Executive Summary

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 January 3, 2023, to December 29, 2023. Internal Audit follows a risk-based quarterly rolling plan approach in developing engagements and monitoring progress.
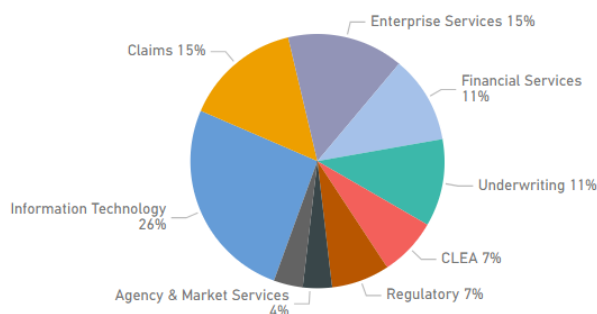
For the period, we have 27 Audit engagements listed, of which 12 were completed, 9 are in progress, and 6 are planned to commence during Q3 2023. Following the previous Audit Committee meeting, we completed 7 engagements.
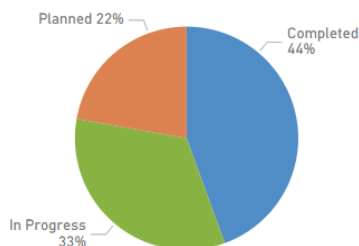
Period Progress

2023-Q1 to 2023-Q4

Status	Count
Completed	12
In Progress	9
Planned	6
Total	**27**

Engagement by Business Area

- Enterprise Services 15%
- Claims 15%
- Financial Services 11%
- Underwriting 11%
- CLEA 7%
- Regulatory 7%
- Agency & Market Services 4%
- Information Technology 26%

Engagements by Status

- Planned 22%
- Completed 44%
- In Progress 33%

Engagements by Category

- Regulatory 4%
- Project 26%
- Advisory 19%
- Audit 52%
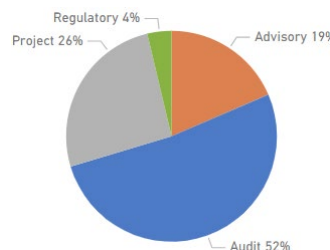
Engagements completed - We completed work on 7 Audit engagements:

- **CAT Preparedness** (Audit) - The CAT preparation and assurance plan provides an annual preparation forecast broken down into 18 Categories tracking 155 readiness preparation activities across the organization. Each business unit reviews the CAT plan by revisiting the roles, responsibilities, process changes, and expectations of its

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unit/department. Internal Audit validated the assessment of the CAT preparation and assurance testing and the updating of onboarding processes, telephone updates, and system enhancements of lessons learned from the prior year. Results from the audit indicate that effective business processes and controls are in place to ensure adequate management, accuracy, and quality of CAT readiness processes.

- **Claims Litigation Management System Procurement** (Project Advisory) - Citizens commenced with a competitive procurement to replace the current Claims Litigation Management System. Internal Audit was part of the project team and monitored the procurement process to help ensure the project followed Citizens' procedures and provided advice as a third-party observer. In addition, we confirmed the integration of lessons learned from past procurements, also that appropriate stakeholders were included in the project, and that the procurement team focused on selecting a vendor of the best value with a solution that meets the required business and functionality requirements. The process included revisions based on lessons learned from previous solicitations, which resulted in a thorough vendor questionnaire and functionality workbook to allow for broad market competition and deeper evaluation of the responses as well as scheduled demo sessions with the opportunity for reverse demonstrations and follow-up meetings with the vendors to ensure they understood Citizens' requirements and needs.

- **Cloud-Based Insurance Suite Procurement** (Project Advisory) - Vendors were invited to submit bids for a Cloud-based Insurance Suite to replace the current on-premises Policy, Claims, and Billing application. Internal Audit was part of the project team and monitored the procurement process to help ensure the project followed Citizens' procedures and provided advice as a third-party observer. In addition, Internal Audit confirmed that appropriate stakeholders were included in the project and that the procurement team focused on selecting a vendor of the best value with a solution that meets the required business and functionality requirements. A public meeting was held on May 30, 2023, to announce the award.

