

# Executive Summary

Committee Meeting, December 10, 2025

## Office of the Internal Auditor Policies – 801 and 802

### History

#### **Internal Audit Policy (Policy 801)**

The Internal Audit Policy is a formal corporate policy that defines the purpose and authority of the Office of the Internal Auditor (OIA) and clarifies expectations across Citizens. It establishes the framework within which Internal Audit provides objective, independent assurance and advisory services regarding internal control and risk management processes operating within Citizens. The policy outlines the purpose, authority, and responsibilities of the internal audit activity, as well as the duties of Internal Auditors.

The Chief of Internal Audit periodically reviews the policy considering industry's best practices, the Citizens statute, and the Audit Committee Charter. Following the most recent assessment, the Chief of Internal Audit identified minor revisions needed to align the policy with current practice.

#### **Open Audit Observation Management Policy (Policy 802)**

The Open Audit Observation Management Policy is a formal corporate policy that defines the purpose and authority for managing open audit observations, as well as clarifying management's responsibilities. Audit observations and recommendations require timely resolution and implementation of corrective actions to ensure compliance with statutes, policies, regulations, and best practices. This policy outlines the OIA-administered processes for following up, escalating, and resolving observations and recommendations originating from Internal Audit, the Inspector General, the Auditor General, the Office of Insurance Regulation's Market Conduct Unit, or independent audit firms engaged by Citizens.

The Open Audit Observation Management process ensures that management action plans are effectively implemented, or that management has formally accepted the risk of not acting, consistent with the Institute of Internal Auditors Global Internal Audit Standards (GIAS).

The Chief of Internal Audit periodically reviews this policy against industry best practices, the Citizens statute, and the Audit Committee Charter. Following the most recent assessment, the Chief of Internal Audit identified minor revisions needed to align the policy with current practice.

### Recommendation

The Chief of Internal Audit presents, for review and approval, the Internal Audit Policy and the Open Audit Observation Management Policy.

## Approval of Internal Audit Policies

<b>Choose an item.</b>	Approval of Internal Audit Policies 801 and 802			
<b>Approval Type</b>	<input type="checkbox"/>	<b>New Initiative</b>	<input type="checkbox"/>	<b>Amending Ongoing Contract</b>
	<input type="checkbox"/>	<b>Replacing Expiring Contract</b>	<input checked="" type="checkbox"/>	<b>Other (Explain in Summary)</b>
<b>Awarded Vendor(s)</b>	N/A			
<b>Contract Term Length</b>	N/A			
<b>Contract Estimated Spend</b>	N/A			
<b>Procurement Method</b>	<input type="checkbox"/>	<b>Competitive Solicitation</b>	<input type="checkbox"/>	<b>Single Source</b>
	<input type="checkbox"/>	<b>DMS Approved Contract</b>	<input type="checkbox"/>	<b>Emergency Procurement</b>
	<input type="checkbox"/>	<b>Statutory Exemption</b>	<input type="checkbox"/>	<b>Other (Explain in Summary)</b>
<b>Committee Consent</b>	The Chief of Internal Audit presents, for review and approval, the Internal Audit Policy and the Open Audit Observation Management Policy.			
<b>Board Consent</b>	N/A			
<b>Executive Sponsor(s)</b>	Joe Martins, Chief of Internal Audit			

Policy Title:	<b>Internal Audit</b>	Policy Number:	<b>801</b>
Effective Date:	<b>December 4 <u>10</u>, <del>2024</del><u>2025</u></b>	Policy Administrator:	<b>Chief of Internal Audit</b>

## I. Purpose/Scope

The Office of the Internal Auditor (OIA) was established by the Legislature to provide a central point for coordination of and responsibility for activities that promote accountability, integrity, and efficiency to the policyholders and taxpayers of the state of Florida. By statute, the OIA is instructed to:

1. Provide direction for, supervise, conduct, and coordinate audits, investigations, and management reviews relating to the corporation's programs and operations.
2. Conduct, supervise, or coordinate other activities carried out or financed by the corporation to promote efficiency in the administration of or prevent and detect fraud, abuse, and mismanagement in its programs and operations.
3. Submit final audit reports, reviews, or investigative reports to the Board of Governors, the Executive Director, the members of the Financial Services Commission, the President of the Senate, and the Speaker of the House of Representatives.
4. Inform the Board of Governors about fraud, abuses, and internal control deficiencies in programs and operations administered or financed by the corporation, recommend corrective action, and report on the progress made in implementing corrective action.
5. Cooperate and coordinate activities with the corporation's Inspector General.

