

# Executive Summary

Audit Committee Meeting, December 3, 2024  
 Board of Governors Meeting, December 4, 2024

## THE OFFICE OF THE INTERNAL AUDITOR

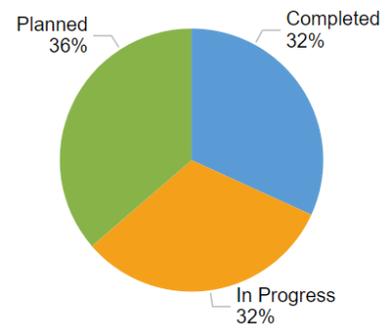
The Office of Internal Audit focuses on areas where it can contribute the most value by working with the organization to reduce risk, improve the control infrastructure, and increase operational efficiencies. The Chief of Internal Audit oversees Internal Audit, Enterprise Risk, and Internal Control.

### Internal Audit

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

For the period, we have listed 22 Audit engagements, of which 7 were completed, 7 are in progress, and 8 are planned to commence during Q4 2024.

Engagements by Status

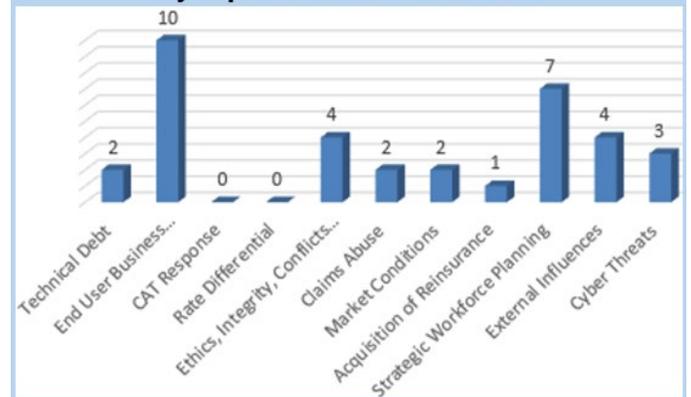


Internal Audit follows a detailed annual planning process and prepares a themes-based audit plan, considering the possibility of dynamic risk fluctuations and process changes throughout the year. The audit plan continuously evolves to support our dynamic risk environment, focusing on current and emerging reputation, 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.

This graph evaluates the scheduled work from Q3 2024 to Q2 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.

Although Internal Audit does not focus on CAT Ops and Rate Differential during this period, this was included in the work completed in the last quarter.

Synopsis Audit Plan vs Risk



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The following provides a summary of Internal Audit engagements completed/deferred - Following the previous Audit Committee meeting, we completed 3 engagements and deferred one engagement to Q3 2025:

- **Citizens Reimagined Implementation:** Internal Audit served as a consultant on this project, supporting risk and control measures to ensure the solution would facilitate property placements in the private market. Internal Audit confirmed compliance with project governance, stakeholder inclusion, and alignment with Citizens' processes. Additionally, invoice reviews were conducted, with requests for further vendor documentation to verify charges.
- **Commercial Underwriting:** This audit reviewed business processes and controls within Commercial Lines Underwriting to confirm eligibility and underwriting compliance. Overall, processes effectively manage risk eligibility, quality assurance, and operational monitoring. One finding involved configuring PolicyCenter to prevent policy approvals beyond the underwriters' authority. Management has developed an action plan to address this.
- **Payroll and Employee Record Management:** The audit assessed payroll compliance, accuracy, and efficiency, confirming effective controls that ensure timely, accurate payments and secure employee records. One finding highlighted a need to strengthen PII security, and additional improvement opportunities were discussed and agreed upon with management.

