

Executive Summary

Audit Committee Meeting, September 24, 2024
Board of Governors Meeting, September 25, 2024

THE OFFICE OF THE INTERNAL AUDITOR

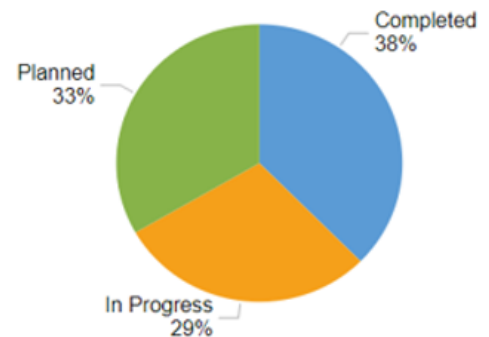
The Office of Internal Audit focuses on areas where it can contribute the most value by working with the organization to reduce risk, improve the control infrastructure, and increase operational efficiencies. The Chief of Internal Audit oversees Internal Audit, Enterprise Risk, and Internal Control.

1. Internal Audit

Overview - This report focuses on a 12-month audit period from April 2024 to March 2025. Internal Audit follows a risk-based quarterly rolling plan approach in developing engagements and monitoring progress.

For the period, we have 24 Audit engagements listed, of which 9 were completed, 7 are in progress, and 8 are planned to commence during Q4 2024.

Progress: 2024 Q2 to 2025 Q1



Internal Audit follows a detailed annual planning process and prepares a themes-based audit plan, considering the possibility of dynamic risk fluctuations and process changes throughout the year. The audit plan continuously evolves to support our dynamic risk environment, focusing on current and emerging reputational, compliance, operational, information technology, and financial risks. Every quarter, Internal Audit “rebalances” its understanding of organizational risk versus audit activities to achieve the most significant impact in its rolling audit plan and ensure adequate focus on Citizens’ strategic issues and critical processes.

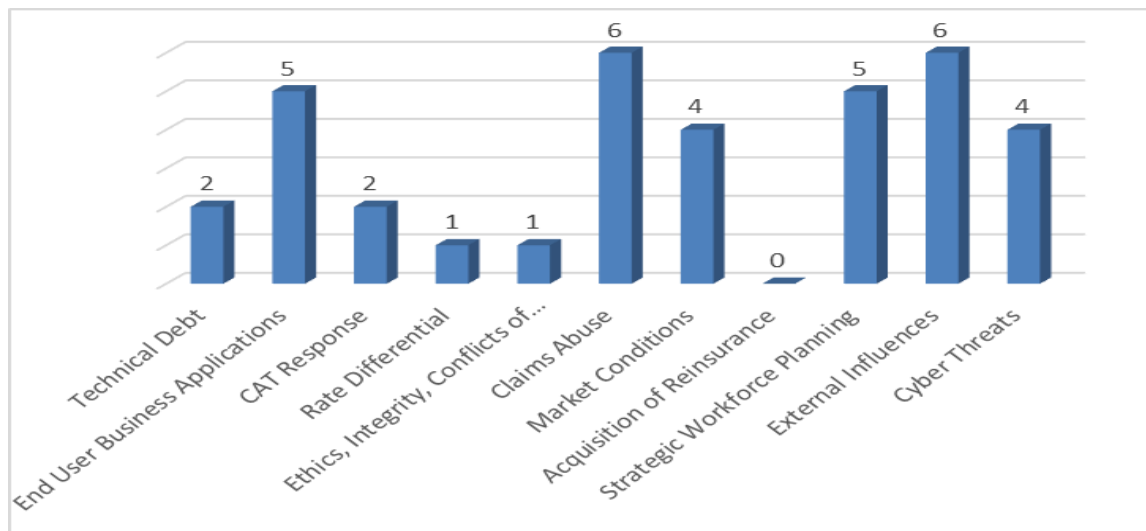
The graph below evaluates the scheduled work from Q2 2024 to Q1 2025 against the organization’s top risks. The results show that the audit work aligns well with the strategy, focusing on practices and processes that significantly impact risk mitigation.

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Although Internal Audit does not focus on reinsurance during this period, we have engagements in scope later next year to examine reinsurance claims servicing and accounting.