The purpose of the audit function is to provide reasonable assurance to the Board and senior management that the controls designed and implemented by management can be relied upon to identify and appropriately mitigate risk. The Internal Audit Procedures Manual, Internal Control Framework, and Enterprise Risk Management Framework explain the internal audit/internal control/enterprise risk processes applied by the OIA to help Citizens Property Insurance Corporation (Citizens) accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The OIA is accountable to the Citizens' Board of Governors (Board) and the Audit Committee, as delegated by the Board.

## II. Policy

### A. General Rules

All systems, operations, processes, functions, and activities are subject to review by the OIA.

1. The OIA will conduct enterprise and fraud risk assessments to identify the risk profile of the corporation.
2. Internal Audit engagements may include an evaluation of (1) the reliability and integrity of financial and operational information, (2) the effectiveness and efficiency of

- operations and programs, (3) the safeguarding of assets, (4) fraud mitigation, and (5) compliance with laws, regulations, policies, procedures, and contracts.
3. Appraise the economy and efficiency with which resources are employed, identify opportunities to improve operating performance, and recommend solutions to problems where appropriate.
  4. Review compliance with the organization's guidelines for ethical business conduct and confirm that the highest standards of personal and corporate performance are met.
  5. Participate in the planning, design, development, implementation, and operation of major computer-based systems to determine whether:
    - a. Adequate controls are incorporated into the system.
    - b. Thorough system testing is performed at the appropriate stages.
    - c. System documentation is complete and accurate.
    - d. The needs of user organizations are met.
  6. Conduct periodic audits of computer service centers and make post-installation evaluations of major data processing systems to determine whether these systems meet their intended purposes and objectives.
  7. On or before February 15 of each year, the Chief of Internal Audit will prepare an annual report evaluating the effectiveness of the corporation's internal controls, providing recommendations for corrective action, if necessary, and summarizing the audits, reviews, and investigations conducted by the office during the preceding fiscal year. The final report will be furnished to the Board and the Executive Director, the President of the Senate, the Speaker of the House of Representatives, and the Financial Services Commission.

## B. Responsibilities

### 1. Office of the Internal Auditor Responsibilities

~~The~~ OIA provides independent and objective assurance and consulting services designed to add value and improve corporate processes. The OIA will develop an annual proactive and reactive fraud prevention plan and establish enterprise-wide partnerships with the respective business units to ensure that audit and investigative processes are consistent with the business strategy. The OIA is responsible for conducting its activities by the following:

- a. The Institute of Internal Auditors (IIA) *Global Internal Audit Standards*
- b. The IIA *Code of Ethics*
- c. The Association of Certified Fraud Examiners (ACFE) *CFE Code of Professional Standards*
- d. The ACFE *Code of Ethics*
- e. Section 627.351 (6)(i), Florida Statutes
- f. The Internal Audit Procedures Manual

### 2. Chief of Internal Audit Responsibilities

The Chief of Internal Audit reports directly to the Audit Committee and administratively to the President. The Chief of Internal Audit is responsible for all internal audit activities.

including managing resources, establishing policies and procedures, and coordinating activities to meet the OIA's charter.

When non-conformance with the IIA Definition of Internal Auditing, the IIA *Code of Ethics*, the ACFE *Code of Ethics*, the IIA *Standards*, or the ACFE *Standards* impacts a specific engagement, such non-conformance must be disclosed to the Board and the appropriate level of management.

