

Policy Title:	Internal Audit	Policy Number:	801
Effective Date:	July 11, 2023	Policy Administrator:	Chief of Internal Audit

I. Purpose/Scope

The Office of the Internal Auditor (OIA) was established by the Legislature to provide a central point for coordination of, and responsibility for, activities that promote accountability, integrity, and efficiency to the policyholders and taxpayers of the state of Florida. By statute, the OIA is instructed to:

1. Provide direction for, supervise, conduct, and coordinate audits, investigations, and management reviews relating to the programs and operations of the corporation.
2. Conduct, supervise, or coordinate other activities carried out or financed by the corporation to promote efficiency in the administration of or prevent and detect fraud, abuse, and mismanagement in, its programs and operations.
3. Submit final audit reports, reviews, or investigative reports to the 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.
4. Keep the Board of Governors informed concerning fraud, abuses, and internal control deficiencies relating to programs and operations administered or financed by the corporation, recommend corrective action, and report on the progress made in implementing corrective action.
5. Cooperate and coordinate activities with the corporation's Inspector General.

The purpose of the audit function is to provide reasonable assurance to the Board and senior management that the controls designed and implemented by management can be relied upon to identify and appropriately mitigate risk. The Internal Audit Procedures Manual, Internal Control Framework, and Enterprise Risk Management Framework explain the internal audit/internal control/enterprise risk processes applied by the OIA to help Citizens Property Insurance Corporation (Citizens) accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The OIA is accountable to the Citizens' Board of Governors (Board) and the Audit Committee, as delegated by the Board.

II. Policy

A. General Rules

All systems, operations, processes, functions, and activities are subject to review by the OIA.

1. The OIA will conduct enterprise and fraud risk assessments to identify the risk profile of the corporation.

2. Internal Audit engagements may include an evaluation of: (1) the reliability and integrity of financial and operational information, (2) the effectiveness and efficiency of operations and programs, (3) the safeguarding of assets, (4) fraud mitigation, and (5) compliance with laws, regulations, policies, procedures, and contracts.
3. Appraise the economy and efficiency, with which resources are employed, identify opportunities to improve operating performance, and recommend solutions to problems where appropriate.
4. Review compliance with the organization's guidelines for ethical business conduct and confirm that the highest standards of personal and corporate performance are met.
5. Participate in the planning, design, development, implementation, and operation of major computer-based systems to determine whether:
 - a. Adequate controls are incorporated into the system
 - b. Thorough system testing is performed at the appropriate stages
 - c. System documentation is complete and accurate
 - d. The needs of user organizations are met.
6. Conduct periodic audits of computer service centers and make post-installation evaluations of major data processing systems to determine whether these systems meet their intended purposes and objectives.
7. On or before February 15 of each year, the Chief of Internal Audit will prepare an annual report evaluating the effectiveness of the internal controls of the corporation and providing recommendations for corrective action, if necessary, and summarizing the audits, reviews, and investigations conducted by the office during the preceding fiscal year. The final report will be furnished to the Board and the Executive Director, the President of the Senate, the Speaker of the House of Representatives, and the Financial Services Commission.

B. Responsibilities

1. Office of the Internal Auditor Responsibilities

The OIA provides independent and objective assurance and consulting services designed to add value and improve corporate processes. The OIA will develop an annual proactive and reactive fraud prevention plan and establish enterprise-wide partnerships with the respective business units to ensure that audit and investigative processes are consistent with the business strategy. The OIA is responsible for conducting its activities by the following:

- a. The Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing*
- b. The IIA *Code of Ethics*
- c. The Association of Certified Fraud Examiners (ACFE) *CFE Code of Professional Standards*
- d. The ACFE *Code of Ethics*
- e. Section 627.351 (6)(i), Florida Statutes

f. The Internal Audit Procedures Manual

2. Chief of Internal Audit Responsibilities

The Chief of Internal Audit reports directly to the Audit Committee and administratively to the President. The Chief of Internal Audit is responsible for all internal audit activities including managing resources, establishing policies and procedures, and coordinating activities to meet the OIA's charter.

When non-conformance with the IIA Definition of Internal Auditing, the IIA *Code of Ethics*, the ACFE *Code of Ethics*, the IIA *Standards*, or the ACFE *Standards* impacts a specific engagement, such non-conformance must be disclosed to the Board, and the appropriate level of management.

