

Executive Summary

Board & Committee Meetings, March 12, 2025

THE OFFICE OF THE INTERNAL AUDITOR

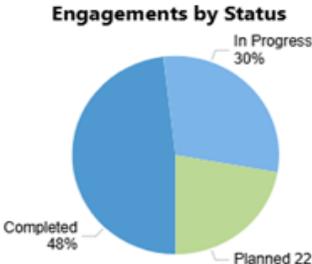
This report provides an update on the Office of Internal Audit's activities, highlighting key audit findings, risk trends, and emerging issues that may impact the organization. Our focus remains on providing assurance, advisory support, and risk-based recommendations. The Chief of Internal Audit oversees Internal Audit, Enterprise Risk, and Internal Control.

Internal Audit Overview

Audit Plan Status

For the 12-month reporting period from October 2024 to September 2025, Internal Audit has completed [13] engagements out of the approved audit plan for the period. Below is a summary of progress:

- 27 Audit engagements on the plan are categorized as follows:
 - 13 Completed
 - 8 In Progress
 - 6 Scheduled for Q3 2025



The audit plan follows a risk-based rolling approach, ensuring alignment with Citizens' evolving risk landscape.

The 2025 audit plan aligns with the organization's top risks, ensuring a strategic focus on key practices and processes that enhance risk mitigation.



Completed Engagements

- **Claims Closed Without Payment** – A review of 630 claims and 79 complaints related to Hurricanes Debby, Helene, and Milton found no exceptions. All closures were appropriately supported, and the complaint resolution was well-documented. Improvement opportunities were discussed and will be incorporated into adjuster training.
- **OFAC** – Follow-up on prior recommendations confirmed strong compliance with OFAC regulations. One concern related to data call failures will be addressed through interim and permanent controls during Citizens' transition to a cloud-based system.
- **2024 Anti-Fraud** – No confirmed fraud cases were found. However, data accuracy and reporting improvements were identified, requiring further analysis and incorporation into the audit plan.
- **Regulatory Support** – The Florida OIR completed its exam of Citizens' operations, including claims handling and depopulation programs, with no significant deficiencies noted.



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- **Financial Planning & Analysis** – Assessed the budgeting model's effectiveness, emphasizing the need for continuous budgeting and strategic forecasting for financial decision-making. A number of improvement opportunities were discussed and agreed upon with management.
- **Technology Governance** – An ongoing evaluation of technology governance against industry standards to ensure alignment with business objectives and risk management. Improvement opportunities were identified and agreed upon with management that will be tracked by internal audit for resolution.
- **Privacy** – Reviewed privacy policies and procedures to ensure regulatory compliance and data protection, identifying opportunities for strengthening privacy controls. Opportunities for improvement were identified and agreed upon with management. Additionally, a draft Privacy Program Framework was developed.
- **Centerpoint Segregation of Duties** – Reviewed user access and permissions, confirming improvements in segregation of duties and recommending continued monitoring.

In-progress Engagements

- **ELMS Implementation** – Internal Audit is advising on risk and controls for the implementation of a new litigation management system to enhance claims litigation and legal billing processes.
- **Citizens Business Insurance Suite Implementation** – Supporting the implementation of Guidewire Insurance Suite to upgrade core business functions, including policy, billing, and claims management.
- **Claims IA Invoice Solution** – Evaluating the effectiveness and efficiency of the automated invoice processing system for independent adjusting firms.
- **Asset Management** – Evaluating controls over Citizens' physical assets to ensure effective management, security, and optimization.
- **Office of General Counsel** – Providing advisory support to assess legal compliance, conflicts of interest, and process efficiency.
- **Systems Integration** – Assessing security and operational controls in the integration of cloud and on-premises systems, focusing on data encryption, monitoring, and access controls.
- **IT General Controls** – Recurring audit to ensure robust controls over system access, change management, and IT operations.
- **Procurement/Contracting Process** – Reviewing vendor procurement processes for compliance and efficiency improvements.

Planned Engagements

- **Claims IA Invoice Solution** – Evaluating the effectiveness and efficiency of the automated invoice processing system for independent adjusting firms.
- **Printmail** – Validating the effectiveness of new invoicing and monitoring controls to prevent billing discrepancies.
- **Remittance Processing** – Remittance processing manages the receipt and processing of premium payments and involves handling significant amounts of money and sensitive information. We will evaluate the effectiveness of the new automated remittance processing.

