

# Executive Summary

Audit Committee Meeting, September 26, 2023  
 Board of Governors Meeting, September 27, 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.

### Internal Audit

**Overview of audit progress** - This report focuses on a 12-month audit period between April 1, 2023, to March 31, 2024. Internal Audit follows a risk-based quarterly rolling plan approach in developing engagements and monitoring progress.

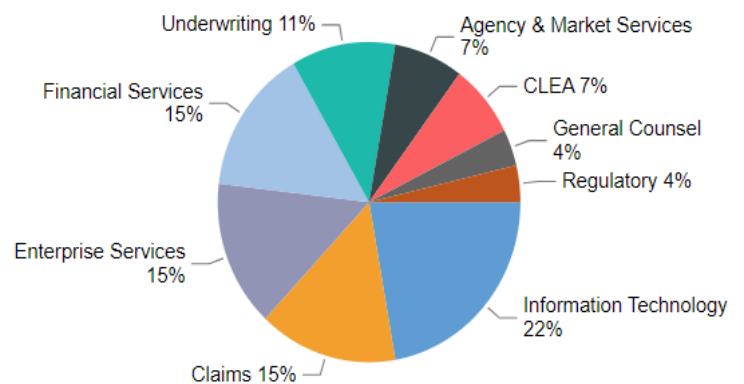
For the period, we have 30 Audit engagements listed, of which 12 were completed, 12 are in progress, and 6 are planned to commence during Q4 2023. Following the previous Audit Committee meeting, we completed 6 engagements.

#### Period Progress

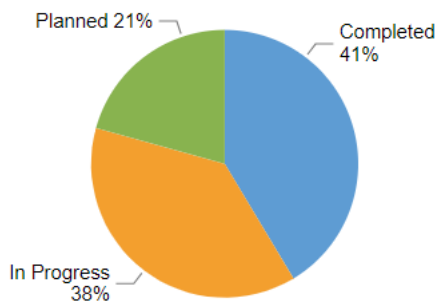
2023-Q2 to 2024-Q1

Status	Count
Completed	12
In Progress	11
Planned	6
<b>Total</b>	<b>29</b>

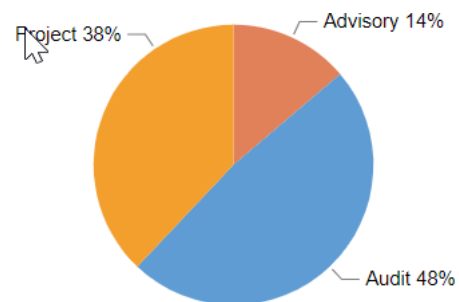
#### Engagement by Business Area



#### Engagements by Status



#### Engagements by Category



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**Engagements completed** - We completed work on 6 Audit engagements:

- **Claims Legal Billing** (Audit) - Internal Audit reviewed the processes, methodology, and results of the unit's assessment and processing of submitted legal invoices. With this audit, we evaluated the unit's effectiveness in ensuring the accuracy and timeliness of invoice processing. We noted three areas requiring review and enhancement, namely, the unit's controls for identifying duplicate payments, monitoring defense counsel timekeeper billing more than reasonable accepted hours, and practices associated with invoice processing. Internal Audit collaborated with the business unit to help develop short and long-term suggested actions, which include recovery of duplicate payments, development of monitoring practices, design mechanisms to identify and address timekeeper excesses timely, expansion of automatic script structure with additional controls, and implementation of quality control practices.
- **Emergency Procurements** (Audit) – With this audit, we evaluated the business processes and controls to assess alignment with emergency procurement procedures and reviewed emergency procurement activity. The procurement processes aligned with statute and policy, and the emergency products and services purchased were appropriate for the emergency response. In addition, Internal Audit validated that the emergency purchases were monitored and reported timely to the Board of Governors. Results from the audit work indicate optimal procurement practices and the efficient management of emergency response procurement activity.
- **Third-Party Technology Risk** (Audit) - Internal Audit assessed the controls, processes, and procedures around third-party technology risk. The audit focused on vendor performance monitoring, vendor dependency resilience assessments, service organization controls, related complementary end-user control consideration reviews, continued vendor suitability reviews, information security assessments and questionnaires, and related training. Results from the audit indicated that adequate processes and controls are in place around third-party technology risk. We noted one low-rated observation regarding enhancing SOC report monitoring and review for sub-service vendors. We discussed this observation with management, and remediation plans are in progress.
- **Underwriting Vendor Management** (Audit) - This audit included an evaluation of key business processes and the effectiveness of controls related to the management of outsourced vendor processes, including controls, reconciliation of invoicing, and data accuracy and quality. Results from the audit work indicate adequate controls related to data quality, accuracy, processes, and management of the outsourced vendors. There was one low-rated observation regarding the reconciliation process of vendor invoices.