Synopsis Audit Plan vs Risk



The following provides a summary of Internal Audit engagements completed/deferred - Following the previous Audit Committee meeting, we completed 4 engagements and deferred one engagement to Q3 2025:

- **Finance & Purchasing Centerpoint Segregation of Duties** (audit) - Internal Audit assessed the Centerpoint user access roles and permissions to evaluate potential segregation of duties conflicts within the Finance and Procurement modules. Overall, the Financial Services and Vendor Management and Purchasing (VMAP) departments have adequate controls to ensure Citizens' financial and procurement systems are appropriately restricted to authorized and approved users. The VMAP team successfully manages critical roles for all users accessing the Procurement module. Additional recommendations to further improve the user access control environment within the Finance module have been discussed with management.
- **Legislative Update Implementation** (advisory) - During the 2024 Legislative Session, several bills were passed to improve insurance industry regulations, protect consumers, and maintain the financial integrity of insurance companies operating in Florida. Four of these bills, HB939, HB1503, HB1611, and HB7073, impacted Citizens' operations. As part of a standing project for every legislative session, Internal Audit monitored the implementation of initiatives developed by management to address the requirements of the bills impacting Citizens' operations. This engagement validated

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management's diligence in forming a cross-functional workgroup to analyze and timely incorporate the new requirements of the bills into the respective units' processes.

- **Reconciliations** (advisory) - Internal Audit assessed the effectiveness and efficiency of Citizens' account reconciliation processes and practices. As a result of this assessment, Internal Audit identified several enhancement opportunities outlined in the report and provided practical examples of how those enhancements can be applied. All opportunities have been discussed with management.
- **Regulatory Support** (Auditor General operational audit) - The final report for the State of Florida Auditor General Operational Audit was distributed on August 16, 2024. This operational audit of Citizens Property Insurance Corporation (Citizens) focused on claims handling, customer service, take-out programs, underwriting and eligibility, financing agreements, procurement of goods and services, internal controls, the internal audit function, and information technology (IT) controls. A detailed review of Citizens' procedures, operations, activities, and records showed few deficiencies in controls over coverage limits, clearinghouse, and information technology
- **FRISS SIU System** (audit deferred) - This engagement aimed to assess the functionality and performance of the solution and its controls to ensure they met management's expectations; however, following the commencement of our audit work, management requested a deferral until all the solution's enhancements, subscriptions, and system interfaces are fully integrated. This deferment will allow for a better evaluation of the solution's benefits and a more informed assessment of its functionality.

The following provides a summary of Internal Audit engagements in progress - We are currently working on 7 engagements:

- **Commercial Underwriting** (audit) - Significant policy growth in commercial lines has required a substantial staffing increase to process and underwrite new business policies. Commercial exposure increased by 87% to \$103.6B. Underwriters are tasked with in-depth reviews evaluating large structures, often many buildings for one property, including determining accurate exposure evaluations critical to ensure proper eligibility. Commercial PIF as of Q2 2024 is 14,288, with 38,074 locations and 61,523 buildings. UW 'A Rate' Commercial lines policies have slightly decreased, currently 1509 as of 5/31/24, due to depopulation. An A-rated Risk is a single building valued over \$10M. The audit will evaluate the adequacy and effectiveness of controls, practices, and processes in evaluating commercial risks.
- **Payroll and Employee Record Management** (audit) - Payroll processing and record management are critical to Citizens' operations. The payroll process cycle has many manual steps with built-in stops that require constant troubleshooting for the data to be processed appropriately. The objective of the audit will be to assess and validate the



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manual payroll process procedures, review records management (location, linking to employee files, etc.) and evaluate the support provided by the HRIM team to all aspects of the HR function.

- **Technology Governance Review** (audit) - Technology governance within an organization is critical to ensuring effective management and control of IT resources. Technology governance aims to balance the benefits and risks of technological innovation and the social and ethical implications that arise from it. Technology governance can help organizations align their technology strategies with business objectives and ensure adequate oversight and accountability. Internal Audit will assess the current technology governance program against leading industry and technology standards and practices.
- **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 implementing the Citizens' Policy Eligibility Reimagined solution.
- **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 contract 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 implementing the application upgrade.
- **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 implementing 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

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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 implementing the new application.

- **Identity Governance & Access Management** (project advisory) - Internal Audit will continue to provide project advisory services supporting the implementation of the Identity and Access Management Program. Citizens has procured new security applications for 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.