- **Enterprise Operational Readiness** (Audit) - Over the past 16 months, the Citizens' policy count increased to over 1.3 million policies in force and is projected to grow at least until the end of the year. The organization has already incorporated successful processes and business practices to manage current and future growth. To get an independent perspective, Internal Audit co-sourced with a third-party consultant, Protiviti, to assist with assessing Citizens' operational readiness. The review was conducted to identify strengths and weaknesses in the organization's systems, processes, infrastructure, and people, focusing on preparing for growth and scaling operations effectively. The engagement noted that Citizens' robust leadership, governance, and processes contribute to its ability to expand and contract accordingly. The consultant team commented that, for its size, Citizens is one of the best growth-

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prepared companies they have worked with. To enhance and broaden operational readiness and scalability. The work did not identify any failure in the processes assessed and noted that Citizens could further strengthen its maturity level with the improvement opportunities detailed in the report. These results were discussed and shared with management for consideration.

- **Print Mail Vendor** (Audit) - Internal Audit was engaged to review the services billed from the print mail vendor due to the discovery of a substantial number of documents that were not printed, thus creating a backlog. Results from the review indicated that the print mail vendor invoices are based on print files received from Citizens versus work completed. A cost analysis verified that the vendor had overcharged Citizens approximately $515K for the backlogged files between December 2022 and March 2023. Recommendations shared with management for improvement opportunities include changing how the file data is submitted to the print-mail vendor, automating the reconciliation process, compelling print-mail vendors to credit Citizens for work not performed and service level agreement penalties, and enhancing the seed mail process to provide more visibility (graphs/charts) into the monthly reporting of missing documents and meeting SLA standards.

- **Special Legislative Session** (Advisory) - The objective of this engagement was to monitor the implementation of initiatives developed by Management to comply with the requirements of Senate Bill 2A, which established changes to claims processes, statutes of limitations, reinsurance programs, and insurer regulations, among others. Internal Audit observed and validated conscientious efforts by Management to address the changes effected by SB 2A upon being passed and signed into law. The provisions and requirements of SB 2A applicable to the organization have been effectively integrated into Citizens' processes.

- **Underwriting Moratorium** (Audit) - Through this targeted audit, Internal Audit reviewed the processes established and followed by the Citizens' Underwriting Department to comply with the Emergency Order (EO) issued by the Florida Office of Insurance Regulation (OIR) because of the state of emergency created by Hurricanes Ian and Nicole. The EO granted an extension of grace periods and temporarily postponed cancelations and non-renewals for property insurance contracts, which required Management to address different sections of the EO as applicable to policy cancelations, and non-renewals postponed or issued. The engagement noted one instance related to Underwriting's policy administration application (PolicyCenter) and policies renewed for values above the statutory cap of $700K (or $1M for Miami-Dade and Monroe counties). Management should prioritize actionable system or manual solutions to avoid ineligible risks and consider the flexibility for shorter/adjustable policy terms as part of the current solicitation for PolicyCenter's replacement application. These results were discussed and shared with Management to develop an action plan.

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Engagements in progress - We are currently working on 9 engagements:

- **Citizens Reimagined Procurement** (Project Advisory) - Citizens' policy eligibility re-imagined 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 Legal Billing** (Audit) - Citizens' total spending 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.

- **Cloud Migration Project** (Project Advisory) - Internal Audit provides 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** (Audit) - On September 24, 2022, Citizens' staff were authorized to proceed with the Emergency Purchase 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.

- **Identity Governance & 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.

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- **Mobile and Remote Computing** (Audit) - Internal Audit will provide assurance towards key controls expected to be in place around mobile/remote computing. Following the transition to a distributed workforce model and with the ongoing transition to cloud computing, the is a greater reliance on mobile/remote computing in how users access information systems. Internal Audit will evaluate the effectiveness of mobile/remote computing practices in Citizens.

