



AUDIT REPORT

CAT Independent Adjuster Payments (Day Rate and Fee Bill)

January 3, 2018

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Executive Summary

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 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.

The Claims Division is responsible for reviewing and paying adjusting expenses. Independent Adjusters (IA's) are paid on either a Day Rate or Fee Bill basis. Day Rate payments are based on flat rate per day of work and Fee Bill payments are based on a variable percentage of the Gross Claim Amount (GCA). Day Rate payments are processed by a Project Coordinator under the direction of the Director – Claims Vendor and System Management, while Fee Bill payments are processed by a Claims LAE Lead and temporary staff under the direction of a Director – Claims.

Due to the large increase in the number and value of claims related to hurricane Irma, there is also a significant increase in the number and value of adjusting expense invoices. To attract and retain IA's for the CAT event, the rates being paid for adjusting services were increased on 9/7/17 and again on 9/12/17. In addition, to manage the review and approval of the increased number of invoices being received, temporary, supplemental resources were engaged to process Fee Bill invoices. Because of the change in rates being paid, the increase in the number and value of invoices being paid and the utilization of temporary resources, OIA determined that was appropriate to review CAT IA Payments (Day Rate and Fee Bill).

Audit Objectives and Scope

The objective of this audit was to obtain reasonable assurance that CAT IA Payments (Day Rate and Fee Bill) made during the current CAT event were being processed in accordance with established procedures and were valid and accurate.

The scope of the audit included the following procedures:

- Confirm the processes and internal controls for CAT IA Payments
- Determine that the processes were being followed and that the internal controls were operating effectively
- Determine the accuracy of CAT IA Payments

Audit Opinion

The overall effectiveness of the processes and controls related to CAT IA Payments which were evaluated during the audit is rated as **Satisfactory** and we obtained reasonable assurance that the processes and internal controls for CAT IA Payments are operating effectively.

OIA noted that Day Rate payments were made accurately in accordance with existing processes and applicable rate tables. In the case of Fee Bill payments, OIA noted a small number of instances where duplicate payments were made for adjusting expense invoices. During the period of September 16, 2017 through October 31, 2017 Fee Bill payments totaling \$36,692,152 were made related to 21,283 claims. OIA noted that during the same period duplicate payments totaling \$26,358 [.07%] were made related to Fee Bill invoices for 18 claims [.08%]. When payment errors are identified there is a process to recover the payments, and as a result, OIA noted that some deductions were processed in subsequent payments.

Executive Summary

These errors were attributed to high transaction volume and the use of temporary personnel to assist in processing Fee Bill payments in a timely manner. Recovery of these duplicate payments has now been initiated by claims management.

There is an opportunity to improve the controls for duplicate payments. Claims management should continue to explore the benefits provided by additional third-party software in respect of managing and paying independent adjusters, as well as engaging IT and claims data analytics to develop and implement exception reporting to improve the detection of duplicate payments and other anomalies.

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

Issue Classifications

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

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"> • Any risk of loss of license or regulatory approval to do business • Areas of non-compliance identified which could ultimately lead to the above outcomes • A control issue relating to any fraud committed by any member of senior management which could have an important compliance or regulatory impact 	<p>take corrective action) by any regulatory body</p> <ul style="list-style-type: none"> • Areas of non-compliance identified which could ultimately lead to the above outcomes 	<ul style="list-style-type: none"> • Areas of noncompliance identified which could ultimately lead the above outcome
<i>Remediation timeline</i>	<ul style="list-style-type: none"> • Such an issue would be expected to receive immediate attention from senior management, but must not exceed 60 days to remedy 	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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

Appendix 3

Distribution

Addressee(s) Greg Rowe, Director Claims Vendor & System Management
Craig Sakraida, Director Claims

Copies **Business Leaders:**
Barry Gilway, President/CEO/Executive Director
Jay Adams, Chief Claims Officer
Dan Sumner, Chief Legal Officer & General Counsel
Christine Turner Ashburn, Chief, Communications, Legislative & External
Affairs
Bruce Meeks, Inspector General

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

Auditor in Charge Gary Sharrock, IT Audit Manager

Audit Director John Fox

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