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This observation was discussed with Management, and remediation plans are in progress.

- **2023 Legislative Session (Advisory)** - During the 2023 Legislative Session, the Florida Legislature passed several insurance-related bills aimed to increase oversight and accountability of insurance companies and enhance protections for consumers. Through this engagement, Internal Audit monitored the implementation of initiatives developed by Management to comply with the requirements of HB799, HB1185, SB418, and SB7052, validating management's efforts to identify and timely implement the changes required to comply with these legislative bills. Internal Audit also followed up and monitored the progress of pending initiatives from the 2022 Special Legislative Session (SB2A).
- **Citizens Reimagined Procurement (Project Advisory)** - Through ITN 22-0007, Citizens invited vendors to submit their replies to replace the Clearinghouse 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, 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.

**Engagements in progress** - We are currently working on 11 engagements:

- **Centerpoint Segregation of Duties (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, certain 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 unauthorized activity to occur. Internal Audit will embark on a project to address the challenges of user access provisioning for Centerpoint and identify automation solutions to monitor the segregation of duties conflicts.
- **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.

- **Purchasing Card and Other Expense Reimbursements (Audit)** - Citizens has elected to use Purchasing Cards (PCards) as the preferred payment method for employees approved to use a credit card for certain business expenses. The PCard-type credit card allows for increased control over spending and provides Citizens with real-time reporting capability. Restrictions are placed on the cards that limit the types of charges permitted and the amount of credit that may be extended in any monthly billing cycle. In correlation with Internal Audit's Anti-Fraud analytical activities, periodic targeted Audit validation testing will be performed. The objective of the targeted audit will be to ensure adequate processes and controls are in place for approving and monitoring PCard transactions.
- **Vendor Invoicing and Payment (Audit)** - On March 9, 2023, Citizens discovered that a vendor had failed to print and mail more than 400,000 Citizens' documents. In addition, it was determined that payment was made to the vendor for the work Citizens provided to them instead of what was printed by the vendor. The Citizens Audit Committee requested an audit of other vendors to ensure payments are only made to vendors on work completed. All documents have since been printed and distributed to Citizens' policyholders, and all monies recovered from the vendor.
- **Flood Insurance Requirements (Advisory)** - Recent Florida legislation approved Senate Bill 2A, allowing flood requirements for all Citizens' policyholders. Under the new rule, all existing personal residential policyholders in a special flood hazard area whose policy includes wind coverage must secure flood coverage from the National Flood Insurance Program (NFIP) or private insurance carrier on or after July 1, 2023. Citizens' PIF count has increased to 1.3 million policies in force over the past 16 months, challenging the organization to efficiently incorporate new processes and requirements to ensure eligibility for policy renewal. Internal Audit will 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.
- **Primary/Non-Primary Requirements (Advisory)** - Recent Florida legislation approved Citizens to charge rates based on the status of the residence as "primary" or "non-primary." "Primary residence" is a property that the policyholder or tenant occupies for more than nine months out of the year. Any homes occupied nine months or less are classified as non-primary. Compliance with eligibility depends on proper

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documentation for the correct premium to be applied. Internal Audit will provide consultative advice on procedures and controls of impacted business areas and monitor the project management process to ensure effective and timely handling of project issues.