- **Third-Party Technology Risk (Audit)** - Citizens has several vendors and business partners integrated into its systems and business processes. The audit will assess third-party information technology selection, safeguards, 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.

- **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 are implementing these services to improve and modernize communication and call center systems.

Engagements planned - The following audit engagements are scheduled to commence during Q3 2023:

- **2023 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.

- **IT Service Management** (Audit) - Citizens relies on adequate, accurate, and approved IT services to support internal customer requests and incidents. In September 2021, Citizens outsourced selected workplace IT services to a third-party managed service provider. These services include Identity Compliance Access Management (ICAM), Technical Service Desktop Support (TSC), and Technical Operation Center (TOC). This audit will be an operational review to identify the risks and related controls to

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minimize the impact of performance deviations from the Managed Service Provider. The audit will also review service level agreements and other areas to ensure that the IT services provided by the Managed Service Provider align with the business objectives and meet customer expectations.

- **Office of Foreign Asset Control** (Audit) - The Office of Foreign Assets Control (OFAC) of the U.S. Department of Treasury administers and oversees laws that impose economic and trade sanctions against hostile entities to further U.S. foreign policy and national security objectives. OFAC maintains databases and publishes information regarding current restrictions and sanctions, referred to as the Specially Designated Nationals (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 that must exercise due diligence in checking the SDN list to ensure that the people they insure are not on the list. 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. With this audit, we will ensure that the process and control enhancements implemented continue to operate effectively.

- **Purchasing Card and Other Expense Reimbursements** (Audit) - Citizens employees are responsible for the prudent spending of company funds and obtaining the proper documentation for all business expenses. Reasonable costs of travel and other expenses necessary for conducting business on behalf of the corporation are reimbursed appropriately. Reimbursement is also allowed for business expenses such as professional certification fees, subscriptions, and awards and recognition items. Citizens elected to use Purchasing Cards (P-Cards) as the preferred payment method for employees approved to use a credit card for certain business expenses. The P-Card allows for increased controls with restrictions that limit the types of charges permitted and the amount of credit that may be extended in any monthly billing cycle. Alternatively, an employee may use personal funds and request reimbursement for business-related expenses. Personal funds are reimbursed via direct deposit or check based on the employee's selection. The audit will focus on the effective management and reimbursement of allowable expenses.

- **Segregation of Duties Centerpoint** (Audit) - Citizens currently has processes and technologies to manage users' digital and professional identities, allowing access to Citizens' systems and information based on the associated roles, e.g., Citizens Insurance Suite (Guidewire) and Oracle Fusion. Although access to information systems and data is limited to authorized users, some user roles and system workflows may cause segregation of duties concerns. This occurs when one user has been granted two or more conflicting tasks, creating the opportunity for an unauthorized activity to occur. Internal Audit will embark on a project to address the challenges of

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user access provisioning and identify potential automated solutions to monitor any segregation of duties conflicts.

Regulatory Support (Auditor General) - Internal Audit, in its liaison role, is responsible for coordinating with the State of Florida Auditor General auditors, who will conduct their triennial operational audit starting in September. It is expected to be completed within 12 months. Most coordination efforts constitute meeting planning, information request tracking and delivery, and ensuring the examiners/auditors receive the correct information on time.

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 5 open observations, of which 2 are rated high impact. The chart below provides information on the number of current open observations, including the observation ratings, source, and year reported.
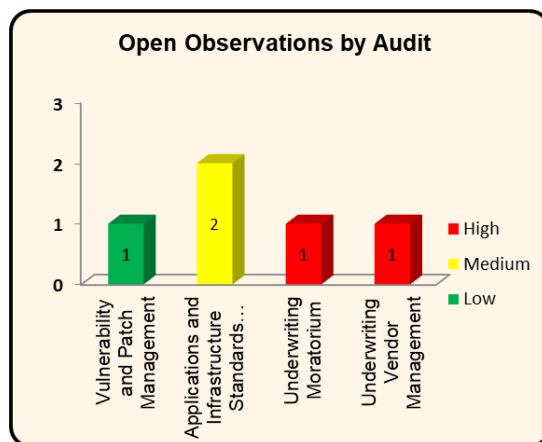
Observations by Rating

