

Executive Summary

Board & Committee Meetings, December 10, 2025

THE OFFICE OF THE INTERNAL AUDITOR

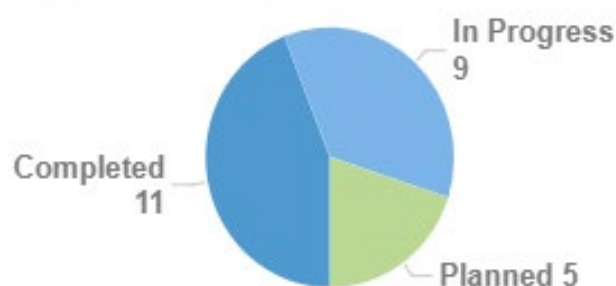
This report provides an update on the Office of Internal Audit's activities, highlighting key audit findings, risk trends, and emerging issues that may impact the organization. Our focus remains on providing assurance, advisory support, and risk-based recommendations. The Chief of Internal Audit oversees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

Internal Audit Overview

Audit Plan Status: For the 12-month reporting period from Q3 2025 to Q2 2026, Internal Audit has completed six out of the approved audit plan engagements. Below is a summary of progress:

- 26 Audit engagements on the plan are categorized as follows:
 - 11 Completed
 - 9 in Progress
 - 5 Scheduled to commence Q2 2026

Engagement Status



Completed Engagements

- **Agency Compliance:** Internal Audit reviewed the Agency Compliance Program's governance, oversight, and regulatory compliance. Agent management practices were effective, with strong governance, timely appointments, and accurate remittances. Opportunities include stronger safeguards for confidential data, tighter system access, and improved segregation of duties in fee processing. Management agreed and began corrective actions.
- **Backup & Recovery of Critical Applications:** This engagement evaluated backup and recovery controls for design and operating effectiveness, considering the evolving application landscape and data ownership. One finding was identified and agreed upon by management.
- **Corporate Insurance Coverage:** The engagement concluded during planning after confirming strong governance, oversight, and effective program practices. No material gaps were noted, though two improvement opportunities were discussed and will be incorporated by management.
- **Escheatment Engagement:** The audit reviewed the accuracy of escheated fund liabilities, the timeliness of remittances, and controls over reversals. Oversight and operational controls were found to be strong.
- **Personal Lines Underwriting:** Key underwriting controls are effective and support compliance and quality objectives. Strong QA design, vendor coordination, capacity planning, and data reliability were noted. Opportunities include expanding QA coverage

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automating vendor exception workflows and defining error rate tolerances. Management agreed and is implementing improvements.

- **Software Asset Management:** The engagement focused on the lifecycle management of system assets and related governance. Results indicated a need for consolidated oversight and formal governance, which management has agreed to strengthen.

In-progress Engagements

- **AI Governance:** Internal Audit is evaluating and providing guidance and advice on how Citizens defines, governs, and measures the effectiveness of AI models used for decision support. The engagement will assess governance frameworks, workflow design, model evaluation criteria, and methods to ensure consistent oversight, training, and responsible AI use across the organization.
- **CBIS Segregation of Duties (SOD):** A post-implementation review of the Guidewire Cloud (CBIS) solution is underway to evaluate access assignments, segregation of duties, and monitoring controls for appropriateness and alignment with least-privilege principles.
- **Claims Check Processing:** Internal Audit is assessing controls over check disbursements and approval workflows to confirm that payments are authorized, accurate, and secure. The review focuses on preventing duplicate, erroneous, or fraudulent disbursements, as well as the effectiveness of reconciliation and segregation of duties.
- **Commissions:** This engagement is evaluating controls and system logic supporting commission calculations to ensure payments are accurate, timely, and consistent with Board-approved rules. The review includes the accuracy of rate tables, approval of overrides, and reliability of interfaces between policy and commission systems.
- **Employee Expense Review:** Internal Audit is reviewing the current expense review process to identify and advise on opportunities to streamline approvals and shorten processing time while maintaining appropriate oversight and control.
- **IT General Controls:** Internal Audit is evaluating core IT general controls, access, change management, user administration, data management, and incident handling, to confirm they are designed appropriately and operating effectively to support system reliability and security.
- **Secondary Employment:** Internal Audit is reviewing disclosure, approval, and monitoring processes for secondary employment to confirm that conflicts of interest are identified, approved, and managed appropriately to safeguard company interests.
- **2025 Data Analytics and Continuous Auditing:** We are advancing our continuous auditing capabilities by leveraging data analytics for fraud detection, operational efficiency, predictive risk assessment, and governance insights. This initiative supports a proactive, data-driven assurance model across key processes.