3. Audit Committee Responsibilities

The Audit Committee, which is formed by the Board, is instrumental in the Board's fulfillment of its oversight responsibilities relating to the integrity of the corporation's financial statements, the corporation's compliance with legal and regulatory requirements, the qualifications, independence, and performance of the corporation's independent auditors and the performance of the corporation's internal audit function aligned with the Audit Committee Charter.

4. Management Responsibilities

Management is responsible for ensuring that the OIA can conduct its activities as stated in the OIA Charter. Management will support the OIA by:

- a. Providing unrestricted access to all Citizens' activities, records, property, and personnel
- b. Responding within established guidelines to audit and management advisory services reports
- c. Providing concurrence with final reports, and
- d. Providing monthly updates to outstanding audit observations in response to the Open Audit Observations Policy

5. Employee Responsibilities

Employees are responsible for responding to requests from the OIA promptly in support of audits that are conducted.

C. Risk Assessments

Each quarter, Internal Audit will conduct an independent risk assessment of the corporation that includes, but is not limited to, formal interviews with senior and other levels of management, analysis of financial and operational information, review of business objectives and strategies, analysis of potential exposure to fraud, and align their assessment of risk with that compiled by Enterprise Risk and a review of previous audit results. The result of this risk assessment will form the basis of audit engagements presented in the quarterly rolling audit plan.

D. Annual Audit Plan

Internal Audit will develop an annual comprehensive audit plan consistent with Citizens' strategic goals. The plan will be based on key factors such as the results of the enterprise risk assessments, the Internal Audit's consideration of risk factors, the timing and results of previous audits, the Audit Committee or management requested audits and regulatory concerns. The annual audit plan will be prepared and presented to the Audit Committee for approval and will be refreshed quarterly based on the Internal Audit's view of risks and the potential impact on the plan.

E. Relationship with External Auditors

Internal Audit shall coordinate their work with the external auditors to minimize duplication of audit effort. This is accomplished via:

1. Meetings between the internal audit function and external auditors to discuss the annual internal and external audit plans and other audit-related activities
2. Access by the external auditors to internal audit documentation
3. The exchange of management letters/audit reports

F. Maintaining Quality

To ensure quality, Internal Audit will perform ongoing monitoring and periodic self-reviews that will include:

1. Reviewing and documenting work papers during engagements
2. Utilizing the Internal Audit Procedures Manual for each engagement to ensure compliance with applicable planning, fieldwork, and reporting standards
3. Analyzing the performance metrics established to enhance the effectiveness and efficiency of Internal Audit activities
4. Reporting periodically the OIA's activity and performance to the President and the Audit Committee
5. Updating annually the Internal Audit Procedures Manual
6. Updating the Audit Committee Charter and the Internal Audit Charter and presenting the revisions to the Audit Committee for approval on an annual basis
7. Consulting a qualified independent reviewer or review team to perform an external review of Internal Audit activity at least once every five years

G. Communicating Results of Audit Engagements

Report to those members of management who should be informed or who should take corrective action, the results of the audit engagements, the audit opinions formed, and the recommendations made.

H. Monitoring Progress (Open Audit Observations)

The Chief of Internal Audit will establish and maintain a system (automated or manual) to monitor the disposition of audit results communicated to management.

1. Internal Audit will follow up with management on action plans delineated in OIA, Auditor General, Market Conduct, External Auditor, or Investigation reports to validate that

action plans have been effectively implemented, or that senior management has accepted the risk of not acting.

2. When management chooses to accept the residual risk associated with an internal control that does not provide adequate risk mitigation, the OIA Risk Acceptance Process will be followed. Depending on the level of residual risk, the Chief of Internal Audit will either obtain formal approval of acceptance of the residual risk from the appropriate senior manager or refer the risk acceptance for discussion and agreement by the Citizens Risk Steering Committee.

III. Definitions

For this Policy, the following definitions apply:

- A. Audit Plan – a plan used to analyze all areas of the corporation’s operations based on risks associated with those programs and activities and determine required audit coverage and frequency.
- B. Control – any action taken by management, the Board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved.
- C. Engagement – a specific internal audit assignment, task, or review activity such as an internal audit, control self-assessment review, fraud examination, or consulting (advisory) services. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.
- D. Governance – the combination of processes and structures implemented by the Board to inform, direct, manage and monitor the activities of the corporation toward the achievement of its objectives.
- E. The Institute of Internal Auditors’ *Code of Ethics* – a document containing principles relevant to the profession and practice of internal auditing, and Rules of Conduct that describe behavior norms expected of internal auditors. The *Code of Ethics* promotes an ethical culture in the global profession of internal auditing and applies to all personnel that provides internal audit services. The purpose of the *Code of Ethics* is to promote an ethical culture in the global profession of internal auditing.
- F. The Association of Certified Fraud Examiners (ACFE) *Code of Ethics* – a document containing principles relevant to the profession and practice of fraud investigations, and Rules of Conduct that describe behavior norms expected of Certified Fraud Examiners (CFEs). The Code of Ethics promotes an ethical culture in the global profession of fraud investigation. CFEs must exemplify the highest moral and ethical standards and must agree to abide by the bylaws of the ACFE and the Certified Fraud Examiners’ *Code of Professional Ethics*.
- G. Risk – The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.
- H. Risk Assessment – A formal evaluation of significant risks associated with a business product, service, or operation.
- I. Risk Management – A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of corporate objectives.

IV. Authority

Citizens Plan of Operation, Section 7(I)(6)
 Section 627.351(6)(i), Florida Statutes
 Audit Committee Charter
 Office of Internal Audit Charter

V. History

Action	Date
Created	March 24, 2010
Last Reviewed Date	July 11, 2023

VI. Resources

For information regarding this Policy, contact the Office of the Internal Auditor, at Internal.Audit@citizensfla.com.

VII. Approval

Policy Title	Internal Audit
Approved by	Citizens’ Audit Committee at its meeting on July 11, 2023

Policy Title:	Open Audit Observation Management	Policy Number:	802
Effective Date:	July 11, 2023	Policy Administrator:	Chief of Internal Audit

I. Purpose/Scope

Audit observations and recommendations require prompt resolution and implementation of corrective action to ensure compliance with statutes, policies, regulations, and best practices. The Open Audit Observation Management Corporate Policy and Procedure (Policy) addresses the process administered by the Office of the Internal Auditor (OIA) for follow-up, escalation, and resolution of audit observations and recommendations.

The Open Audit Observation Management 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 as per the International Standards for the Professional Practice of Internal Auditing Standard 2500.

II. Policy

After an audit engagement has been conducted, management must decide upon the appropriate action plan to be taken in response to reported observations and recommendations. Audit observations and recommendations may originate from Internal Audit, the OIG, the Auditor General, the Office of Insurance Regulation’s Market Conduct Unit, or independent audit firms contracted by Citizens. Internal Audit shall track the progress of Open Audit Observations and report to the Board and senior staff on the status of management action plans.

Management may decide to assume the risk of not taking corrective action on audit observations due to cost or other considerations. Risk acceptances associated with High or Medium rated audit observations require escalation to the Citizens Risk Steering Committee. When such observations are rated High Impact/Material Weakness or Medium Impact/Significant Deficiency, or when the OIA believes that the level of residual risk is unacceptable to the organization, the following steps shall be taken:

1. The OIA will discuss the observation with senior staff and attempt to reach an agreement on an acceptable level of residual risk.
2. If unable to reach an agreement, Internal Audit will escalate the observation to the President, and if necessary, to the Audit Committee for resolution.

A. Documentation Required to Close Open Audit Observations

Documentation is required to ensure that management action plans have been effectively implemented or that senior management has accepted the risk of not acting. The Chief of Internal Audit shall make the final decision regarding the sufficiency of documentation,

taking into consideration the impact rating of the observation, the audit report, knowledge and history of the audited area, and the current status of the area's operations.

The following table clarifies the process applied to close an Open Audit Observation based on its Risk Rating:

Risk Rating	Required Documentation
High Impact or Material Weakness	The listed audit observation owner provides an updated status in the Audit Observations Tracking System, including supporting documentation indicating completion of the corrective action. Internal Audit reviews material received and could schedule a process walkthrough to verify the implementation of the stated resolution.
Medium Impact or Significant Deficiency	The listed audit observation owner provides an updated status in the Audit Observations Tracking System, including supporting documentation indicating completion of the corrective action. Internal Audit reviews material received to verify the implementation of the stated resolution.
Low Impact or Control Deficiency	The listed audit observation owner indicates completion of the corrective action.

To ensure timely resolution, observations originating from audits by external entities that are not rated according to the scale mentioned above will be monitored under the same criteria established for Medium/Significant Deficiency ratings unless otherwise agreed upon by senior staff and Internal Audit.

B. Non-reportable Audit Observations

During the audit process, some observations may be deemed non-reportable, such as process improvement recommendations (not related to risk or control observations) or audit observations of an immaterial nature. The auditor may determine there is value in verbally communicating the observation; however, such observations shall not be tracked in the Open Audit Observations Management process.

