

# INTERNAL AUDIT

Reinsurance Recoveries  
Audit Report

September 6, 2019



## Table of Contents

---

	<b>Page</b>	
	<b>Executive Summary &amp; Report</b>	
	Background	1
	Audit Objectives and Scope	1
	Audit Results	1
	<b>Appendix</b>	
	Distribution	3



## Executive Summary & Report

### Background

Section 7(C) of Citizens' ("the Company") Plan of Operation states "the Board shall use its best efforts to procure catastrophe reinsurance at reasonable rates to cover its projected 100-year probable maximum loss, as determined by the Board, from reinsurers determined to be qualified by the Board." To align with the Plan of Operation and the Company's Strategic Plan, the Board has charged the Company's Financial Services Division with the responsibility to plan, execute, and administrate the Company's risk transfer program. Recent and current risk transfer programs have included traditional private catastrophe reinsurance arrangements, capital markets reinsurance arrangements, and participation in the Florida Hurricane Catastrophe Fund (FHCF).

Among other responsibilities, staff within the Financial Services Division perform the day-to-day administration of the reinsurance program including premium payment, loss reporting (as needed), counterparty filing requirements, policy and exposure data reporting, and reimbursement/recovery processing. These administrative matters require an understanding of active reinsurance arrangements to appropriately monitor and execute the contractual obligations of all parties. For recovery events of prior periods, the Accounting staff must continually monitor the source period of all incurred claims activity and report such activity for regulatory and contractual compliance purposes.

As a result of Hurricane Irma claims, Citizens has begun to submit and collect recoveries based on underlying reinsurance treaties in place at the time of the CAT event. It has been several years since Citizens has experienced a large enough claim event to trigger reinsurance recoveries. As of August 22, 2019, Citizens has submitted and received approximately \$227 million of reinsurance recoveries, from the FHCF related to PLA/CLA eligible claims, as well as approximately \$82 million related to the Coastal account.

### Audit Objectives and Scope

The objective of this audit was to evaluate the effectiveness of processes and controls related to reinsurance recoveries. Our scope included a review of the following areas:

- Authorization of recovery submissions and monitoring of expected incoming payments
- Segregation of duties
- Procedures for the identification of hurricane related claims
- Third-party reinsurance broker relationships, including review of third-party processes and controls
- Financial capacity/stability monitoring of reinsurers
- Access and formula integrity surrounding critical spreadsheets utilized in calculating recoveries

### Audit Results

Results from our audit work indicate that there are effective processes and controls relating to the monitoring and authorization of recovery payment submissions, Citizens staff FHCF payment



## Executive Summary & Report

access, Claims Best Practices and Quality Assurance procedures related to claim tagging, oversight of third-party brokers, financial stability reviews of traditional reinsurers, and spreadsheet controls.

Specifically, we observed:

- An effective review process of hurricane Irma reinsurance reimbursement/recovery submission by multiple layers of accounting management based on underlying supporting data and reinsurance arrangements/treaties.
- Adequate segregation of duties was observed with Citizens representatives' access to the FHC payment authorization system when considering the recoveries process as a whole.
- Claims Best Practice and Claims Quality Assurance procedures were in place post-hurricane Irma to ensure incoming claims were properly tagged by Citizens adjusters, which enabled effective identification of recoverable claims by Financial Services.
- Overall, management oversight of the Company's reinsurance brokers was effective, and that traditional recovery funds are adequately safeguarded based on provisions reviewed in underlying broker contracts. Citizens management performs periodic reviews to ensure the operating effectiveness of processes and controls of third-party reinsurance brokers, utilized as intermediaries for the collection of traditional reinsurance recoveries, through inspection of their respective Service Organization (SOC) reports.
- Management and the Company's reinsurance brokers regularly perform financial stability reviews on all traditional reinsurers to ensure collectability and realization of potential future reinsurance recoveries. Brokers routinely provide updates to management regarding credit rating changes as well as other termination-enabling events for reinsurers.
- Critical calculations within spreadsheets utilized in calculating recoveries were sufficiently protected against unrestricted edits or corruption and daily backups are in place for recovery purposes.

During the audit we noted minor observations which were shared with Management.

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



## Appendix 1

---

### Distribution

Addressee(s) Andrew Woodward, Sr. Director - Controller

Addressee(s) **Business Leaders:**  
Barry Gilway, President/CEO/Executive Director  
Jennifer Montero, Chief Financial Officer  
Christine Turner Ashburn, Chief, Communications, Legislative & External Affairs  
Mark Kagy, Acting Inspector General

**Audit Committee:**  
Bette Brown, Citizens Audit Committee Chairperson  
James Holton, Citizens Audit Committee Member  
Marc Dunbar, Citizens Audit Committee Member

**Following Audit Committee Distribution:**  
The Honorable Ron DeSantis, Governor  
The Honorable Jimmy Patronis, Chief Financial Officer  
The Honorable Ashley Moody, Attorney General  
The Honorable Nikki Fried, Commissioner of Agriculture  
The Honorable Bill Galvano, President of the Senate  
The Honorable Jose R. Oliva, Speaker of the House of Representatives

The External Auditor

*Audit performed by Michael Walton, Internal Audit Manager  
Under the Direction of Joe Martins, Chief of Internal Audit*