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

- **Office of Foreign Assets Control:** Citizens' OFAC compliance program enhancements, specifically in screening practices and controls, are under review to confirm their effectiveness in meeting sanctions requirements. This audit will verify that these improvements are correctly implemented and function as intended.
- **Privacy:** As privacy becomes increasingly critical, this review examines Citizens' practices, policies, and procedures to ensure they align with data protection regulations and effectively protect sensitive information. The engagement aims to evaluate the privacy framework and related controls and recommend improvements to enhance data protection.
- **Technology Governance Review:** Effective technology governance is essential for aligning IT resources with business goals. This audit assesses Citizens' technology governance framework, evaluating adherence to industry standards and ensuring strong oversight and accountability.

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- **Citizens Business Insurance Suite Implementation:** The Guidewire Insurance Suite® upgrade is a significant project supporting core business functions, including policy and claims management. Throughout the implementation phase, Internal Audit advises on risk, process, and control measures.
- **ELMS Implementation:** With the upcoming rollout of a new Enterprise Litigation Management System, Internal Audit advises on key controls, risks, and processes. This system will facilitate collaboration between internal legal staff and external counsel in a secure, shared environment for managing claims litigation and billing.
- **Identity Governance & Access Management:** Citizens is implementing a comprehensive Identity and Access Management Program, where Internal Audit offers guidance on process integrity, control adequacy, and alignment with policies and best practices.
- **Regulatory Support:** In its liaison role, Internal Audit coordinates with the Florida Office of Insurance Regulation for the biennial exam. Efforts include meeting coordination, tracking information requests, and ensuring timely documentation delivery. The exam is expected to be completed by February 1, 2025.

The following provides a summary of Internal Audit engagements planned - Eight audit engagements are scheduled to commence during Q1 2024:

- **Application Programming Interface (API):** This audit will assess the effectiveness of API and middleware controls supporting cloud and on-premises integration. The review focuses on configurations, data encryption, access privileges, monitoring, and data transfer accuracy, addressing the operational and security risks posed by complex integrations.
- **Asset Management:** This audit will examine asset control practices for compliance, risk mitigation, data security, and cost-effectiveness to ensure the proper management, security, and optimization of Citizens' physical assets (e.g., hardware, furniture, vehicles).
- **Financial Planning and Analysis:** Effective financial oversight supports accurate forecasting, strategic decision-making, and adaptive resource allocation. This audit will evaluate controls within Citizens' financial planning and analysis processes, focusing on the continuous budgeting model.
- **Citizens Insurance Suite (CIS) Segregation of Duties:** To address potential conflicts in user roles within the CIS, this audit will assess the segregation of duties controls, verifying that user access aligns with role requirements and does not allow unauthorized actions.

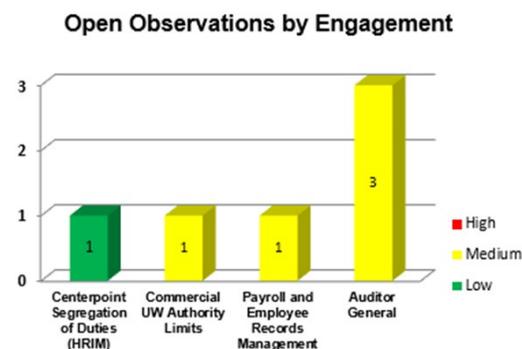
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- **IT General Controls:** With increased reliance on business applications, this audit will examine IT general controls across critical systems, ensuring effective measures for preventing unauthorized access, unauthorized changes, and data breach risks.
- **Office of General Counsel:** This consulting engagement will assess the adequacy of support and guidance provided by the Office of General Counsel across the organization. Focusing on key areas, this review will evaluate the effectiveness of legal, compliance, privacy, cybersecurity, and records management support in meeting departmental needs, enhancing operational compliance, and aligning with organizational objectives.
- **Recruitment:** This engagement will review Citizens' recruitment effectiveness for challenging roles and assess recruitment firm relationships, focusing on cost efficiency, placement success, and overall talent acquisition effectiveness.
- **Remittance Processing:** With a 140% increase in payment volume, this audit will examine controls within the remittance processing function to ensure secure, accurate, and efficient handling of premium payments, a critical part of the insurance application and renewal process.