The following provides a summary of Internal Audit engagements planned - Eight audit engagements are scheduled to commence during Q4 2024:

- **Application Programming Interface (API)** (audit) - With the continued implementation of cloud solutions and the increased reliance on integrating these solutions with on-premises solutions, the complexity of operations and security poses significant risks for Citizens from an exposure and impact perspective. Integration of cloud and on-premises solutions relies on legacy and contemporary automated programming interfaces (APIs) plus middleware, file transfer extract, transform and load (ETL) technology. The objective of the engagement is to determine if processes and controls such as those around configuration, hardening, encryption of data-in-transit and data-at-rest, administrative privileges, monitoring and logging, public key infrastructure certificates, no-repudiation, completeness, and accuracy of data transfers are designed and operating effectively.
- **Asset Management** (audit) - Citizens has many physical assets, including computer hardware, furniture and fixtures, and vehicles. An Asset Management audit is essential for risk management, compliance, cost optimization, accuracy, performance evaluation, data security, strategic planning, and stakeholder trust. The objective of the Asset Management Audit is to ensure that an organization's assets are effectively managed, protected, and optimized.
- **Claims IA Invoice Management Solution** (audit) - In 2022, Citizens acquired VIP Software, a Software-as-a-Service (SaaS) solution to automate independent adjusting (IA) firms' invoice processing and payment. The IA Vendor Invoice solution currently processes around 4,000 monthly invoices, and approximately 41,000 were processed between August 2023 and July 2024 without a significant storm. This volume makes

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the IA Vendor Invoice process an essential application for the Citizens' Claims Vendor & System Management unit. The objective of the audit is to assess the functionalities, operational efficiency, and effectiveness of the Claims IA Vendor solution and validate its alignment with Citizens' business needs.

- **Financial Planning and Analysis** (audit) - Citizens successfully launched the budgeting module in Centerpoint in 2018, and budget users throughout the organization received training. As a result, a continuous budgeting model was adopted throughout the organization in 2019. Continuous budgeting and strategic forecasting are critical to clearly understanding and communicating financial expectations, making strategic decisions, and adjusting resource allocations in response to changing conditions. The objective of the engagement is to evaluate the adequacy and effectiveness of controls related to the Financial Planning and Analysis process.
- **IT General Controls** (audit) - As the reliance on end-user business applications has increased, effective IT general controls have become crucial to Citizens' success. Ineffective IT general controls can lead to several risks, including inappropriate access, unauthorized changes to programs and data, and concerns with data breaches. This engagement aims to evaluate the effectiveness of IT General controls within critical applications.
- **Office of Foreign Assets Control** (audit) - The Office of Foreign Assets Control (OFAC) of the Department of Treasury administers and oversees a series of laws that impose economic and trade sanctions against hostile entities. U.S. insurers are among organizations that must exercise due diligence in checking the specially designated nationals (SDN) list to ensure that the individuals they insure are not specially designated nationals. An audit was performed in 2020, requiring the enhancement of OFAC processes and controls related to expanding screening practices and developing a sanctions compliance program. The audit will evaluate and assess whether process and control enhancements have been implemented and are working effectively.
- **Remittance Processing** (audit) - Remittance processing manages the receipt and processing of premium payments, a critical support function of the insurance application and policy renewal process. With the significant increase in policy growth over the past few years, payments have increased by 140%, leading to elevated risk. Internal Audit will evaluate the adequacy and effectiveness of controls related to the remittance processing function.
- **Regulatory Support** (OIR Market Conduct Exam) - Internal Audit, in its liaison role, is responsible for coordinating with the State of Florida Office of Insurance Regulation, which commenced the biennial operational audit. The audit is expected to be completed by February 1, 2025. Most coordination efforts constitute meeting planning,

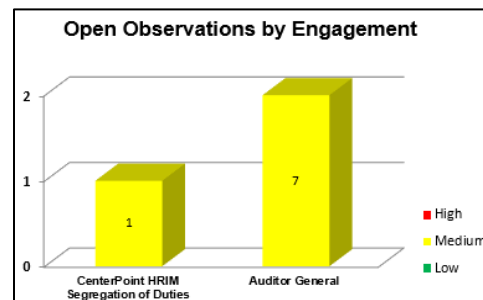
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information request tracking and delivery, and ensuring the examiners/auditors receive the correct information on time.

