

Office of the Internal Auditor

ANNUAL REPORT 2022



February 12, 2022

To: Mr. Carlos Beruff, Citizens Board of Governors Chair & Audit Committee Member
Ms. JoAnne Leznoff, Citizens Audit Committee Chair
Mr. Scott Thomas, Citizens Audit Committee Member
Mr. Tim Cerio, President/CEO and Executive Director

CC: The Honorable Ron DeSantis, Governor
The Honorable Jimmy Patronis, Chief Financial Officer
The Honorable Ashley Moody, Attorney General
The Honorable Wilton Simpson, Commissioner of Agriculture
The Honorable Kathleen Passidomo, President of the Senate
The Honorable Paul Renner, Speaker of the House of Representatives
Members of Citizens Property Insurance Corporation Board of Governors

Dear Messrs. Leznoff, Beruff, Thomas, and Cerio:

I am pleased to submit our Office of the Internal Auditor (OIA) Annual Report as required by Section 627.351(6)(i).2., Florida Statutes. The report summarizes the department's structure and staffing, applied audit methodology, and results from the audit work completed in 2022.

I welcome your comments and suggestions regarding this report and appreciate the support from the Board of Governors, the Audit Committee, and Senior Management. The OIA looks forward to serving the Board of Governors and the State of Florida and contributing to Citizens' efforts to achieve the corporation's goals and objectives. Thank you for your continued support as we move into 2023.

Respectively submitted,



Joe Martins, CIA, CRMA, CFE
Chief of Internal Audit
Office of the Internal Auditor



Introduction

The Office of the Internal Auditor (OIA) is pleased to present the 2022 Annual Report for Citizens Property Insurance Corporation (Citizens).

Florida Statutes require the Chief of Internal Audit to submit an annual report on or before February 15, summarizing the activities of the OIA during the preceding fiscal year. Per Statute, the report should include, but not be limited to, an evaluation of the effectiveness of internal controls; recommendations for corrective action, if necessary; and summaries of the audits, reviews, and investigations conducted by the office.

This report is presented to the Citizens' Board of Governors, the Executive Director, the members of the Financial Services Commission, the President of the Senate, and the Speaker of the House of Representatives to comply with Florida Statutes and to provide information on how the OIA accomplishes its mission.

IA Duties and Responsibilities

The purpose, authority, and responsibilities of the Office of the Internal Auditor (OIA) are vested in Citizens' enabling Statute Section 627.351(6)(i) Florida Statutes. In addition to the statute, the Board of Governors delegated oversight of the OIA to the Audit Committee, which further defined the OIA's authority and responsibilities in the Internal Audit Charter. This charter is consistent with the Citizens' enabling statute, the definition of internal auditing, the code of ethics, and the International Standards for the Professional Practice of Internal Auditing as defined by the Institute of Internal Auditors (Standards).

In accordance with Section 627.351(6)(i). Florida Statutes, it is the duty and responsibility of the Chief of Internal Audit to:

- Provide direction for the OIA, including supervising, conducting, and coordinating audits, investigations, and management reviews relating to Citizens' programs and operations.
- Conduct, supervise, or coordinate other activities carried out or financed by Citizens for promoting efficiency in the administration of, or prevention and detection of, fraud, abuse, and mismanagement in its programs and operations.
- Submit final audit reports, reviews, or investigative reports to the Board, the Executive Director, the members of the Financial Services Commission, the President of the Senate, and the Speaker of the House of Representatives.
- Keep the Board informed concerning fraud, abuses, and internal control deficiencies relating to programs and operations administered or financed by Citizens; make recommendations for corrective action; and report on the progress made in implementing corrective action.
- Cooperate and coordinate activities with the corporation's Inspector General.

