



Office of the Internal Auditor



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AUDIT REPORT

Administrative and Executive Expenses

November 16, 2016

Table of Contents:	Page
Executive Summary	
Background	1
Audit Objectives and Scope	2
Audit Opinion	2
Appendix	
Definitions	4
Distribution	5
Audit Performed By	5

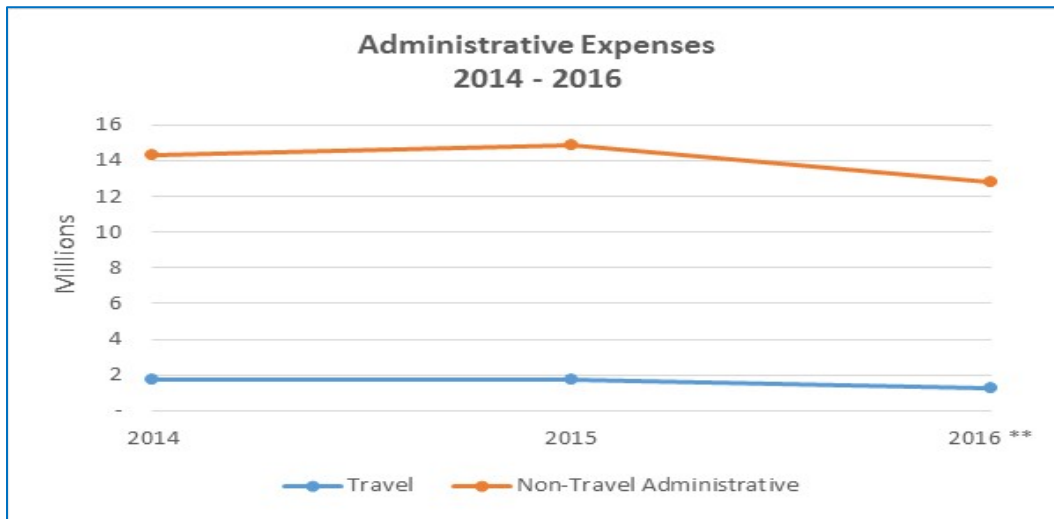
Executive Summary

Background

Companies incur both operational and administrative expenses as a normal course of business. Operating expenses are the costs associated with the company’s operating activities. For Citizens this would include any claims or underwriting related expenses. Operating expenses fluctuate with the level of business conducted.

Administrative expenses are all other expenses necessary to maintain the organization and are generally not directly related to the level of production. Administrative expenses include salaries, benefits, facility expenses, depreciation, technology reallocations, travel costs and other non-travel expenses. For the purpose of this audit, administrative expenses were limited to discretionary costs for travel and non-travel expenses such as subscriptions, awards and recognition, memberships, professional certifications, other professional consulting, etc. which are covered by specific Corporate policies and may be more susceptible to irregularities.

For analysis purposes, administrative expenses were compared between 2014, 2015 and 2016 (annualized). Over that period, Citizens administrative expenses were relatively flat for both travel and non-travel expenses.



Citizens’ administrative expenses can be submitted through a check request, invoice, or travel expense report, all of which are processed through Accounts Payable. During the period January 1, 2015 through June 30, 2016, Citizens recorded total administrative expenses of \$23,621,572.66.

Expense Submissions	# Transactions	Value
Check Requests & Invoices	9,034	20,985,831.39
Expense Reports	18,089	2,728,615.80
Voids & Adjustments	616	(92,874.53)
Total	27,739	23,621,572.66

Executive Summary

Citizens' process for reviewing and recording travel expense reports has been in place for several years and is fairly mature. Travel expenditures are controlled by both the "Citizens Business Travel Policy" and the "P-Card Policy".