Open Audit Observations - Management prioritizes open items and addresses them within an agreed-upon period. We are currently tracking observations from two engagements; none rated high impact.

- **Centerpoint HRIM Segregation of Duties** - The HRIM personnel responsible for providing system production support to the HR department have elevated/privileged user access and permissions, resulting in segregation of duties concerns. Incompatible system access mitigations have been completed, and additional enhancement activities for the view-only roles and several reporting roles will be in a separate "Phase II" that is in progress.
- **Auditor General Audit Observations** - Seven categories of observations were recorded, and Internal Audit is monitoring the implementation of corrective action:
 - New and Renewal Policy Coverage Limits
 - Probable Maximum Loss Financing
 - Clearinghouse Utilization
 - Policy Submissions to the Clearinghouse
 - Policyholder Surveys
 - Purchasing Card Controls
 - Security Controls Logical Access and User Authentication



Revised Global Internal Audit Standards - The Institute of Internal Auditors (IIA) released the new Global Internal Audit Standards™(GIAS) effective January 9, 2025. These standards serve as a global framework for the professional practice of internal auditing, guiding the profession's core principles, requirements, and considerations. Every 5 years, a Quality Assessment Review is conducted by an external party to assess the Internal Audit function's conformance to GIAS, evaluate the Internal Audit function's effectiveness in carrying out its mission (as outlined in its Charter and expressed in the expectations of Citizens' Management and Audit Committee), and identify opportunities to enhance its management and work processes, as well as add value to the organization.

Necessity of the revision - The key reason for these changes is the simplification and adaptation of emerging audit technologies. The previous Standards had been in place for nearly two decades and needed to be revised to address the complexities of modern

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organizations and the new risks they face, such as cyber threats, data privacy concerns, and regulatory changes.

The new GIAS strongly emphasizes using data analytics, automation, and artificial intelligence (AI) in the internal audit process. They recognize that these technologies can enhance the effectiveness and efficiency of internal audits by enabling auditors to analyze copious amounts of data quickly and accurately and identify trends and patterns that might otherwise go unnoticed.

The new GIAS are transforming internal audit by providing a forward-thinking, comprehensive framework for internal audit practitioners to ensure the effectiveness and efficiency of their organization's internal controls, risk management, and governance processes. These updated Standards emphasize the importance of a risk-based approach to the use of technology, enabling auditors to adapt to the changing business environment and generate more value for their organizations. The International Professional Practices Framework elements are now concisely organized into five domains that more clearly and comprehensively reflect the roles and responsibilities of internal audit in modern organizations:

- i. Purpose of internal auditing
- ii. Ethics and professionalism
- iii. Governing the internal audit function
- iv. Managing the internal audit function
- v. Performing internal audit services

Key changes in the revised standards - The revisions to the GIAS include several fundamental changes:

- **Enhanced Scope and Objectives:** The standards now emphasize a broader scope for internal audits, including compliance and strategic and operational effectiveness. This broader focus is designed to enhance the value of internal audits for the organization.
- **Enhanced Governance Framework:** The standards provide more explicit guidance on the governance of the internal audit function, including the role of the Audit Committee and the Chief Audit Executive.
- **Risk-Based Approach:** A stronger emphasis on a risk-based approach to auditing has been introduced. This means that internal audit activities will align more closely with the organization's risk profile, ensuring that resources are allocated to the most significant impact and concern areas.

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- **Integration of Technology:** The standards now include guidelines for integrating technology into audit processes. This includes using data analytics, automated tools, and continuous monitoring techniques to improve audit efficiency and effectiveness.
- **Stakeholder Engagement:** There is a greater focus on engaging with stakeholders, including senior management and the Board, to ensure that internal audit activities are aligned with organizational objectives and that audit findings are effectively communicated.
- **Quality Assurance and Improvement:** Revised standards call for enhanced quality assurance and improvement programs for internal audit functions. These include regular reviews and assessments to ensure that audit practices meet high standards of performance and professionalism.
- **Ethical and Professional Standards:** There is a renewed emphasis on ethical and professional standards, reinforcing the need for auditors to maintain integrity, objectivity, and independence in their work.