At the OIA, we are committed to developing a credible, sustainable, and value-added internal audit program to meet the statutory requirements as defined in the Citizens' statute and the expectations of the Board of Governors, Audit Committee, and Management. To ensure that the



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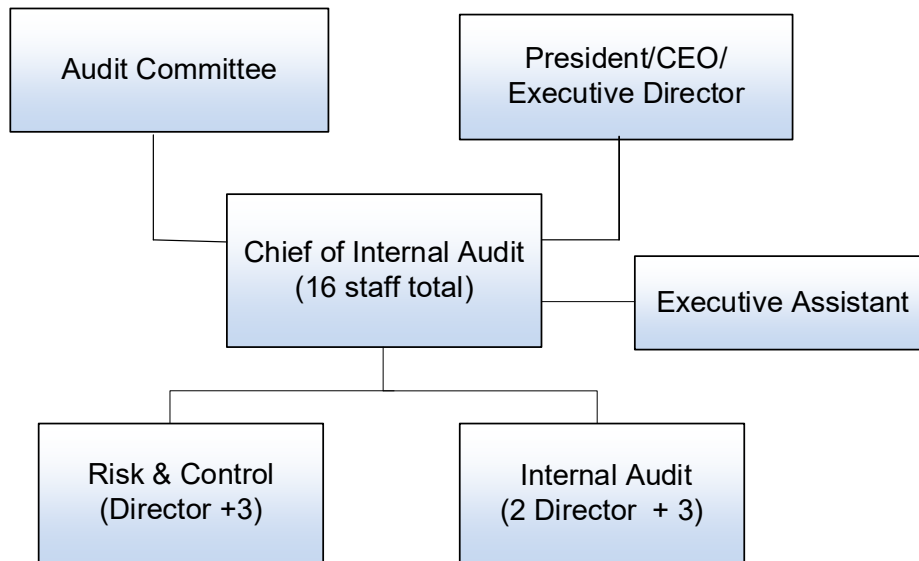
OIA remains appropriately focused, we prepare a risk-based annual audit plan that adequately focuses on Citizens' strategic themes for the year.

In support of a collaborative assurance approach, the Chief of Internal Audit oversees the Enterprise Risk Management, and the Internal Control Framework functions under the direction of the Audit Committee and the Risk Steering Committee.

Results from our work completed during the year indicated that Citizens has a well-established and functioning control environment. Work completed by the Office of Internal Audit did not raise concerns regarding audit findings and the overall impact on the control environment.

Organization and Administration

The Chief of Internal Audit reports to and is under the direct supervision of the Audit Committee 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 the Enterprise Risk and Internal Control functions. Both Enterprise Risk and Internal Control operate independently from Internal Audit with their own staff, distinct processes, and individual administrative support systems. The following chart details the OIA departmental structure:



Training

In alignment with the Standards, the OIA staff is required to receive at least 40 hours of continuing education to maintain professional proficiency. During 2022 training was mostly achieved through attendance at industry-provided seminars, conferences, work groups, and webinars.



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Certifications and Advanced Degrees

The OIA brings various backgrounds of expertise to Citizens. Some of the relevant certifications and advanced degrees held by OIA staff include:

- All Lines Adjuster (620)
- Certificate in Risk Management Assurance
- Certified Fraud Examiner
- Certified Information Systems Auditor
- Certified Information Systems Security Professional
- Certified Internal Auditor
- Certified Litigation Management Professional
- Certified Public Accountant
- Chartered Insurance Professional
- Chartered Property Casualty Underwriter
- Licensed Attorney (JD)
- Master of Accountancy
- Master of Business Administration
- Master of Science in Data Science
- Six Sigma

Affiliations

OIA staff participates in various affiliations in support of their profession:

- Association of Certified Fraud Examiners (ACFE)
- Association for Intelligent Information Management (AIIM)
- Information Systems Audit and Control Association (ISACA)
- Insurance Internal Auditing Group (IIAG)
- Society of Corporate Compliance and Ethics (SCCE)
- The American Institute of Certified Public Accountants (AICPA) & affiliates
- The Institute of Internal Auditors (IIA) & affiliates
- The Risk Management Society (RIMS)

OIA Annual Plan

Annually, the OIA prepares a Strategy and Plan (Plan) document that is shared with Executive management and is presented to the Audit Committee for consideration and approval. This plan aims to provide the most timely and comprehensive scope of the audit, risk, and control coverage by using resources available to the OIA.

