

Office of the Internal Auditor

Board of Governors Presentation

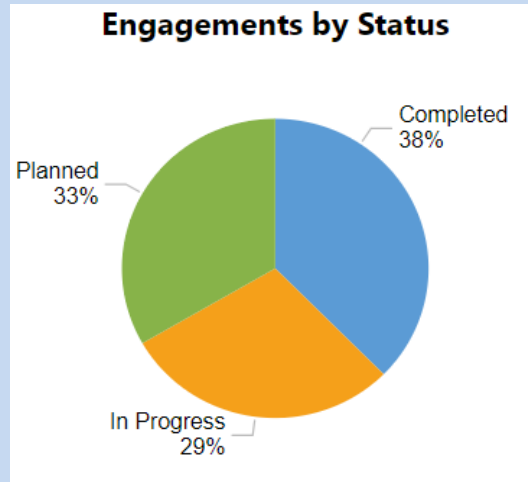
Joe Martins

September 25, 2024



Internal Audit

Progress: 2024 Q2 to 2025 Q1



Completed

Three engagements were completed following the last Committee meeting:

- Finance/Purchasing Centerpoint Segregation of Duties
- Legislative Update Implementation
- Reconciliations

Regulatory Support (Auditor General)

In Progress – Audit Engagements

There are three engagements in progress:

- Commercial Underwriting
- Payroll and Employee Record Management
- Technology Governance

Data Analytics and Continuous Auditing

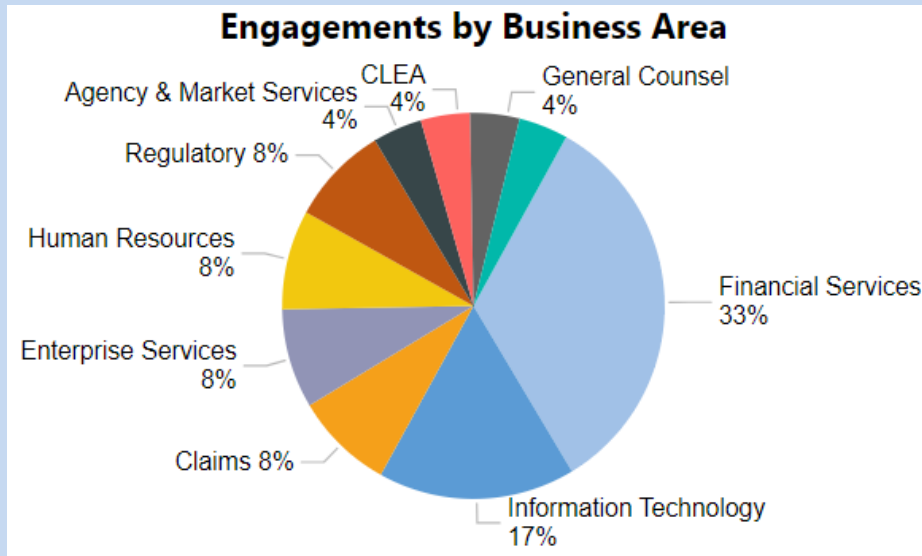
In Progress – Project Engagements

We closely follow the development and implementation of strategic projects:

- Citre Implementation
- Citizens Business Insurance Suite Implementation
- ELMS Implementation
- Identity Governance & Access Management

Internal Audit

Progress: 2024 Q2 to 2025 Q1



Planned

The following engagements are scheduled to commence in Q4:

- API Operations & Security
- Asset Management
- Claims IA Invoice Management Solution
- Financial Planning & Analysis Engagement
- IT General Controls
- Office of Foreign Assets Control (OFAC)
- Remittance Processing Engagement

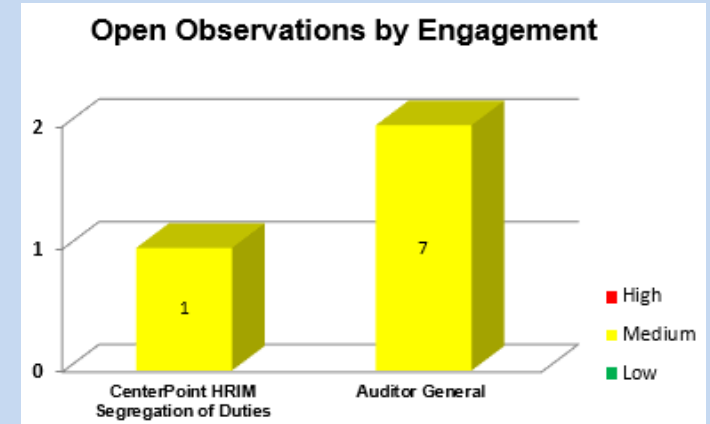
Office of Insurance Regulation Exam

Internal Audit

Open Audit Observations

Centerpoint HRIM Segregation of Duties

The HRIM personnel responsible for providing system production support to the HR department have elevated/privileged user access and permissions, resulting in segregation of duties concerns. Incompatible System Access mitigations have been completed, and additional enhancement activities for the view-only roles and several reporting roles will be a separate "Phase II" is in progress.