High	Medium	Low	TOTAL
2	2	1	**5**

Observations by Year Reported

2022	2023	TOTAL
3	2	5

Observation Source

Internal Audit	5
External Auditor	0
Market Conduct - OIR	0
Auditor General	0
TOTAL	**5**

The two high-rated observations refer to:

- **Print Mail Vendor** (Audit) - On March 9, 2023, it was discovered that the Exela print mail vendor had failed to print and mail more than 400,000 Citizens' documents since December 2022. This resulted in a service level agreement (SLA) breach that created a backlog in documents sent for printing. Recommendations for improvement, shared with management, including changing how the file data is submitted to the print-mail vendor, automating the reconciliation process, compelling print-mail vendors to credit Citizens for work not performed and SLA penalties, and enhancing the seed mail process to provide more visibility (graphs/charts) into the monthly reporting of missing documents and meeting SLA standards. Management took the necessary steps to

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ensure the backlog of documents was printed and mailed to the Policyholders and is in the process of addressing the noted recommendations.

- **Underwriting Moratorium** (Audit) - During Hurricane Ian, the OIR issued an Emergency Order (EO), which had many provisions, one of which precluded Citizens from issuing cancellation notices for a 60-day period. The engagement noted one instance needing review and enhancement relating to Underwriting's policy administration application (PolicyCenter) and policies renewed for values above the statutory cap of $700K (or $1M for Miami-Dade and Monroe counties). Management should prioritize actionable system or manual solutions to avoid ineligible risks and consider the flexibility for shorter/adjustable policy terms as part of the current solicitation for PolicyCenter's replacement application. These results were discussed and shared with Management to develop an action plan.

Policy Reviews

Two policies govern some Internal Audit operations: the Internal Audit Corporate Policy 801, and the Open Audit Observation Management 802. Both these policies have been periodically reviewed, and changes were last approved by the Committee at the July 2022 meeting.

- ### Internal Audit Policy #801

    The Policy is a formal document that informs the organization of the purpose and authority of the Office of the Internal Auditor and clarifies expectations throughout the organization. Our review indicated no changes are needed to align the policy with current practice.

- ### Open Audit Observation Management Policy #802

    The Policy is a formal document informing the organization of the need for an audit observation management process that ensures that management action plans have been effectively implemented and clarifies audit and business expectations and responsibilities. Our review indicated no changes are needed to align the policy with current practice.

Action Items:

1. ### Charters Approval

- ### Audit Committee Charter

    On an annual basis, the Audit Committee reviews the adequacy of the Committee Charter and presents the Charter and suggested edits to the Board for approval.

    The Charter is a formal document that sets out the authority of the Committee to fulfill responsibilities established for it by the Board of Governors. The Charter defines that the purpose of the Committee is to assist the Board in fulfilling its oversight

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responsibilities for the integrity of Citizens' financial statements; Citizens' compliance with legal and regulatory requirements; the independent auditor's qualifications and independence; and the performance of the Office of the Internal Auditor (OIA) and independent auditors. In discharging its responsibilities, the Committee will have unrestricted access to members of management, employees, and information it considers necessary to fulfill its duties.

We completed a review of the Charter against industry best practices and the Citizens Statute and found the Charter to be appropriate. The Charter was presented to the Citizens President/CEO/Executive Director for review and comment.

- Office of the Internal Auditor Charter Approval

On an annual basis, the Audit Committee reviews the adequacy of the Office of the Internal Auditor Charter.

The Charter is a formal document that defines the Internal Audit activity's purpose, authority, and responsibility. The Charter, by Section 627.351(6)(i). Florida Statutes establish the internal audit activity's position within the organization, including the nature of the Chief of Internal Audit's functional reporting relationship with the Board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit activities.

We completed a review of the Charter against industry best practices and the Citizens Statute and found the Charter to be appropriate. The Charter was presented to the Citizens President/CEO/Executive Director for review and comment.