### 3. Audit Committee Responsibilities

The Audit Committee, which is formed by the Board, is instrumental in the Board's fulfillment of its oversight responsibilities relating to the integrity of the corporation's financial statements, the corporation's compliance with legal and regulatory requirements, the qualifications, independence, and performance of the corporation's independent auditors and the performance of the corporation's internal audit function aligned with the Audit Committee Charter.

### 4. Management Responsibilities

Management is responsible for ensuring that the OIA can conduct its activities as stated in the OIA Charter. Management will support the OIA by:

- a. Providing unrestricted access to all Citizens' activities, records, property, and personnel.
- b. Responding within established guidelines to audit and management advisory services reports.
- c. Providing concurrence with final reports, and
- d. Providing monthly updates to outstanding audit observations in response to the Open Audit Observations Policy.

### 5. Employee Responsibilities

Employees are responsible for responding promptly to requests from the OIA promptly in support of audits that are conducted.

## C. Risk Assessments

Each quarter, Internal Audit will conduct an independent risk assessment of the corporation that includes but is not limited to, formal interviews with senior and other levels of management, analysis of financial and operational information, review of business objectives and strategies, analysis of potential exposure to fraud, and align their assessment of risk with that compiled by Enterprise Risk and a review of previous audit results. The result of this risk assessment will form the basis of audit engagements presented in the quarterly rolling audit plan.

## D. Annual Audit Plan

Internal Audit will develop an annual comprehensive audit plan that is consistent with Citizens' strategic goals. The plan will be based on key factors such as the results of the enterprise risk assessments, the Internal Audit's consideration of risk factors, the timing and results of previous audits, the Audit Committee or management-requested audits, and regulatory concerns. The annual audit plan will be prepared and presented to the Audit

Committee for approval and will be refreshed quarterly based on the Internal Audit's view of risks and ~~their~~ potential impact on the plan.

## E. Relationship with External Auditors

Internal Audit shall coordinate ~~their~~its work with the external auditors to minimize duplication of audit efforts. This is accomplished via:

1. Meetings between the internal audit function and external auditors to discuss the annual internal and external audit plans and other audit-related activities.
2. Access by the external auditors to internal audit documentation.
3. The exchange of management letters/audit reports.

## F. Maintaining Quality

To ensure quality, Internal Audit will perform ongoing monitoring and periodic self-reviews that will include:

1. Reviewing and documenting work papers during engagements.
2. Utilizing the Internal Audit Procedures Manual for each engagement to ensure compliance with applicable planning, fieldwork, and reporting standards.
3. Analyzing the performance metrics established to enhance the effectiveness and efficiency of Internal Audit activities.
4. Reporting periodically on the OIA's activity and performance to the President and the Audit Committee.
5. Updating annually the Internal Audit Procedures Manual.
6. Updating the Audit Committee Charter and the Internal Audit Charter and presenting the revisions to the Audit Committee for approval on an annual basis.
7. Consulting a qualified independent reviewer or review team to perform an external review of Internal Audit activity at least once every five years.

## G. Communicating Results of Audit Engagements

Report to those members of management who should be informed or who should take corrective action, the results of the audit engagements, the audit opinions formed, and the recommendations made.

## H. Monitoring Progress (Open Audit Observations)

The Chief of Internal Audit will establish and maintain a system (automated or manual) to monitor the disposition of audit results communicated to management.

1. Internal Audit will follow up with management on action plans delineated in OIA, Auditor General, Market Conduct, External Auditor, or Investigation reports to validate that action plans have been effectively implemented, or that senior management has accepted the risk of not acting.
2. When management chooses to accept the residual risk associated with an internal control that does not provide adequate risk mitigation, the OIA Risk Acceptance Process will be followed. Depending on the level of residual risk, the Chief of Internal Audit will either obtain formal approval ~~of for acceptance~~ accepting of the residual risk

from the appropriate senior manager or refer the risk acceptance for discussion and agreement by the Citizens Risk Steering Committee.