Internal Audit

The Internal Audit function provides independent, objective assurance through audit and advisory services designed to add value and improve Citizens' operations. During 2022 the Internal Audit Team conducted its work in conformance with the International Standards for the Professional Practice of Internal Auditing (Standards).

We further use other accepted industry frameworks for guidance when conducting audits, risk assessments, and control evaluations; these include The Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework for Internal Controls, the COSO Integrated Framework for Enterprise Risk Management, the Control Objectives for the Information and related Technology, the Information Technology Governance Institute, the National Institute of Standards and Technology, and Information Technology Infrastructure Library.



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Internal Audit Execution

Internal Audit managed a flexible audit plan that considered changes in business operations and ensured that audit engagements focused on areas of most importance. We completed an audit plan which included 23 engagements that provided independent assurance and delivered value to the organization in strengthening oversight and control.

- Assurance (Audit) Engagements Completed

With audit engagements, we evaluate the strength of internal controls, corporate governance, and accounting processes. We provide reasonable assurance on compliance with laws and regulations and accurate and timely financial reporting and data collection, as well as helping to maintain operational efficiency by identifying problems and correcting lapses.

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| <ul style="list-style-type: none"> ○ Applications and Infrastructure Standards Conformance ○ ELT Metrics ○ HB 1079 Post Implementation ○ Indemnity Check Theft ○ Managed Repair Program ○ myAgency Post Implementation ○ Occupational Fraud | <ul style="list-style-type: none"> ○ P-Card ○ Quality Monitoring ○ Rate Override ○ SB 76 Post Implementation ○ Self-Funded Benefit Plan ○ Suspense Account Management ○ Underwriting Quality ○ Vulnerability and Patch Management |
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- Consulting (Advisory/Project) Engagements Completed

Advisory engagements are usually completed at management’s request and include an assessment of current business practices. Results provide guidance to improve governance, risk management, and control processes.

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| <ul style="list-style-type: none"> ○ Check Printing Software Implementation ○ Claims & Litigation Legal Services Guidelines Revision ○ Data Retention and Destruction | <ul style="list-style-type: none"> ○ SB1598 Implementation ○ Software as a Service Contract Language |
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Project engagements include active participation in new process or system development projects where we assess project governance, risk management, and the development of control processes and provide guidance and support.

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|---|--|
| <ul style="list-style-type: none"> ○ Holistic Inspection Program ○ Integrated Vendor Invoice Submission System Implementation | <ul style="list-style-type: none"> ○ Integration Platform as a Service ○ Legislative Update Implementation |
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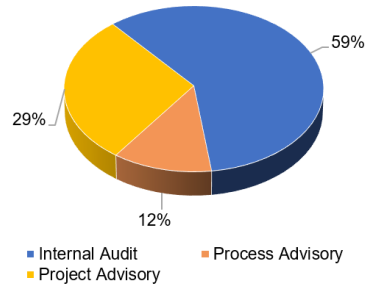
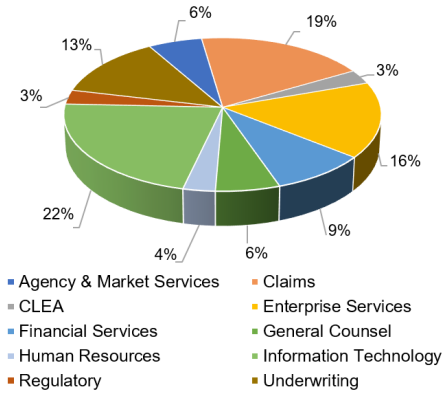
The following diagram provides an overview of resource deployment:

