

INTERNAL AUDIT

Escheatment Processing Audit Report

June 25, 2021



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Executive Summary

Background

Citizens, as most companies, generate unclaimed property (in the form of uncashed checks) in the normal course of doing business. Unclaimed property consists of any funds that have gone unclaimed by or undelivered to the rightful owner for the statutory period (otherwise referred to as the dormancy period). The Company is subject to the regulations of the states and U.S. territories (“jurisdictions”) which require the Company to exercise due diligence in attempting to locate owners of unclaimed property in its custody. All funds that cannot be returned to the owner must be reported and remitted to the respective jurisdiction. Escheatment is the process of returning lost or unclaimed property to the appropriate state government.

The Financial Services business unit at Citizens is responsible for the proper due diligence, monitoring, recording and disposition of unclaimed property. The objective is to comply with reporting and remittance requirements prescribed within applicable state statutes for unclaimed property and ensure accurate and timely financial reporting of the affected bank accounts and associated liability. Additionally, the business unit performs due diligence on unclaimed items prior to remittance to the states. Financial Services utilizes a compliance system to aid in the accomplishment of this objective. Citizens Escheatment Liability account as of December 31st, 2020 was \$16.5 million.

Objectives and Scope

The objective of the audit is to evaluate the adequacy and effectiveness of processes and controls in place to monitor and manage the escheatment process. The scope includes a review of the following areas:

- System Access
- Segregation of Duties
- Authorization of unclaimed property related disbursements to respective U.S. jurisdictions
- Escheatment reconciliations
- Due Diligence
- Reclaimed Funds

Audit Results

In 2020, Citizens reported and remitted 5,320 items of unclaimed property to 44 different legal jurisdictions of which Florida represented approximately 4,800 items at \$4.3 million of the total reported and remitted to the state. As part of our audit, we selected Florida, New York, and Colorado as these were the three states with the most property reported and remitted in 2020.

Unclaimed property laws are complex, with different requirements for each legal jurisdiction. Each jurisdiction has its own due diligence requirements, reporting requirements and the length of time property can stay dormant until it is considered unclaimed. Our work indicated that processes and procedures developed to manage unclaimed property and the escheatment of funds are generally well designed and operating effectively.



Executive Summary

In addition, the following control activities need to be strengthened to further improve the control infrastructure in place over unclaimed property accounting:

- **Monitor compliance system activity** - There are nine members of Citizens' staff who have system administrator roles in the 'escheatment' compliance system. As the system is essential to track and report dormant property, administrator access should be limited with all administrator activity monitored and reviewed monthly.
- **Segregation of duties for escheatment process needs to be strengthened** - An Accounting Manager, who performs the related balance sheet account reconciliations, also has administrative access to the 'escheatment' compliance system. These two duties are incompatible, as a person who performs account reconciliations should not have access to the recording of transactions and the reporting and remittance of payments to the legal jurisdictions. Management immediately responded and removed elevated access, which eliminates the conflicting duties.

During the audit we noted three minor observations which were shared with management for process enhancements.

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



Distribution

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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
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