

Office of the Internal Auditor

Board of Governors Presentation

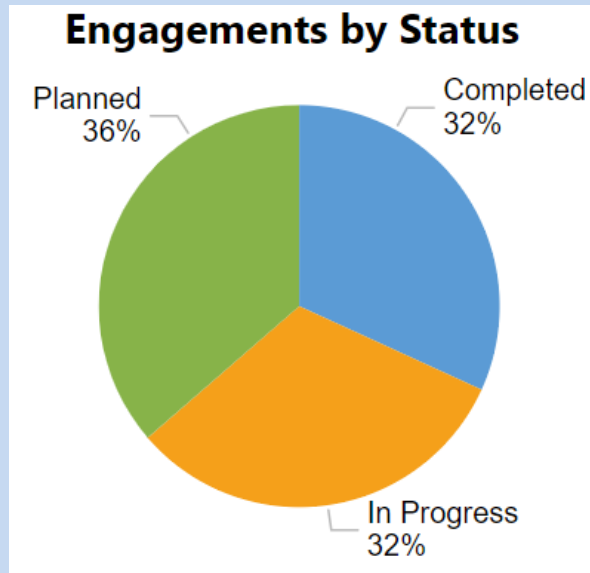
Joe Martins

December 4, 2024



Internal Audit

Progress: 2024 Q3 to 2025 Q2



Completed

Three engagements were completed following the last Committee meeting:

- Citizens Reimagined Implementation
- Commercial Underwriting
- Payroll and Employee Record Management

In Progress – Audit Engagements

There are three engagements in progress:

- Office of Foreign Assets Control (OFAC)
- Privacy
- Technology Governance

Regulatory Support (OIR Market Conduct Exam)

Data Analytics and Continuous Auditing

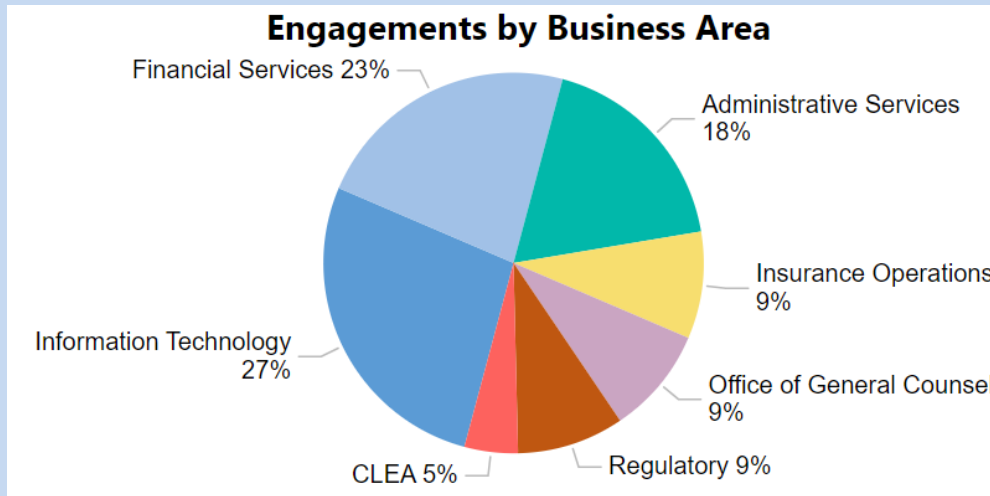
In Progress – Project Engagements

We closely follow the development and implementation of strategic projects:

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

Internal Audit

Progress: 2024 Q3 to 2025 Q2

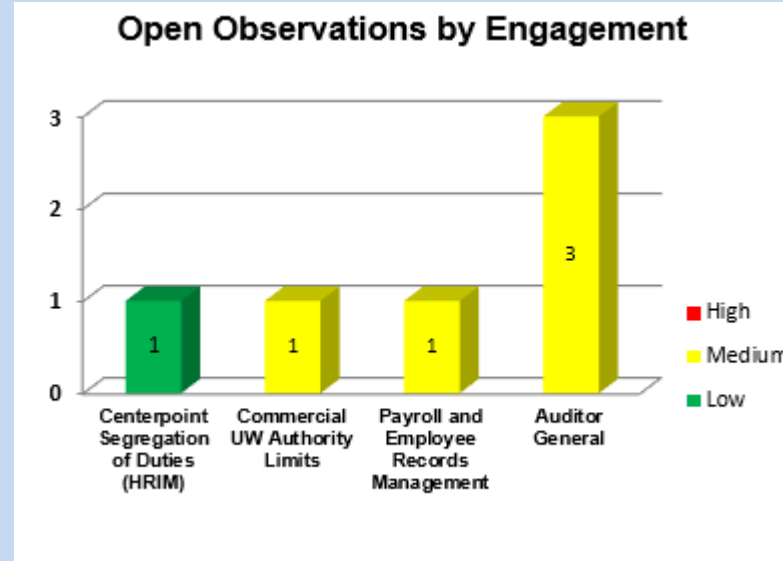


Planned

The following engagements are scheduled to commence in Q4:

- Application Programming Interface (API)
- Asset Management
- Financial Planning & Analysis Engagement
- CIS Segregation of Duties
- IT General Controls
- Office of General Counsel
- Recruitment
- Remittance Processing

Internal Audit



Commercial Underwriting

- Underwriting Authority Limits

Payroll & Employee Record Management

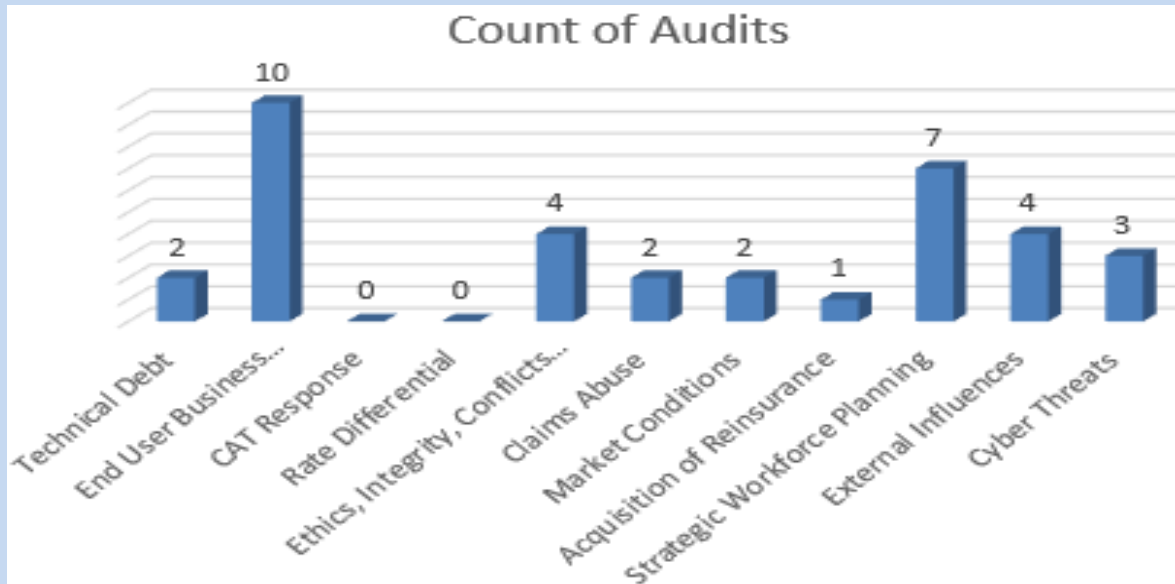
- Personal Identifiable Information unnecessarily retained and unmasked

Auditor General

- New and Renewal Policy Coverage Limits
- Policy Submissions to the Clearinghouse
- Security Controls Logical Access and User Authentication

Internal Audit

Synopsis Audit Plan vs Risk

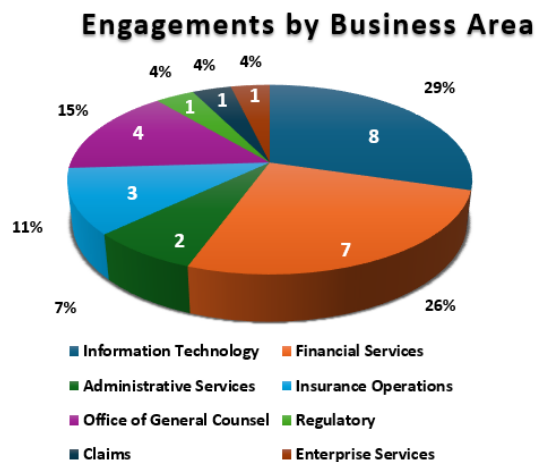


The graph above provides an analysis of work scheduled for the period 2024 Q3 to 2025 Q2 against the organization's top risks. The result indicates that audit work aligns well with strategy and, in many instances, focuses on practices and processes that impact risk mitigation.

Although Internal Audit does not have any focus on CAT Ops and Rate Differential during this period, this was included in work completed in the last quarter.

Action Item - 2025 OIA Strategy & Plan and OIA Budget

OIA Strategy & Plan: The OIA presents its 2025 Strategy and Plan for review and approval. The Plan was developed using a risk-based approach to understand and assess Citizens' operations and associated risks. This plan aims to use the available resources to provide the most timely and comprehensive scope of the audit, risk, and control coverage.



