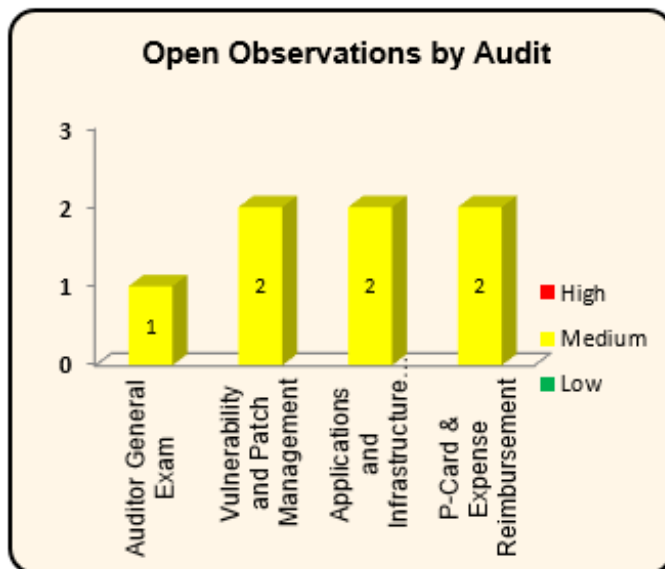
Executive Summary

Audit Committee Meeting, December 6, 2022
Board of Governors Meeting, December 7, 2022

- **Unified Communication as a Service (Project Advisory)** - Internal Audit will provide project advisory services in support of the UCaaS (Unified Communications as a Service) 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.
- **Vendor Invoicing Software Audit (Targeted Audit)** - 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. The application will be used for tracking and paying Independent Adjuster firms supporting Citizens' hurricane response. An audit is necessary to evaluate whether the application is operating as intended, given that a significant number of payments rely on the accuracy of the application.

Resources - Internal Audit has two Audit Manager vacancies that are being filled.

Open Audit Observations - Open items receive priority focus from management and are addressed within an agreed period. We are currently tracking seven open observations, of which none are rated high impact. The chart below provides information on the number of current open observations, including the observation ratings, source, and year reported.



Observations by Rating			
High	Medium	Low	TOTAL
0	7	0	7

Observations by Year Reported		
2021	2022	TOTAL
1	6	7

Observation Source	
IA	6
External Auditor	0
Market Conduct - OIR	0
Auditor General	1
TOTAL	7

Executive Summary

Audit Committee Meeting, December 6, 2022
Board of Governors Meeting, December 7, 2022

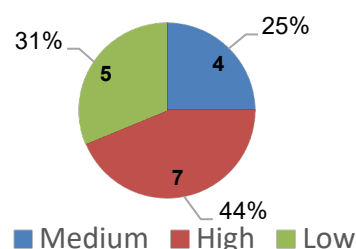
2. Enterprise Risk

The Enterprise Risk team facilitates, enables, and partners with Risk Champions and management throughout Citizens to identify, assess, and mitigate risks.

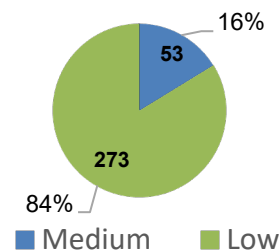
Risk Assessment Results

- The strategic assessment results remain the same as previously reported. In 2022, sixteen strategic risks were identified and assessed:
 - 44% (7) of the risks are rated high, 25% (4) are rated medium, and 31% (5) are rated low.
- As of November, 326 operational risks have been identified and assessed:
 - 84% (273) of residual risks are rated low and 16% (53) are rated medium. Currently, there are no high-rated operational residual risks.

Strategic Risk



Operational Risk



- **Hurricane Response** - Citizens was well prepared to respond to our policyholders impacted by Hurricane Ian. The impacts of the catastrophic event on our policyholders and organization continue to be closely monitored and addressed. Enterprise Risk and the Executive Leadership Team (ELT) continue to identify and monitor any impacts on our top strategic risks including CAT response, claims abuse, market instability, external influences, and acquisition of reinsurance. Risk mitigation plans will be revised and executed as needed.
- **Market Instability** - Market instability remains Citizens' top risk as unstable market conditions continue to adversely impact private carriers' continued participation in the Florida insurance market or geographic locations. Enterprise Risk and the Strategic Evaluation Group (SEG) recently updated the mitigation plans for the market conditions risk assessment. The group will continue to reassess the market conditions risk on a periodic basis to ensure that mitigation strategies remain relevant and continue to address the most significant cross-functional risks.
- **Strategic Planning** – Enterprise Risk contributed to the continuous investment planning process through collaboration with Strategy & Planning. This collaboration enables the inclusion and alignment of strategic risks to the strategic objective and initiatives, ensuring risks are considered as part of the annual planning process.

Executive Summary

Audit Committee Meeting, December 6, 2022
Board of Governors Meeting, December 7, 2022

- **2023 Strategic Risk Assessment** – The Strategic Risk Assessment with the ELT is scheduled for January 2023.

3. Internal Control

For the remainder of the year, the Internal Control team will focus on:

- Providing oversight and support to management on the completion of the 2022 control self-assessments by year-end. Aggregate results will be reported in Q1.
- Performing quality reviews to ensure the assessments adhere to standards.
- Promoting AuditBoard self-service capabilities to Control Champions and management.