Recommendation - Staff recommends that the Citizens Audit Committee:

1. Approve the Citizens Audit Committee Charter for presentation to the Board of Governors at the next meeting on July 13, 2023.
2. Approve the Office of the Internal Auditor Charter as presented.

2. Enterprise Risk

The Enterprise Risk team facilitates, enables, and partners with Risk Champions and management throughout Citizens to identify, assess, and mitigate risks. Our risk profile reflects a comprehensive view of risks from various perspectives, including strategic, operational, project and emerging risks.

Citizens' Top Risks

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

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to achieve strategic objectives and key strategic initiatives over the next 12-18 months. The 2023 risk assessment was completed in Q1.

- A total of 14 strategic risks were identified and assessed by estimating the potential impact or severity level the risk event may have on Citizens, should the event occur, and considering the probability of occurrence. Detailed risk descriptions and ratings are outlined in Appendix I.

  o 64% (9) risks were rated high, 7% (1) rated medium, and 29% (4) rated low.

  o Strategic mitigation plans are in place for each risk and executed, as necessary. Enterprise Risk, ELT, and Risk Owners periodically monitor the strategic risks to ensure the risk descriptions, ratings, and mitigation plans reflect any changes that may occur throughout the year.

Strategic Risk

4 (28.57%) — 1 (7.14%)

9 (64.29%)

Rating ● High ● Low ● Medium

Operational Risk

Enterprise Risk facilitates and enables Risk Champions and management to identify and assess risks that may impact Citizens' operations and the ability to achieve business objectives.

- As of June, 311 operational risks have been identified and assessed. Currently, there are no high-rated operational residual risks.

  o Risk assessments were recently completed for Cash Management & Treasury, Payroll Accounting, and Unclaimed Property Processing & Accounting.

  o Operational risk assessments are currently in progress for processes within Financial Services and Enterprise Operations.

Operational Risk

48 (15.43%)

263 (84.57%)

Rating ● Low ● Medium
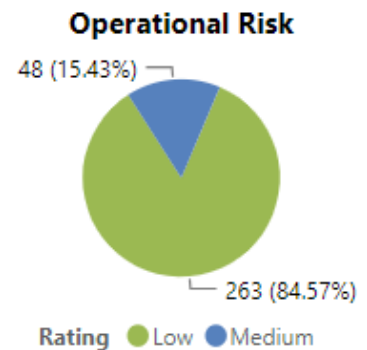
Project & Scenario Risk

Upon request from business areas, Enterprise Risk facilitates pre- and post-implementation project risk assessments focused on designing and implementing mitigating activities for high-rated risks.

Scenario risk assessments are performed as needed to evaluate emerging risk scenarios to assist the organization in mitigating risks if the scenario occurs.

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- Risk ratings are typically higher for the initial phase of projects and emerging risks until sufficient information is available to determine the timing and need to design and implement mitigation plans.
  - Currently, 7% of the project and scenario risks are rated high, 38% are medium, and 55% are rated low. High-rated risks are closely monitored, and controls are designed and implemented as needed.

Project & Scenario Risk

40 (37.74%)
7 (6.6%)
59 (55.66%)

Rating ● Low ● Medium ● High
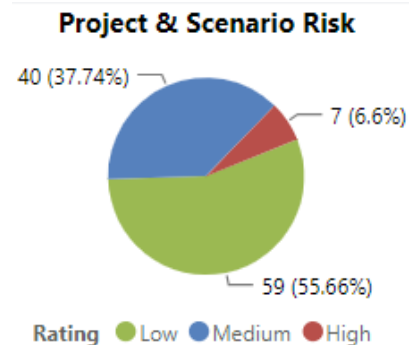
Risk Culture

In June, Enterprise Risk, together with a few other departments, co-facilitated a leadership development session; Everyone *is a Risk Manager*, designed to increase risk management competencies for all levels of leaders throughout the organization. Strategies and tools were shared to assist our leaders in mitigating risks.

3. Internal Control

The Internal Control (IC) 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.