### III. Definitions

For this Policy, the following definitions apply:

- A. Audit Plan – a plan used to analyze all areas of the corporation's operations based on risks associated with those programs and activities and determine required audit coverage and frequency.
- B. Control – any action taken by management, the Board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved.
- C. Engagement – a specific internal audit assignment, task, or review activity such as an internal audit, control self-assessment review, fraud examination, or consulting (advisory) services. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.
- D. Governance – the combination of processes and structures implemented by the Board to inform, direct, manage, and monitor the activities of the corporation toward the achievement of its objectives.
- E. The Institute of Internal Auditors' *Code of Ethics* – a document containing principles relevant to the profession and practice of internal auditing, and Rules of Conduct that describe behavior norms expected of internal auditors. The *Code of Ethics* promotes an ethical culture in the global profession of internal auditing and applies to all personnel that provide internal audit services. The purpose of the *Code of Ethics* is to promote an ethical culture in the global profession of internal auditing.
- F. The Association of Certified Fraud Examiners (ACFE) *Code of Ethics* – a document containing principles relevant to the profession and practice of fraud investigations, and Rules of Conduct that describe behavior norms expected of Certified Fraud Examiners (CFEs). The Code of Ethics promotes an ethical culture in the global profession of fraud investigation. CFEs must exemplify the highest moral and ethical standards and must agree to abide by the bylaws of the ACFE and the Certified Fraud Examiners' *Code of Professional Ethics*.
- G. Risk – The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.
- H. Risk Assessment – A formal evaluation of significant risks associated with a business product, service, or operation.
- I. Risk Management – A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of corporate objectives.

## IV. Authority

Citizens Plan of Operation, Section 7(I)(6)  
 Section 627.351(6)(i), Florida Statutes  
 Audit Committee Charter  
 Office of Internal Audit Charter

## V. History

Action	Date
Created	March 24, 2010
Revised	February 14, 2011
Revised	March 21, 2013
Revised	March 26, 2019
Revised	July 12, 2022
Revised	December 4, 2024
<u>Revised</u>	<u>December 10, 2025</u>

## VI. Resources

For information regarding this Policy, contact the Office of the Internal Auditor, at [Internal.Audit@citizensfla.com](mailto:Internal.Audit@citizensfla.com).

## VII. Approval

Policy Title	Internal Audit
Approved by	Citizens' Audit Committee at its meeting on December <del>4<sup>10</sup></del> , <u>20242025</u>



Policy Title:	<b>Open <del>Items</del> <u>Audit Observation</u> Management</b>	Policy Number:	<b>802</b>
Effective Date:	<b>December <del>410</del>, <u>20242025</u></b>	Policy Administrator:	<b>Chief of Internal Audit</b>

## I. Purpose/Scope

Audit observations and recommendations require prompt resolution and implementation of corrective action to ensure compliance with statutes, policies, regulations, and best practices. The Open ~~Items~~ Audit Observation Management Corporate Policy and Procedure (Policy) ~~addresses—outlines~~ the Office of the Internal Auditor (OIA) process for follow~~ing~~ -up, ~~escalationescalating~~, and ~~resolution-resolving of~~ audit observations and recommendations.

~~The—This Open Items Management process~~Policy has been established to ensure that management action plans ~~have been—~~are effectively implemented or that management has accepted the ~~Risk—risk~~ of not acting on audit results, ~~in accordance with—by~~ the Institute of Internal Auditors' Global Internal Audit Standards —(Standard 15.2 Confirming the Implementation of Recommendations and Action Plans).

## II. Policy

Following an audit engagement, management must ~~decide—upon~~ develop an appropriate action plan to ~~respond—~~address the reported observations and recommendations. Audit observations and recommendations may originate from the OIA, the OIG, the Auditor General, the Office of Insurance Regulation's Market Conduct Unit, or independent audit firms contracted by Citizens. The OIA shall track the progress of Open Items and report to the Board and Senior Staff on the status of management action plans.