**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:** HRIM personnel supporting the HR system have elevated access, raising concerns about the segregation of duties. While incompatible access has been mitigated, further adjustments to view-only and reporting roles are underway as part of a "Phase II" enhancement, which is currently in progress.
- **Commercial Underwriting:** No automated control exists to prevent commercial underwriters from exceeding their authority limits in approving new submissions. Management will create a system enhancement to enforce authority limits in Policy Center® and, in the meantime, will implement a dashboard to flag violations for timely review and correction within the allowable underwriting period.
- **Payroll & Employee Record Management:** Unmasked Social Security Numbers (SSNs) for ex-employee beneficiaries are retained in Centerpoint, accessible to the Benefits Manager and potentially others, posing a data exposure risk. Since keeping



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this data is unnecessary, management has agreed to remove or mask the SSNs immediately and implement stricter data retention controls.

- **Auditor General Audit Observations** – Three of the seven categories of observations recorded remain open, and Internal Audit is monitoring the implementation of corrective action:
  - New and Renewal Policy Coverage Limits
  - Policy Submissions to the Clearinghouse
  - Security Controls Logical Access and User Authentication

## Action Item 1 - 2025 OIA Strategy & Plan and OIA Budget

The OIA presents its 2025 Strategy and Plan (Plan) for review and approval. The Plan was developed using a risk-based approach to understand and assess Citizens' operations and associated risks. This plan aims to use the available resources to provide the most timely and comprehensive scope of the audit, risk, and control coverage.

### The Plan

#### Internal Audit

Internal Audit follows a detailed annual planning process and prepares a themes-based audit plan that considers the possibility of dynamic risk fluctuations and process changes throughout the year. To achieve the most significant impact, Internal Audit "rebalances" internal audit activities in a rolling audit plan to ensure adequate focus on Citizens' strategic issues and critical processes.

Internal Audit documented five specific audit themes that consolidate and provide high-level insights into the years' audit focus areas. As the year progresses, Internal Audit will use its quarterly rolling risk assessment process to identify engagements to be selected for every reporting period. The 2025 themes are as follows:

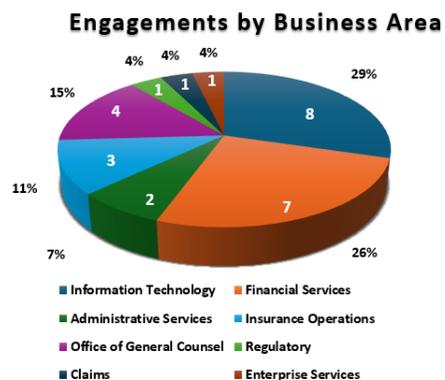


- Effectiveness and Resiliency
- Expense and Capital Management
- Reporting and Data Accuracy
- Compliance and Litigation
- Data Management and Protection

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In identifying the types of audit engagements, Internal Audit invited management requests for consultative support and ensured a healthy balance between assurance (audit) engagements and consulting (advisory) engagements. We also focus on every division within the organization and ensure healthy coverage throughout Citizens.



## Enterprise Risk

ER will continue to facilitate and enable risk assessments by providing risk services across the organization. This includes facilitating strategic, project, scenario, and operational risk assessments and continuous improvement of the quality of risk descriptions and mitigation plans documented in AuditBoard. In 2025, ER will focus on enhancing dynamic risk governance and advancing our commitment to effective risk management. Priorities include implementing a dynamic approach to risk assessments and leveraging data and key risk indicators to provide a more comprehensive view of risks.

## Internal Control

IC will continue to ensure consistency and sustainability of the Internal Control Framework by optimizing ICF to enhance business value while ensuring alignment with the organization's broader objectives. IC will foster a collaborative and scalable approach to control identification and assessment, provide consultative support, and enhance the quality of control assessments while providing targeted education on leading practices for control design.