2023 Annual Control Self-Assessment

As part of the Citizens' Internal Control Framework (ICF), Control Champions or management perform annual control self-assessments (CSAs) to ensure that Citizens' primary controls are appropriately designed and continue to operate effectively. Primary controls are key activities that play a significant role in ensuring objectives are met and mitigating high-rated inherent risks. Through the performance of the CSA, management validates whether their primary controls are working as intended or identifies areas that may need improvement. The CSA results are utilized to improve processes and enhance our control environment continuously.

As of June, 94 primary controls have been identified and recorded. CSAs have been completed or are currently in progress for Claims, Enterprise Operations, Financial Services, and Human Resources processes. The remaining areas are on track to complete their CSAs by year-end. The IC team performs quality reviews to ensure the CSAs adhere to standards and continue to add value.

IC recently collaborated with Ethics & Compliance to align primary controls and control self-assessments to laws, rules, regulations, and policies, where applicable, to establish connections and provide additional support to demonstrate compliance and control effectiveness.

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Appendix 1 – Strategic Risk

2023 Strategic Risks		
Risk Title	**Risk Description**	**Rating**
Market Instability	Unstable market conditions may adversely impact private carriers continued participation in the Florida insurance market or geographic locations due to capital limitations, reinsurance capacity and pricing, or insolvency resulting in fluctuations in Citizens' costs, financial condition, exposure, and number of policies in force.	High
Rate Differential	As a result of Citizens' current rate making efficiencies, litigation causing other Florida insurers to increase rates, and the glide-path application to Citizens' rates, Citizens' competitive position in the market is not aligned with being a residual market.	High
Acquisition of Reinsurance	Citizens' inability to transfer risk through acquiring reinsurance in the global marketplace could lead to significant financial implications for Citizens, the State of Florida, and ultimately on Florida residents.	High
Claims Abuse	Failure to identify and stay in front of claims abuse schemes that increase litigation and claim costs for Citizens.	High
External Influences	Uncertainty related to external events, including new or changing laws and/or regulations, changing market conditions, and expectations of the Board of Governors that require rapid adjustments impacting Citizens' mission and operations may result in significant financial and operational challenges.	High
CAT Response	Failure to have adequate vendor resources to respond to a catastrophic event to meet customer expectations.	High
Data Security and Privacy	The growing sophistication and variety of cyberattacks may adversely impact organizations' performance and reputation.	High
Litigation Management Solution	The ability to fully align the enhanced capabilities of the Enterprise Litigation Management Solution to our litigation strategy is critical to the effective management of litigation cases and necessary to maximize the use of internal and external resources.	High
Strategic Workforce Planning	Tight talent market, Citizens' increasing retirement eligible workforce, and business priorities may impact our organization's stability, culture, and high levels of employee engagement as well as the ability to attract, retain and/or develop employees to master critical skills.	High
Vendor Management/Oversight	Given Citizens' reliance on vendors, it is critical to ensure an appropriately right-sized vendor base, validate a vendor's capability and willingness to perform the contract, and adequately	Medium

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Appendix 1 – Strategic Risk

2023 Strategic Risks		
Risk Title	**Risk Description**	**Rating**
	monitor vendor relationships, performance, and contract compliance.	
Attorney Fee Reform	Legal challenges to attorney fee statute reforms in Florida may diminish Citizens' overall litigation success and adverse rulings may lead to market disruption.	Low
Leveraging Data and Technology	The ability to leverage data and new technology in pace with market demands and expectations of Citizens by its stakeholders toensure delivery of strategic initiatives.	Low
Compliance with Laws & Regulations	Acts or decisions by individuals that are not in accordance with rules and regulations may result in regulatory, civil, or criminal penalties and reputational damage.	Low
Ethics, Integrity, Conflicts of Interest	Violation of Citizens' code of ethics, commitment of illegal and unauthorized acts, management fraud, employee fraud or situations where multiple, conflicting interests could possibly corrupt motivation or decision-making may result in criminal charges, reputationaldamage, or financial loss.	Low

Note: The risk rating is an estimate of the potential impact or severity level the risk event may have on Citizens if the event occurs