



# AUDIT REPORT

## CAT Field Checks

January 29, 2018

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# Executive Summary

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## Background

On September 10 and 11, 2017 Hurricane Irma hit the State of Florida creating significant property damage in the Florida Keys and other portions of the state with Citizens receiving in excess of 65,300 claims. Given the size and impact of the storm, Citizens activated its catastrophe (CAT) response plan which impacted several processes and activities. In response, OIA identified areas with increased risk and developed targeted audits to provide operational and financial assurance.

As part of the aforementioned CAT response, Citizens mobilized Catastrophe Response Centers (CRC) to North Miami Beach, Florida City, Naples and the Florida Keys including Key Largo, and Marathon in addition to setting up a satellite office in Big Pine Key. During the three week deployment timeframe, staff at the CRC's assisted nearly 1,800 policyholders and dispersed over \$1 million in additional living expenses to policyholders.

Field checks are provided to policyholders affected by a CAT event as a means to cover the policyholder's immediate Additional Living Expenses (ALE). After Irma made landfall, field checks were distributed at Citizens CRC locations by authorized Customer Service Support employees, once a review of policyholder information was performed. As of December 14, 2017, 435 field checks were authorized and distributed to affected policyholders related to Irma.

## Audit Objectives and Scope

The objective of this audit was to evaluate the design and effectiveness of the controls associated with the distribution and monitoring of field claim payment checks issued during hurricane Irma to ensure compliance with the respective corporate policies. Our scope included the following areas:

- Obtain an understanding of the procedures utilized to control and monitor field checks distributed to CRC Staff to provide to impacted policyholders, and verify that those procedures were properly carried out.
- Verify that payments made via field checks were properly authorized and processed in accordance with Company procedures.

## Audit Opinion

The overall effectiveness of the processes and controls related to CAT Field Checks evaluated during the audit is rated as **Needs Minor Improvement**.

Although we obtained reasonable assurance that field check ALE payments to impacted policyholders were properly authorized and accurately processed in accordance with existing procedures, we however noted that there were certain control activities which needed to be strengthened going forward to properly safeguard the field check stock.

Those specific activities where opportunities for improvement were noted:

- **The need to ensure proper procedures are in place surrounding the physical access to field checks.** Observations of the Jacksonville and Tallahassee check rooms revealed that the check stocks maintained in both rooms are not under dual control, which would require two people in order to access the check supply. We also noted that during active CRC shift hours, field checks were unlocked and placed on a shelf inside the CRC mobile vehicle which could be conceivably

## Executive Summary

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accessed by anyone who had access to vehicle. If lost or misappropriated, field checks can easily be converted to cash, resulting in a loss of funds to Citizens.

- **The need to perform periodic physical inventories of field checks.** We noted that a physical inventory of field checks has not been performed recently by Finance personnel. Periodic physical inventory counts are necessary to ensure checks are not missing and to know how many are available for a pending CAT event.
- **Effective procedures are not in place to verify the completeness of opened unused field checks returning from the CRC locations.** We noted that for any unsealed stacks of checks returning from the field to the Jacksonville secure check room, accounting personnel inspected only the first check and last check to verify a series of checks were returned. Lost and/or misappropriated field checks may not be identified in a timely manner in order to allow Treasury Management to place a stop payment, resulting in a loss of funds to Citizens. Individual field checks cannot exceed \$5,000 as stated on the face of each check.

No instances of inappropriate ALE payments or misappropriation of field checks were noted, and a detailed Check Inventory Audit was kicked off on December 11, 2017 to place assurance that no checks were missing.

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

# Appendix 1

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## 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