Engagements by Area

Engagements by Category

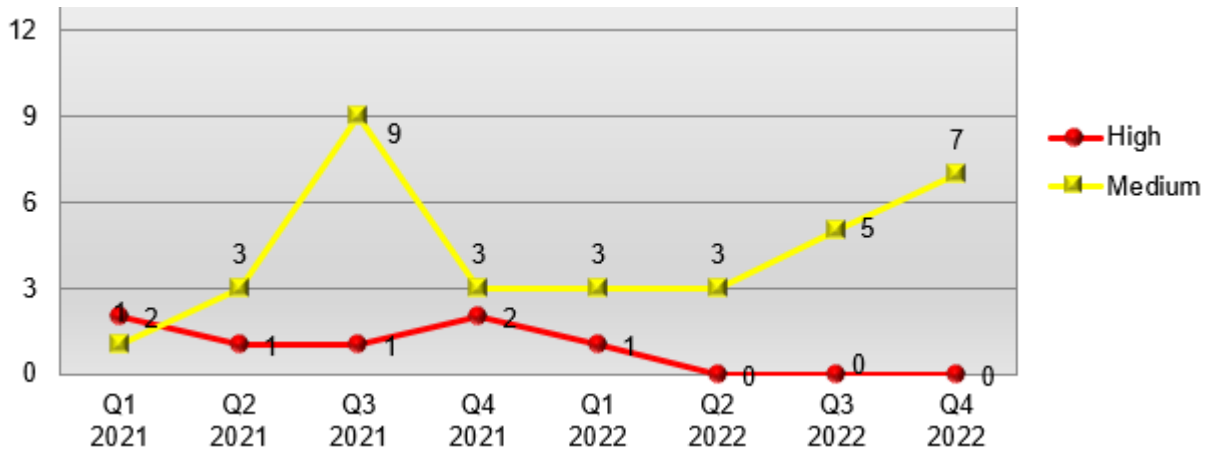


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Open Audit Observations

Internal Audit manages open audit observations to ensure timely follow-up, escalation, and resolution of audit observations and recommendations. The process has been established to ensure that management action plans have been effectively implemented or that management has accepted the risk of not acting on audit results. The following graph provides a quick analysis of open observations throughout the year.



Open audit observations statistics for observations that are rated *high* or *past due* are provided to the Audit Committee every quarter. Management is taking appropriate action on the reported issues, and the OIA monitors progress on the implementation of corrective action.

Enterprise Risk Management Framework

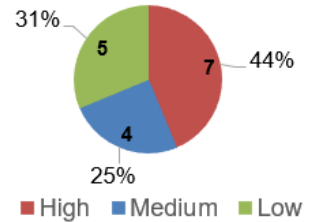
Enterprise Risk Management (ERM) is a continuous enterprise program designed to support Citizens in achieving strategic and operational objectives by identifying, assessing, and mitigating risks. Citizens' ERM Framework is based on the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) ERM Framework, which provides the foundation for the program. Through the framework, the Enterprise Risk team facilitates, enables, and supports Risk Champions and management in identifying and assessing risks, while management is primarily responsible for mitigating and monitoring the risks within their processes.



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Strategic Risks

Annually, Enterprise Risk facilitates a strategic risk assessment with the Executive Leadership Team (ELT). Sixteen risks were identified and assessed: 44% (7) rated high, 25% (4) rated medium, and 31% (5) rated low. The risk rating estimates the potential impact or severity level the risk may have on Citizens if the event occurs and considers the probability of occurrence.



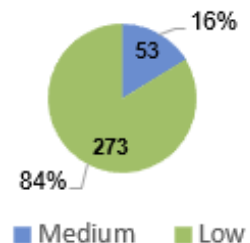
Citizens' Top Strategic Risks for 2022 included:

- **Market Instability** - Market instability remains Citizens' top risk as unstable market conditions continue adversely impacting private carriers' continued participation in the Florida insurance market or geographic locations. Enterprise Risk and the Strategic Evaluation Group periodically update the market conditions risk assessment to ensure that mitigation strategies remain relevant and continue to address the most significant cross-functional risks.
- **CAT Response** - Citizens was well prepared to respond to our policyholders impacted by Hurricanes Ian and Nicole. The impacts of the catastrophic events on our policyholders and organization were closely monitored and addressed.
- **Strategic Planning** – In Q4, Enterprise Risk and Strategy & Planning collaborated to align the 2023 strategic planning and strategic risk processes.