OIA 2025 Budget: OIA's 2025 budget is \$3.94 million, compared to the \$3.84 million budgeted for 2024.

Office of Internal Audit	2025	2025 vs 2024	
	Year Total	Variance	
Employee Expenses	3,231,224	114,965	4%
Contingent Staffing	0	8,400	-100%
Training	48,800	2,400	5%
Operating Expenses	98,713	6,375	7%
Legal	50,000	0	0%
Travel	36,065	2,314	7%
Professional Services	200,000	0	0%
Software Maintenance and Licensing	278,223	(11,000)	-4%
Total Admin Expenses	3,943,025	106,654	3%
FTE	16	0	0%

Recommendation

Staff recommends that the Citizens Audit Committee:

1. Approve the 2025 OIA Strategy and Plan, and
2. Approve the 2025 OIA Budget as presented

Action Item – Charters

Annually, the Audit Committee reviews the adequacy of the Charters.

Audit Committee Charter

The Audit Committee Charter establishes the authority granted to the Committee by the Board of Governors. It defines the Committee's purpose, which is to support the Board in fulfilling its oversight responsibilities by evaluating the integrity of Citizens' financial statements, ensuring compliance with legal and regulatory requirements, assessing the qualifications and independence of the independent auditor, and reviewing the performance of both the Office of the Internal Auditor (OIA) and the independent auditors.

Office of the Internal Auditor Charter

The Internal Audit Charter defines the purpose, authority, and responsibilities of the Internal Audit function. In accordance with Section 627.351(6)(i) of the Florida Statutes, the Charter establishes the Internal Audit function's position within the organization, including the nature of the Chief of Internal Audit's functional reporting relationship with the Board. It grants authorization for access to relevant records, personnel, and physical assets necessary for audit engagements and outlines the scope of Internal Audit activities.

The recent update of the Institute of Internal Auditors (IIA) Global Internal Audit Standards (GIAS) for 2025 and our review of the standards against both charters emphasized several areas to revise both the Audit Committee and OIA (Office of the Internal Auditor) charters. This will align the Internal Audit function with the latest professional standards and position to provide maximum value to the organization.

Action Item – Charters Approval

Updating the Audit Committee and OIA charters to align with the IIA's 2025 GIAS provides a structured, resilient framework that promotes accountability, enhances risk management, and fortifies the organization's governance practices:

- Reinforces the importance of integrating governance, risk management, and control into audit activities at both the Committee and Internal Audit levels
- Prioritizes the independence of Internal Audit functions
- Emphasizes maintaining a quality assurance and improvement program that assesses both adherence to standards and the continuous enhancement of audit activities
- Places a strong focus on using risk-based audit plans and being adaptable to changes within the organization and its operating environment
- Provides a more rigorous framework around ethics and professionalism, which is essential to maintaining public trust
- Encourages a comprehensive approach to oversight that includes consulting services, fraud risk assessment, and assurance services

Recommendation: Staff recommends that the Citizens Audit Committee:

1. Approve the Citizens Audit Committee Charter for presentation to the Board of Governors at the next meeting on December 4, 2024.
2. Approve the Office of the Internal Auditor Charter as presented.

Action Item – Internal Audit Policies

Policy Reviews

Two policies govern some Internal Audit operations: the Internal Audit Corporate Policy, and the Open Audit Observation Management Policy. Both policies have been periodically reviewed, and changes were last approved by the Committee at the July 2022 meeting.

Internal Audit Policy #801

The Policy informs the organization on the purpose and authority of the Office of the Internal Auditor and clarifies expectations throughout the organization.

Open Audit Observation Management Policy #802

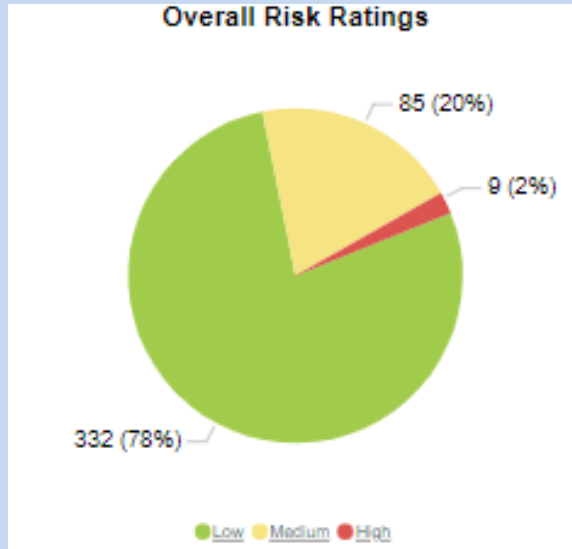
The Policy informs the organization on the need for an audit observation management process that ensures that management action plans have been effectively implemented and clarifies audit and business expectations and responsibilities.