## The Budget

The 2025 budget for OIA presented is \$3.94 million, compared to the \$3.84 million budgeted for 2024. This reflects a 37% total expense increase, mainly driven by a cost-of-living increase in total employee expenses and the anticipated use of our consulting service vendors.

Budget variance explanation:

- Total staffing will remain static for Internal Audit (11), Enterprise Risk (3), and Internal Controls (2).
- Salaries and benefits indicate the annual merit increase and the expected salaries as we recruit to fill current vacancies.
- No contingent staffing is needed in 2025.
- Training is based on a dollar allocation per staff member to upkeep professional CPE requirements and develop professionally.

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- Operating expenses increased with a slight increase in subscriptions.
- Legal services are traditionally placeholders, should the department need to use them.
- Travel reflects an inflationary increase in 2025.
- Professional Services reflect an anticipated use of vendor consulting services. This amount will be discussed with management before services are provided.
- Software Maintenance and Licensing reflect a slight decrease.

Office of Internal Audit	2024 Year-End Projection	2024 Budget	2025 Budget	2025 Budget vs. 2024 Budget	
	YearTotal	YearTotal	YearTotal	Favorable / (Unfavorable)	
Total Salaries	2,311,756	2,390,462	2,470,256	(79,794)	(3)%
Total Employee Benefits	491,237	547,197	551,231	(4,033)	(1)%
Total Payroll Taxes	165,209	178,599	209,737	(31,138)	(17)%
<b>Employee Expenses</b>	<b>2,968,202</b>	<b>3,116,259</b>	<b>3,231,224</b>	<b>(114,965)</b>	<b>(4)%</b>
Total Contingent Staffing	0	8,400	0	8,400	100%
Total Training	31,479	46,400	48,800	(2,400)	(5)%
Total Printing	1,600	1,600	1,600	0	0%
Total Operating Supplies	918	1,100	1,100	0	0%
Total Subscriptions and Dues	82,108	89,548	95,923	(6,375)	(7)%
Total Postage	30	90	90	0	0%
Total Legal	25,000	50,000	50,000	0	0%
Total Travel	22,816	33,751	36,065	(2,314)	(7)%
Total Professional Services	188,725	200,000	200,000	0	0%
Total Software Maintenance and Licensing	326,151	289,223	278,223	11,000	4%
<b>Total Admin Expenses</b>	<b>3,647,043</b>	<b>3,836,371</b>	<b>3,943,025</b>	<b>(106,654)</b>	<b>(3)%</b>
FTE	16	16	16	0	0%

## Recommendation

Staff recommends that the Citizens Audit Committee:

1. Approve the 2025 OIA Strategy and Plan, and
2. Approve the 2025 OIA Budget as presented.

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## Action Item 2 - Charters Approval

### Audit Committee Charter

Annually, the Audit Committee reviews the adequacy of the Committee Charter and presents changes to the Board for approval.

The Audit Committee Charter establishes the authority granted to the Committee by the Board of Governors. It defines the Committee's purpose, which is to support the Board in fulfilling its oversight responsibilities by evaluating the integrity of Citizens' financial statements, ensuring compliance with legal and regulatory requirements, assessing the qualifications and independence of the independent auditor, and reviewing the performance of both the Office of the Internal Auditor (OIA) and the independent auditors.

The Chief of Internal Audit completed a review of the Charter against the new Institute of Internal Auditors (IIA) Global Internal Audit Standards (GIAS) for 2025 and presents several relevant revisions to align the Charter with the GIAS.

### Office of the Internal Auditor Charter Approval

The Audit Committee also reviews the adequacy of the Office of the Internal Auditor Charter annually.

The Internal Audit Charter defines the purpose, authority, and responsibilities of the Internal Audit function in accordance with Section 627.351(6)(i) of the Florida Statutes. The Charter establishes the Internal Audit function's position within the organization, including the nature of the Chief of Internal Audit's functional reporting relationship with the Board. It grants authorization for access to relevant records, personnel, and physical assets necessary for audit engagements and outlines the scope of Internal Audit activities.