Impact on the Internal Audit Function and the Board/Audit Committee - The revised GIAS has several implications for the internal audit function and the Audit Committee. Internal Audit completed a detailed conformance readiness assessment and identified specific changes to consider:

- **Charters:** Domain III of the GIAS has principles, standards, and essential conditions (callouts) for the Board and senior management. The Audit Committee Charter and the Office of the Internal Auditor Charter will be revised to align with the essential requirements and shared with the Board for approval at the December meetings.
- **Internal Audit Strategy and Plan:** Internal Audit is developing the 2025 OIA Strategy and Plan. We will ensure it aligns with the revised standards, providing a clear focus on high-risk areas and the strategic objective.
- **Invest in Technology:** The OIA is already advanced in developing its data analytics capability and our first continuous audit procedures. With the AuditBoard administrative tool, we secured the ability to use generative artificial intelligence to improve the quality and breadth of our work.
- **Enhance Stakeholder Engagement:** Opportunities to enhance current communication and reporting processes with senior management and the Board will be considered.
- **Strengthen Quality Assurance:** Revise our quality assurance improvement program to meet the new GIAS requirements.
- **Internal Audit Procedure:** Revise the internal departmental audit procedure manual to align with the requirements of the GIAS.

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2. Enterprise Risk

Citizens’ Enterprise Risk Management (ERM) Framework is designed to support the organization in achieving strategic imperatives and operational objectives. Identifying, assessing, and mitigating risks assists the organization in effectively navigating our rapidly evolving and complex business environment.

Alignment to Strategic Imperatives - The ERM Framework defines strategic risk as the probability that events or decisions can undermine strategic imperatives and lead to adverse outcomes. Factors that we consider when assessing strategic risk include:

- Internal factors include organizational culture, leadership decisions, operational issues, human resources, financial management, technological challenges, governance and compliance, organizational structure and processes, and strategic alliances and partnerships.
- External factors include economic downturns, market dynamics, technological advancements, the political and regulatory environment, reputation, and social and cultural shifts.

| 2024 Strategic Imperatives | 2024 Strategic Risks |
|----------------------------|--|
| Depopulation | <ul style="list-style-type: none"> • Market Conditions • Rate Differential • External Influences |
| Customer Experience | <ul style="list-style-type: none"> • CAT Response • Claims Abuse • Cyber Threats • External Influences • Technical Debt |
| Emergency Assessments | <ul style="list-style-type: none"> • Acquisition of Reinsurance • Market Conditions |

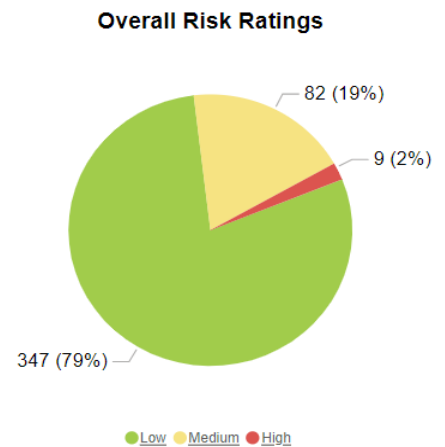
The strategic risk process is closely aligned with Citizens’ strategy and planning. Risk considerations are integrated into strategic planning and execution. The chart below shows the alignment between the current strategic imperatives and risks.

Top risks identified through the ERM Framework are also considered when developing the Internal Audit plan, and audit coverage of the strategic risks is outlined on page 2 above.

Citizens’ Top Risks - The Enterprise Risk team partners with the Executive Leadership Team (ELT), management, and subject matter experts across the organization to identify and assess risks. The overall risk rating estimates the potential impact or severity level the risk event may have on Citizens if the event occurs. Currently, Citizens is monitoring the following nine high-rated risks:

Strategic Risks

- **Rate Differential** - As a result of Citizens’ current rate-making efficiencies and the glide-path application to Citizens’ rates, Citizens’ competitive position in the market is not aligned with being a residual market.



