



Office of the Internal Auditor



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AUDIT REPORT

Underwriting/CAS Vendor Management (MacNeill Group & Novitex)

February 2, 2016

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Executive Summary

Background

The MacNeill Group Inc. (MGI) and Novitex Enterprise Solutions, Inc. (Novitex) are business process outsourcing vendors who are contracted to support Citizens underwriting, call center operations and policy documents printing and mailing.

Citizens executed two contractual agreements with MGI under the business processing outsourcing-insurance services (BPO) master agreement to provide underwriting and policy administration services, including servicing agent phone calls and call center operations. The BPO-phone answering contract commenced on May 23, 2013 and is scheduled to expire on May 22, 2018. The BPO-underwriting services contract commenced on October 1, 2015 and is scheduled to expire on October 1, 2017 with a two year renewal option. In addition, Citizens executed a policy document generation and mail services agreement with Novitex commencing on January 31, 2012 to provide printing and mailing of policyholder, mortgagee and agent documents. This agreement expires on January 30, 2017.

MGI is responsible for processing 25% of Citizens new business, 39% endorsements and 56% of the cancellations transactions. In addition, MGI handles 66% of agent phone calls and 30% of the call center phone calls. It should be noted that the total volume of underwriting tasks and calls handled by MGI are not static and could change monthly. Novitex printed and mailed 4.8 million policy documents for approximately 574 thousand policies during the 13 month period from September 30, 2014 through September 30, 2015. The tables below highlight the significant activities which MGI and Novitex performed on these policies comparing the first 9 months of 2014 and 2015.

MacNeill Group Inc.	Nine Months 01/01/2014 through 09/30/2014	Nine Months 01/01/2015 through 09/30/2015
New Business	108,137	27,025
Policy Changes	176,390	99,332
Cancellations	74,451	29,996
Reinstatements	45,789	19,226
Inspections	2,236	543
Tier I & Tier II Phone Calls	186,506	381,459

Novitex Enterprise Solutions, Inc.	Nine Months 01/01/2014 through 09/30/2014	Nine Months 01/01/2015 through 9/30/2015
Print and Mailing	9,822,046	4,816,016

The volume of new business and policy change transactions processed by MGI decreased by 75% and 46% respectively due to depopulation and clearinghouse activities and management's decision process more work internally, while the volume of phone calls increased by 51% due to PolicyCenter system issues. The volume for mail and printing services performed by Novitex decreased by 68% compared to the first nine months of 2014 due to depopulation and clearinghouse activities. In 2014, MGI provided underwriting services at a cost \$5M and \$3M for phone answering services. As of August 2015 YTD, MGI provided underwriting services at a cost of \$1.5M and \$1.1M for phone answering services. In 2014, Novitex provided mailing and printing services at a cost of \$6.7M and \$3.5M as of August 2015 YTD.

Executive Summary

Audit Objectives and Scope

The objective of this audit is to ensure effective management of the business processing outsourcing vendor for Citizens underwriting and call center operations.

The following areas were included in the scope of our audit:

- Credentialing
- Training
- Vendor Performance Monitoring
- Call Center Operations
- Business Continuity/Disaster Recovery
- Quality Assurance
- System Access
- Invoice Billing Reconciliation

OIA conducted an onsite walkthrough of Novitex with the Citizens vendor relationship managers and determined that the processes are not complex and are easily monitored. In addition, OIA assessed the internal controls for managing the vendor are operating effectively and no other testing is deemed necessary.

Audit Opinion

The overall effectiveness and efficiency of the procedures and related processes associated with the management of the business process outsourcing vendor are considered **Satisfactory**.

We found the controls implemented for monitoring vendor performance were well developed and sufficient to ensure the vendor delivers quality work and achieves the contractual service level requirements. In addition, the invoice review and approval were performed in accordance with applicable Citizens policies and procedures, department practices and contract terms and conditions.

Our work also indicated specific areas where opportunities for improvement were noted:

- **Need to ensure the vendor's underwriting quality assurance reviews are performed by an independent Citizens quality assurance function.** Section 3.11.1 of the former underwriting business outsourcing contract, required the MacNeill Group (MGI) to perform their own quality assurance reviews on underwriting transactions processed by their staff using Citizens' checklists and scoring guidelines and report the results to Citizens. Failure to segregate the quality function from the business function could lead to scoring bias in quality assurance results, especially with a third party vendor. Management was aware of this issue prior to the audit and has realigned the quality program for MGI with an independent consumer agent services quality assurance function. In addition, management worked with contract administration to ensure the terms and conditions in the new business process outsourcing – underwriting services contract signed on October 1, 2015 stipulated that Citizens CAS QA function was authorized to perform quality reviews directly on MGI work product.
- **Management should periodically assess the integrity of the call center performance data reported on the vendor's monthly Agent Summary Report.** The MacNeill Group (MGI) provides

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a monthly Agent Performance report which details key performance metrics. Management uses this report to assess the achievement of contractual service level requirements, the overall customer experience and the effectiveness and efficiency of the vendor's call center operations. However, management does not periodically assess the integrity of the vendor's call center data reporting. Performance problems or issues that would be identified with the proper assessment of the performance measures may not be timely addressed and resolved.

We would like to thank management and staff for their cooperation and professional courtesy throughout the course for this audit.

Appendix 1

Definitions

Audit Ratings

Satisfactory:

Critical internal control systems are functioning in an acceptable manner. There may be no or very few minor issues, but their number and severity relative to the size and scope of the operation, entity, or process audited indicate minimal concern. Corrective action to address the issues identified, although not serious, remains an area of focus.