Management may assume the risk of not taking corrective action on the audit item due to cost or other considerations. When such items are rated High Impact/Material Weakness or Medium Impact/Significant Deficiency, or when the OIA believes that the level of residual risk is unacceptable to the organization, the following steps shall be taken:

1. The OIA will discuss the item with Senior Staff and attempt to agree on an acceptable residual risk level.
2. If they are unable to reach an agreement, the OIA will escalate the issue to the President and, if necessary, to the Audit Committee for resolution.

### A. Documentation Required to Close Open Items

Documentation is required to ensure that management action plans have been effectively implemented or that senior management has ~~accepted—~~acknowledged the risk of not acting~~ng~~. The Chief of Internal Audit shall make the final decision regarding the sufficiency of documentation, considering the item's impact rating, the audit report, the knowledge and history of the audited area, and the status of the area's operations.

The following table clarifies the process applied to close an Open Item based on its Risk Rating:

Risk Rating	Required Documentation
High or Material Weakness	<p>The listed issue owner provides an updated status in the AuditBoard Issue Tracking System, <del>including along</del> with supporting documentation <del>indicating that</del> <u>indicates</u> the completion of the corrective action.</p> <p>OIA reviews material received and determines the following steps, which shall include one or more of the following verification procedures based on the auditor's professional judgment:</p> <ul style="list-style-type: none"> <li>• Process walkthrough – to verify the implementation of the stated resolution by observing the corrective action in practice, confirming that changes have been integrated into daily operations and aligned with documented processes.</li> <li>• Remediation testing – to validate the sustainability of the resolution, ensuring corrective actions address the root cause and function effectively under operational conditions over <del>some</del> time. This includes sampling key transactions, assessing process adherence, and verifying control compliance to ensure the corrective action remains effective after management has implemented it.</li> <li>• Follow-Up Audit – allows OIA to revisit the corrective action after a more extended period of operational integration, providing a thorough reassessment to ensure its long-term effectiveness across all impacted processes.</li> </ul>
Medium or Significant Deficiency	<p>The listed issue owner provides an updated status in the AuditBoard Issue Tracking System, <del>including with</del> supporting documentation <del>that indicating indicates</del> the completion of the corrective action.</p> <p>OIA reviews the material received to verify the implementation of the stated resolution. If the auditor deems that further assurance is needed, OIA may perform a process walkthrough and remediation testing described above.</p>
Low or Control Deficiency	<p>The listed issue owner indicates <del>that the completion of the</del> corrective action <u>has been completed</u> in the AuditBoard Issue Tracking System.</p>

~~In order to~~ To ensure timely resolution, items originating from external entity audits that are not rated according to the scale mentioned above will be monitored under the same criteria established for a Medium/Significant Deficiency rating unless otherwise agreed upon by Senior Staff and Internal Audit.

## B. Non-reportable Items

During the audit process, some items may be deemed non-reportable, such as process improvement recommendations (not related to risk or control issues) or issues of an immaterial nature. The auditor may determine value in verbally communicating such an item; however, such items shall not be tracked in the Open Items Management process.

## C. Target Date Extensions

If circumstances prevent or delay adherence to the target completion date of an open item, management may request an extension. The length of the extension shall depend on the reason for the extension (e.g., operational reorganization, changes to the control environment ~~changes~~ or system conversions) and the estimated timeframe ~~needed~~ required to complete the corrective action.

Management must pursue and implement short-term remediation efforts on items with high impact ratings to mitigate Citizens' exposure to the risk. Such interim measures must be reported to the Chief of Internal Audit.

The approval level required to request an extension is provided below:

Risk Rating	Required Approval
High or Material Weakness	The Chief Officer of the business area and the Chief of Internal Audit
Medium or Significant Deficiency	A member of <u>the</u> senior staff of the business area and the Chief of Internal Audit are required for the first request. The second request for an extension <del>requires</del> approval from the Chief Officer of the business area.

