

INTERNAL AUDIT

IA Day Rate Invoice Review
Advisory Engagement

November 12, 2019





Advisory Memorandum

Background

Citizens Claims department contracts independent adjusting firms to provide adjuster resources to adjust claims. Day rates paid to contracted independent adjusting firms are not associated to specific claims and are therefore recorded as Unallocated Loss Adjustment Expenses (ULAE). In 2018, \$138.5 million was recorded as ULAE in the general ledger. Of this, \$90.5 million was attributable to day rate payments. If these ULAE expenses are incurred as part of a catastrophic event, it is important to match the expenses with each event in order to support the request for reimbursement under reinsurance contracts. In addition, it is important to isolate and evaluate adjuster spend for financial reporting purposes. Current procedures rely on the date of the adjuster's deployment to attempt to allocate the charges to a specific event. To handle in the above noted manner is an inexact process which can result in an inaccurate reimbursement request and possibly inaccurate financial reporting. In order to provide a more accurate allocation of catastrophe related expenses, and to enhance the reporting to reinsurers, Claims, Accounting and Actuarial Services have been working on a revised weekly invoice template for use by the adjusting firms. This revised invoice template supports more detailed reporting which results in more precise expense allocation and ultimately more accurate reinsurance reimbursement requests. It also incorporates cost center codes which are important for delineating litigation versus non-litigation adjuster spends.

Claims management had requested that Internal Audit (IA) review the new template and the associated implementation procedures to ensure that the objectives are being met. Management plans to implement the new invoice on November 1, 2019.

Objectives and Scope

The objective of the advisory was to review the spreadsheet templates used for the revised Adjusting Services Day Rate Invoice to ensure the formulas function correctly and the objective of the resulting allocation of expenses supports more detailed reporting. There are two components to the weekly invoice process:

- "Adjusting Services Weekly Service Invoice Template", for completion by the individual independent adjuster
- "Adjusting Services Day Rate Invoice Template", used by the adjusting firm for submission to Citizens.

The template review included evaluating the:

- accuracy and consistency of formulas
- internal and external references and links
- data validation parameters
- cell formatting
- cell and worksheet protection



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In addition, the review included evaluating the procedures for rolling out the new templates and for providing appropriate instruction to the adjusting firms prior to the planned rollout effective November 1, 2019.

Results

The templates (in Excel spreadsheet form) are well constructed and provide accurate allocation of catastrophe event expenses. All spreadsheet formulas were consistent and accurate and all cell formatting, data validation parameters and internal links were adequate. In addition, the spreadsheets were appropriately protected from unauthorized alteration through the use of locked cells and spreadsheet password protection. It was also noted that the templates provide for reasonable expansion as the number of catastrophe events or the number of adjusters deployed increases.

Internal Audit's review of instructions provided to the adjusting firms with each template and the pre-rollout training are deemed enough to ensure a smooth transition from the previous forms.

In conclusion, Internal Audit determines the templates will accurately and consistently support the desired level of adjusting expense allocation to provide increased precision in catastrophe event related reinsurance reimbursement requests.

Internal Audit would like to thank the management and staff of Claims Vendor & Systems Management for their cooperation and professional courtesy throughout the review.



Distribution

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