Needs Improvement:

Internal control systems are not functioning in an acceptable manner and the control environment will require some enhancement before it can be considered as fully effective. The number and severity of issues relative to the size and scope of the operation, entity, or process being audited indicate some significant areas of weakness. Overall exposure (existing or potential) requires corrective action plan with priority.

Unsatisfactory:

One or more critical control deficiencies exist which would have a significant adverse effect on loss potential, customer satisfaction or management information. Or the number and severity of issues relative to the size and scope of the operation, entity, or process being audited indicate pervasive, systemic, or individually serious weaknesses. As a result the control environment is not considered to be appropriate, or the management of risks reviewed falls outside acceptable parameters, or both. Overall exposure (existing or potential) is unacceptable and requires immediate corrective action plan with highest priority.

Appendix 2

Issue Classifications

Control Category	High	Medium	Low
<i>Financial Controls (Reliability of financial reporting)</i>	<ul style="list-style-type: none"> • Actual or potential financial statement misstatements >USD 5 million • Control issue that could have a pervasive impact on control effectiveness in business or financial processes at the business unit level • A control issue relating to any fraud committed by any member of senior management or any manager who plays a significant role in the financial reporting process 	<ul style="list-style-type: none"> • Actual or potential financial statement misstatements between USD 2.5 million to 5 million • Control issue that could have an important impact on control effectiveness in business or financial processes at the business unit level 	<ul style="list-style-type: none"> • Actual or potential financial statement misstatements below USD 2.5 million • Control issue that does not impact on control effectiveness in business or financial processes at the business unit level
<i>Operational Controls (Effectiveness and efficiency of operations)</i>	<ul style="list-style-type: none"> • Actual or potential losses >USD 2.5 million • Achievement of principal business objectives in jeopardy • Customer service failure (e.g., excessive processing backlogs, unit pricing errors, call center non responsiveness for more than a day) impacting 10,000 policyholders or more or negatively impacting a number of key corporate accounts • Actual or potential prolonged IT service failure impacts one or more applications and/or one or more business units • Actual or potential negative publicity related to an operational control issue • An operational control issue relating to any fraud committed by any member of senior management or any manager who plays a significant role in operations 	<ul style="list-style-type: none"> • Actual or potential losses between USD 0.5 to 2.5 million • Achievement of principal business objectives may be affected • Customer service failure (e.g., processing backlogs, unit pricing errors, call center non responsiveness) impacting 1,000 policyholders to 10,000 or negatively impacting a key corporate account • Actual or potential IT service failure impacts more than one application for a short period of time 	<ul style="list-style-type: none"> • Actual or potential losses below USD 0.5 million • Achievement of principal business objectives not in doubt • Customer service failure (e.g., processing backlogs, unit pricing errors, call center non responsiveness) impacting less than 1,000 policyholders • Actual or potential IT service failure impacts one application for a short period of time

Appendix 2

Control Category	High	Medium	Low
	<ul style="list-style-type: none"> Any operational issue leading to death of an employee or customer 	<ul style="list-style-type: none"> Any operational issue leading to injury of an employee or customer 	
<i>Compliance Controls (Compliance with applicable laws and regulations)</i>	<ul style="list-style-type: none"> Actual or potential for public censure, fines or enforcement action (including requirement to take corrective actions) by any regulatory body which could have a significant financial and/or reputational impact on the Group Any risk of loss of license or regulatory approval to do business Areas of non-compliance identified which could ultimately lead to the above outcomes A control issue relating to any fraud committed by any member of senior management which could have an important compliance or regulatory impact 	<ul style="list-style-type: none"> Actual or potential for public censure, fines or enforcement action (including requirement to take corrective action) by any regulatory body Areas of non-compliance identified which could ultimately lead to the above outcomes 	<ul style="list-style-type: none"> Actual or potential for non-public action (including routine fines) by any regulatory body Areas of noncompliance identified which could ultimately lead the above outcome
<i>Remediation timeline</i>	Such an issue would be expected to receive immediate attention from senior management, but must not exceed 60 days to remedy.	Such an issue would be expected to receive corrective action from senior management within 1 month, but must be completed within 90 days of final Audit Report date.	Such an issue does not warrant immediate attention but there should be an agreed program for resolution. This would be expected to complete within 3 months, but in every case must not exceed 120 days.

Appendix 3

Distribution

Addressee(s) Jeremy Pope, Director Consumer Agent Services
Michelle Stark, Director Consumer Agent Services Quality Assurance

Copies **Business Leaders:**
Barry Gilway, President/CEO/Executive Director
Steve Bitar, Chief Consumer & Agent Services
John Rollins, Chief Risk Officer
Dan Sumner, Chief Legal Officer & General Counsel
Christine Turner Ashburn, VP-Communications, Legislative & External Affairs
Bruce Meeks, Inspector General
Sue Register, Director Underwriting Services
Susy Ellis, Vendor Relationship Manager
Tom Popko, Sr. Director Corporate Underwriting
Chiniqua Maddox, Director Underwriting Business Administration

Audit Committee

Juan Cocuy, Citizens Audit Committee Chairman
Bette Brown, Citizens Audit Committee Member
Jim Henderson, Citizens Audit Committee Member

Following Audit Committee Distribution

The Honorable Rick Scott, Governor
The Honorable Jeff Atwater, Chief Financial Officer
The Honorable Pam Bondi, Attorney General
The Honorable Adam Putnam, Commissioner of Agriculture
The Honorable Andy Gardiner, President of the Senate
The Honorable Steve Crisafulli, Speaker of the House of Representatives

The External Auditor

Audit Performed By

Auditor in Charge Angela Smith, Internal Auditor

Audit Director John Fox, Auditor Director

Under the Direction *Joe Martins*
of *Chief of Internal Audit*
