

Executive Summary

Audit Committee Meeting, March 28, 2023
Board of Governors Meeting, March 29, 2023

THE OFFICE OF THE INTERNAL AUDITOR

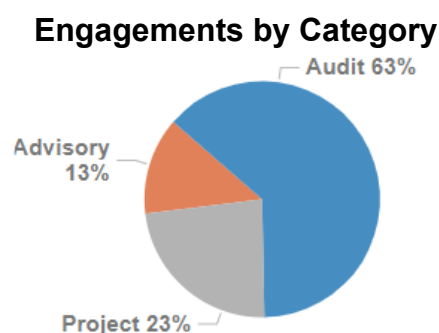
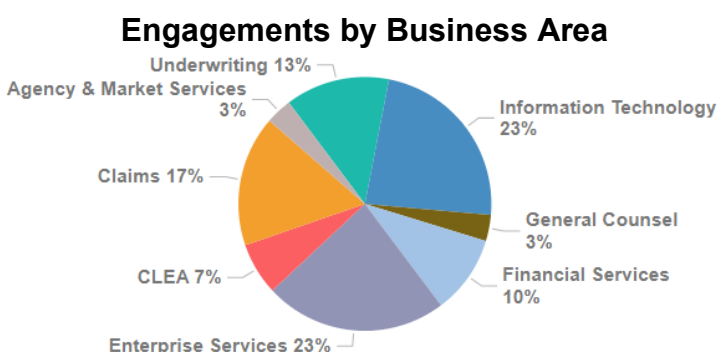
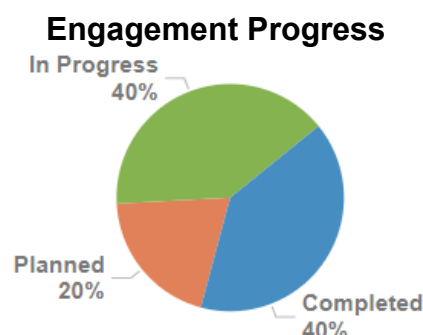
The Office of Internal Audit focuses on areas where it can contribute the most value by working with the organization to reduce risk, improve the control infrastructure, and increase operational efficiencies. The Chief of Internal Audit oversees Internal Audit, Enterprise Risk, and Internal Control.

1. Internal Audit

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

For the period, we have 30 Audit Engagements listed, of which 12 were completed, 12 are in progress, and 6 are planned to commence during Q2 2023. Since the last Audit Committee meeting, we have completed 5 engagements.

Period Progress	Count
Completed	12
In Progress	12
Planned	6
Total	30



Engagements completed - Following the last meeting, we completed work on 5 Internal Audit engagements:

- **Bulk Intake Private Insurer Policies (Audit)** - The objective of the audit was to evaluate the business processes and controls to ensure the BIPIP policies meet Citizens' eligibility and underwriting requirements because of Citizens' substantial

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BIPIP growth. Overall, the Underwriting department has effective controls and processes to monitor and manage the intake of BIPIP policies adequately.

- **Claims Litigation Triage (Audit)** - An assessment of the effectiveness and success of the controls, practices, and processes applied by the Claims Litigation Triage Unit in evaluating and assigning litigated claims was conducted by Internal Audit. This audit focused on the unit's day-to-day responsibilities, from receipt of an assignment to delivery of the evaluation/recommendation and management's process monitoring. Audit work noted several good practices that assist Triage Specialists and Management in completing thorough, precise, and timely evaluations. Also, Internal Audit identified and shared improvement opportunities with Management regarding the manual data entry process in the unit's system of record (Rampart), updating manuals & guidelines, and reviewing job descriptions. These suggested improvements could potentially develop efficiencies and enhance the overall process.
- **Information System Technology Policies Review (Advisory)** - 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 are foundational elements based on industry best practices and help combat cyber security and ransom attacks. Upon Management's request, Internal Audit reviewed the consistency, completeness, and relevance of current IT governing documents and the processes around IT governing document administration, conformance, implementation, and training. Our review indicated that Citizens has IT policy and procedure documents for critical areas, including information security and privacy, acceptable use, software development, and enterprise resiliency. Our review also indicated that Citizens IT governing documents for critical areas align with the content present in leading practices. Additional suggestions have been noted for Management's consideration.
- **Omnibus (Advisory)** - Management requested Internal Audit to review and advise on the enhanced Omnibus approval and monitoring process, including assessing compliance with Florida state laws, rules, and regulations and reviewing specific definitions in the revised process document. We found that the Citizens' IT Omnibus, used to request Board approval for technology, infrastructure, software, professional, and staff augmentation purchases, align with applicable state laws, rules, and regulations. The memorandum included recommendations concerning the Continuation of Service Definition enhancement, slight modifications to the Line-Item Summary presented to the Board, and presenting one annual Omnibus to the Board. Management supports incorporating the adjustments and seeking Board direction on returning to a single Omnibus.
- **Professional Liability Insurance (Advisory)** - Internal Audit provided advisory services focused on Errors & Omissions coverage and the design of a process to

