



INTERNAL AUDIT

Contingent Workforce Audit Report

February 10, 2021



Table of Contents

	Page
 Executive Summary	
Background	1
Audit Objectives and Scope	2
Audit Opinion	2
 Appendix	
Issue Classifications	4
Distribution	6



Executive Summary

Background

Citizens, to support its mission to provide insurance to Florida consumers who are unable to obtain coverage in the private market, relies on staffing agencies or consulting firms on an as-needed basis to provide qualified contingent workers to meet its business needs. Contingent workers are used to augment Citizens regular employee workforce, by providing services, performing business processes, or supporting specialized activities that Citizens has elected to outsource and provide Citizens the flexibility to scale operations to meet fluctuating market needs.

Contingent workers are not Citizens employees. Contingent workers are independent contractors, consultants, or other outsourced non-permanent workers who are contracted to work under a vendor contract for a specific period or project. Vendors providing contingent workers are compensated according to the vendor contract, typically via an hourly rate or a lump sum subject to other factors or policies governed by the organization.

Citizens has developed and implemented a contingent workforce program to provide consistent company-wide standards for the appropriate utilization of a contingent worker. The standards provide guidance to management to help ensure compliance pertaining to the proper classification of contingent workers to avoid worker misclassification and the unintentional creation of an employer-employee relationship between Citizens and a contingent worker. Internal Revenue Service provides test guidance to support organizational practices to distinguish employees from contingent workers along with the Independent Contractor Rule under the Fair Labor Standards Act published by the Department of Labor. It is important for organizations to assess the appropriateness of a contingent worker assignment extensions so as not to foster full-time expectations from the contingent worker which could lead to potential litigation for the organization.

As of 12/31/2020, Citizens was utilizing 650 contingent resources to meet business needs. The table below provides a breakdown of the contingent staff headcount by division.

Contingent Staff Counts by Division as of 31 December 2020

Division	FTE
Claims	544
Non-IA Contingents	1
IAs-Day Rate (Field & Inhouse)	360
IAs-Fee Based (Field) ²	183
Consumer & Policy Services (Customer care Center)	29
Enterprise Operations	24
Underwriting Service Carrier ¹	51
Internal Audit	1
Legal Services & Purchasing	1
Total Contingent Workforce	650

¹Service Carrier FTEs are derived using total transactions processed by outside vendors to determine total full-time-equivalent contingent or employed staff who would be needed to process those same transactions (incoming workloads).

²Fee-Based Independent Adjusters may not be assigned full-time to Citizens' claims and are paid only on a per-claim basis.



Executive Summary

Objectives and Scope

The objective of this audit was to assess the contingent workforce program to ensure the program is effective, properly executed and managed with a focused evaluation of controls for the following areas:

- Review the contingent worker policy and procedures for alignment with legislative requirements and industry leading practices.
- Determine how the contingent worker policy and procedures are implemented and applied by management across the organization.

Results

In the assessment of the contingent workforce program, Internal Audit compared the program with industry leading practices, published whitepapers, Internal Revenue Services' "three categories (i.e.: financial control, behavior control and relationship of the parties) of evidence test" to distinguish employees from contingent workers and the Independent Contractor Rule under the Fair Labor Standards Act published by the Department of Labor. The rule adopts an "economic reality test" to determine a worker's status.

Results from our assessment indicate that the contingent workforce program has adequate controls in place to ensure contingent workers are properly classified to prevent the unintentional creation of an employer-employee relationship between Citizens and contingent workers. Internal Audit determined the Citizens' contingent worker policy and procedures were appropriately aligned with federal regulatory requirements and industry leading practices. In addition, the contingent worker policy and procedures were consistently applied by Citizens' contingent worker liaisons across the organization.

Management implemented the following processes to support the contingent workforce program:

- A contingent worker training program was developed to educate Citizens management on how to avoid co-employment issues and how to provide adequate monitoring and oversight over contingent resources. Management is currently working with Learning and Development to enhance the program by creating an online contingent worker training module. This online training course will be an annual requirement for all Citizens managers to complete and will be implemented in Q1 2021.
- Centerpoint (Citizens ERP System) is used to track and manage contingent worker records enabling Human Resources management to identify the number of contingent workers and how they are allocated across organization as well as to distinguish contingent workers from Citizens employees.
- Customized office nameplates, security badges, and e-mail signatures have been implemented to further distinguish contingent workers from Citizens employees.
- The contingent worker onboarding program is adequate to ensure contingent workers are provided the applicable corporate policies and procedures that specifically apply to contingent workers, requirements and expectations and access to their roles prior to starting their assignment at Citizens.



Executive Summary

IA noted the following control improvement opportunity:

The need to enhance the HR contingent worker annual review process to ensure a thorough assessment of the appropriateness of any extension of a contingent worker assignment beyond the original anticipated services duration in accordance with the Contingent Worker Policy. The contingent worker review process should be enhanced to include the following:

- Contingent Worker Liaison should be required to provide HR written justification for extending the contingent worker assignment beyond the original anticipated services duration and or any duration in excess of one (1) year and to determine if the continuation of the contingent worker assignment is the most economical and efficient labor option for Citizens.
- The extension request should be approved by the Business Unit Chief and the Talent Acquisition Leader.
- The HR contingent worker review process should begin in July prior to the annual budgeting cycle so management can appropriately align resources and budgets for the following year.

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



Appendix 1

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 > \$10 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 > \$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 < \$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 > \$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 	<ul style="list-style-type: none"> Actual or potential losses > \$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 brief period Any operational issue leading to 	<ul style="list-style-type: none"> Actual or potential losses < \$2.5 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 brief period



Appendix 1

Control Category	High	Medium	Low
	any manager who plays a significant role in operations <ul style="list-style-type: none"> Any operational issue leading to death of an employee or customer 	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 to the above outcomes
<i>Remediation timeline</i>	<ul style="list-style-type: none"> Such an issue would be expected to receive immediate attention from senior management, but must not exceed 60 days to remedy 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Such an issue does not warrant immediate attention, 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



Distribution

Addressee(s) Huw O'Callaghan, Assistant Director - Talent Acquisition
 Stephen Guth, VP - Enterprise Services

Business Leaders:

Barry Gilway, President/CEO/Executive Director
Kelly Booten, Chief Operating Officer
Violet Bloom, Chief Human Resources Officer
Jay Adams, Chief, Claims
Belinda Miller, Interim Chief Legal Officer & General Counsel
Christine Turner Ashburn, Chief, Communications, Legislative & External Affairs
Jennifer Montero, Chief Financial Officer
Jeremy Pope, VP, Customer Experience
Silvana Iuretig, Director - Talent Strategy & Planning
Mark Kagy, Acting Inspector General

Audit Committee:

Bette Brown, Citizens Audit Committee Chair
Carlos Beruff, Citizens Audit Committee Member and Chairman of the Board
Marc Dunbar, Citizens Audit Committee Member
Carlos Lopez-Cantera, Citizens Audit Committee Member

Following Audit Committee Distribution:

The Honorable Ron DeSantis, Governor
The Honorable Jimmy Patronis, Chief Financial Officer
The Honorable Ashley Moody, Attorney General
The Honorable Nikki Fried, Commissioner of Agriculture
The Honorable Wilton Simpson, President of the Senate
The Honorable Chris Sprowls, Speaker of the House of Representatives

The External Auditor

*Completed by Angela Smith, Senior Internal Auditor
Under the Direction of Joe Martins, Chief of Internal Audit*