- **Account Consolidation** (Project Advisory) - Pursuant to §627.351(6), F.S., and its plan of operation, Citizens has historically offered property insurance through three different accounts: the personal lines account, the commercial lines account, and the coastal account. These accounts are financially independent of one another and have separate claims-paying resources and capacities. During the 2022 Special Legislative Session, the Florida Legislature passed SB2A authorizing Citizens Property Insurance Corporation to consolidate its three separate accounts into a single Citizens account, subject to specific requirements. If established, the single account would allow Citizens to access its entire surplus to pay claims. It would limit the potential surcharge or assessment on policyholders – from one charge per account to a single surcharge if the corporation runs a deficit. Internal Audit will participate on the project team and provide process, risk, and controls advice for consolidating the accounts.
- **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.
- **ELMS Implementation** (Project Advisory) - A new Litigation Management System was procured in 2023 for implementation in 2024. Internal Audit will participate on the project team and provide process, risk, and controls advice for the implementation of the Enterprise Litigation Management System. The Litigation Management System will be a web-based system used by internal claims litigation, claims legal services, and external stakeholders to manage litigated claims and associated litigation billing effectively. Unlike other systems utilized by Claims, the Litigation Management System will have separate interfaces/permissions for internal stakeholders (Claims and Legal staff) and external stakeholders (contracted outside counsel), which allows a secure environment that both parties can access and collaborate on the handling of litigated claims as well as submission and review of electronic legal invoices. Internal Audit will participate on the project team and provide process, risk, and controls advice for the implementation of the new application.

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- **Identity Governance & Access Management** (Project Advisory) - Internal Audit provides project advisory services supporting 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 aligning processes and controls with policies, standards, and leading practices.
- **Unified Communication as a Service** (Project Advisory) - Internal Audit will provide project advisory services in support of the Unified Communications as a Service (UCaaS) and Customer Communication as a Service (CCaaS) initiatives. Citizens is 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:

- **Compliance Program** (Audit) - Citizens has the responsibility to have a compliance program in place to ensure the organization follows applicable state and federal regulatory requirements. Compliance programs are designed to integrate ethical standards into the daily business activities of an organization through communication, education and training, monitoring, investigation, detection, and reporting. An Audit was completed in 2021, where significant enhancements were needed regarding compliance program governance oversight and the need for compliance roles with accountability and authority within the organization. An audit will be performed as a follow-up to validate that the enhancements work effectively.
- **Investment Portfolio Management** (Audit) - Investment portfolio management directs the oversight and monitoring of Citizens' external investment managers, compliance with Citizens' investment policies, and long-term financial planning. Citizens' four (4) investment policies govern the types of assets Citizens can invest in. As Citizens must be able to make immediate payment of claims in large dollar quantities, liquidity, preservation of principal, and earning competitive returns are the core constructs of these investment policies. When considering the multiple portfolio management firms and the volume of purchases and sales made in any given period, the risk of non-compliance increases and may result in insufficient liquidity and/or loss of principal. In addition, in Q4 2021, a new SaaS vendor, Clearwater Analytics, took over the investment portfolio's compliance management, monitoring, and reporting process. The objective of the audit will be to evaluate and assess the adequacy and effectiveness of controls related to investment portfolio management.

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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, there 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.
- **Citizens Business Insurance Suite Implementation (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. Citizens released an Invitation to Negotiate (ITN) for an Insurance Suite as the contract expires in two years. Guidewire Insurance Suite was selected and procured and is now moving into the implementation phase. Internal Audit will participate on the project team and provide process, risk, and controls advice for the implementation of the application upgrade.
- **CitRe Implementation (Project Advisory)** - Citizens Eligibility Reimagined is an innovative approach to replace the existing Clearinghouse with a comprehensive multi-platform solution that assists consumers and agents with obtaining and comparing offers of coverage for property insurance from available Florida admitted markets (Private Carriers) outside of Citizens, while enhancing Citizens' ability to validate a property as eligible before issuing a new Citizens policy or renewing a Citizens policy. The new system was procured in 2023 for implementation in 2024. Implementing such a project is significant as it will replace the legislatively required Clearinghouse and be used by approximately 10,000 agents in the marketplace. Internal Audit will participate on the project team and provide process, risk, and control advice for the implementation of the Citizens' Policy Eligibility Reimagined solution.
- **Regulatory Support (Auditor General Operational Audit)** - Internal Audit, in its liaison role, is responsible for coordinating with the State of Florida Auditor General auditors, who commenced their triennial operational audit. The audit is expected to be completed within 12 months. Most of the 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 one Audit Manager vacancy that is being recruited.