Review: Following changes in the Institute of Internal Auditors (IIA) Governing standards with the Global Internal Audit Standards (GIAS) rollout, minor changes were incorporated into both policies to recognize and align with the GIAS requirements.

Recommendation: Staff recommends that the Citizens Audit Committee:

1. Approve changes to the Internal Audit Policies 801 and 802 as presented.

Enterprise Risk



Citizens' Top Risks

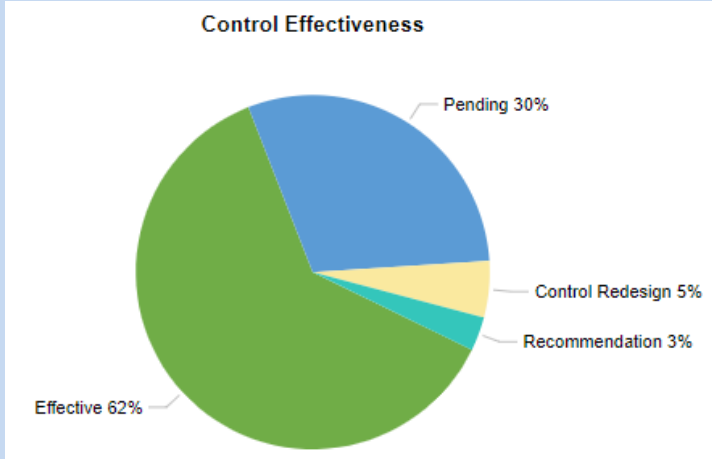
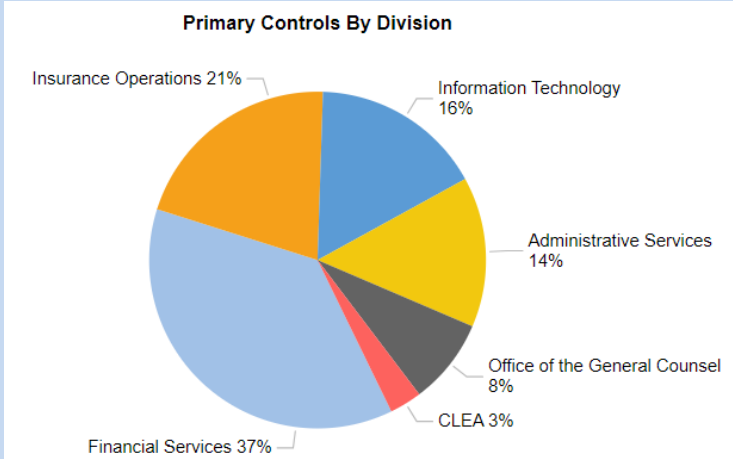
- Rate Differential
- Market Conditions
- Claims Abuse
- Acquisition of Reinsurance
- CAT Response
- Strategic Workforce Planning
- External Influences
- Cyber Threats
- Litigation Management Solution

Enterprise Risk Summary

- As of October, nine risks remain high-impact and are closely monitored.
- Operational risk assessments are progressing with 68% of the planned assessments completed, with the remainder currently in progress or on schedule.
- The 2025 strategic risk assessment with ELT is scheduled for January. Top risks will be updated and available in Q1.
- Mitigation plans are in place and executed as needed.

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



2024 Control Self-Assessments

- As of November, 68 (70%) of the 97 primary controls have been assessed, and the remaining are on track for completion by year-end.
- Results to date:
 - Effective: 60 (62%) of the controls were assessed as effectively designed and operating as intended.
 - Recommendations: Enhancements to strengthen controls were identified for 3 (3%).
 - Redesign: 5 (5%) controls require redesign due to process changes.
 - No material issues have been identified.

Enterprise Risk & Internal Control

Enterprise Risk Framework

- The Enterprise Risk Framework is the cornerstone of our enterprise risk program and serves as a comprehensive tool to proactively identify, assess, manage, and mitigate risks that could impede the achievement of strategic and operational objectives.
- In October, the framework was updated to incorporate a dynamic and agile approach focused on responding to emerging challenges and maintaining resilience in an evolving business landscape.

Internal Control Framework

- The Internal Control Framework integrates a comprehensive management control self-assessment process, ensuring operational excellence and financial integrity throughout the organization.
- Continuous monitoring and improvement of internal controls ensure they remain effective and current with evolving industry standards and regulations.
- In Q4, the framework was updated to reflect current practices and industry guidelines.

The revised frameworks are included in the Audit Committee materials.