

Office of the  
Internal Auditor

# AUDIT REPORT

August 2023

Claims Legal Billing





## **Executive Summary**

Background  
Objectives and Scope  
Audit Results

## **Page**

1  
1  
1 - 11



## **Appendix**

Distribution

14



## Executive Summary

### Background

Citizens utilizes external defense law firms and vendors to provide services in connection with litigation that arises out of disputed claims. These law firms and service vendors bill Citizens for the services provided in accordance with established procedures and guidelines.

The Claims Legal Billing Unit (CLB) reviews all invoices submitted by these providers to ensure that fees and expenses billed as part of handling a matter are necessary, reasonable, and in compliance with Citizens' guidelines when a contract exists. As such, CLB plays an important role in Citizens' legal spending management.

In 2021 CLB underwent a departmental realignment and is currently under the purview of the Claims Vendor & System Management Division. In addition, CLB experienced a substantial increase in invoice submissions during 2022 (270K invoices), in comparison to 2021 (215K invoices).

### Objectives and Scope

Internal Audit reviewed the Claims Legal Billing Unit's processes, methodology, and results from their assessment and processing of submitted legal invoices under their new purview. Our review assessed the effectiveness of these processes in ensuring the accuracy and timeliness of invoice processing.

Our scope included a review of the following areas:

- Invoice receipt and processing
- Claims Legal Billing Policies & Procedures
- Review and validation of the accuracy of reports and dashboards
- Quality Assurance Process
- Defense Counsel outreach
- Analyze data for potential trends and opportunities

### Audit Results

Through a thorough review of legal invoices, CLB seeks to ensure that Citizens receive the stated services and reasonably and appropriately pay for such services. Internal Audit evaluated CLB's activities and observed the following favorable practices in place:

- CLB has developed an extensive catalog of job aids and procedural documents to assist Legal Billing Reviewers (LBR) and Outside Counsel in the review and submission of invoices.
- CLB has developed several dashboards that exceed the capabilities of the current enterprise litigation management solution (ELMS), allowing access to data and reports otherwise available through the ELMS.
- Management utilizes data and ad hoc reports to regularly monitor and track performance.
- Regular meetings are held by the LBR Teams to discuss trends and calibrate invoice reviews if needed.



## Executive Summary

- QA was previously performed by CLB internally and is now performed separately by Claims QA, adding reliability to the process.

At the beginning of this engagement, CLB self-reported a known area of concern, which they understood to be almost entirely outside of Citizens' control and attributed to Florida's insurance marketplace conditions and litigious environment. As a result of an increase in pending litigation, CLB has observed a corresponding increase in defense firm invoices. The business unit reported that the volume of invoices being submitted had presented challenges with the ability to review and process invoices in a reasonable time. To address the situation, the business unit developed and implemented several initiatives, which include:

- Allowing eligible and interested Staff to work overtime
- Increased FTE counts/team size
- Use of contingent/temporary resources
- Expedited processing of certain qualifying invoice types

While this self-reported concern does not by itself qualify as a control failure, Internal Audit examined the initiatives as part of the audit to assess the extent and impact of the situation. While some of these initiatives have been temporary, we note that as recent legislative changes aimed to reduce litigation in Florida take effect and undergo potential judicial challenges, it may take a few years to achieve litigation reduction and, consequently, legal invoice reduction.

Internal Audit's review of CLB's activities for the years 2021 and 2022 noted several components needing review and enhancement. We are cognizant that Citizens is in the process of implementing a new enterprise litigation management solution (ELMS), and changes to the current ELMS may not be possible or cost-effective. For this reason, temporary controls or additional initiatives may be required.

### ***Defense Counsel Outreach***

As part of this engagement, Internal Audit reached out to 26 of the 100+ firms contracted by Citizens to provide services for litigated claims. We found the firms to be in an excellent position to opine on the process as they manage the billing and accounts receivable components.

A total of 25 firms (96%) participated in the effort, where base questions were asked about the length of the relationship, their billing workflows, and suggested improvements, if any. When asked what Citizens could do better, the firms' top 3 comments were related to timeliness of payments, invoice adjustments and appeals, and billing scorecards and feedback.