Risk Mitigation Plans are in place for Citizens' top risks, updated periodically, and executed as needed.

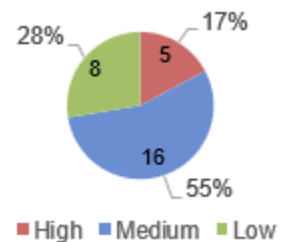
Operational Risks

Enterprise Risk facilitates and enables Risk Champions and management to identify and assess operational risks for up to 81 of Citizens' business processes defined by the OIA process universe. As of December, 326 operational risks have been identified and assessed: 84% (273) of the residual risks rated low, and 16% (53) rated medium. Currently, there are no high-rated operational residual risks.



Project Risks

Pre- and post-implementation project risk assessments were performed to support risk-based decision-making and to ensure mitigating activities were designed and implemented where needed. In 2022, a total of 29 project risks were identified, assessed, and monitored: 17% (5) rated high, 55% rated medium (16), and 28% rated (8) low. The pre-implementation project risk levels are anticipated to reduce post-implementation as controls are designed and implemented.



Internal Control Framework

Citizens' Internal Control Framework (ICF) is designed to strengthen the governance, oversight, and accountability of our internal control environment. Citizens' ICF leverages principles from the



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Committee of Sponsoring Organizations of the Treadway Commission’s (COSO) Internal Control-Integrated Framework. Citizens’ ICF incorporates COSO principles that complement the uniqueness of Citizens’ operations, financial and non-financial reporting, and compliance. Through the ICF, the Internal Control team guides and assists management to enhance internal control while helping Citizens transform with the changing and complex insurance environment.

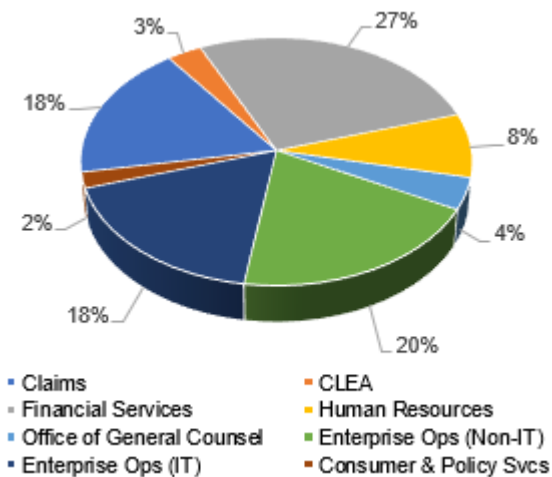
Annual Control Self-Assessments

Management control self-assessments (CSAs) are performed annually to ensure ongoing evaluation of the control design and 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.

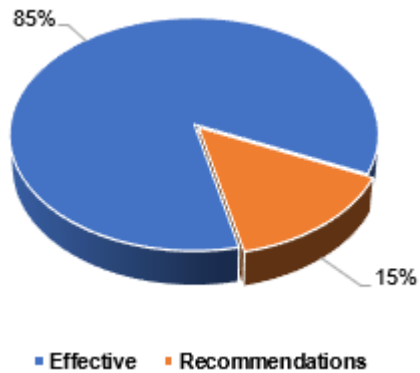
The Internal Control team oversees and facilitates the process, including performing quality reviews to confirm that the management CSAs adhere to Citizens’ ICF standards and continue to add value. The team also provides consultative support regarding leading internal control practices.

In 2022, 100% (96) of Citizens’ primary controls were assessed. Results indicated that 82 (85%) primary controls are effectively designed and operating as intended. For 14 (15%) of the primary controls, opportunities for minor improvement were identified to strengthen the control or 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



Control Effectiveness





Audit Engagement Summaries

During the year, the OIA's risk-based approach covers many elements of the corporation's internal control systems; it is not intended to cover all areas of the corporation nor all possible risk areas after noon. Instead, we focus our resources on those areas that were evaluated as the highest priority in terms of greatest risks and where our work could be most valuable, either by providing assurances through information or by effecting positive change.

