



## Office of the Internal Auditor



Confidentiality  
Integrity  
Ethics  
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# AUDIT REPORT

## Catastrophe Pay Policy and Execution

February 6, 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 resulting in approximately 63,000 claims.

The Catastrophe (“CAT”) Pay program is administered by Human Resources and is designed to compensate Citizens employees who are deployed or required to work extended shift in response to a catastrophic event. Individuals receiving payments under this program must have prior approval and meet certain eligibility requirements. Payments are made based on the rates established by the Catastrophe Pay Policy and are paid through the normal payroll process. Citizens’ management activated the provisions in the Catastrophe Pay Policy on September 6, 2017 in preparation for Hurricane Irma response.

On September 10, 2017, the Catastrophe Pay-Hurricane Irma Addendum was developed by Human Resources and includes enhancements to the CAT pay tiers for deployment and extended shift pay, which supersedes the CAT pay tiers in the Catastrophe Pay Policy for the duration of the Hurricane Irma response. Other provisions outlined in the Catastrophe Pay Policy effective August 9, 2017 will remain in place.

## Audit Objectives and Scope

The objective of this audit is to evaluate the design and effectiveness of the controls over the Catastrophe Pay program to ensure compliance with the respective corporate policies and procedures. Our scope includes the following areas:

- Eligibility requirements are met
- Tracking and monitoring of individuals receiving Catastrophe Pay
- Payments were properly authorized and processed in accordance with policy

## Management’s Assessment and Reporting on Controls

The Office of the Internal Auditor provided Human Resources management an opportunity to share known control weaknesses and their plans to remediate them. This process is intended to foster an environment whereby management and staff conduct periodic proactive reviews of controls and are aware of the risks to the business. It also enables OIA to focus its audit efforts on areas where it can add value to the organization.

At the start of the Catastrophe Pay Policy and Execution audit, Payroll management shared the following control weakness and remediation plans with OIA:

Payroll management discovered that a CAT compensation code was incorrectly used to pay 42 non-exempt employees during the Hurricane Irma response. Management identified this issue in October 2017 while conducting a review of CAT payments; however, the total amount paid to non-exempt employees was minimal - \$35,350. In the interim, management made a business decision to continue to use the CAT compensation code to pay non-exempt employees for the duration of the Irma response to prevent negative impacts to the organization. Management plans to revisit their policies and procedures with regards to processing future CAT compensation.

## Executive Summary

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### Audit Opinion

The overall effectiveness of the procedures and related processes associated with the Catastrophe Pay program is rated as **Satisfactory**.

Results from our audit work indicate that the corporate policies and procedures used to administer the Catastrophe Pay program sufficiently define the eligibility requirements, compensation criteria and authorization procedures. We also found the controls are adequately designed to ensure that eligibility requirements are met and transactions are properly approved and processed accurately.

Results from our work noted an opportunity to increase the efficiency of the Catastrophe Pay Program. Management is encouraged to consider the following OIA suggestion:

- Develop a centralized process to track and monitor all Citizens' employees approved for CAT pay. Each business area involved in the CAT response has their own process in place to track and monitor the deployment and extended shift hours worked by their employees. However, a centralized process would improve efficiency, ensure accuracy and prevent potential abuse.

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<br/>(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<br/>(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<br/>(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) Craig Sakraida, Director, Claims  
Carrie Thomas, Director, Total Rewards  
Lori Dillingham, Director, HR Business Partner

Copies **Business Leaders:**  
Barry Gilway, President/CEO/Executive Director  
Jay Adams, Chief, Claims  
Violet Bloom, Chief, Human Resources  
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Christine Turner Ashburn, Chief, Communications, Legislative & External Affairs  
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James Holton, Citizens Audit Committee Member  
Senator John McKay, Citizens Audit Committee Member

**Following Audit Committee Distribution**  
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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 Angela Smith, Senior Internal Auditor

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Audit Director John Fox, Audit Director

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

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