Management confirmed that regular DFC outreach is not made per the normal course of business, but that they do reach out to firms if any recurring issues are identified. Based on feedback provided by the firms, Internal Audit recommends that CLB management, as the owner of the relationship with DFC, periodically reach out to the firms to discuss billing scorecards, address concerns, solicit feedback, and answer questions.

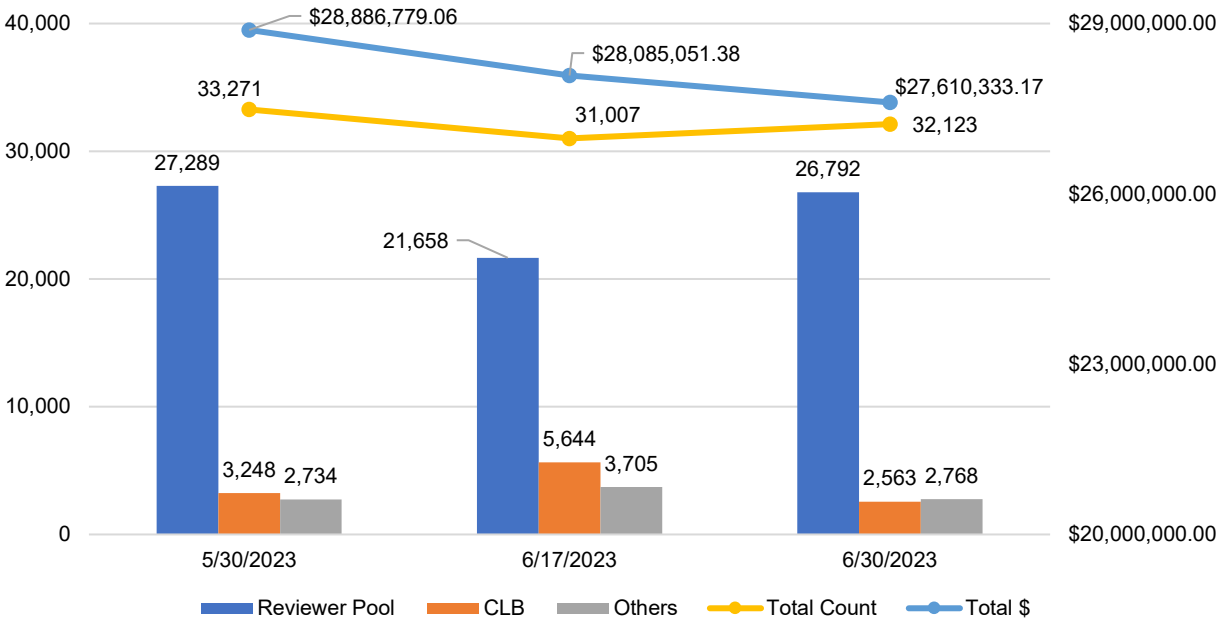
### ***Aging Invoices***



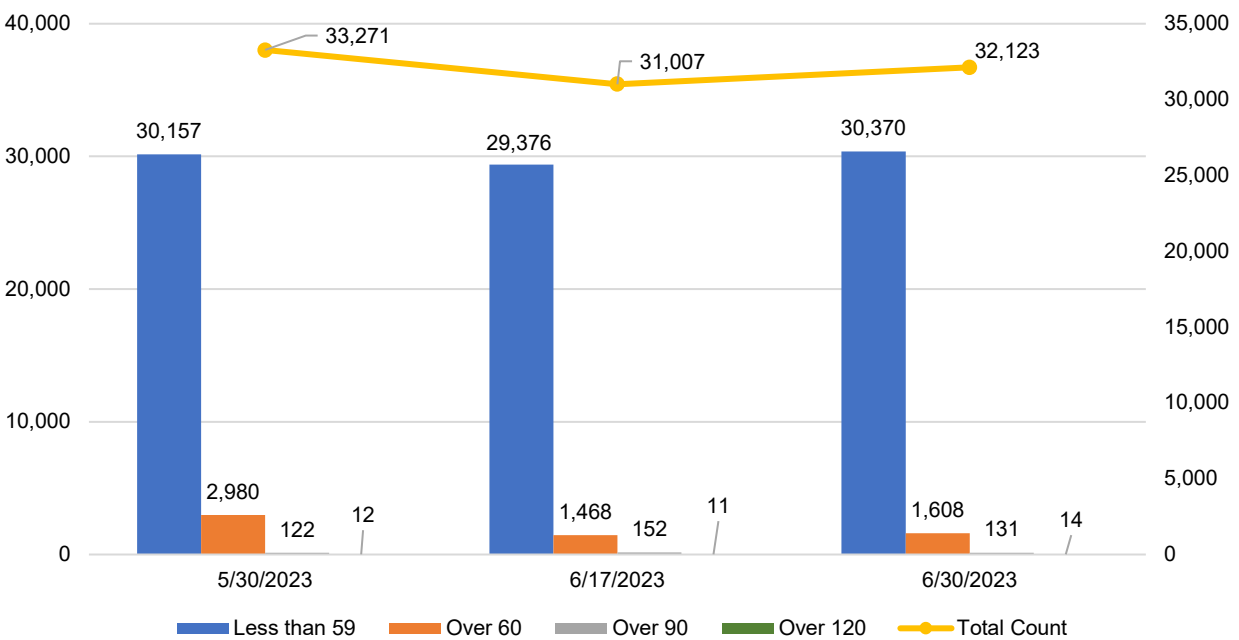
## Executive Summary

Internal Audit monitored invoice activity during June 2023, examining three reports obtained from Acuity (current ELMS) to analyze the impact of some of the initiatives developed by management to address their area of concern.

### Report Comparison



### Report Comparison - Aging





## Executive Summary

The above charts compare the three Acuity reports considered for this review regarding invoice queue location and aging. These show a) that the bulk of the invoices remains unassigned in the reviewer pool while LBRs work with their assigned invoices and b) that during the review period, there was an average of 29,967 invoices aged 59 days or less; 1,035 invoices over 60 days; 135 invoices over 90 days, and 12 invoices over 120 days.

### *Expedited Invoices*

We note that the increase in invoice volume has been met by CLB’s increase in invoice processing and efforts and initiatives leading to some measurable improvements. The initiative for expedited processing of certain invoices is achieved through system scripts. The scripts developed by management automatically approve a) 85% of the invoices submitted during a billing cycle by firms with a compliance rating of 95% or greater (achieved during the previous billing cycle) and b) all invoices of \$100 or less. The rest of the invoices go through the regular CLB workflow. We note that these automatically approved invoices are not considered for QA or for firms’ billing compliance rating purposes. Management does not perform reviews or quality control on these invoices.