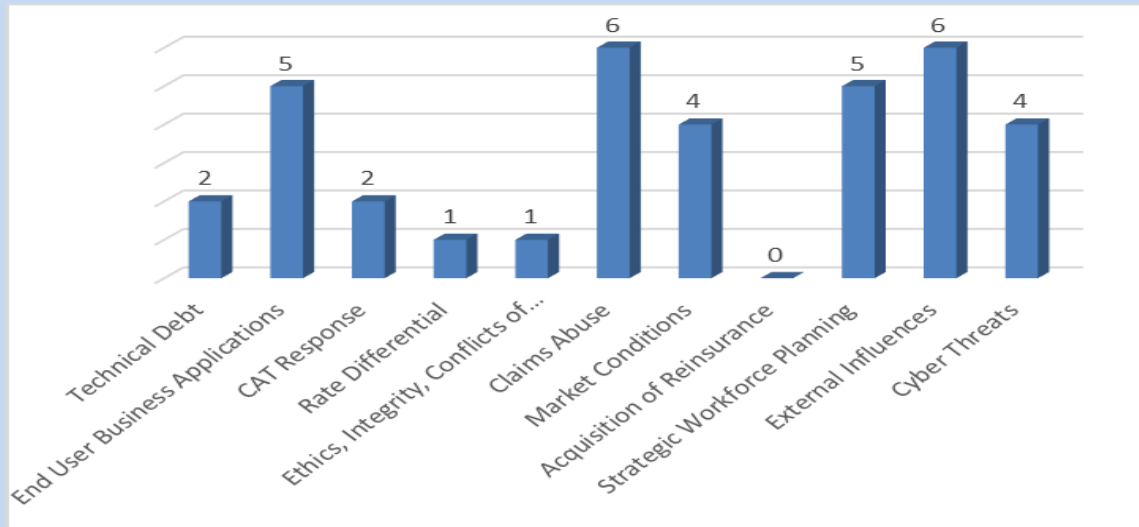


Auditor General Audit Observations

- New and Renewal Policy Coverage Limits
- Probable Maximum Loss Financing
- Clearinghouse Utilization
- Policy Submissions to the Clearinghouse
- Policyholders Surveys
- Purchasing Card Controls
- Security Controls Logical Access and User Authentication

Internal Audit

Synopsis Audit Plan vs Risk



The graph above provides an analysis of work scheduled for the period 2024 Q2 to 2025 Q1 against the organization's top risks. The result indicates that audit work aligns well with strategy and, in many instances, focuses on practices and processes that impact risk mitigation.

Although Internal Audit does not have any focus on Reinsurance during this period, we have engagements in scope later next year that would look at reinsurance claims servicing and accounting.

Internal Audit

Global Internal Audit Standards



5 Domains, 15 Principles

Domain I: Purpose of Internal Auditing

II: Ethics and Professionalism

- | | | | | |
|--------------------------|-------------------------|---------------------------|-----------------------------------|-----------------------------|
| 1. Demonstrate Integrity | 2. Maintain Objectivity | 3. Demonstrate Competency | 4. Exercise Due Professional Care | 5. Maintain Confidentiality |
|--------------------------|-------------------------|---------------------------|-----------------------------------|-----------------------------|

III. Governing the Internal Audit Function

- 6. Authorized by the Board
- 7. Positioned Independently
- 8. Overseen by the Board

IV. Managing the Internal Audit Function

- 9. Plan Strategically
- 10. Manage Resources
- 11. Communicate Effectively
- 12. Enhance Quality

V. Performing Internal Audit Services

- 13. Plan Engagement Effectively
- 14. Conduct Engagement Work
- 15. Communicate Engagement Conclusions & Monitor Action Plans

