Executive Summary

Audit Committee Meeting, July 9, 2024
Board of Governors Meeting, July 10, 2024

THE OFFICE OF THE INTERNAL AUDITOR

The Office of Internal Audit focuses on areas where it can contribute the most value by working with the organization to reduce risk, improve the control infrastructure, and increase operational efficiencies. The Chief of Internal Audit oversees Internal Audit, Enterprise Risk, and Internal Control.

1. Internal Audit

Overview - This report focuses on a 12-month audit period from January 22, 2024, to December 31, 2024. Internal Audit follows a risk-based quarterly rolling plan approach in developing engagements and monitoring progress.

For the period, we have 28 Audit engagements listed, of which 12 were completed, 11 are in progress, and 5 are planned to commence during Q3 2024. Following the previous Audit Committee meeting, we completed 7 engagements.

Period Progress 2024-Q1 to 2024-Q4
Completed 12
In Progress 11
Planned 5
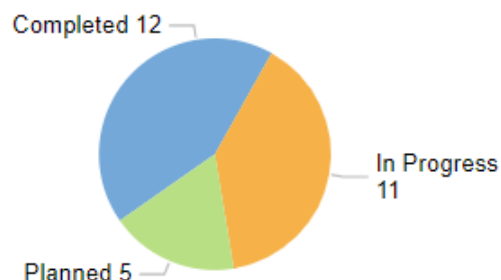
The following provides a summary of Internal Audit engagements completed - Since the last Audit Committee Meeting, we have completed work on five (5) audit engagements:

- **Centerpoint Segregation of Duties HCM** (audit) - Internal Audit procured services provided by a third-party vendor using a proprietary tool that provided a comprehensive assessment for identifying conflicts in the segregation of duties of the Centerpoint application. The assessment results were analyzed to evaluate the high-risk roles and permissions within the Human Resources HCM module. Two control enhancement opportunities were identified involving incompatible system access and the HR test/troubleshooting environment. Due to the possible significant impact on the organization, HRIM leadership quickly took action to remove or modify the high-risk privileged access. Also, management has completed the implementation of new security access protocols for the test environment.

  With support from the System Application Development team, HRIM is completing the remaining action item, and Internal Audit is continuing to monitor the resolution of the role redesign remediation plan. Internal Audit discussed additional recommendations with management to improve the user access control environment.

- **Compliance Program** (advisory) - Following report number 2021-AUD-11, Internal Audit reviewed Citizens' compliance program and its alignment with leading practices and industry guidance, focusing on designing, implementing, and monitoring an

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effective compliance program. The assessment benchmarked the industry-recognized elements of an effective compliance program against the Citizens' compliance program, noting various improvements and favorable practices in conformance with industry standards. The engagement also identified some improvement opportunities to enhance the program. These improvement opportunities have been shared and discussed with management, who have developed a broad plan of action to strengthen the activity's effectiveness further.

- **Depopulation Operations** (audit) - Internal Audit evaluated the business processes and controls for the depopulation program for personal and commercial lines assumptions. The audit results indicate that effective business processes and controls are in place to ensure adequate management, accuracy, and quality of depopulation processes. Specifically, the process controls over ceded premium calculations, assumption process, policyholder information security, complaint resolution, and policyholder education resources are adequate.

- **Investment Portfolio Management & Treasury Operations** (audit) - Overall, investment portfolio management and treasury operations have adequate internal controls and robust procedures to comply with Citizens' corporate policies, prevent or detect errors, and protect the organization from misappropriating company assets. In addition, investment portfolio management practices ensure that company assets are invested in alignment with citizens' investment policies and that money management firms meet expectations. Internal Audit validated that treasury operations practices ensure Citizens has adequate liquidity to meet its short-term and long-term payment obligations.

- **Retirement Benefits Audit** (audit) - Internal Audit evaluated a crediting rate error for the Empower SAGIC retirement benefits product. Due to a mistake made by Empower, plan participants did not receive appropriate investment returns during May and June of 2023. After follow-up, the vendor agreed to the error and credited the impacted employees with the proper amount. Based on the internal audit procedures completed, it was determined that appropriate actions were taken to correct the mistake and mitigate future risks with the vendor and its products.

