

Policy Title:	<b>Open Items Management</b>	Policy Number:	<b>802</b>
Effective Date:	<b>March 26, 2019</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 Management Corporate Policy and Procedure (Policy) addresses the process administered by the Office of the Internal Auditor (OIA) for follow-up, escalation, and resolution of audit observations and recommendations.

The Open Items 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 in accordance with the International Standards for the Professional Practice of Internal Auditing Standard 2500.

## II. Policy

After an audit engagement has been conducted, management must decide upon the appropriate action plan to be taken in response to 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 decide to 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 reach agreement on an acceptable level of residual risk.
2. If unable to reach agreement, the OIA will escalate the item 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 the risk of not acting. The Chief of Internal Audit shall make the final decision regarding the sufficiency of documentation, taking into consideration the impact rating of the item, the audit report, knowledge and history of the audited area, and the current status of 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	Listed issue owner provides an updated status in the TeamMate Issue Tracking System, including supporting documentation indicating completion of the corrective action. OIA reviews material received and could schedule a process walkthrough to verify implementation of stated resolution.
Medium or Significant Deficiency	Listed issue owner provides an updated status in the TeamMate Issue Tracking System, including supporting documentation indicating completion of the corrective action. OIA reviews material received to verify implementation of stated resolution.
Low or Control Deficiency	Listed issue owner indicates completion of the corrective action in the TeamMate Issue Tracking System.

In order to ensure timely resolution, items originating from audits by external entities that are not rated according to the scale mentioned above will be monitored under the same criteria established for 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 there is 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, control environment changes or system conversions) and the estimated timeframe needed to complete the corrective action.

On items with high impact ratings, management is required to pursue and implement short term remediation efforts 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 business area and the Chief of Internal Audit
Medium or Significant Deficiency	A member of senior staff of business area and the Chief of Internal Audit are required for the first request. The second request for an extension (requires approval from the Chief Officer of the business area.

D. Escalation of Past Due Items

Past due high/medium impact open items will be highlighted as such in Chief of Internal Audit’s quarterly report to the Audit Committee and placed on the next Risk Steering Committee agenda for management 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 in order to address their audit items by the target due dates.
3. In the event agreed corrective action has not been completed by the established target date, an extension may be granted in accordance with Section II, C, of this Policy. Management shall report any short-term remediation efforts to Internal Audit.
4. Management shall submit the required documentation specified in Section II, A, of this Policy, to close an open item.
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. A summary of Open Items will be included in the quarterly Audit Committee communications with a focus on high impact and past due items.

## IV. Definitions

For the purpose of 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 – the position 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 the achievement of the primary objectives of the system of internal control. 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 normal 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 have a serious impact on operations, legal and/or 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/or 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 are controlling 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 have a significant impact on operations, legal and/or 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 occurring that will have an impact on the achievements

of company objectives. 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 important enough to merit attention by those responsible for oversight of 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

**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 March 26, 2019