Internal Audit

Global Internal Audit Standards

Key changes in the revised standards

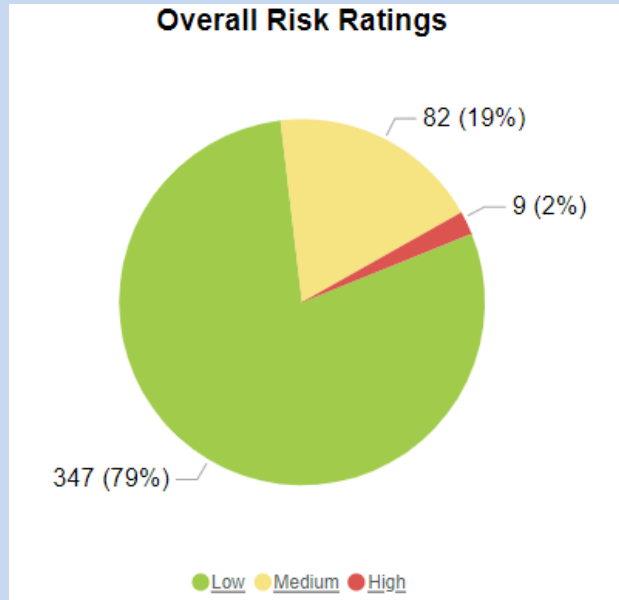
- Enhanced Scope and Objectives
- Enhanced Governance Framework
- Risk-Based Approach
- Integration of Technology
- Stakeholder Engagement
- Quality Assurance and Improvement
- Ethical and Professional Standards



Impact on Internal Audit Functions

- Charters
- Internal Audit Strategy and Plan
- Invest in Technology
- Enhance Stakeholder Engagement
- Enhance Stakeholder Engagement
- Strengthen Quality Assurance
- Internal Audit Procedure

Enterprise Risk



Citizens' Top Risks

- Rate Differential
- Market Conditions
- Claims Abuse
- Acquisition of Reinsurance
- CAT Response
- Strategic Workforce Planning
- External Influences
- Cyber Threats
- Litigation Management Solution

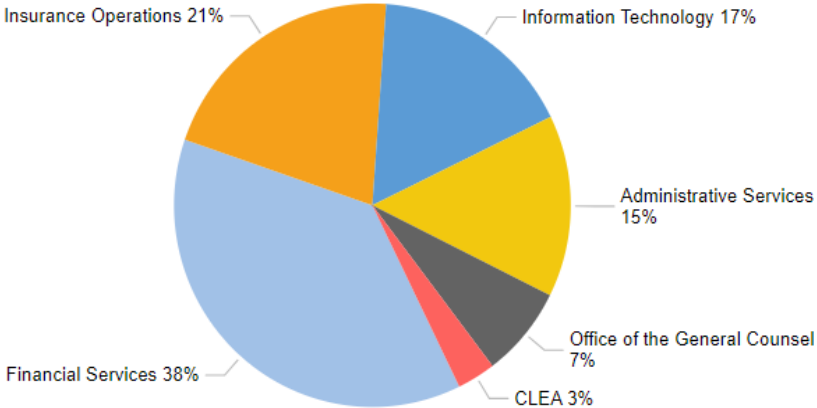
Risk Mitigation

- As of August, Citizens is closely monitoring 9 high-rated risks listed above.
 - Mitigation plans were recently updated for all strategic risks. The plans are executed as needed.
 - The risk level for the litigation management solution is anticipated to be lowered after implementation.

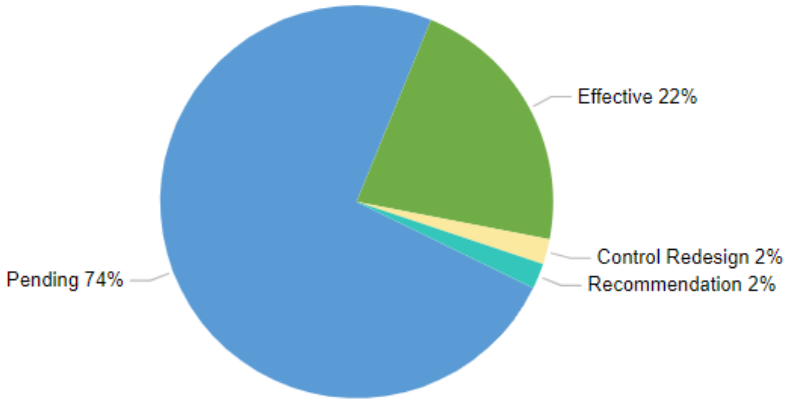
Note: The risk rating is an estimate of the potential impact or severity level the risk event may have to Citizens if the event occurs.

Internal Control

Primary Controls By Division



Control Effectiveness



2024 Control Self-Assessments

- A total of 96 primary controls have been identified across all divisions. As of August, 25% (24) of the controls have been assessed, and the remaining are on track for completion by year-end.
- Results to date:
 - Effective: 22% (21) of the controls have been assessed as effectively designed and operating as intended.
 - Recommendations: Enhancements to strengthen controls were identified for 2% (2).
 - Redesign: Two controls require redesign due to process changes.
 - No material issues have been identified.