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- **2025 QAIP:** Internal Audit is executing its annual internal quality assurance program in conformance with the Institute of Internal Auditors Global Internal Audit Standards. The program includes ongoing monitoring, periodic self-assessment, performance metrics, and stakeholder feedback to drive continuous improvement. This self-assessment will confirm our readiness for the next external review, with results and improvement actions reported to executive management and the Audit Committee in Q1 2026.

Planned Engagements

- **CAT Preparedness:** We will assess governance, surge capacity, vendor readiness, and technology recovery to confirm that Citizens can respond effectively and compliantly during catastrophic events.
- **Ethics:** This engagement will assess the design and effectiveness of the Ethics Program, including its governance structure, training, communication, reporting mechanisms, and investigation processes. The review will also consider how ethical risks are identified, managed, and monitored to reinforce a culture of integrity and accountability.
- **Patching and Vulnerability Management:** The review will focus on patching and vulnerability management processes to confirm timely identification and remediation of security weaknesses and alignment with cybersecurity best practices.
- **Premium Invoicing, Refunds & Suspense Account:** The audit team will be evaluating the design and operating effectiveness of controls over premium invoicing, refunds, and suspense account management to ensure transactions are recorded, applied, reconciled, and refunded accurately and in compliance with policy and regulation.
- **Underwriting:** The Underwriting engagement will focus on key risk domains of underwriting quality, compliance, profitability, fraud detection, and operational efficiency. The objective is to deliver targeted assurance by identifying and testing transactional anomalies through comprehensive data analytics, thereby enhancing audit efficiency, risk detection, and insight generation, expanding coverage, and sustaining analytic capabilities

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:** The target is 100% of observations addressed within the agreed time; the open observations are expected to be addressed within the agreed time.
- **Auditor Productivity:** At 80%, we monitor productivity and expect auditors to focus a minimum of 80% of their time on the projects they work on.

Audit Observations

During this reporting period, we identified key risks and opportunities for improvement across several areas. Two high-impact observations, both related to the Agency Compliance review, were noted. All observations are actively monitored, with corrective actions in progress.



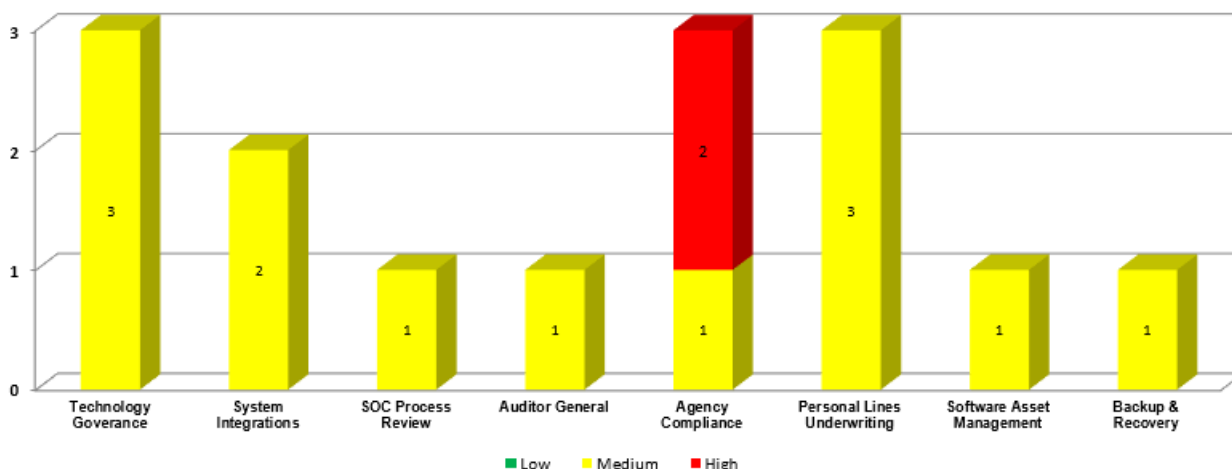
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- **Key issues identified:**

- **Agency Compliance:** Three issues were noted, of which two were rated as high-impact. The high-impact related issues referred to data access management. These issues are being addressed immediately and will be corrected by year-end.