### Issue Classifications

Control Category	High	Medium	Low
<i>Financial Controls (Reliability of financial reporting)</i>	<ul style="list-style-type: none"> <li>Actual or potential financial statement misstatements &gt; \$10 million</li> <li>Control issue that could have a pervasive impact on control effectiveness in business or financial processes at the business unit level</li> <li>A control issue relating to any fraud committed by any member of senior management or any manager who plays a significant role in the financial reporting process</li> </ul>	<ul style="list-style-type: none"> <li>Actual or potential financial statement misstatements &gt; \$5 million</li> <li>Control issue that could have an important impact on control effectiveness in business or financial processes at the business unit level</li> </ul>	<ul style="list-style-type: none"> <li>Actual or potential financial statement misstatements &lt; \$5 million</li> <li>Control issue that does not impact on control effectiveness in business or financial processes at the business unit level</li> </ul>
<i>Operational Controls (Effectiveness and efficiency of operations)</i>	<ul style="list-style-type: none"> <li>Actual or potential losses &gt; \$5 million</li> <li>Achievement of principal business objectives in jeopardy</li> <li>Customer service failure (e.g., excessive processing backlogs, unit pricing errors, call center non responsiveness for more than a day) impacting 10,000 policyholders or more or negatively impacting a number of key corporate accounts</li> <li>Actual or potential prolonged IT service failure impacts one or more applications and/or one or more business units</li> <li>Actual or potential negative publicity related to an operational control issue</li> <li>An operational control issue relating to any fraud committed by any member of senior management or any manager who plays a significant role in operations</li> <li>Any operational issue leading to death of an employee or customer</li> </ul>	<ul style="list-style-type: none"> <li>Actual or potential losses &gt; \$2.5 million</li> <li>Achievement of principal business objectives may be affected</li> <li>Customer service failure (e.g., processing backlogs, unit pricing errors, call center non responsiveness) impacting 1,000 policyholders to 10,000 or negatively impacting a key corporate account</li> <li>Actual or potential IT service failure impacts more than one application for a short period of time</li> <li>Any operational issue leading to injury of an employee or customer</li> </ul>	<ul style="list-style-type: none"> <li>Actual or potential losses &lt; \$2.5 million</li> <li>Achievement of principal business objectives not in doubt</li> <li>Customer service failure (e.g., processing backlogs, unit pricing errors, call center non responsiveness) impacting less than 1,000 policyholders</li> <li>Actual or potential IT service failure impacts one application for a short period of time</li> </ul>
<i>Compliance Controls (Compliance with applicable laws and regulations)</i>	<ul style="list-style-type: none"> <li>Actual or potential for public censure, fines or enforcement action (including requirement to take corrective actions) by</li> </ul>	<ul style="list-style-type: none"> <li>Actual or potential for public censure, fines or enforcement action (including requirement to</li> </ul>	<ul style="list-style-type: none"> <li>Actual or potential for non-public action (including routine fines) by any regulatory body</li> </ul>

## Appendix 2

Control Category	High	Medium	Low
	<p>any regulatory body which could have a significant financial and/or reputational impact on the Group</p> <ul style="list-style-type: none"> <li>• Any risk of loss of license or regulatory approval to do business</li> <li>• Areas of non-compliance identified which could ultimately lead to the above outcomes</li> <li>• A control issue relating to any fraud committed by any member of senior management which could have an important compliance or regulatory impact</li> </ul>	<p>take corrective action) by any regulatory body</p> <ul style="list-style-type: none"> <li>• Areas of non-compliance identified which could ultimately lead to the above outcomes</li> </ul>	<ul style="list-style-type: none"> <li>• Areas of noncompliance identified which could ultimately lead the above outcome</li> </ul>
<i>Remediation timeline</i>	<ul style="list-style-type: none"> <li>• Such an issue would be expected to receive immediate attention from senior management, but must not exceed 60 days to remedy</li> </ul>	<ul style="list-style-type: none"> <li>• Such an issue would be expected to receive corrective action from senior management within 1 month, but must be completed within 90 days of final Audit Report date</li> </ul>	<ul style="list-style-type: none"> <li>• Such an issue does not warrant immediate attention but there should be an agreed program for resolution. This would be expected to complete within 3 months, but in every case must not exceed 120 days</li> </ul>

## Appendix 3

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### Distribution

Addressee(s) Matt Gerrell, Director Assistant Controller  
Erin Vickory, Asst. Director Consumer Services

Copies **Business Leaders:**  
Barry Gilway, President/CEO/Executive Director  
Dan Sumner, Chief Legal Officer & General Counsel  
Christine Turner Ashburn, Chief, Communications, Legislative & External Affairs  
Bruce Meeks, Inspector General  
Jay Adams, Chief Claims  
Steve Bitar, Chief Underwriting & Agency Services  
Jennifer Montero, Chief Financial Officer  
Jeremy Pope, Sr. Director Consumer & Policy Services  
Craig Sakraida, Director of Claims  
Andrew Woodward, Sr. Director Controller

**Audit Committee**

Bette Brown, Citizens Audit Committee Chairperson  
James Holton, Citizens Audit Committee Member  
Senator John McKay, Citizens Audit Committee Member

**Following Audit Committee Distribution**

The Honorable Rick Scott, Governor  
The Honorable Jimmy Patronis, Chief Financial Officer  
The Honorable Pam Bondi, Attorney General  
The Honorable Adam Putnam, Commissioner of Agriculture  
The Honorable Joe Negron, President of the Senate  
The Honorable Richard Corcoran, Speaker of the House of Representatives

The External Auditor

### Audit Performed By

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Auditor in Charge Mike Walton, Manager – Internal Audit

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Audit Director John Fox, Director – Internal Audit

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*Under the Direction of* Joe Martins  
*Chief of Internal Audit*

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