## D. Escalation of Past Due Items

Past-due high/~~medium impact~~ and medium-impact open items will be highlighted in the Chief of Internal Audit's quarterly report to the Audit Committee and placed on the next Risk Steering Committee agenda for management ~~comment~~ review and comment.

## III. Procedure

### A. Open Item Resolution Process

1. Upon completion of an audit engagement, the OIA shall enter all reported observations, recommendations/agreed management action plans, contact names and target due dates into the Open Items Database.
2. Management shall prepare and implement action plans to address their audit items by the target due dates.
3. If agreed corrective action has not been completed by the established target date, an extension may be granted by Section II, C, of this Policy. Management shall report

any short-term remediation efforts to the Internal Audit department.

4. Management shall submit the required documentation specified in Section II, A. of this Policy to close an open item. For issues rated high/material weakness, OIA will perform a process walkthrough and possibly remediation testing.
5. The OIA shall close items deemed to have met the required documentation and verification standards.

## B. Progress Reporting

1. At the end of each month, the OIA shall distribute an Open Items Report to management.
2. Management shall report the status of action plans related to Open Items.
3. At the end of each quarter, the Chief of Internal Audit will issue a final report to management. The quarterly Audit Committee Communication will include a summary of Open Items, focusing on high-impact and past-due items.

## IV. Definitions

For this Policy, the following definitions apply:

- A. Chief Officer - a member of the Executive Leadership Team, including the Inspector General.
- B. Chief of Internal Audit - responsible for all internal audit activities, which reports directly to the Board of Governors (Audit Committee).
- C. Control Environment - the attitude and actions of the board and management regarding the significance of control within the organization. The control environment provides the discipline and structure for achieving the primary objectives of the internal control system. The control environment includes the following elements:
  1. Integrity and ethical values
  2. Management's philosophy and operating style
  3. Organizational structure
  4. Assignment of authority and responsibility
  5. Human resource policies and practices
  6. Competence of personnel
- D. Control Deficiency – a lack of internal control over financial reporting that occurs when the design or operation of a control does not allow management or employees, in the ordinary course of performing their assigned functions, to prevent or detect misstatements on a timely basis.
- E. High Impact - when internal control processes are not functioning to control risk. Any existing or potential breakdown of these processes may have direct exposure to assets and could seriously impact operations, legal and statutory compliance, or financial results.
- F. Low Impact - when internal control processes are functioning to control risk. Any existing

or potential breakdown of these processes may have minimal exposure to assets and an insignificant impact on operations, legal and statutory compliance, or financial results.

- G. Material Weakness - a lack of internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.
- H. Medium Impact - when internal control processes control risk, but the opportunity to improve control(s) exists. Any existing or potential breakdown of these processes may have direct or indirect exposure to assets and could significantly impact operations, legal and statutory compliance, or financial results.
- I. President – the President/CEO and Executive Director of Citizens Property Insurance Corporation.
- J. Risk - the possibility of an event that will impact the company's objectives' and achievements. Risk is measured in terms of impact and likelihood.
- K. Senior Staff - positions at or above the level of Assistant Director, including Chief Officers.
- L. Significant Deficiency - a lack of internal control over financial reporting that is less severe than a material weakness yet necessary enough to merit attention by those responsible for overseeing the company's financial reporting.

## V. Authority

Citizens Plan of Operation, Section 7(l)(6)  
Section 627.351(6)(i), Florida Statutes  
Audit Committee Charter  
Office of Internal Audit Charter

## VI. History

<u>Action</u>	<u>Date</u>
Created	June 30, 2008
Revised	April 13, 2011
Revised	March 26, 2019
Revised	December 4, 2024
<u>Revised</u>	<u>December 10, 2025</u>

## VII. Resources

For information regarding this Policy, contact the Office of the Internal Auditor at [Internal.Audit@citizensfla.com](mailto:Internal.Audit@citizensfla.com).

## VIII. Approval

Policy Title	Open Items Management
Approved by	Citizens' Audit Committee at its meeting on December <u>410, 20242025</u>

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