C. Target Date Extensions

If circumstances prevent or delay adherence to the target completion date of an open observation, management may request an extension. The length of the extension shall depend on the reason for the extension (e.g., operational reorganization, control environment changes, or system conversions) and the estimated timeframe needed to complete the corrective action.

On observations with high impact ratings, management is required to pursue and implement short-term remediation efforts to mitigate Citizens' exposure to the risk. Such interim measures must be reported to the Chief of Internal Audit.

The approval level required to request an extension is provided below:

Risk Rating	Required Approval
High or Material Weakness	The Chief Officer of the business area and the Chief of Internal Audit
Medium or Significant Deficiency	A member of senior staff of the business area and the Chief of Internal Audit are required for the first request. The second request for an extension requires approval from the Chief Officer of the business area.

D. Escalation of Past Due Audit Observations

Past due high/medium impact open audit observations will be highlighted as such in the Chief of Internal Audit's quarterly report to the Audit Committee and placed on the next Risk Steering Committee agenda for management comment.

III. Procedure

A. Open Audit Observations Resolution Process

1. Upon completion of an audit engagement, the OIA shall enter all reported observations, recommendations/agreed management action plans, contact names, and target due dates into the Open Audit Observations Database.
2. Management shall prepare and implement action plans to address their audit observations by the target due dates.
3. In the event agreed corrective action has not been completed by the established target date, an extension may be granted as per Section II, C, of this Policy. Management shall report any short-term remediation efforts to Internal Audit.
4. Management shall submit the required documentation specified in Section II, A, of this Policy, to close an open audit observation.
5. The OIA shall close items deemed to have met the required documentation and verification standards.

B. Progress Reporting

1. At the end of each month, the OIA shall distribute an Open Audit Observations Report to management.
2. Management shall report the status of action plans related to open audit observations.
3. At the end of each quarter, the Chief of Internal Audit will present a final report to management. A summary of open audit observations will be included in the quarterly

Audit Committee communications with a focus on high impact and past due observations.

IV. **Definitions**

For this Policy, the following definitions apply:

- A. Chief Officer - a member of the Executive Leadership Team, including the Inspector General.
- B. Chief of Internal Audit – the position responsible for all Internal Audit activities who report directly to the Board of Governors (Audit Committee).
- C. Control Environment - the attitude and actions of the Board and management regarding the significance of control within the organization. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:
 - 1. Integrity and ethical values
 - 2. Management's philosophy and operating style
 - 3. Organizational structure
 - 4. Assignment of authority and responsibility
 - 5. Human Resource policies and practices
 - 6. Competence of personnel
- D. Control Deficiency – a lack of internal control procedures that occurs when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect mistakes, misstatements, or other irregularities.
- E. High Impact – when internal control processes are not functioning to control risk. Any existing or potential breakdown of these processes may have direct exposure to assets and could have a serious impact on operations, legal and/or statutory compliance, or financial results.
- F. Low Impact – when internal control processes are functioning to control risk. Any existing or potential breakdown of these processes may have minimal exposure to assets and an insignificant impact on operations, legal and/or statutory compliance, or financial results.
- G. Material Weakness – a lack of internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.
- H. Medium-Impact - when internal control processes are controlling risk, but the opportunity to improve control(s) exists. Any existing or potential breakdown of these processes may have direct or indirect exposure to assets and could have a significant impact on operations, legal and/or statutory compliance, or financial results.
- I. President – the President/CEO and Executive Director of Citizens Property Insurance

Corporation.

- J. Risk – the possibility of an event occurring that will have an impact on the achievement of company objectives. Risk is measured in terms of impact and likelihood.
- K. Senior Staff - positions at or above the level of Assistant Director, including Chief Officers.
- L. Significant Deficiency - a lack of internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the company's financial reporting.

V. Authority

Citizens Plan of Operation, Section 7(I)(6)
 Section 627.351(6)(i), Florida Statutes
 Audit Committee Charter
 Office of Internal Audit Charter

VI. History

<u>Action</u>	<u>Date</u>
Created	June 30, 2008
Last Reviewed	July 11, 2023

VII. Resources

For information regarding this Policy, contact the Office of the Internal Auditor, at Internal.Audit@citizensfla.com.

VIII. Approval

Policy Title	Open Audit Observations Management
Approved by	Citizens’ Audit Committee at its meeting on July 11, 2023