

Executive Summary

Board & Committee Meetings, June 25, 2025

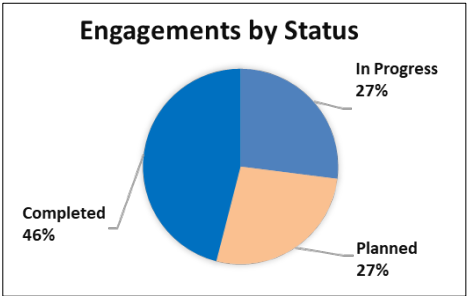
THE OFFICE OF THE INTERNAL AUDITOR

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 December 2024 to December 2025, Internal Audit has completed [12] engagements out of the approved audit plan. Below is a summary of progress:

- 26 Audit engagements on the plan are categorized as follows:
 - 12 Completed
 - 8 In Progress
 - 6 Scheduled for Q4 2025



- The 2025 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, focusing strategically on key practices and processes that enhance risk mitigation.



Completed Engagements

- **System Integrations** - Reviewed the use of the Jitterbit platform as the primary middleware application to determine that appropriate controls and processes were in place. Three observations were noted and agreed upon with management.
- **Procurement/Contracting Process:** Reviewed the procurement process, including responsible vendor review, statutory requirements, and other business practices throughout the procurement process. No deficiencies were noted.

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- **Office of General Counsel Advisory:** At the request of Citizens' Chief Legal Officer & General Counsel, Internal Audit assessed the effectiveness, responsiveness, timeliness, and overall satisfaction of key stakeholders with the support and services provided by the Office of the General Counsel (OGC). Overall, the results of the interviews and surveys performed as part of this engagement show that the division's core objectives are being met with a high level of satisfaction and confidence from stakeholders.
- **Asset Management:** Reviewed that CPIC's organizational assets are effectively managed, protected, and optimized. This included computer hardware, furniture/fixtures and vehicles as they are acquired, managed and disposed of.

In Progress Engagements

- **Claims Independent Adjuster (IA) Invoice Processing:** Auditing the Claims IA invoice processing functionality to assess operational efficiency and validate its alignment with Citizens' business needs
- **Third Party Risk Management - SOC Review:** Reviewing Citizens' vendor risk management process, focusing on SOC report evaluations and control effectiveness.
- **Purchasing Card Advisory:** Evaluating non-travel expenses, the number of issued Purchasing cards, and the policy for handling expenses.
- **Print Mail:** Validating the effectiveness of new invoicing and monitoring controls to prevent billing discrepancies.
- **Agency Compliance:** Assessing agent contract elements and evaluating controls to ensure that agents are abiding by the contract, following underwriting procedures, tracking licenses and appointments, data protection, and effectiveness of reducing agent compliance errors.
- **Enterprise Risk:** Evaluating the design and effectiveness of Citizens' Enterprise Risk Management framework to determine if it adequately supports risk-informed decision-making and regulatory compliance.
- **2025 Data Analytics and Continuous Auditing:** Leveraging data analytics to improve risk management, internal controls, and governance. Key focus areas include fraud detection, operational efficiency, predictive risk assessment, and customer behavior analysis. By incorporating data analytics, internal audits can provide strategic insights to enhance decision-making and organizational resilience.
- **Premium Invoicing, Refunds & Suspense Account:** Reviewing control effectiveness for the Premium Invoicing, Refunds, and Suspense Account processes to ensure that premium payments are correctly recorded, applied, reconciled, and refunded, as appropriate, in compliance with company policies, regulatory requirements, and industry best practices.

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Planned Engagements

- **Escheatment:** Evaluating controls and processes within the Escheatment/Unclaimed funds account.
- **CBIS Segregation of Duties:** A post implementation review of the Guidewire Cloud Solution (CBIS) to evaluate implemented access and segregation of duties for appropriateness.
- **Software Asset Management:** Reviewing management of applications/system assets to assess the controls and processes for procuring, implementing, maintaining, and disposing of information assets.
- **Corporate Insurance Coverage:** Completing a strategic review focused on the corporate insurance program alignment with the corporation's needs, leading practices, and relevant regulatory requirements.
- **Personal Lines Underwriting:** Evaluating underwriting practices within the personal lines portfolio to assess conformance to policies and regulations.
- **FNOL IA Assignments:** Reviewing the First Notice of Loss (FNOL) claims assignment process to assess whether claims are being appropriately categorized, prioritized, and assigned to Independent Adjusters in a timely manner, in alignment with company policies, regulatory requirements, and customer service standards.

Quality Assurance and Improvement Program (QAIP): Internal Audit follows the audit standards prescribed by the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing (IIA Standards), which include the Definition of Internal Auditing, the Core Principles for the Professional Practice of Internal Auditing, and the Code of Ethics. These audit standards require Internal Audit to develop and maintain a Quality Assurance and Improvement Program (QAIP) that includes internal and external assessments. Internal assessments are ongoing monitoring of Internal Audit's performance and an annual self-assessment review. The IIA Standards require that the assessment results be communicated to the governing board at least annually.

