

Office of the Internal Auditor

AUDIT REPORT

November 2021

EY Implementation
Quarterly Progress Report
4Q 2021





Executive Summary

Background

In 2020, Ernst & Young (EY) was engaged by Citizens to perform an operational assessment of the litigated claims management process *vis a vis* industry leading practice. EY's report and supplement were issued December 15, 2020 and contained observations on six components of the Claims Litigation operation and improvement opportunities to enhance efficiency and effectiveness as well as suggested approach for their implementation. See Appendixes A & B.

Claims Management addressed the findings contained in EY's reports during the Board of Governors meeting held on March 3, 2021¹ and developed a working plan to examine EY's findings. The initiatives to be considered by Claims Management were distributed amongst the corresponding business units for action plans to be created.

Objectives and Scope

Internal Audit has been asked to monitor the progress of the working plan developed by Claims Management and the implementation of the initiatives, providing updates and advisory support as required.

Results

Citizens, under the leadership of the Chief Claims Officer, initiated a comprehensive project to consider improvement action needed to address EY reported findings. Management created a working plan and twenty-eight (28) initiatives were developed. As noted previously, some of the initiatives may seem redundant due to the fact that both EY's Observations and Improvement Opportunities were utilized to develop the working plan.

Internal Audit has participated in workgroup meetings and monitored the progress of the initiatives, providing additional information for management consideration where appropriate. As part of this effort, Internal Audit has presented the following advisory memorandums for further consideration:

- Advisory Memorandum 2021-MAS-05 – Claims Legal Transfer Advisory
- Advisory Memorandum 2021-MAS-06 – Legal Billing Transfer Advisory
- Advisory Memorandum 2021-AUD-07 – E&Y Implementation – Independent Adjusters vs. Full Time Employees
- Advisory Memorandum 2021-MAS-07 – In-House Counsel Advisory

Internal Audit is also providing advisory services as part of the review and update of the Claims Legal Services Guidelines. This initiative seeks to strengthen the guidelines to provide better control over outside counsel activities and effective expense management consistent with industry leading practices and Citizens' needs.

The following is a summary of progress on initiatives (out of twenty-eight (28) initiatives originally listed) that are in active status:

¹ [E&Y Final Report Update - March 3, 2021](#)



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1. Senior Counsel Detail and Validation of Roles and Responsibilities

Ownership: Claims Legal – Steven Woods

Priority: Low

Status: In Progress

Claims Legal has drafted a document detailing the roles and responsibilities of Senior Counsel. The action item was approved by the Chief General Counsel who is in the process of reviewing and approving the document.

6. Litigation Guidelines – Adequate Activity Control

Ownership: Elaina Paskalakis, Michael Guerra

Priority: Low

Status: In Progress

Claims Litigation and Claims Legal Management have reviewed the First Party Litigation Best Practices. The revised guidelines are pending final review and approval.

13. Reevaluation of Roles – Citizens Attorneys

Ownership: Barry Gilway, Jay Adams

Priority: High

Status: On Hold

Chief General Counsel would entertain the initiative of hiring attorneys as staff to handle litigation. This initiative will be revisited at a later time for any potential cost savings.

Internal Audit examined the subject of In-House Counsel and has provided additional information on models for management consideration in Advisory Memorandum 2021-MAS-07 – In-House Counsel Advisory. This advisory is pending review and comment by the Chief Legal Officer and Claims Management.

22. Legal Billing QA Realignment

Ownership: Tim Cerio, Jay Adams, Steven Woods, Michael Guerra

Priority: High

Status: In Progress

Management realigned Legal Billing Quality Reviews into the Claims Governance Team for consistency with Best Practices. Management will determine any increase in the number of audits performed monthly, as well as staffing increases. Claims QA staffing will be determined by final aggregate audit expectations established as well as by the productivity per auditor.

23. Legal Services Guidelines

Ownership: Steven Woods, Greg Rowe, Elaina Paskalakis

Priority: High

Status: In Progress



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Chief General Counsel welcomes the revision of the Billing Guidelines by a cross functional group and in collaboration with OIA and Claims Legal. Internal Audit is participating in the process, providing advisory services as part of the review and update of the Claims Legal Services Guidelines. This initiative seeks to strengthen the guidelines in order to provide better control over outside counsel activities and effective expense management consistent with industry leading practices and Citizens' needs. A final recommendation will be provided to the Chief General Counsel for approval.

24. Quality Assurance Program Enhancement

Ownership: Belinda Miller, Elaina Paskalakis, Jay Adams, Steven Woods, Michael Guerra

Priority: Medium

Status: In Progress

The Claims Governance Quality Assurance program will be reviewed to determine if any enhancements are needed.

Of note, fourteen (14) of the twenty-eight (28) initiatives are expected to be followed up on as part of the implementation of the new litigation management platform. These are:

7. Automated Functionality – Triage Assignments to Claims Litigation
8. Litigation Avoidance Procedures
9. Litigation Management – Case Assignment to Defense Counsel
14. Defense Counsel Performance Management
15. Defense Counsel Accountability
16. Matter Management – Rules, Forms & Dashboards
17. Matter Management Capabilities
18. Matter Management – Claims Platform Communication
19. Data-Driven Assignment Models
20. Analytical Tools for Assignment Models
25. Defense Counsel Oversight Improvements
26. Defense Counsel Assignment Prioritization Model
27. Matter Management Quality Assurance Bolstering
28. Performance Management Framework & Practices

The litigation management platform solicitation process has been ongoing since the first quarter of 2021. In a public meeting held October 21, 2021, the negotiation team unanimously recommended award to Mitrastech Holdings Inc. (Acuity); however, a notice of Intent to Protest had been filed by Lityfy, Inc. This notice allowed the vendor a 10-day period to file a formal protest of the decision, period that expired without a formal protest being received. A recommendation is expected to be presented to Citizens' Board of Governors for approval.

Internal Audit will continue to monitor the progress of the initiatives being considered and analyzed by management and providing reports quarterly, or as required.

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



Distribution

Addressee(s) Jay Adams, Chief, Claims

Business Leaders:

Barry Gilway, President/CEO/Executive Director
Tim Cerio, Chief Legal Officer & General Counsel
Mark Kagy, Inspector General

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The External Auditor

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