The following provides a summary of Internal Audit engagements in progress - We are currently working on 12 engagements:

- **Centerpoint Segregation of Duties - Finance & Purchasing** (audit) – Internal Audit divided the Centerpoint Segregation of Duties projects into two (2) projects. Although access to information systems and data is limited to authorized users, specific user roles and system workflows may cause concerns about the segregation of duties. This occurs when one user has been granted two or more conflicting tasks, allowing unauthorized activity. Internal Audit will embark on a project to address the challenges

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of user access provisioning for Centerpoint and identify automation solutions to monitor the segregation of duties conflicts.

- **Commercial Underwriting** (audit) - Significant policy growth in commercial lines has required a substantial staffing increase to process and underwrite new business policies. Commercial exposure increased by 87% to $103.6B. Underwriters are tasked with in-depth reviews evaluating large structures, often many buildings for one property, including determining accurate exposure evaluations critical to ensure proper eligibility. Commercial PIF as of Q2 2024 is 14,288, with 38,074 locations and 61,523 Bldgs. Due to depopulation, UW 'A Rate' Commercial lines policies have slightly decreased. An A-rated Risk is a single building valued over $10M. The audit will evaluate the adequacy and effectiveness of controls, practices, and processes in evaluating commercial risks.

- **FRISS -SIU System** (audit) - Individual and organized crime groups significantly affect Citizens. FRISS is a new software program implemented in 2023 to enhance fraud-fighting efforts by delivering a higher volume of potentially fraudulent cases to increase the speed of detection and investigation. It uses real-time predictive analytics logic through advanced data modeling techniques and algorithms. The objective of the engagement is to evaluate the effectiveness of the new FRISS software and validate that key controls are effectively working to identify fraudulent activity within the claims environment that is actionable.

- **Reconciliations** (advisory) - Account reconciliation is an accounting procedure that compares two sets of records to ensure their accuracy and agreement. It confirms that accounts in a general ledger (the central repository for financial transactions) are consistent and complete. Reconciliation serves several purposes, including preventing errors, fraud detection, and transaction verification. The objective of the engagement is to review the account reconciliation process and procedures and provide recommendations regarding leading practices.

- **Technology Governance Review** (audit) - Technology governance within an organization is critical to ensuring effective management and control of IT resources. Technology governance aims to balance the benefits and risks of technological innovation and the social and ethical implications that may arise. Technology governance can help organizations align their technology strategies with business objectives and ensure effective oversight and accountability. Internal Audit will assess the current technology governance program against leading industry and technology standards and practices.

- **Citizens Business Insurance Suite Implementation** (project advisory) - The Guidewire Insurance Suite® currently provides an essential suite of technologies and services that directly support Citizens' business areas, such as Agency and Market

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Services, Underwriting, Claims, and Financial Services through policy, billing, claims, agent portal, and customer portal functionality as well as contact management. Citizens released an Invitation to Negotiate (ITN) for an Insurance Suite as the contract expires in two years. Guidewire Insurance Suite was selected and procured and is now moving into the implementation phase. Internal Audit will participate on the project team and provide process, risk, and controls advice for implementing the application upgrade.

- **CitRe Implementation** (project advisory) - Citizens Eligibility Reimagined is an innovative approach to replace the existing Clearinghouse with a comprehensive multi-platform solution that assists consumers and agents with obtaining and comparing offers of coverage for property insurance from available Florida admitted markets (Private Carriers) outside of Citizens, while enhancing Citizens' ability to validate a property as eligible before issuing a new Citizens policy or renewing a Citizens policy. The new system was procured in 2023 for implementation in 2024. Implementing such a project is significant as it will replace the legislatively required Clearinghouse and be used by approximately 10,000 agents in the marketplace. Internal Audit will participate on the project team and provide process, risk, and control advice implementing the Citizens' Policy Eligibility Reimagined solution.