Open Observations by Engagement

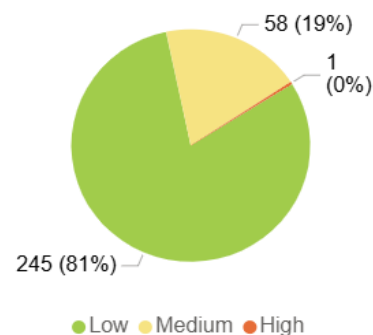


Enterprise Risk

Enterprise Risk (ER) continues to enable risk-informed decisions across the enterprise by driving consistent assessments and actionable mitigation. As of November, ER has substantially delivered the annual plan (96%) and materially improved our risk posture, shifting from predominantly medium- to high-inherent exposure to 81% of residual risks now being rated low. Only one high risk remains, related to the ELMS implementation, with mitigation underway and under close management. Monitoring indicates 87% of risks are within tolerance; the remainder are being observed for strategic or emerging characteristics with no material concerns to report.

Participants continue to view the assessments as valuable and understand how the framework supports decision-making, reinforcing ER's usefulness across the business. Looking ahead, ER will deepen assurance by augmenting reviews with data analytics and proactive key risk indicators (KRIs) to detect trend shifts earlier and trigger timely escalation. The 2026 operating model, "self-service with strong oversight", will pair concise, business-friendly risk appetite statements and KRI thresholds with clear escalation rules, focusing attention on high and emerging risks, strengthening business ownership, and increasing the use of analytics.

Operational Risk



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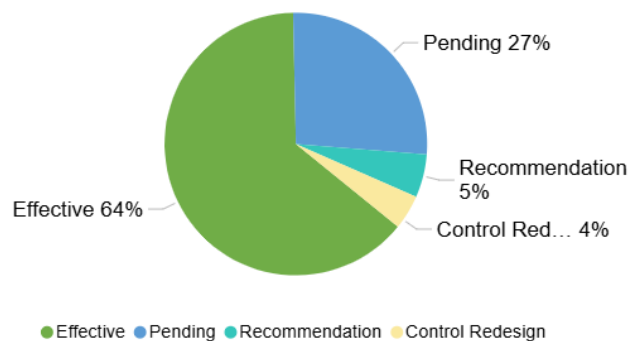
Internal Control

The control environment continues to strengthen through consistent practices and a close partnership with the business. This year's control self-assessments (CSAs) confirm that 64% of primary controls are operating effectively, with 9% identified for enhancement or redesign due to evolving processes; the remaining 27% of assessments are progressing on plan for year-end completion.

The Internal Control (IC) team has enhanced compliance assurance through joint integrity reviews with the Compliance team, validating adherence to high-risk laws, rules, and regulations. This is supported by analytics and centralized for the laws, rules, and regulations (LRRs) control catalog, which clarifies obligations, required controls, evidence expectations, and attestation ownership.

In 2026, IC will further embed a business-owned CSA model with IC design and oversight, expand automation and analytics to reduce manual validation and improve quality assurance, apply risk-based sampling aligned to KRI trends and historical exceptions, and deepen collaborative assurance with Compliance, aligning to regulatory priorities, conducting targeted effectiveness checks, enhancing shared analytics, and escalating any material gaps to the Risk Steering and Audit Committees.

Control Effectiveness



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Action Item 1 - 2026 OIA Strategy & Plan and OIA Budget

The 2026 OIA Strategy and Plan, with budget, is submitted for Audit Committee approval. Built on a quarterly rolling, risk-based methodology, the plan coordinates planning across Internal Audit, Enterprise Risk, and Internal Control while each function operates independently with its own scope, responsibilities, and reporting cadence.

The Plan

Internal Audit: Internal Audit will execute a multi-year, themes-based portfolio focused on effectiveness and resiliency, expense and capital management, reporting and data accuracy, compliance and litigation, and data management and protection, selecting specific engagements each quarter based on refreshed risk intelligence. The 2025 themes are as follows:



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

Enterprise Risk: Enterprise Risk will facilitate enterprise, project, scenario, and operational risk assessments, strengthen the quality of risk descriptions and mitigation plans, expand self-service and training for Risk Champions, and align risk insights to strategic initiatives.

Internal Control: Internal Control will sustain and mature the Internal Control Framework, automate and streamline control self-assessment validation steps, expand consultative support that includes anti-fraud controls and targeted IT governance advice, and provide education for Control Champions.