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potentially pursue recovery in instances where Citizens' agents commit errors or omissions by binding uninsurable risks which result in claims and payments that would not have otherwise been incurred. Internal Audit identified several improvement opportunities through this engagement and suggested a multi-business unit approach to identify, evaluate, and manage potential recovery cases. These results were shared with management for consideration.

Regulatory Support (Market Conduct Exam) - The final report for the Market Conduct Exam performed by the Florida Office of Insurance Regulation was distributed on January 19, 2023. This market conduct examination aimed to determine Citizens' compliance with its plan of operation and internal operational procedures. A detailed review of Citizens' procedures, operations, activities, and records showed few deficiencies.

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

- **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.
- **Citizens Reimagined Procurement (Project Advisory)** - Citizens' policy eligibility reimagined solution will replace the Clearinghouse platform. 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. Internal Audit monitors the procurement process and provides advice supporting the solicitation and evaluation processes, ensuring that the procurement process is followed and that there is timely escalation and handling of project issues.
- **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.
- **Cloud Enabled Insurance Suite Procurement (Project Advisory)** - The Guidewire Insurance Suite® currently provides an essential suite of technologies and services that directly support Citizens' business areas, such as Agency and Market Services, Underwriting, Claims, and Financial Services through policy, billing, claims, agent portal, and customer portal functionality, as well as contact management. Guidewire is moving its on-premises solution toward a cloud-based delivery model for Insurance Suite® and will no longer provide upgrades, meaning that non-cloud customers will receive fewer new features over time. As a result, Citizens released an Invitation to Negotiate (ITN) for a Cloud-enabled Insurance Suite to replace Citizens' current



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implementation of the Guidewire Insurance Suite and digital portals. Internal Audit monitors the procurement process and provides advisory services supporting the solicitation and evaluation processes, ensuring that the procurement process is followed, and that there is timely escalation and handling of project issues.

- **Cloud Migration Program (Project Advisory)** - Internal Audit is providing project advisory services in support of 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. Internal Audit will monitor the procurement process and provide advisory services to Management and the Procurement Team in support of the solicitation and evaluation processes, ensuring that the procurement process is followed and that there is timely escalation and handling of project issues.
- **Emergency Procurements: Ian Related (Audit)** - On September 24, 2022, Citizens staff were authorized to proceed with the Emergency Purchases procedures to the extent necessary for procuring commodities and contractual services related to Citizens' 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 (Audit)** - 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.
- **Underwriting Moratorium (Audit)** - During emergencies such as Hurricanes Ian and Nicole, operational processes and procedures sometimes change to address policyholder and regulatory requirements. The audit will focus on a targeted review of cancellations and policy coverage limits applied following the moratorium periods.
- **Identity and Access Management (Project Advisory)** - Internal Audit is providing project advisory services in support of the Identify and Access Management Program implementation. Citizens has procured new security applications to provide identity governance, administration, and access management. Internal Audit will participate in the program development, implementation, and review of processes and controls related to the new software solution. Internal Audit will also advise on the alignment of processes and controls with policies, standards, and leading practices.
- **Third-Party Technology Risk (Audit)** - Citizens has several vendors and business partners integrated into its systems and business processes. Some vendors and business partners may lack sufficient controls to protect Citizens' data. The audit will assess third-party information technology selection, safeguards, oversight and

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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.