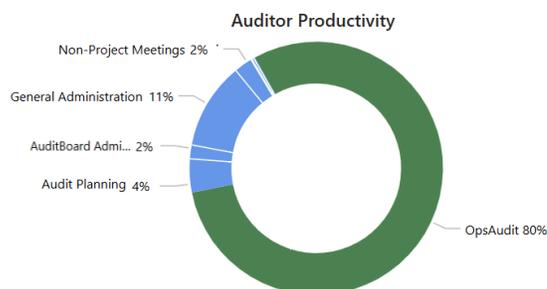
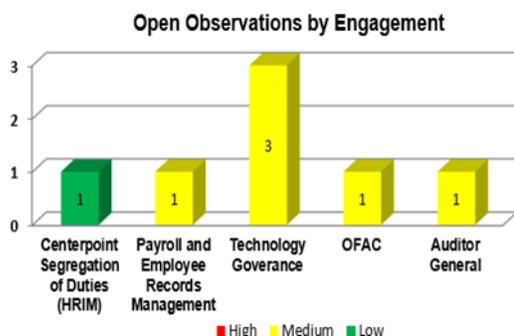
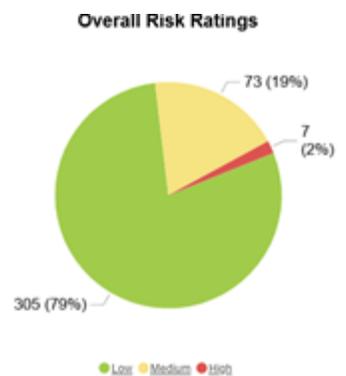
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- **Risk Management Framework** – Assessing the effectiveness of Citizens' enterprise risk management framework in identifying and mitigating risks.
- **Agency Compliance** – Evaluating agent compliance with underwriting guidelines, contractual obligations, and new legislative requirements.
- **Third-Party Risk Management – SOC Review** – Reviewing Citizens' vendor risk management process, focusing on SOC report evaluations and control effectiveness.
- **Backup & Recovery of Critical Applications** – Examining data backup and recovery procedures as applications transition to cloud environments.

Audit Observations - During this reporting period, we identified key risks and opportunities for improvement across several areas.

- **No high-impact findings** – All observations are actively monitored, with corrective actions in progress.
- **Key issues addressed:**
 - **OFAC Compliance** - Breaks in automated data transfers led to processing failures, impacting compliance screening. System monitoring and integration improvements are being considered.
 - **Technology Governance** - Governance gaps in IT, Security, and Privacy require enhanced oversight and process improvements for better risk management.



Internal Audit Performance Metrics: To measure the effectiveness of Internal Audit, we track key performance indicators (KPIs):

- **Audit Plan Completion Rate:** 100% of audit engagements for the quarter.
- **Issue Closure Rate:** 100% of observations addressed within the agreed time, the 7 open observations are expected to be addressed within the agreed time.
- **Auditor Productivity:** 80% We monitor productivity and expect auditors to focus a minimum of 80% of their time on the projects they work on.

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Enterprise Risk Overview

Our dynamic risk management framework enables Citizens to proactively identify, assess, and address risks impacting daily operations and strategic imperatives. We employ an agile and collaborative approach, engaging the Executive Leadership Team (ELT), management, and subject matter experts to facilitate risk assessments.

Risk ratings help estimate the potential impact or severity level should an event occur. These ratings guide our strategic focus and mitigation efforts.

Citizens' 2025 Top Risks

Strategic Risk Assessment

- Conducted in January 2025 with ELT. Identified and assessed ten strategic risks.
- Six of these risks rated as high priority:
 - **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.
 - **Claims Abuse:** Failure to timely identify and respond to emerging fraud schemes, and other abuses that increase claim costs for Citizens.
 - **Cyber Threats:** The increasing complexity and variety of cyber incidents may adversely impact organizations' performance and reputation.
 - **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.
 - **Strategic Workforce Planning:** Citizens' increasing retirement eligible workforce, and business priorities may impact on 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.
- Risk mitigation plans are being updated.

Operational Risk Under Close Monitoring

- **Litigation Management Solution Implementation** – Ensuring successful deployment and integration.

Internal Control Framework (ICF)

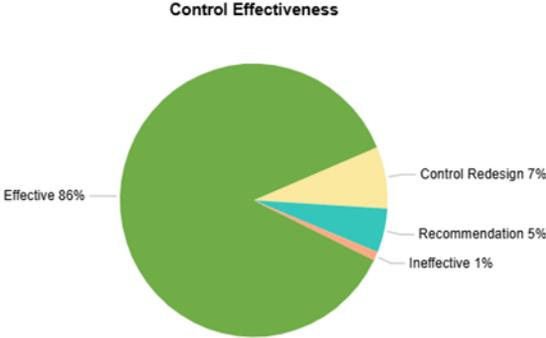
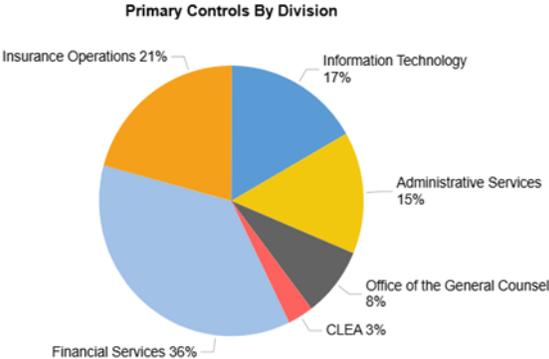
The ICF integrates a comprehensive management control self-assessment process to drive operational excellence and financial integrity. We continuously monitor and enhance internal controls to maintain effectiveness and alignment with industry standards and regulatory expectations.



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2024 Control Self-Assessment Results



- **96 primary controls** were identified, recorded, and assessed.
- Effectiveness of controls:
 - **86% (83 controls)** effectively designed and operated as intended.
 - **5% (5 controls)** require minor improvements (e.g., efficiency enhancements, separation of duties, stronger documentation, and oversight activities).
 - **7% (7 controls)** need redesign due to process changes.
 - **1% (1 control)** rated ineffective, requiring remediation for inadequate separation of duties related to access privileges. While no material issues were detected, corrective actions are underway to address potential risks.