While more permanent changes take effect (legislative changes, new ELMS, underwriting initiatives, etc.), and to make better use of the automatic approval process, management should revisit and expand the compliance-based structure and scripts to consider all firms. This may temporarily assist CLB in focusing on the quality of manual reviews while reducing the invoice backlog or accumulation. A sample structure is shown in the table below.

<b>Compliance Percentage</b>	<b>Automatic Approval</b>	<b>CLB Workflow</b>
95% or greater	85%	15%
91% - 94.99%	70%	30%
80% - 90.99%	30%	70%
79.99% or lower	15%	85%

Regardless of the structure, management should perform quality control of automatically approved invoices to ensure the orderliness of the process, perform necessary calibrations and validate that egregious items are not being billed and overlooked. Management may wish to include exceptions for certain cases or for certain stages of litigation (ex. trial) as well as cutoffs for high-dollar invoices. Any scripts developed should include an exception for duplicate amounts in the same matter.

Management should consider increasing the automatic approval of invoices of \$100.00 or less to \$500.00. Based on current legal hourly rates, this amount would be considered a nuisance amount. Consideration should also be given to increasing the dollar amount of invoices reviewed by contingent workers from the current \$500.00 to \$1,000.00. These increases could assist CLB to better utilize its resources and avoid using IAs for approval of invoices of \$500.00 or less (an initiative used previously by CLB).