- **ELMS Implementation** (project advisory) - A new Litigation Management System was procured in 2023 for implementation in 2024. Internal Audit will participate on the project team and provide process, risk, and controls advice for implementing the Enterprise Litigation Management System. The Litigation Management System will be a web-based system used by internal claims litigation, claims legal services and external stakeholders to manage litigated claims and associated litigation billing effectively. Unlike other systems utilized by Claims, the Litigation Management System will have separate interfaces/permissions for internal stakeholders (Claims and Legal staff) and external stakeholders (contracted outside counsel), which allows a secure environment that both parties can access and collaborate on the handling of litigated claims as well as submission and review of electronic legal invoices. Internal Audit will participate on the project team and provide process, risk, and controls advice for implementing the new application.

- **Identity Governance & Access Management** (project advisory) - Internal Audit will continue to provide project advisory services supporting the implementation of the Identity and Access Management Program. Citizens has procured new security applications to provide identity governance, administration, and access management. Internal Audit will participate in the program development, implementation, and review of processes and controls related to the new software solution. Internal Audit will also advise on aligning processes and controls with policies, standards, and leading practices.

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- **Legislative Update Implementation (**project advisory) **-** Citizens monitors the State of Florida legislative changes during the session. Once bills are signed impacting Citizens' processes, project teams are assembled to interpret and implement regulatory changes. The advisory will provide consultative advice on controls of impacted business areas and the project management process to ensure effective and timely implementation of process changes.

Regulatory Support (Auditor General Operational Audit) - Internal Audit, in its liaison role, is responsible for coordinating with the State of Florida Auditor General auditors, who commenced their triennial operational audit. The audit is expected to be completed by August 31, 2024. Most of the coordination efforts constitute meeting planning, information request tracking and delivery, and ensuring the examiners/auditors receive the correct information on time.

The following provides a summary of Internal Audit engagements planned - Five audit engagements are scheduled to commence during Q3 2024:

- **Asset Management** (audit) **-** Citizens has many physical assets, including computer hardware, furniture and fixtures, and vehicles. An Asset Management audit is essential for risk management, compliance, cost optimization, accuracy, performance evaluation, data security, strategic planning, and stakeholder trust. The objective of the Asset Management Audit is to ensure that the organization's assets are effectively managed, protected, and optimized.

- **Financial Planning and Analysis** (audit) - Citizens successfully launched the budgeting module in Centerpoint in 2018, and training was conducted for budget users throughout the organization. As a result, a continuous budgeting model was adopted throughout the organization in 2019. Continuous budgeting and strategic forecasting are critical to having a clear understanding and communication surrounding financial expectations to make strategic decisions and adjust resource allocations in response to changing conditions. The objective of the engagement is to evaluate the adequacy and effectiveness of controls related to the Financial Planning and Analysis process.

- **Office of Foreign Assets Control** (audit) - The Office of Foreign Assets Control (OFAC) of the Department of Treasury administers and oversees a series of laws that impose economic and trade sanctions against hostile entities. U.S. insurers are among organizations that must exercise due diligence in checking the specially designated nationals (SDN) list to ensure that the individuals they insure are not specially designated nationals. An audit was performed in 2020, requiring the enhancement of OFAC processes and controls related to expanding screening practices and developing a sanctions compliance program. The audit will evaluate and assess
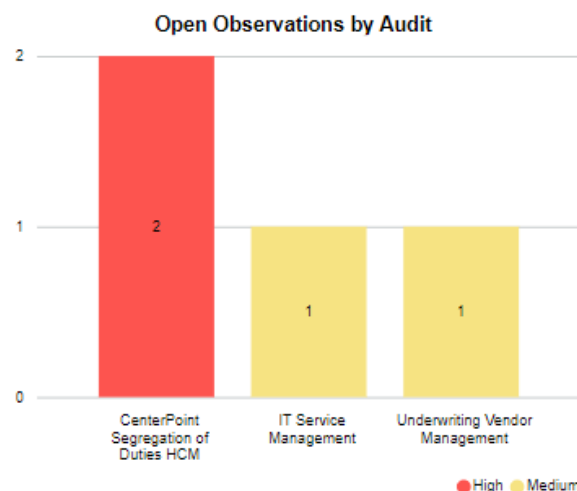
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whether process and control enhancements have been implemented and are working effectively.