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- **Market Conditions** - Changing market conditions may adversely impact private carriers' continued participation in the Florida insurance market or geographic locations due to insolvency resulting in fluctuations in Citizens' costs, financial condition, exposure, and the number of policies in force.
- **Claims Abuse** - Failure to timely identify and respond to emerging fraud schemes and other abuses that increase claim costs for Citizens.
- **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.
- **CAT Response** - Failure to have adequate vendor resources to respond to a catastrophic event to meet customer expectations.
- **Strategic Workforce Planning** - Citizens' increasing retirement-eligible workforce, and business priorities may impact our organization's stability, culture, reputation, and high levels of employee engagement as well as the ability to attract, retain, and/or develop employees to master critical skills.
- **External Influences** - Uncertainty related to external events, including storms, new or changing laws and/or regulations, and changing market conditions, that require rapid adjustments impacting Citizens' mission and operations may result in significant financial and operational challenges.
- **Cyber Threats** - The increasing complexity and variety of cyber incidents may adversely impact organizations' performance and reputation

Operational Risk

- **Litigation Management Solution** - Fully aligning the enhanced capabilities of the Enterprise Litigation Management Solution with our litigation strategy is critical to the effective management of litigation cases and necessary to maximize the use of internal and external resources.

Risk Mitigation - Mitigation of strategic risks considers both internal and external factors, as these risks can adversely impact Citizens' ability to achieve strategic imperatives and initiatives. In addition to the eight high-rated strategic risks listed above, one medium and two low-rated strategic risks were identified. In August, mitigation plans were updated for all eleven strategic risks and the plans are executed as needed.

Ensuring the successful implementation of the litigation management solution is crucial to the organization and is considered a high-rated operational risk that is being closely monitored through implementation until the risk is mitigated.

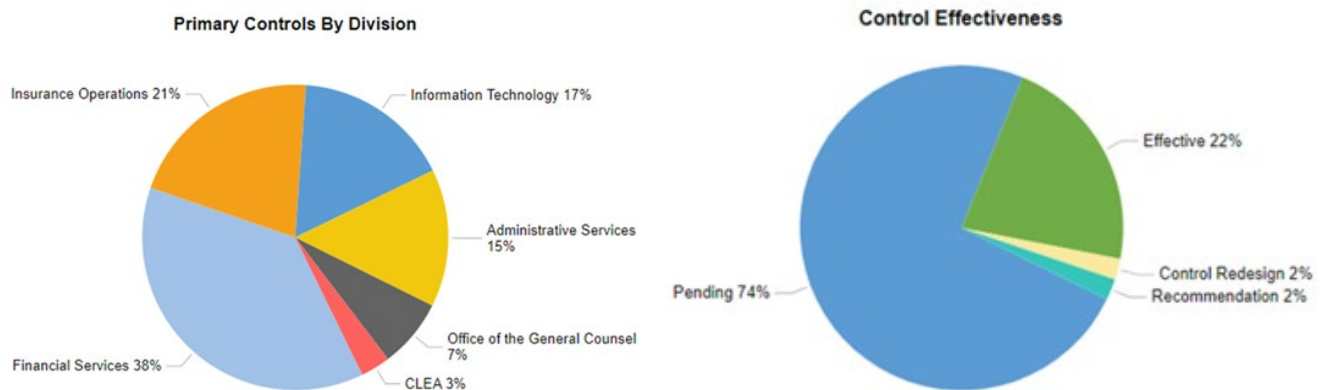
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3. Internal Control

As part of the Citizens' Internal Control Framework (ICF), control assessments are performed for the top primary controls, or key activities, that may significantly impact achieving objectives and mitigating higher-rated risks. This proactive approach enables the organization to maintain a reliable and robust internal control environment.

Control Self-Assessments - The Internal Control team is responsible for the ICF's design, maintenance and oversight. Management or their Control Designee is responsible for performing control self-assessments to validate the effectiveness of top primary controls for their respective business areas. Results that indicate a potential material control deficiency are referred to Internal Audit for further evaluation. ICF efforts culminate in the delivery of an opinion on the current effectiveness of Citizens' system of internal controls while identifying future opportunities to enhance performance.



As of August, a total of 96 primary controls have been identified across all divisions, 25% (24 controls) have been assessed, and the remainder are on track for completion by year-end. Results to date:

- Effective - 22% (21) of the controls have been assessed as effectively designed and operating as intended.
- Recommendations - Enhancements to strengthen controls were identified for 2% (2 controls).
- Redesign - Two controls require redesign due to process changes.
- To date, no material issues have been identified.