

Office of the
Internal Auditor

AUDIT REPORT July 2023

Underwriting Vendor
Management Audit



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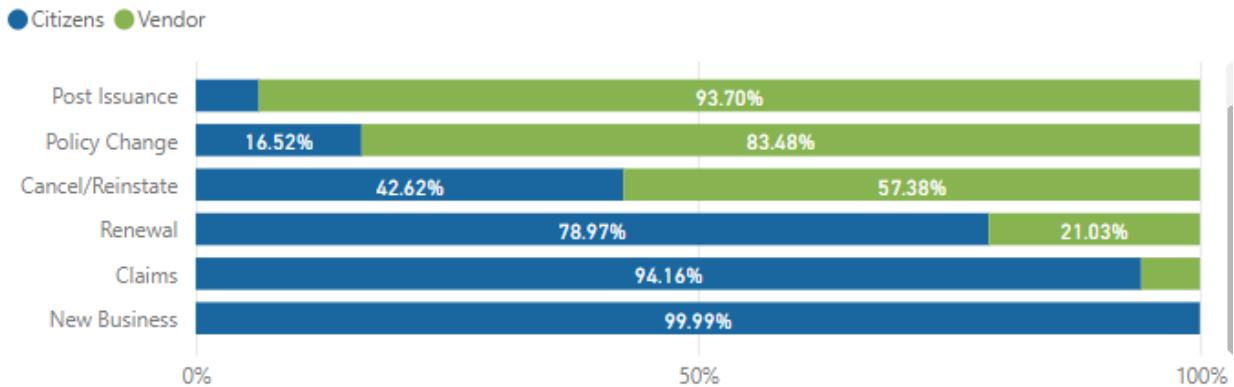


Executive Summary

Background

Citizens' business model is to expand and contract operations as the policies in force (PIF) grows and contracts by using third-party vendors to support several areas across the company, including Underwriting operations. As a general principle, Citizens considers outsourcing an organizational core competency when a vendor can reduce operating costs, improve scalability, and reduce risk. Due to Citizens' significant (PIF) growth, contracting with vendors has been critical to Underwriting by moderating permanent staffing with the ability to scale up and down when needed and providing seamless continuity of service to the policyholders. However, with the tight national labor market, these vendors are also experiencing challenges in finding resources to perform work, posing a risk to Citizens.

Personal Lines Underwriting uses several contracted vendor services to assist with various underwriting tasks. Specifically, Business Process Operations (BPO) vendors complete common and less complex tasks versus Citizens underwriting staff. Between January and May 31st, 2023, there were more than 550k task activities recorded in Citizens underwriting system, PolicyCenter. Outside of PolicyCenter the underwriting staff at Citizens also completed more difficult tasks not depicted in the following chart. The chart below provides a view of completed tasks captured within PolicyCenter.



Underwriting management meets with BPO vendors weekly to review and discuss items such as PIF count, daily task activities performed, policy and process updates, answer vendor questions, and review identified training opportunities. The BPO vendors for Personal Lines UW Production Services, Inspection Services spend for 2022 by vendor class totaled: BPO UW Vendors \$7,950,222; Inspection Vendors \$7,603,423. Underwriting recently added a Strategic Underwriting Analysis Team to provide a rolling 3-month forecast for the BPO vendors' services to assist with planning for PIF growth.

Separately, the company uses Print Mail Vendors with a financial spend in 2022 of \$9,153,296. There have been some recent delays with documents being printed and mailed by one of the print vendors, and on March 9th, Citizens began to notify policyholders and agents of potential delays with policyholders receiving documents. Policyholders were advised that the mailing delays of the vendor will not adversely impact them, and due dates that may have passed will be revisited and extended by Citizens where appropriate.



Executive Summary

Objectives and Scope

To evaluate the adequacy and effectiveness of controls related to the management of outsourced vendor processes, reconciliation of invoicing, and data accuracy and quality.

- Validate UW vendors' performance against SLA requirements.
- Review vendor ability to scale up or down for business continuity.
- Review Quality Assurance results for UW vendors.
- Confirm UW Managers and Contract Managers are actively reviewing quality assurance results and engaging with vendors regularly.
- Ensure the controls of the reconciliation process are working as intended to ensure Citizens is not paying for services not performed.

We excluded the print mail vendor work in the scope of this engagement as it was reviewed under a separate advisory engagement.

Results

Internal Audit work results indicate adequate controls related to data quality, accuracy, processes, and management of the outsourced vendors. Specifically, the following key strengths were observed:

- During 2022's rapid PIF growth, vendor performance slightly decreased in meeting service level agreements but quickly rebounded to meet service levels.
- In response to the increased workload due to continued PIF growth, vendors successfully added staffing to keep up with the increased demand.
- Quality assurance assessments of vendor's performance are completed regularly and reported monthly by the Citizens QA team. The assessments performed by Citizens include specific transactions performed by service type. UW Management has weekly touch base meetings with each Vendor to communicate quality assessment scores and review policy changes, service level cycle times, and training opportunities. Vendors met satisfactory levels in 2022, and current transactional performance remains at 95% and above.

There was one low-rated finding regarding the reconciliation process of vendor invoices. This observation was discussed with Management, and remediation plans are in progress.

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



Distribution

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