Office of the Internal Auditor
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FORENSIC AUDIT REPORT

Accounts Payable ("AP") Vendors Spend Forensic Audit

December 15, 2015

Report Number: 2015-Audit-10

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Executive Summary

Background

The Vendor Management Office ("VMO") and Accounting & Finance's AP ("Acctg/Fin.") department are responsible for the governance and execution of vendor disbursements. Business units and their respective contract managers have direct interaction with the goods and services provided by vendors and take direction from the VMO related to vendor and contract governance. In 2014 and YTD June 30, 2015, Vendor Spend, associated with Department Cost Centers, totaled $102 Mil and $39.8 Mil, respectively. For purposes of this audit, OIA assess the VMO and AP's objectives and assessed the procedures implemented at the Business Unit ("BU") level related to anti-fraud controls and processes. The following departmental objectives were noted:

- Vendor Management Office: The "VMO" is tasked with designing, implementing and overseeing a company-wide vendor management program. The purpose of the program is to bring consistencies and efficiencies into place in the oversight of vendors and associated contracts. The VMO provides business unit contract managers with guidance on items such as contract compliance, vendor on-boarding, fiscal responsibility and is also involved with assisting in vendor solicitations.

- Accounts Payable: Accounts Payable is responsible for processing payments to vendors. AP receives and reviews invoices, then records the transactions within the General Ledger ("GL"). Their responsibility is limited to accurate processing and reporting of payment requests received by the business units.

- Business Units / Contract Managers: Objective is to follow the guidance passed down by the VMO and ensure that the goods and/or services they have been provided are real and appropriate, what they are authorizing payment for meets company and contractual guidelines, and monitoring spend by respective vendor, contract, etc.

Audit Objectives and Scope

The objective of the audit was to evaluate the effectiveness and efficiency of controls developed and implemented by the business units, in conjunction with the VMO and Acctg/Fin., and determine if they are acceptable in mitigating fraud, waste and abuse.

The following cost centers were included in this audit:

- Consumer & Agent Services - Call Center Services;
- Human Resources - Facilities & General Services;
- System & Operations Information Technology Services; and
- Commercial Underwriting.

Note: OIA analyzed vendor spend attributed to department cost centers (i.e. recorded in Other Underwriting and Administrative Expense "711XXXXXXX") and not wires and/or disbursements recorded at corporate level accounts (i.e. Assets, Liabilities, Surplus, Loss & LAE, Commissions, Investment and Misc. Income and Expense).

Executive Summary

Audit Procedures

Forensic audits include a variety of detailed tests designed to detect fraud, waste or abuse by reviewing quantitative and qualitative information. For purposes of this audit, OIA conducted the following procedures:

- **Enterprise Cost Center Risk Assessment** – The Company's cost centers were analyzed to understand the volume of transactions as well as the dollars associated with each. Based upon volume and dollars a ranking was provided for each wherein those with higher transactional activity and dollars were assigned a higher risk ranking and lower activity and dollars assigned a lower ranking. Additionally, we met with cost center "owners" and department contract managers to understand and assess what controls, specifically anti-fraud controls, are utilized and present to mitigate fraud risk. Again, a risk ranking was developed for each cost center based on the auditor's assessment subsequent to inquiry.
- **Vendor Spend Governance Review** – We met with individuals from the Vendor Management Office, Purchasing, Accounting and Budget departments to understand and assess what controls and reports are provided to management and cost center owners to monitor vendor spend and what each of these 'support' groups do from a monitoring perspective. Departments provided feedback in conjunction with this qualitative exercise to identify potential process enhancement opportunities.
- **Cost Center Analytics** – OIA developed unique tests (i.e. spend trends, duplicate payments, end of period volumes, etc.) on cost center data with the intent to identify unusual trends or irregularities that may be 'red flags' commonly associated with fraud, waste and/or abuse. OIA reviewed findings with department heads and independently reviewed any irregularities to determine the underlying cause.
- **Invoice Review** – OIA assessed over 100 invoices from cost centers to verify appropriate approvals, rate calculations, approval limits, etc. Any discrepancies or questions were followed up with appropriate personnel.

Audit Opinion

Results from our audit work confirmed that oversight processes related to accounts payable vendors are operating **Satisfactory**. We did note the following observations that could enhance the process and controls:

- **Need to Develop Invoice Coding Guidelines -** Discussions with departments and their respective contract managers, as well as other individuals, identified an opportunity for improved oversight over Vendor Spend. Currently, there are no prescribed guidelines surrounding invoice coding and vendor spend tracking at the contract level. This results in incomplete or inconsistent spend tracking and oversight by contract managers of their vendors at a contract level. VMO is in the process of developing a Vendor and Contract Management Playbook which would be an appropriate communication vehicle for including the recommended controls. Accounting has agreed to work with the VMO to ensure the correctness of information entered into the GL.
- **Need to develop Quantitative Measures to monitor and report contract performance spend -** Department heads and support functions (i.e. VMO) are unable to adequately monitor product or

service costs at an individual or aggregate level. For example, to determine the total number of hours charged by an outsourced contracting firm to the company would only be accomplished by a manual review and calculation of all physical invoices associated with that vendor. VMO will work with business owners to create reports to help better monitor vendor spend and look for solutions via a ‘new’ ERP solution.

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
Financial Controls (Reliability of financial reporting)	• 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	• 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	• 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
Operational Controls (Effectiveness and efficiency of operations)	• 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	• 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	• 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
	• Any operational issue leading to death of an employee or customer	• Any operational issue leading to injury of an employee or customer	
Compliance Controls (Compliance with applicable laws and regulations)	• 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	• 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	• 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
Remediation timeline	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)	Stephen Guth, VP Vendor Management Matthew Gerrell, Assistant Controller
Copies	**Business Leaders:** Barry Gilway, President/CEO/Executive Director Dan Sumner, Chief Legal Officer & General Counsel John Rollins, Chief Risk Officer Christine Turner Ashburn, VP-Communications, Legislative & External Affairs Bruce Meeks, Inspector General Kelly Booten, Chief Systems & Operations Jennifer Montero, Chief Financial Officer Andrew Woodward, Controller **Audit Committee (Exec summary to be distributed by Betty)** 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

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