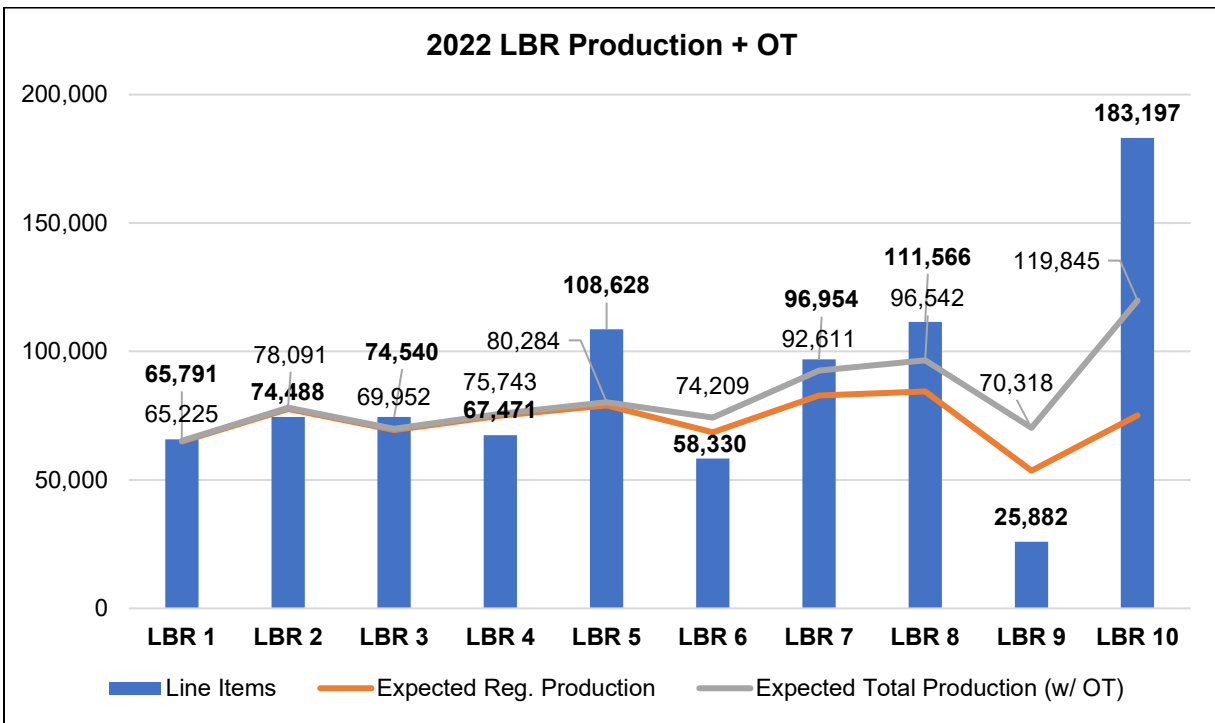


**Executive Summary**

**Legal Billing Reviewer (LBR) Production**

Internal Audit also examined LBR production data from the Claims Legal Billing Unit (CLB) Production Dashboard for 2022, together with overtime (OT) hours for LBR's during the same year and data provided by CLB management with actual production hours worked. Based on the 50- and 40-line entry per hour quotas set for LBR II's and LBR III's, respectively, we found OT allowance for some individuals not meeting the minimum expected quotas (expected line entries regular hours + OT hours worked).

Our review shows that 10 LBR IIs that had worked OT hours in 2021 also worked OT in 2022, with 2 of them exceeding 5 overtime hours per week. The graph below shows that out of these 10 individuals, 6 exceeded the minimum expected line entry quota by an average of 19,370 line entries, while 4 individuals fell short of the quota by an average of 18,047 line entries. These 4 individuals worked an average of 118 OT hours in 2022 with the minimum being 8.7 and the maximum being 334.26.



Management reported that individual LBR time is monitored and participants have been taken off OT due to performance. Overtime eligibility changes throughout the year based on the metrics. Management is encouraged to take into account the expected total production (regular hours + OT) and cease allowing OT for underperforming staff.

**Duplicate Payments**

Internal Audit reviewed production data provided by CLB for 2021 and 2022, identifying two specific subsets of claims where controls may have been circumvented, potentially leading to more than one vendor invoice approval and more than one payment for the same service. The



## Executive Summary

first subset examined vendor invoices being submitted, approved, and paid more than once directly to the vendor, while the second subset examined vendor invoices being submitted as a firm expense and as a vendor invoice, potentially leading to the expense being approved and paid more than once to different payees.