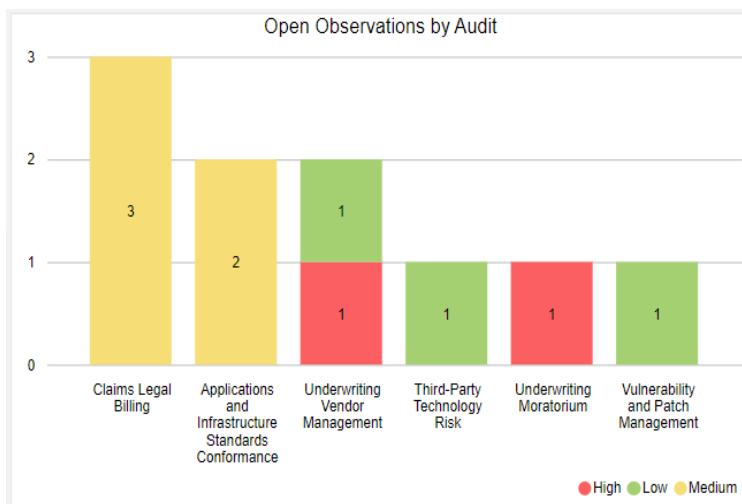
**Open Audit Observations** - Open items receive priority focus from management and are addressed within an agreed period. We are currently tracking 5 open observations, of



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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
<b>TOTAL</b>	<b>5</b>

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 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 60 days. 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 an 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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## Enterprise Risk

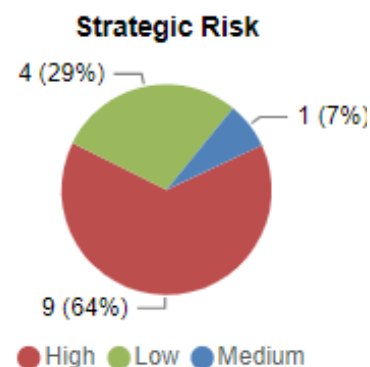
Enterprise Risk partners with business areas to deliver forward-looking and insightful risk perspectives that enhance Citizens' decision-making process and strategic performance. The team assists the organization with preparing for the unexpected, prioritizing resources and considering additional perspectives on risk, including embracing opportunities, as our organization is continually changing to meet the needs of Floridians.

Citizens' risk profile reflects a comprehensive view of risks from various perspectives, including strategic, operational, project, and emerging risks.

### Strategic Risks

Throughout the year, Enterprise Risk and Risk Owners periodically monitor and adjust strategic risks identified in Q1 to ensure the risk descriptions, ratings, and mitigation plans reflect any changes that may occur.

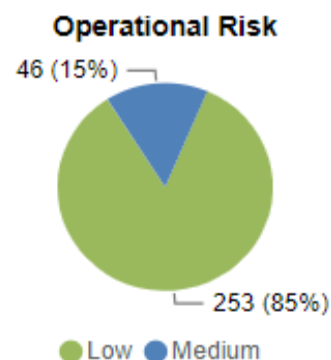
- As of August, the 14 strategic risks identified remain relevant. 64% (9) of strategic risks are rated high, 7% (1) medium, and 29% (4) low.
  - Comprehensive mitigation plans are in place for each of the 14 strategic risks. The mitigation plans are closely monitored, updated, and executed as appropriate.
  - During Q4, Enterprise Risk will begin planning for the 2024 strategic risk assessment.



### 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 August, 299 operational risks have been identified and assessed.
  - 85% (253) of the operational residual risks are rated low, and 15% (46) are rated medium. There are currently no high-rated residual risks.
  - 14 operational risk assessments have been completed for processes within Financial Services, the Office of General Counsel, and Enterprise Operations.



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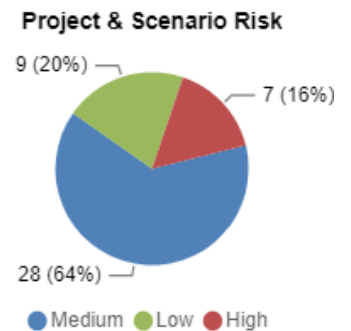
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- o In Q3, operational risk assessments began for processes within Financial Services, Enterprise Operations IT, CLEA, Human Resources, and the Office of General Counsel. Risk assessments are being paused as needed to support Hurricane Idalia's efforts.