Citizens Business Travel Policy applies to all Citizens employees and members of the Board of Governors. The policy was designed to mirror the Florida State Public Officers and Employees Travel Reimbursement Policy set forth in section 112.061 of the Florida State Statutes. It outlines the procedures and the forms required for employees to obtain approval for travel and reimbursement of travel expenses. The policy also designates those responsible for authorizing travel and distinguishes what travel expenses are considered eligible or not eligible. The P-Card Policy parallels the Business Travel Policy and also identifies the types of transactions that are allowed, how expenses will be reported and approval levels.

During 2015 Citizens also recorded travel expenses through direct billing invoices for hotels and car rentals. This procedure was discontinued at the end of the year and currently all hotel and car rentals are handled through travel expense reports. In March 2016 Citizens implemented the "Business Expenses Not Related to Business Travel" to cover non-travel related expenses such as awards and recognitions, certification fees and subscriptions which are usually processed through an expense report or a check request.

Invoices and check requests are approved at the business unit level and approval limits have been established based on the level of management. The procedures for processing invoices are also relatively mature and no significant changes have been made for several years.

In addition, the Citizens Plan of Operations outlines the responsibilities for reimbursement of Board expenses, payment of necessary corporate expenses and responsibility and delegation of approval for travel expenses.

Audit Objectives and Scope

The objective of this audit was to evaluate the effectiveness and adequacy of key business processes and control functions for administrative expenses to ensure appropriate documentation, proper approval and compliance with Citizens' policies. The audit included transactions which occurred between January 1, 2015 and June 30, 2016 and focused on both travel and non-travel expenses. Emphasis was placed on Executive Expenses which are defined as those incurred by or on behalf of Citizens' Executives or members of the Board of Governors.

Audit Opinion

The overall effectiveness and adequacy of key business processes and control functions over administrative and executive expenses is rated as **Satisfactory**.

We found the processes and controls for the documenting, reviewing and approving both invoices and expense reports to be functioning well. Expense transactions were analyzed for the period January 1, 2015 through June 30, 2016. A detailed review of sample transactions was performed

Executive Summary

to ensure compliance with Citizens' policies for both travel and non-travel expenditures. No significant exceptions were identified. Minor observations related to policies and practices surrounding expense report approvals were verbally presented to management.

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

Appendix 1

Definitions

Audit Ratings

Satisfactory:

The control environment is considered appropriate and maintaining risks within acceptable parameters. There may be no or very few minor issues, but their number and severity relative to the size and scope of the operation, entity, or process audited indicate minimal concern.

Needs Minor Improvement:

The number and severity of issues relative to the size and scope of the operation, entity, or process being audited indicate some minor areas of weakness in the control environment that need to be addressed. Once the identified weaknesses are addressed, the control environment will be considered satisfactory.

Needs Improvement:

The audit raises questions regarding the appropriateness of the control environment and its ability to maintain risks within acceptable parameters. The control environment will require meaningful enhancement before it can be considered as fully satisfactory. The number and severity of issues relative to the size and scope of the operation, entity, or process being audited indicate some noteworthy areas of weakness.

Unsatisfactory:

The control environment is not considered appropriate, or the management of risks reviewed falls outside acceptable parameters, or both. The number and severity of issues relative to the size and scope of the operation, entity, or process being audited indicate pervasive, systemic, or individually serious weaknesses.

Appendix 2

Distribution

Addressee(s) Andrew Woodward, Senior Director - Controller

Copies

Business Leaders:

Barry Gilway, President/CEO/Executive Director
Jennifer Montero, Chief Financial Officer
Matt Gerrell, Assistant Controller
Cam Atwell, Manager – Financial Reporting and Accounting
Nancy Staff, Director – Ethics and Compliance Officer
Bruce Meeks, Inspector General

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The Honorable Pam Bondi, Attorney General
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The Honorable Andy Gardiner, President of the Senate
The Honorable Steve Crisafulli, Speaker of the House of Representatives

The External Auditor

Audit Performed By

Auditor in Charge Bill Atwood, Senior Internal Auditor

Under the Direction of Joe Martins
Chief of Internal Audit