- **Underwriting Vendor Management (Audit)** - Citizens relies on third-party vendors to support several areas across the company, including underwriting operations. Citizens' policy count has significantly increased. In addition, Hurricane Ian devastated several counties, putting significant strain on insurers and the marketplace with expected results of moving even more policies to Citizens this year. These vendors are experiencing similar challenges in finding resources to perform work, which poses a risk to Citizens. Internal Audit will evaluate the adequacy and effectiveness of controls related to the outsourced vendors' data quality, accuracy, processes, and oversight.
- **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 wants these services to improve and modernize communication and call center systems.

Engagements Planned - The following audit engagements are scheduled to commence during Q2 2023:

- **Automated Underwriting (Audit)** - The P&C industry utilizes automated underwriting (AUW). AUW refers to insurer systems that automatically process new business or policy change transactions without manual human intervention. Citizens employs AUW and predictive analytics for new bound personal lines applications. As a result, new business policies which meet several underwriting criteria allow low-risk policies to bypass manual underwriting intervention known as straight-through processing. Poor data quality or inaccuracy of the data on new business submissions could affect the cost benefits of straight-through processing by increasing the need for physical inspections of the risks and manual post-inspection reviews. With new business applications significantly increasing, Citizens has made some recent adjustments to the model, which increased the AUW straight-through processing from 18% to 33%, warranting a review of the AUW process.
- **Claims Legal Billing (Audit)** - Citizen's total spend in legal services for litigated claims has been approximately \$100M a year over the past few years (vendors and outside counsel combined). Citizens' Legal Billing Review Team is responsible for reviewing all external claims defense counsel invoices, playing an essential role in the expense management process of litigated claims. The Team was reorganized under Claims management in 2021, and an enhanced quality assurance program was established in 2022. The review's objective will be to assess the effectiveness of the process, methodology, and results of the Legal Billing Review Team under its new purview.

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- **Mobile Computing/Remote Computing (Audit)** - Internal Audit will provide assurance towards key controls expected to be in place around mobile/remote computing. After transitioning to alternative working arrangements and with the ongoing transition to cloud computing, mobile/remote computing is now the standard rather than the exception in how users access information systems. Internal Audit will evaluate the effectiveness of mobile/remote computing practices in Citizens.
- **Office of Foreign Asset Control (Audit)** - The Office of Foreign Assets Control (OFAC) of the U.S. Department of Treasury administers and oversees a series of laws that impose economic and trade sanctions against hostile entities to further U.S. foreign policy and national security objectives. The OFAC laws and regulations promote national and international security by requiring asset freezing of targeted governments, international terrorists, narcotics traffickers, or other specially designated nationals (SDN) and blocked persons. OFAC maintains databases and publishes information regarding current restrictions and sanctions, referred to as the SDN list. In most cases, U.S. persons are prohibited from conducting business or engaging in financial transactions with any person or entity identified on OFAC's SDN list. Insurers are among organizations who must exercise due diligence in checking the SDN list to ensure that the people 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. The objective of the audit will be to ensure that the process and control enhancements have been implemented and are working effectively.
- **Special Legislative Session (Advisory)** - Citizens monitors the State of Florida legislative changes during the session. Once bills are signed impacting Citizens' processes, project teams are assembled to interpret and implement the bill's regulatory changes. Internal Audit plans to provide consultative advice on procedures and controls of impacted business areas and monitor the project management process to ensure effective and timely escalation and handling of project issues.
- **Vendor Invoicing Software (Audit)** – Corelogic's 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.