- **Payroll and Employee Record Management** (audit) **-** Payroll processing and Record management are critical to Citizens' operations. The payroll process cycle has many manual steps with built-in stops that require constant troubleshooting for the data to be processed appropriately. The objective of the audit will be to assess and validate the manual payroll process procedures, review records management (location, linking to employee files, etc.), and evaluate the support provided by the HR Information Management (HRIM) team to all aspects of the HR function.

- **Remittance Processing** (audit) **-** Remittance processing manages the receipt and processing of premium payments, a critical support function of the insurance application and policy renewal process. With the significant increase in policy growth over the past few years, payments have been increasing by 140%, leading to elevated risk. Internal Audit will evaluate the adequacy and effectiveness of controls related to the remittance processing function.

Open Audit Observations - Management prioritizes open items and addresses them within an agreed-upon period. We are currently tracking four (4) open observations, two (2) of which are rated high impact.

The two (2) high-rated observations relate to the Centerpoint HRIM Segregation of Duties Audit and focus on the following:

- **Incompatible System Access in HRIM**: Seven (7) 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. Remediation action plan is underway.

- **Test Environment**:
One HRIM development environment did not meet appropriate access security standards. Management completed the implementation of access security development requirements before the audit was completed.

Open Observations by Audit

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2. Enterprise Risk

Top 5 Strategic Risks - Individual and collective strategic risk discussions were held with the Executive Leadership team to identify and assess the top risks that may impact the ability to achieve Citizens' strategic imperatives, vision, and mission. As of June, the top five strategic risks are as follows:

- Rate Differential
- Market Conditions
- Claims Abuse
- Acquisition of Reinsurance
- CAT Response

Appendix I includes detailed risk descriptions and ratings for all strategic risks. The risk ratings are estimates of the potential impact or severity level the risk event may have on Citizens if it occurs. Strategic risk mitigation plans will be updated in July.

Operational Risks - The following represents Citizens' Enterprise Risk assessment results as of June 7:

- A total of 433 enterprise risks have been identified and assessed from various risk perspectives, including strategic, operational, project, and emerging.
- Risks viewed above tolerance are closely monitored, and mitigation plans are developed and executed as appropriate.

Overall Risk Ratings

71 (16%)

12 (3%)

350 (81%)

● Low ● Medium ● High
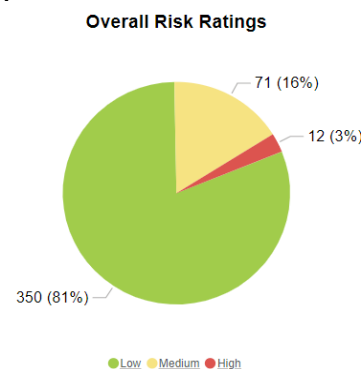
Enterprise Risk remains focused on updating operational risks for processes throughout Citizens to ensure the top risks that may impact our daily operations are identified, assessed, mitigated, or escalated. Through the self-service capabilities of our GRC solution, facilitated risk assessments, and recurring touchpoint meetings, our risk registry is more closely aligned with the organization's challenges and current and future mitigation strategies.

As of June, Enterprise Risk completed quality reviews of 388 operational risks to ensure risk descriptions and mitigating activities adhere to the Enterprise Risk Management Framework and leading practices. This represents 82% of the current risk register. In addition, the team recently designed and implemented new processes to improve our efficiency and quality and has incorporated a post-assessment participant survey to assist with identifying any areas of opportunity. Results have been favorable and showcase the value the business areas receive from the enterprise risk process. For the remainder of the year, the team will continue facilitating risk assessments, implementing a dynamic risk framework, introducing innovative training approaches, and performing quality reviews.