The first subset consisted of a universe of 13,257 claims where a vendor invoice could have been potentially paid twice. For testing purposes, the population was selected from payments of \$500.00 or more, resulting in 126 claims, out of which a sample of 62 claims was selected. Internal Audit found that in 33 out of the 62 claims reviewed (or 53.2% of the sample), vendor invoices were approved by an LBR more than once. In 7 instances the Litigation Specialist identified the error and did not approve payment; however, in the remaining 26 instances, duplicate payments were issued to the vendors for a total of \$48,079.76 for the same rendered service. Firm users were able to upload vendor invoices more than once by changing the naming convention. Therefore, the ELMS's duplicate invoice automated detection feature was unable to detect these.

For the second subset, the universe of claims where potential duplicate payments could have been issued was 1,617. Internal Audit looked at payments of \$500.00 or more, obtaining a population of 32 claims, out of which a sample of 15 was selected. Audit work found that in 5 out of the 15 claims reviewed (or 33% of the sample), a vendor invoice was approved by an LBR more than once. In 2 of the 5 instances, the Litigation Specialist did not approve the payment, but in the remaining 3, duplicate payments for a total of \$2,684.50 were issued to either a) the vendor or b) the law firm and the vendor.

We recommend that management perform a recovery audit to identify all instances where duplicate payments were issued to vendors/firms and initiate recovery efforts to promptly collect these overpayments. Furthermore, the incorporation of OCR (optical character recognition) in the vendor invoice review process could assist in the early detection of duplicates, while the periodic review and monitoring of transactions where duplicate payments were potentially issued could assist in the early detection of overpayments and the timely initiation of recovery efforts.

### ***Defense Firm Timekeeper Overtime***

Per Citizens' current Claims & Litigation Legal Services Guidelines ("Guidelines") firms are apprised that Citizens actively monitors the total time billed on Citizens' matters at a daily, monthly, and annual level for everyone performing/billing services on behalf of Citizens. The language contained in the previous Guidelines specifying maximum time expectations was removed to avoid misinterpretation of a "cap" and confusion by LBRs and firm timekeepers.

We noted that Acuity generates a non-critical exception at the 13-hour per day mark and a critical exception when a timekeeper exceeds 16 hours per day. Notwithstanding, the walkthroughs revealed that LBRs understand that the 13-hour mark is more of a compliance issue than a billing review item. Also, a sample review of heavy-billing timekeepers showed minimal instances where this daily threshold was exceeded. Our review showed the following:

- 16 timekeepers exceeded 2,400 hours both in 2021 and 2022.
- In 2021, 27 timekeepers billed in excess of 2,400 hours for the year, out of which 5 timekeepers billed in excess of 3,000 hours for the year.





## Executive Summary

- In 2022, 30 timekeepers billed in excess of 2,400 hours for the year, out of which 5 timekeepers billed in excess of 3,000 hours for the year, out of which 2 timekeepers billed in excess of 4,000 hours for the year.

A 2,400-hour per year mark assumes that the timekeeper worked exclusively on Citizens' cases 46 hours a week. For timekeepers that billed 3,000 hours or more per year, the calculation assumes that the timekeeper worked at least 57 hours per week exclusively on Citizens' cases, while for those who billed 4,000 hours or more, the calculation would be at least 76 hours per week.

We reviewed the results of management's outreach exercise for the 2021 firm timekeeper data, which was carried out in August of 2022. This outreach requests explanations from the firms regarding excessive hours submitted by timekeepers. Responses from the firms ranged from a one-page email to a 10-page report, some of which provided little or no substantive justification for the submitted time. Inquiries for 2022 firm timekeeper data were initiated in July 11, 2023.

Management should lower the current daily critical exception threshold of 16 hours and include monthly thresholds to properly monitor timekeeper activity and timely address any excess time billed. Mechanisms should be developed so that justification is required whenever a timekeeper exceeds the thresholds for two consecutive months. This could reduce the need for an untimely outreach exercise. Furthermore, management should revise the PowerBI Dashboard to include adjustments and appeals as additional data points to better understand the overall picture of a timekeeper.

Management should include this topic in a DFC Training campaign and incorporate these changes into the new ELMS, which is expected to be in production in 2025. In the meantime, management must develop any manual controls needed if the current ELMS does not allow the incorporation of any of these changes.