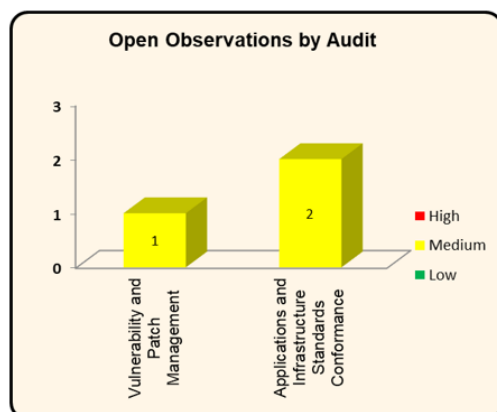
Open Audit Observations - Open items receive priority focus from management and are addressed within an agreed period. We are currently tracking three open observations, of



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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	3	0	3

Observations by Year Reported		
2022	2023	TOTAL
3	0	3

Observation Source	
Internal Audit	3
External Auditor	0
Market Conduct - OIR	0
Auditor General	0
TOTAL	3

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 Assessments - Enterprise Risk facilitates an annual strategic risk assessment with the Executive Leadership Team (ELT) to identify the top risks that may adversely impact Citizens' ability to achieve strategic objectives and key strategic initiatives over the next 12-18 months. The 2023 strategic risk assessment was completed in February. The results will be reported in Q2. In March, Enterprise Risk will collaborate with the applicable Risk Owners to develop and update mitigation plans as appropriate.

Operational risk descriptions, ratings and mitigating activities are periodically updated. As of February, 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.
- Two operational risk assessments were recently completed, and 31 are planned for March through the end of Q2.

3. Internal Control

The Internal Control team facilitates, enables, and partners with Control Champions and management to assess the design and effectiveness of Citizens' control infrastructure to support the achievement of business objectives and mitigate impactful risks.

2022 Annual Control Self-Assessment Results - Management control self-assessments (CSAs) are performed annually to ensure ongoing evaluation of the control design and

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operating effectiveness of Citizens' primary controls. Proactively identifying opportunities to strengthen controls enables management to address any concerns promptly. The CSAs are performed by the Control Owner or their designated Control Champion within AuditBoard, our Governance, Risk, and Control (GRC) software solution that enables self-service.

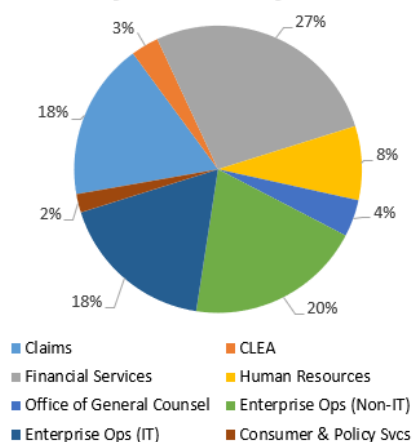
The Internal Control team oversees and facilitates the process, including performing quality reviews to confirm that the management CSAs adhere to Citizens' ICF standards and providing consultative support regarding leading internal control practices.

In 2022, 100% (96) of Citizens' primary controls were assessed. Results indicate the following:

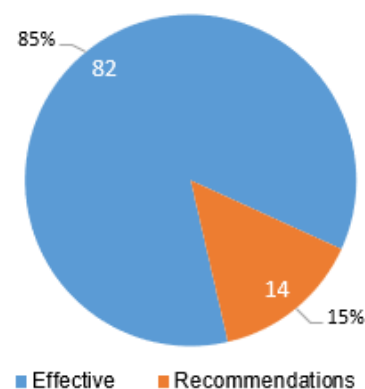
- For 85% (82) of the primary controls are effectively designed and operating as intended.
- For 15% (14) of the primary controls, opportunities were identified to strengthen the control design and improve processes. No material weaknesses were noted.

The graphs below depict the current distribution of primary controls by division and the aggregate results.

Primary Controls by Division



2022 Control Effectiveness



During Q2, the Internal Control team will focus on the following:

- Providing oversight and support to management on completing the 2023 management control self-assessments by year-end.
- Performing quality reviews to ensure the assessments adhere to standards and continue to add value.

We are promoting the AuditBoard self-service narrative capabilities to Control Champions and management.