CITIZENS
PROPERTY INSURANCE CORPORATION

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Collaborative Assurance - OIA continues to partner with other assurance areas within Citizens to address risks. A collaborative assurance forum was recently established to increase transparency, provide a more robust and coordinated view of the risk landscape to support business strategy demands, incorporate new and innovative business models and products, navigate a more complex business environment, and adapt to increasingly rapid changes in the risk landscape. Participants include Enterprise Risk, Internal Control, Internal Audit, Ethics & Compliance, Privacy, and the Office of Inspector General

3. Internal Control

- Control Self-Assessments - Control self-assessments are in progress for Citizens' 96 primary controls and are on track for completion by year-end. As of June, no material concerns have been identified.

  Annual control self-assessments are performed by the business units to validate the design and ongoing effectiveness of primary controls. Citizens' proactive approach enables early detection and correction of control concerns. The Internal Control team performs quality reviews of the completed control self-assessments to ensure adherence to the Internal Control Framework (ICF). The team also provides consultative support to business areas regarding control design and validation techniques.

- Process Narratives - Understanding business processes is essential for properly identifying and assessing Citizens' primary controls. A narrative and flowchart are prepared and maintained for processes in scope for ICF from the OIA process universe. The ICF narratives provide a high-level overview of key business processes focusing on internal controls. To supplement the narratives, flowcharts are prepared to represent the process visually. The collective documentation provides details of the internal controls embedded within Citizens' business processes. The narratives are updated annually or as processes change. The Internal Control team and management update narratives to ensure the documentation reflects current business processes and controls.

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Appendix 1 – Strategic Risk

2024Strategic Risks		
Risk Title	**Risk Description**	**Rating**
Rate Differential	As a result of Citizens' current rate-making efficiencies and the glide-path application to Citizens' rates, Citizens' competitive position in the market is not aligned with being a residual market.	High
Market Conditions	Changing market conditions may adversely impact private carriers' continued participation in the Florida insurance market or geographic locations due to insolvency, resulting in fluctuations in Citizens' costs, financial condition, exposure, and the number of policies in force.	High
Claims Abuse	Failure to identify and stay in front of fraud and other claims abuse schemes that increase claim costs for Citizens.	High
Acquisition of Reinsurance	Citizens' inability to transfer risk through acquiring reinsurance in the global marketplace could lead to significant financial implications for Citizens, the State of Florida, and ultimately, Florida residents.	High
CAT Response	Failure to have adequate vendor resources to respond to a catastrophic event to meet customer expectations.	High
Strategic Workforce Planning	Citizens' increasing retirement-eligible workforce and business priorities may impact our organization's stability, culture, reputation, and high levels of employee engagement, as well as the ability to attract, retain, and/or develop employees to master critical skills.	High
External Influences	Uncertainty related to external events, including storms, new or changing laws and/or regulations, and changing market conditions that require rapid adjustments impacting Citizens' mission and operations, may result in significant financial and operational challenges.	High
Cyber Threats	The increasing complexity and variety of cyber incidents may adversely impact organizations' performance and reputation.	High
Technical Debt	Technical debt refers to the cost incurred due to short-term technical decisions that prioritize immediacy, simplicity, or budget constraints. These decisions, while convenient	Medium

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Appendix 1 – Strategic Risk

2024Strategic Risks		
Risk Title	**Risk Description**	**Rating**
	initially, can lead to long-term consequences such as operational inefficiencies, increased costs, and heightened risks. Addressing this technical debt promptly is essential to maintain system integrity and efficiency.	
Ethics, Integrity, Conflicts of Interest	Violation of Citizens' code of ethics, commitment of illegal and unauthorized acts, management fraud, employee fraud, or situations where multiple, conflicting interests could possibly corrupt motivation or decision-making may result in criminal charges, reputationaldamage, or financial loss.	Low
End User Business Applications	Productivity tools/applications developed by business units using non-standard technologies have become indispensable for day-to-day operations. However, they introduce various challenges to the organization, including security, privacy, resilience, supportability, and maintainability.	Low

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