### *Invoice Processing and Adjustments*

The following table breaks down and summarizes CLB's PowerBI Adjustments dashboard:

Category		2021	2022	2023 (Jan – Jun)
<b>Firm</b>	Invoice Count	143,542	160,854	119,610
	Payments	\$97,374,012.15	\$95,019,406.39	\$79,363,590.29
	Adjustments	\$10,073,658.79	\$10,164,758.86	\$8,586,928.85
	Avg. Adjustment	9.38%	9.66%	9.76%
<b>Appeal</b>	Invoice Count	14,284	60,188	9,927
	Payments	\$3,228,189.43	\$2,934,339.81	\$2,219,068.64
	Adjustments	\$689,777.65	\$541,314.24	\$501,957.57
	Avg. Adjustment	17.61%	15.57%	18.45%
<b>Vendor</b>	Invoice Count	47,473	61,948	42,087
	Payments	\$21,211,349.11	\$31,725,734.02	\$21,220,594.72
	Adjustments	\$1,868,154.50	\$383,015.64	\$22,225.24



## Executive Summary

	Avg. Adjustment	8.09%	1.19%	-0.10%
<b>Total</b>	Invoice Count	205,299	239,295	171,624
	Payments	\$121,813,550.69	\$129,679,480.22	\$102,803,256.65
	Adjustments	\$12,631,590.94	\$11,089,088.74	\$9,066,661.18
	Avg. Adjustment	9.40%	7.88%	8.10%

Citizens' legal billing adjustments are consistently above 9% with appeals at over 15%, which is above the average client benchmark of 4% provided by CLM Advisors, the consulting and advisory arm of the Claims and Litigation Management (CLM) Alliance. Our review noted that overall, the top 3 reasons for adjustments for 2021 through 2023 have been a) Document Not Posted in Acuity b) Unreasonable Time, and c) Clerical/Administrative Task. We also noted the following:

- Data for vendor invoices shows 5 months in 2022 (May, July, October, November, and December) where payments in terms of dollars were higher than the dollar amount of invoices submitted. The total for these months is \$7,950.15.
- In 2023, vendor invoices are showing negative adjustments by an average of -0.10%, with Citizens appearing to have paid \$22,225.24 more than the \$21,198,369.48 received in vendor invoices.

Management has confirmed that this is a coding issue related to a manual process performed with vendor invoices. They will be working with their data analysts to correct the situation.

We note that CLB treats an appeal invoice as a new invoice (separate from the original invoice) and that the dashboards do not provide linear information tying the invoices. Because of these limitations, OIA Data Analytics was able to break down the CLB-provided data into categories and brackets to further look into payments and adjustments.

The following are the results of a sample review for each category:

Category		2021	2022
<b>Invoices Paid in Full</b>	CLB Handling Time	51	60
	Invoice to Payment	64	79
	Predominant Bracket (By Amount of Payment)	\$1 - \$100 48,543 / \$47.70	\$1 - \$100 66,874 / \$49.15
		\$101 - \$500 46,814 / \$268.74	\$101 - \$500 53,927 / \$264.97

Category		2021	2022
<b>Adjusted Invoices – Not Appealed</b>	CLB Handling Time	62	69
	Invoice to Payment	82	92
	Predominant Bracket (By Amount of Adjustment)	\$1 - \$100 31,931 / \$33.79	\$1 - \$100 34,874 / \$36.56



## Executive Summary

	Category	2021	2022
<b>Appealed – Fully Paid</b>	CLB Handling Time	83	61
	Appeal Invoice to Payment	98	77
	Predominant Bracket (By Amount of Appeal Payment)	\$1 - \$100 6,208 / \$30.85	\$1 - \$100 6,512 / \$33.80
	Total CLB Time (Original + Appeal)	124	116
	Average Lifespan (From Original to Appeal Payment)	169	156
	Average Appeal (From original adjustment)	96.59%	96.93%
	Predominant Adjustment Reason	Document not posted in Acuity	Document not posted in Acuity