The Chief of Internal Audit completed a review of the Charter against industry best practices, Citizens Statute, and the Audit Committee Charter. Following the 2025 Institute of Internal Auditors (IIA) Global Internal Audit Standards (GIAS) rollout 2025, the Chief of Internal Audit noted several relevant revisions to align the charter with the GIAS. The Charter was presented to the Citizens President/CEO/Executive Director and Citizens Compliance Officer 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 December 4, 2024.
2. Approve the Office of the Internal Auditor Charter as presented.

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## Action Item 3 - Policies Approval

Internal Audit operations are also governed by two policies: Internal Audit Corporate Policy 801 and Open Audit Observation Management 802. Both policies have been periodically reviewed, and changes were last approved by the Committee at the June 2022 meeting.

### Internal Audit Policy #801

The Internal Audit Policy aims to set out the framework within which Internal Audit provides objective and independent assurance and advice to management and staff over processes and systems of internal control and risk management operating in Citizens. It explains the purpose, authority, and responsibility of the internal audit activity and the duties of Internal Auditors.

### Open Audit Observation Management Policy #802

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 Institute of Internal Auditors (IIA) Global Internal Audit Standards (GIAS).

The Chief of Internal Audit completed a review of both policies against industry best practices, the Citizens Statute, and the Audit Committee Charter. Following this assessment, the Chief of Internal Audit noted that changes are needed to align the policies with the GIAS. The revised draft policies were also provided to the Citizens Compliance Officer.

**Recommendation** - Staff recommends that the Citizens Audit Committee:

1. Approve changes to the Internal Audit Corporate Policy 801 and the Open Audit Observation Management Corporate Policy 802.

## Enterprise Risk

The Enterprise Risk Management (ERM) Framework is the cornerstone of our risk program. It provides a comprehensive tool to proactively identify, assess, manage, and mitigate risks that could impede the achievement of strategic and operational objectives. The framework was updated in October to incorporate a dynamic governance model to increase agility, collaboration, innovation, and integration. The framework includes the following:

Summary of ERM Framework	
Roles and Responsibilities	Defines responsibility across a three-line model: management, oversight, and independent assurance.

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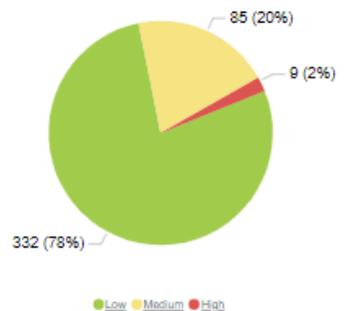
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<b>Risk Perspectives</b>	A multi-dimensional, forward-looking approach to risk management to enhance decision-making and strategic performance.
<b>Risk Assessment</b>	Outlines our systemic approach that includes six steps to assessing risks.
<b>Risk Response</b>	Provides alternatives for responding to risk guided by risk ratings, severity, and prioritization.
<b>Risk Acceptance</b>	Defines the escalation process for consideration of risk acceptance when it is not feasible or reasonable to implement mitigation measures for significant risks due to organizational changes, costs, or other factors.
<b>Data Governance Strategy</b>	As the framework evolves, data will be integrated to assist with monitoring and assessing risks.
<b>Risk Rating Guidance</b>	Guidance to assist with rating the potential severity of a risk event if it occurs, the likelihood of the potential causes of failure, and the overall risk rating.

By leveraging a dynamic and agile approach to enterprise risk management, we ensure the organization is well-positioned to respond to emerging challenges and remain resilient in an evolving business landscape.

**Top Enterprise 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 ratings estimate the potential impact or severity level the risk event may have on the organization if the event occurs.

Overall Risk Ratings



Currently, the organization is monitoring nine high-rated risks, which include eight strategic risks and one operational risk:

### Strategic Risk

- The high-rated strategic risks are related to rate differential, market conditions, claims abuse, acquisition of reinsurance, CAT response, strategic workforce planning, external influences, and cyber threats. Mitigation plans are in place and executed as needed.