Citizens' management is responsible for establishing and maintaining an effective internal control structure. The OIA evaluates and reports on the design and effectiveness of that internal control structure. Audit coverage includes internal audits, advisory services, and financial statement audit support.

Internal Audits

Internal audits are designed to provide reasonable assurance to the Board of Governors and senior management that the controls designed and implemented by management can be relied upon to mitigate the risk within the organization to an acceptable level. There are several types of audits, including operational, financial, forensic, compliance, and information technology.

Advisory/Project Services

Advisory services are less formal than audits, and as a result, an opinion is not being expressed as to the effectiveness of the controls. However, management should give due consideration to the adoption of internal control recommendations to enhance the efficiency and effectiveness of the existing internal control environment under review.

Audit Engagement Summaries

The following internal audit summaries reflect reported audit results for areas in scope for 2022. All reports were issued to the Citizens Board of Governors (Audit Committee) and, in accordance with Florida Statutes, to the Financial Services Commission, Speaker of the House, and President of the Senate. Detailed management reports are provided directly to the applicable management group.

- **Applications and Infrastructure Standards Conformance (audit)** - We validated whether the configuration of applications and infrastructure components is in alignment with Citizens' information security policies, standards, and leading practices such as the National Institute of Standards and Technology (NIST) and Center for Internet Security (CIS). The audit scope focused on high-risk infrastructure configuration hardening and application controls. Internal Audit noted that the organization should formally define and implement comprehensive information systems hardening standards and guidelines and reassess and recalibrate the Guidewire system access role design to conform with the principles of least privilege and segregation of duties. Details of our observations were discussed with management, and corrective action is in progress.
- **Check Printing Software Implementation (advisory)** - The objective of the engagement was to evaluate user access configuration to confirm that the processes and controls are in place to monitor and manage user access and the related provisioning of the new check printing software (CheckPlus), ensuring adequate segregation of duties. Results from our



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work indicate that CheckPlus has adequate access control capabilities and mechanisms, which allow for granting/restricting access to individual users and groups by assigning specific roles and permissions. We also validated that system users are appropriately segregated within the process and noted that some realignment is needed with the Information System Access Management Policy. This conflict was discussed with management, and remediation was implemented.

- **Claims & Litigation Legal Services Guidelines Revision (advisory)** - Internal Audit provided advice and input where appropriate to support the review and update of the Claims & Litigation Legal Services Guidelines. These guidelines are in place to help improve oversight and management of outside counsel. This review was part of our continued monitoring of progress with the work plan and implementation of business initiatives developed by claims management in response to EY's observations and improvement opportunities. The Guidelines were revised by a workgroup composed of staff from the Claims Vendor Management, Claims Legal, and Claims Litigation units. Also addressed were previously identified observations and improvement opportunities to manage litigated claims and legal spending effectively. A draft was provided to management and is currently under review for approval.
- **Data Retention and Destruction (advisory)** - We reviewed the retention and destruction procedure used for electronic data residing within Citizens' systems. Internal Audit also reviewed the final disposition of the data/records before the planned retirement and decommissioning of the legacy systems. Results from the review indicated that the record retention period established for electronic policy data complies with applicable federal and state laws, rules, and regulations. In addition, the workflow and checklist used to document the final disposition of electronic policy data align with current industry-leading practices. Some improvement opportunities were highlighted, which could potentially strengthen the records retention program and ensure the proper disposition of data/records.
- **ELT Metrics (audit)** - Internal Audit assessed the adequacy of data collection and control procedures applied in collating the ELT Metrics Report. The ELT Report is produced monthly and comprises data from twenty-six (26) business units. Audit work included the review of the metrics data source, accuracy, and consistency of the data presented from the business units and EPM. The audit confirmed that effective business processes and controls are in place to ensure adequate management, validity, accuracy, and data quality of the ELT Metrics Report.
- **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.
- **Holistic Inspection Program (project advisory)** - We provided advice in support of the property inspection program. The advisory work included evaluating the inspection selection process, vendor reconciliation, payment process, and metrics used to track and monitor the inspection results. Our work indicated that reasonable property inspection criteria had been established to select policies requiring a property inspection, and adequate controls appear to be in place to ensure payments remitted to the inspection vendors for completed inspections are accurate. In addition, a property inspection dashboard has been created,