	Category	2021	2022
<b>Appealed – Partially Paid</b>	CLB Handling Time	87	61
	Appeal Invoice to Payment	127	110
	Predominant Bracket (By Amount of Appeal Adjustment)	\$1 - \$100 3,410 / \$32.49	\$1 - \$100 4,413 / \$32.99
	Total CLB Time (Original + Appeal)	135	171
	Average Lifespan (From Original to Appeal payment)	214	197
	Average Appeal (From original adjustment)	87.62%	89.99%
	Average Payment of Original Invoice (After Appeal adjustment)	56.71%	70.77%
	Predominant Adjustment Reason (Original)	Document not posted in Acuity	Document not posted in Acuity
	Predominant Adjustment Reason (Appeal)	Unreasonable Time	Unreasonable Time

Through this review we also noted:

- There is a significant number of low-value adjustments that have gone without an appeal. Based on feedback obtained during the DFC outreach exercise as to the appeal process being time-consuming, firms may not be inclined to appeal minimal reductions from a cost-benefit analysis perspective.
- Invoices are left by the firms in “Draft” status for up to 2 months.



## Executive Summary

Leading accounts payable practices set the optimal payment turnaround time at 30 days; however, Internal Audit research shows that 45 days is the most widely used payment term for professional services. We note that Citizens' agreement with the contracted firms does not contain payment terms. Management reports that the lag in payment times is directly related to the substantial increase in invoices received in 2021 (270K invoices), compared to 2021 (215K invoices).

It is, therefore, reasonable to assert that Citizens is not currently meeting acceptable payment turnaround times. In addition to or in conjunction with recommendations noted herein, management should evaluate outsourcing the legal bill review process while invoice counts drop to a manageable level and/or evaluate if the Litigation Specialist (LS) review is a necessary step in the process. Internal Audit did not observe firm invoice adjustments by LS's once the invoice had been approved by an LBR .

The following are suggested improvements that management is encouraged to consider as enhancements to the operational effectiveness and efficiency of the CLB Unit and the associated QA process.

**Legal Billing QA** – While no exceptions were noted in the QA process, we suggest that QA management be able to extract data directly instead of relying on the monthly delivery by CLB.

The QA sample should be selected from the CLB universe and should include LBR Is, which are not part of the process. This (in conjunction with CLB Audits and QC of automatically approved invoices) could assist CLB management to identify the frequency and severity of certain non-compliant items and calibrate firm compliance percentages accordingly.

We note that the current sample is based on a fixed number, and invoices are randomly selected by InPoint. This selection type does not consider individual LBR production, which could vary for numerous reasons. QA should evaluate selecting its sample based on LBR production percentage, for a more comprehensive assessment.

**CLB Dashboards** – We note that the current dashboards provide limited information and no access to the underlying data for validation and benchmarking purposes. Dashboard enhancements could assist in answering questions from different points of view as well as points in time. Examples of these are linear or matter-specific invoice/appeal adjustments, reduction of timekeeper hours after adjustments/appeals, and information prior to 2022 in the CLB Production dashboard, among others. Management has reported challenges in having a dedicated business analyst assigned to develop and implement additional reports; however, they intend to leverage functionalities and reports available out-of-the-box in the new ELMS.

As Internal Audit will participate in the implementation of the new ELMS in an advisory capacity, we recommend involving the Internal Audit Data Analytics unit as well. This could help ensure consistency and transparency of sources and queries.

**Staff Training** – Notably, during our DFC outreach, some attorneys were under the impression that their bills were audited by personnel whom they believed had little or no legal background because they lacked the judgment to determine and evaluate the complexity of activities within a particular matter. Internal Audit noted that while some LBRs may have legal background and/or



## Executive Summary

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education, the unit would benefit from having LBRs undergo paralegal-type training and/or workshops.

**DFC Training** – While we understand that line entries for which the documents were not submitted cannot be paid, management would benefit from providing DFC training geared toward billing compliance. This training should be inclusive of administrative and paralegal personnel, who often are responsible for billing processes at the firms. We note that the recent DFC training focused more on case handling and strategies with little time dedicated to legal billing. Training sessions and/or refreshers should cover billing expectations and practices, including vendor invoice uploading (in an effort to avoid duplicates) and timekeeping. According to management onboarding

Internal Audit understands that these efforts, leveraged with other initiatives suggested herein, should help increase firm billing compliance percentages and reduce adjustments and appeals.

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



## Distribution

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