



## Office of the Internal Auditor



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# AUDIT REPORT

## Irma Emergency Procurement Audit

January 23, 2018

<b>Table of Contents:</b>	<b>Page</b>
<b>Executive Summary</b>	
Background	1
Audit Objectives and Scope	1
Management’s Assessment and Reporting on Controls	1
Audit Opinion	2
<b>Appendix</b>	
Definitions	3
Distribution	4
Audit Performed By	4

# Executive Summary

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## Background

In preparation for Citizens response to insured property damage following Hurricane Irma, 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.

Declarations of a state of emergency were announced by Florida Governor Rick Scott, the Florida Office of Insurance Regulation and Citizens' President and CEO prior to Irma landfall. An Emergency Authorization approved by Citizens' Board of Governors on September 6, 2017 gave Citizens the authority to suspend or waive corporate policies consistent with the Governor's Executive Order including purchasing for a period of thirty days unless otherwise extended. In alignment with the Governor's Executive Order, Citizens' President and CEO invoked Citizens' ability to utilize emergency procurement under Florida Statutes, 287.057.

The emergency procurement response resulted in action items (also known as the "Emergency Order Action Item" or "EOAI") permitting Citizens' staff to "pursue new contracts, amend existing contracts and exceed originally approved contractual spend authority to the extent doing so is directly related to and necessitated by Citizens". Hurricane Irma response and recovery effort produced \$14.22M of EOAI spend through 140 procurements.

## Audit Objectives and Scope

The objective of this audit was to evaluate the adequacy and effectiveness of processes and controls in place to ensure compliance with emergency procurement policies. The scope of the audit included an assessment of controls and procedures for the following areas:

- Verify contracts comply with Citizens emergency procurement policies, Governor, OIR and Executive emergency orders and legislative requirements.
- Review documentation supporting contract approval and execution during the period of emergency.
- Ensure all contracts procured or executed during the emergency declaration are appropriately tracked and monitored.

The scope of this audit did not include a review of spend associated with emergency procurements.

## Management's Assessment and Reporting on Controls

OIA provided 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 audit, Vendor Management Office (VMO) management shared the following opportunities with corresponding remediation plans expected to be completed from the fourth quarter of 2017 through the second quarter of 2018. The VMO has made progress and taken a proactive approach to realize the opportunities:

## Executive Summary

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- Contracts with services applicable beyond the response to hurricane Irma and therefore not covered under the EOAI were presented to the Board of Governors for additional review and approval on December 13<sup>th</sup>, 2017.
- Improve the availability and reliability of resources with authority to provide timely support and approve emergency order action item activities for future CAT events.

The VMO and Purchasing Departments engaged in a proactive post Irma review by self-evaluating their organization including their performance and facilitation of emergency order action item activities prior, during, and immediately after the storm. As a result, they have documented lessons learned and are planning process improvements for the 2018 hurricane season.

### Audit Opinion

The overall effectiveness of the processes and controls with regards to the catastrophe emergency procurement process evaluated during the audit is rated as **Satisfactory**.

Results from the audit indicates that VMO and Purchasing efforts to guide and assist Citizens' need to procure goods and services during a declared emergency was adequate. VMO personnel improvised and utilized multiple technology resources to prioritize needs, obtain quotes, contact and mobilize vendors with existing contracts enabling the business to meet their needs under stressful circumstances.

OIA identified the following improvement opportunities:

- Enhance the Emergency Procurement procedures to include additional documentation requirements. Although compliance with minimum statutory and policy requirements was maintained, the business justification for emergency procurement of goods or services was not always comprehensively documented within the procurement process. Goods and services procured under the guidance of hurricane executive orders and emergency procurement policy bypassed many procurement controls intended to ensure Citizens operates responsibly and effectively. In these instances, the importance of documenting management's rationale associated with procurement decisions need to be clearly stated.
- Provide approval authority guidance during emergencies. Approval authority levels for emergency procurement followed the normal guidelines. However, the authority levels were not defined in the Emergency Procurement policy.

Management agreed to implement the improvements and plans will be in place before the next hurricane season.

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 3

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### Distribution

Addressee(s) Stephen Guth, VP Vendor Management  
Spencer Kraemer, Director Purchasing

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

**Audit Committee**  
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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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<i>Under the Direction of</i>	<i>Joe Martins Chief of Internal Audit</i>
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