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which enables management to track and monitor key performance indicators to ensure program objectives are met. An improvement opportunity was identified and shared with management for consideration to potentially increase the effectiveness and efficiency of the program.

- **Indemnity Check Theft (audit)** - OIA was notified by management of a check theft and check alteration scheme. Internal Audit, in collaboration with the Inspector General, participated in a cross-functional work group and discussed the possible fraudulent checks and alterations. This group included members from Claims, SIU, Claims Vendor Management, Claims Operations, and Accounting & Finance. Work was performed in two phases. First, Internal Audit validated that internal check preparation and printing processes and associated controls were not circumvented. Internal Audit validated that these indemnity checks were received, maintained, and distributed to outside counsel unaltered. Second, Internal Audit understood the mailing procedures performed by outside counsel. Internal Audit validated that all checks were prepared accurately and delivered to the correct address. Internal Audit's report was provided to the Office of Inspector General, who engaged law enforcement following confirmation of the loss.
- **Integrated Vendor Invoice Submission System Implementation (project advisory)** - We provided advice in support of the implementation of VIP Software (an invoice management and submission system) to help automate the processing and payment of vendor invoices. Phase 1A of the application resulted in the successful onboarding of eight (8) Independent Adjuster firms assigned to Non-Weather Water claims. Internal Audit participated in and monitored weekly meetings, training development sessions, internal training, and two vendor training sessions and ensured that the training sessions and job aids contained the necessary steps to understand the application. Conferences with Learning and Development, as well as with Product Development, were held during the configuration and implementation process. Familiarity with the application was gained to assist in potential future audits. Internal Audit will continue to monitor the implementation of the VIP software solution as necessary.
- **Integration Platform as a Service (project advisory)** - Internal Audit provided advice supporting the strength of procedures and related controls embedded in the Integration Platform as a Service program implementation. This initiative aimed to migrate Citizens' middleware platform to a cloud-native environment. The IPaaS project was closed following an impasse with the supplier's capabilities.
- **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.
- **Managed Repair Program (audit)** - This audit included an evaluation of the Managed Repair Program (MRP) processes, controls, and oversight procedures to ensure the program is effective and objectives are met. Our work indicated that there is effective management oversight to ensure that MRP claims are processed in line with the Claims Best Practices and Estimating Guidelines and that the work performed by the MRP network contractors meets industry and quality standards. In addition, adequate metrics have been established to



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measure and monitor the program's success. There were two low-rated observations related to MRP consent forms and Emergency Water Removal Services acknowledgment letters, which were shared with management, and action plans have been put in place. Additionally, improvement opportunities were identified and shared with management to consider and potentially increase the effectiveness and efficiency of the program.