Capacity is sized to current staffing and expected co-sourcing across the three functions, with a 10 to 15 percent contingency for emergent items. The plan affirms conformance with the Global Internal Audit Standards, preserves independence through documented Three Lines boundaries and dual-hat safeguards, and advances readiness for the 2026 External Quality Assessment. Performance will be tracked with defined KPIs, including plan delivery, cycle time, remediation timeliness, analytics and self-service adoption, ICF coverage and control health, and ERM assessment currency, with quarterly reporting to this Committee.

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The Budget: The 2026 budget for OIA is \$4.07 million, as compared to the \$3.89 million budgeted for 2025. This reflects a 4% total increase in expenses, primarily driven by a cost-of-living increase in total employee expenses and an increase in software licensing fees.

Office of Internal Audit	2025 Year-End Projection	2025 Budget	2026 Budget	2026 Budget vs. 2025 Budget	
<i>Total Salaries</i>	2,478,870	2,453,228	2,607,649	149,634	6%
<i>Total Employee Benefits</i>	532,389	565,487	576,750	(23,169)	(4)%
<i>Total Payroll Taxes</i>	191,641	208,285	221,608	12,926	6%
Employee Expenses	3,202,901	3,227,001	3,406,008	179,007	6%
<i>Total Contingent Staffing</i>	0	0	0	0	0%
<i>Total Training</i>	32,026	48,800	32,000	(16,800)	(34)%
<i>Total Operating expenses</i>	85,948	98,713	103,992	5,279	5%
<i>Total Legal</i>	0	50,000	50,000	0	0%
<i>Total Travel</i>	20,620	36,065	21,000	(15,065)	(42)%
<i>Total Professional Services</i>	172,263	200,000	200,000	0	0%
<i>Total Software Maintenance and Licensing</i>	314,607	238,223	258,112	19,889	8%
Total Admin & Other Expenses	3,828,366	3,898,802	4,071,112	172,310	4%
FTE	16	16	16	0	0%

- Total staffing will remain static for Internal Audit (11), Enterprise Risk (3), and Internal Controls (2).
- Salaries and benefits indicate the annual merit increase
- Training is based on a dollar allocation per staff member to uphold professional CPE requirements and develop professionally.
- Operating expenses increased with an increase in license fees and subscriptions.
- Legal Services is traditionally a placeholder should the department need to use it.
- Professional Services reflect an anticipated use of vendor consulting services. The use of this amount will be discussed with management prior to providing services.
- Software Maintenance and Licensing reflect an increase due to contract renewal.

Recommendation

Staff recommends that the Citizens Audit Committee:

1. Approve the 2026 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 is a formal document that establishes the Committee's authority to carry out the responsibilities delegated by the Board of Governors. The Charter states that the Committee's purpose is to assist the Board in overseeing: (1) the integrity of Citizens' financial statements; (2) Citizens' compliance with legal and regulatory requirements; (3) the independent auditor's qualifications and independence; and (4) the performance of the Office of the Internal Auditor (OIA) and the independent auditors. In discharging its responsibilities, the Committee has unrestricted access to management, employees, and information necessary to perform its duties.

The Chief of Internal Audit completed his review of the Charter against industry best practices and the Citizens statute. Following the rollout of the Institute of Internal Auditors (IIA) Global Internal Audit Standards (GIAS), the Chief of Internal Audit identified minor revisions to further align the Charter with 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 Office of the Internal Auditor (OIA) Charter is a formal document that defines the purpose, authority, and responsibilities of the internal audit activity. In accordance with Section 627.351(6)(i), Florida Statutes, the Charter establishes the internal audit activity's position within the organization, including the Chief of Internal Audit's functional reporting relationship with the Board; authorizes access to records, personnel, and physical property relevant to audit engagements; and defines 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 rollout of the Institute of Internal Auditors (IIA) Global Internal Audit Standards (GIAS), the Chief of Internal Audit identified minor updates to further align the Charter with the GIAS.

Recommendation - Staff recommends that the Citizens Audit Committee

1. Approve the Citizens Audit Committee Charter for presentation to the Board of Governors.
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 December 2024 meeting.

Internal Audit Policy #801

The Internal Audit Policy aims to establish the framework within which Internal Audit provides objective and independent assurance and advice to management and staff regarding the processes and systems of internal control and risk management operating within 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 are 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's best practices, the Citizens Statute, and the Audit Committee Charter. Following this assessment, the Chief of Internal Audit noted that minor changes are needed to further align the policies with the GIAS.

Recommendation - Staff recommends that the Citizens Audit Committee

1. Approve the Internal Audit Corporate Policy 801 and the Open Audit Observation Management Corporate Policy 802 as presented.