Results from our assessment of the 2024 audit work confirmed that Internal Audit conforms to the IIA Standards, the Definition of Internal Auditing, the Core Principles for the Professional Practice of Internal Auditing, and the IIA's Code of Ethics. Minor opportunities for improvement were noted, and appropriate corrective action was taken. Neither of these had a significant impact on the audit process.

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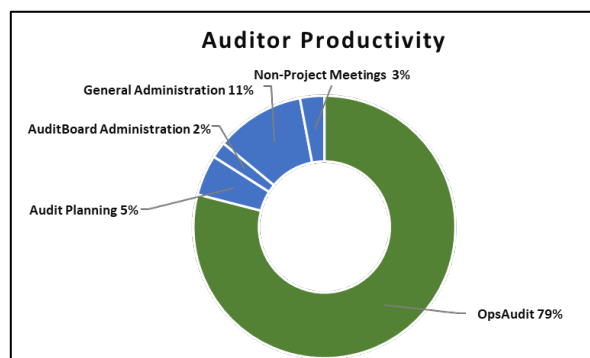
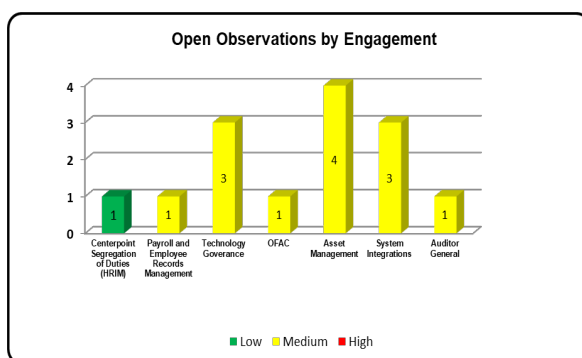
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Audit Observations: During this reporting period, we identified key risks and opportunities for improvement across several areas.

No high-impact findings: All observations are actively monitored, with corrective actions in progress.

- **Key issues addressed:**

- **System Integrations:** Three medium findings were reported. As a result SDLC, access monitoring and SOC reporting improvements are being implemented.
- **Asset Management:** Four medium findings were reported and are being addressed.



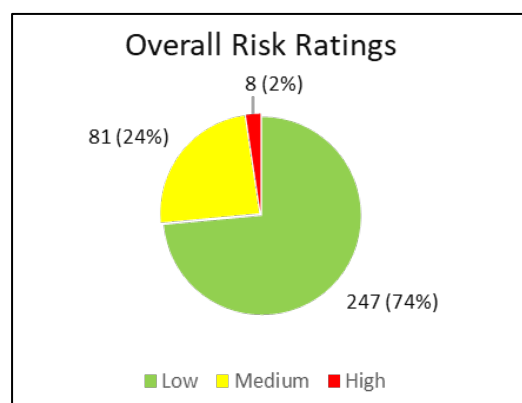
Internal Audit Performance Metrics: To measure the effectiveness of Internal Audit, we track key performance indicators (KPIs):

- **Audit Plan Completion Rate:** 100% of audit engagements for the quarter.
- **Issue Closure Rate:** 100% of observations addressed within the agreed time; the 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.

Enterprise Risk Overview

The Enterprise Risk team collaborates with leadership and subject matter experts to proactively identify, assess, and mitigate Citizens' top risks. Through a strong culture of risk awareness and risk-informed decision-making, the organization is well-prepared to address potential challenges and opportunities. Our dynamic enterprise risk management approach supports organizational resilience and aligns with strategic imperatives.

Overall risk ratings estimate the potential impact or severity level of a risk event on the organization should it materialize. Mitigating strategies are developed and executed, as necessary.



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Citizens' Top Risks

- The 2025 strategic risk assessment with ELT was completed in January. Ten strategic risks were identified and assessed, with six risks rated high:

<ul style="list-style-type: none"> ○ Acquisition of Reinsurance ○ CAT Response ○ Claims Abuse 	<ul style="list-style-type: none"> ○ Cyber Threats ○ Rate Differential ○ Strategic Workforce Planning
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- Risk mitigation plans have been updated for each of the strategic risks.

Operational & Project Risks

- As of Q2, operational risk assessments have been completed for 31 business processes, with 6 ongoing assessments.
- Enterprise Risk facilitated a cross-functional pre-implementation project risk assessment focused on critical dependencies between CBIS and ELMS.
- As of May, two high-rated risks are being closely monitored related to ensuring the successful implementation of the litigation management solution.

Internal Control Framework

Citizens' Internal Control Framework (ICF) adopts a dynamic and proactive approach to ensure a robust internal control environment. The Internal Control team partners with management to implement and maintain effective internal control practices that minimize risks, safeguard assets, and ensure the accuracy and integrity of reporting.

2025 Control Self-Assessments

- The ICF includes a comprehensive management control self-assessment process designed to validate the effectiveness of primary controls that significantly impact achieving objectives and mitigating higher-rated risks.
- The 2025 control self-assessment process is in progress for 95 primary controls and is on schedule for completion by year-end.

Compliance Connections

- Our proactive approach to continuously monitoring and enhancing internal controls includes alignment with applicable laws, rules, and regulations (LRRs). The self-assessment process for controls related to LRRs provides additional evidence to demonstrate compliance.
- Internal Controls and Compliance are collaborating to ensure that the self-assessment process addresses higher-risk LRRs.