## 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.

- Currently, 16% (7) of the project and scenario risks are rated high, 64% (28) are medium, and 20% (9) are rated low. High-rated risks are closely monitored, and controls are designed and implemented as needed.



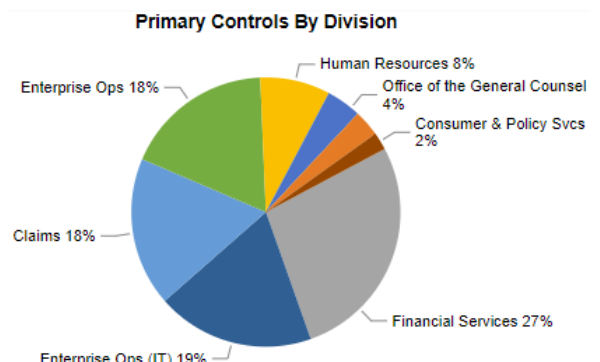
## Risk Culture

As part of our educational efforts to enhance risk management competencies, the enterprise risk leaders wrote and published an article on Citizens' internal website highlighting how the Enterprise Risk Management (ERM) Framework provides guidance and tools to enable and support risk-informed decisions. The article has been well received, including a request to incorporate key messages into other training resources.

## Internal Control

The Internal Control team is responsible for maintaining and monitoring the Citizens' Internal Control Framework (ICF), designed to strengthen the governance, oversight, and accountability of the Citizens' internal control environment. The team facilitates, enables, and partners with Control Champions and management to assess the design and effectiveness of Citizens' primary controls to support the achievement of business objectives and mitigate impactful risks.

- As of August, Citizens has identified and recorded 95 primary controls.
- The graph depicts the current distribution of primary controls by division.



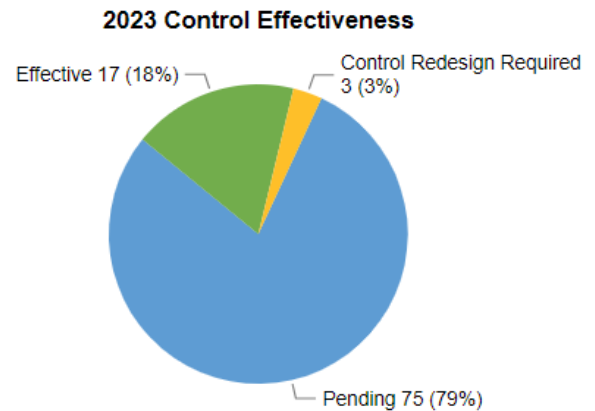
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## 2023 Annual Control Self-Assessment

As part of Citizens' ICF, the control champions or management perform annual control self-assessments (CSAs) to ensure that Citizens' primary controls are appropriately designed and continue to operate effectively.

- 18% (17) of the annual CSAs have been completed. Results indicate that these controls are operating effectively.
- Due to the implementation of process changes, 3% (3) of the primary controls will not be assessed for 2023.
- All remaining CSAs are in progress or on track to be completed by year-end.



## Control Connections

The Internal Control team continues to partner with the Ethics and Compliance function to connect Citizens' primary controls and control self-assessment to applicable laws, rules, regulations (LRRs), and corporate policies within AuditBoard, our governance, risk, and control solution. This alignment provides visibility throughout the organization of how the control self-assessments offer additional support to demonstrate compliance with internal and external compliance requirements. As of August:

- 33% (31) of primary controls are aligned to one or more LRRs.
- 38% (36) of primary controls are aligned to one or more corporate policies.

In addition, the Internal Control team is collaborating with IT Security and Risk and Vendor Management and Procurement to align primary controls and control self-assessments to Citizens' complementary user entity controls (CUECs) identified in vendors' Service Organization Controls (SOC) reports, where applicable. Citizens is responsible for certain CUECs, and this alignment provides support to demonstrate the effectiveness of these controls.