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- The 2025 strategic risk assessment with ELT is scheduled for January. The strategic risks will be updated and available in Q1.

## Operational Risk

- As of November, one high-rated operational risk is related to ensuring the successful implementation of the litigation management solution. The risk is being closely monitored through implementation.
- Operational risk assessments are progressing. 69% of the planned assessments have been completed, and the remainder are in progress or scheduled for Q1.

## Internal Control

The Internal Control Framework (ICF), aligned with the COSO Internal Control Integrated Framework, adopts a dynamic and proactive approach to ensuring a robust internal control environment. The framework integrates a comprehensive management control self-assessment process, ensuring operational excellence and financial integrity throughout the organization. Continuous monitoring and improvement of internal controls ensure they remain effective and current with evolving industry standards and regulations. In Q4, the framework was updated to align with current practices and industry standards. The contents of the framework are summarized below.

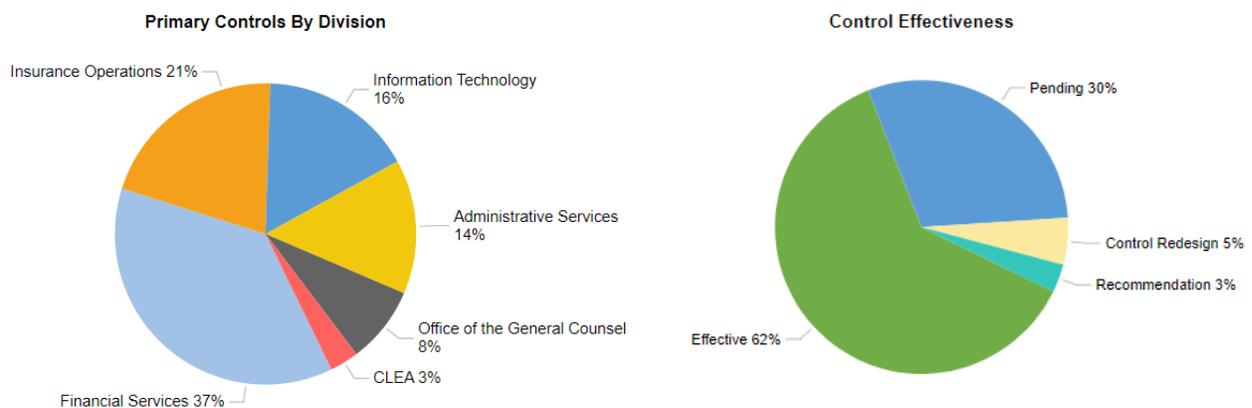
Summary of ICF	
<b>Roles and Responsibilities</b>	Clarifies the division of responsibilities for management, oversight, and independent assurance.
<b>Internal Controls</b>	Defines types of controls and provides examples.
<b>ICF Assessment Lifecycle</b>	Cyclical approach to performing control self-assessments for Citizens' top primary controls or key activities that may significantly impact achieving objectives and mitigating higher-rated risks.
<b>Collaborative Approach</b>	The Internal Control team ensures that internal control activities are collaborative, engaging stakeholders across the organization to meet control objectives.
<b>Quality Reviews</b>	Describes the type of quality reviews performed to ensure adherence to ICF standards and the reasonableness of the control self-assessment results.

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Reporting and Communication	Results from the ICF assessments are regularly shared with relevant governance bodies, including the Risk Steering Committee, Audit Committee, and the Board of Governors.
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**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 November, 97 primary controls have been identified across all divisions, 68 controls (70%) have been assessed, and the remainder are on track for completion by year-end. Results to date:

- Effective - 60 (62%) controls have been assessed as effectively designed and operating as intended.
- Recommendations - Enhancements to strengthen controls were identified for 3 controls (3%).
- Redesign – 5 controls (5%) require redesign due to process changes.
- To date, no material issues have been identified.