- **myAgency Post Implementation (audit)** - Internal Audit completed an assessment of the myAgency application and the effectiveness and adequacy of its functions and controls. Audit work included reviewing key areas and processes of the application, noting several favorable practices and results. In addition, we conducted an added value activity, which included an Agent Satisfaction Survey resulting in a 93% average Agent general satisfaction score. The assessment noted two elements related to a business unit's self-reported deficiency in need of enhanced temporary controls. In conclusion, management should limit the number of individuals with "Edit Agency Account" permission and regularly monitor and review changes to the bank account information of agencies, ensuring that changes are made in connection with a valid request from the agency or an automated clearing house (ACH) report from a financial institution. These temporary controls will be discontinued once the long-term self-service capabilities enhancements for these transactions are implemented in Q4 2022. Additionally, some improvement opportunities were identified and shared with management to consider and potentially increase the effectiveness and efficiency of the application.
- **Occupational Fraud (audit)** - Occupational fraud is a universally recognized business risk. The Office of Internal Audit (OIA) has a statutory commitment to prevent and detect fraud, abuse, and mismanagement, collectively known as occupational fraud. Internal Audit performs various activities to prevent, detect, and respond to occupational fraud in the company's programs and operations. These activities include anti-fraud training & awareness; supporting Enterprise Risk on fraud risk identification and assessment; an occupational fraud risk review; targeted audits; and anti-fraud analytics. This quarter's results from the Internal Audit's work focused on occupational fraud-focused risk assessments and our anti-fraud analytics assessment. Two targeted reviews evolved from the evaluations. Results from our work confirm the strength of the internal control infrastructure in continuing to protect Citizens' programs and operations against occupational fraud.
- **P-Card (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 (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.
- **Rate Override (project advisory)** - The rate override process was enhanced in August 2020 with the development and implementation of an automated system interface. The objective



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of the audit was to evaluate the adequacy and effectiveness of the processes, procedures, and control functions related to the implemented rate override process. Results from our audit work indicate that the process operates effectively with well-designed process flows and controls that ensure proper rules, guidelines, and procedures are in place when a qualifying premium/rate change is identified.

- **SB 76 Post Implementation (audit)** - Internal Audit assessed the controls, processes, procedures, and workflows implemented by management in response to the requirements set forth by Senate Bill 76 (SB76), which became law effective July 1, 2021. The audit focused on the SB76 components that impacted claims operations, as well as the potential benefits of the bill. No exceptions were noted in the different parts of the process managed by the respective teams or units. Improvement opportunities to enhance the overall efficiency of the process were identified, shared, and welcomed by management.
- **SB1598 Implementation (advisory)** - Internal Audit provided advice, where needed, in support of the initiatives developed in response to the requirements of SB1598. The approach and efforts were monitored to ensure that the bill's requirements were addressed and ready for implementation by the January 2022 deadline.
- **Self-Funded Benefit Plan (audit)** - Our work confirmed that effective business processes and controls are in place to ensure adequate management of the Citizens' self-insured health care plan. Specifically, Internal Audit noted adequate processes and controls to manage compliance with regulatory requirements sufficiently, security of employee health-related data, quarterly reserve calculations and related journal entries, stop-loss claims reimbursement, and member eligibility. Additionally, Internal Audit validated that the self-funded healthcare strategy aligns with corporate objectives. One minor observation was identified relating to the need to obtain vendor systems and organization controls (SOC) reports, as SOC reports for key vendors should be obtained and reviewed annually. This observation was shared with management, and a process enhancement is underway.
- **Software as a Service Contract Language (advisory)** - Following a request from management, Internal Audit evaluated the SaaS contract template utilized by the Enterprise Services' Vendor Management and Purchasing team and compared it with leading practices and trends. The current SaaS contract template was found to conform and align with leading practices and found reasonable in its requirements. Additional suggestions have been noted for management's consideration.
- **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.
- **Underwriting Quality (audit)** - This audit included an evaluation of the effectiveness of key business processes and control functions of both Underwriting and the Underwriting Quality Improvement program. The evaluation included a review of performance trends, root cause analysis, dashboard metric reports, communication, and collaboration between areas to drive continual improvement in support of the underwriting processes. We noted the availability of real-time performance trend metrics providing opportunities for immediate actionable improvement and weekly communication between each area to enhance underwriter



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performance continually. Citizens' growth of 240K policies in force (PIF) in the past year has significantly increased the volume of work for the Underwriters. The audit results confirmed that the Underwriter's performance and quality of work continued to meet and surpass expectations. These positive results are partly due to consistent and meaningful collaboration and communication with the leadership of the Underwriting and Underwriting Quality Improvement areas. Results from the audit work indicate adequate processes and controls in place to monitor the underwriting quality and performance 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.