

INTERNAL AUDIT

Remittance Processing
Audit Report

May 7, 2020



Table of Contents



Executive Summary

- Background
- Audit Objectives and Scope
- Audit Opinion

Page

1
1
1



Appendix 1

- Distribution

3



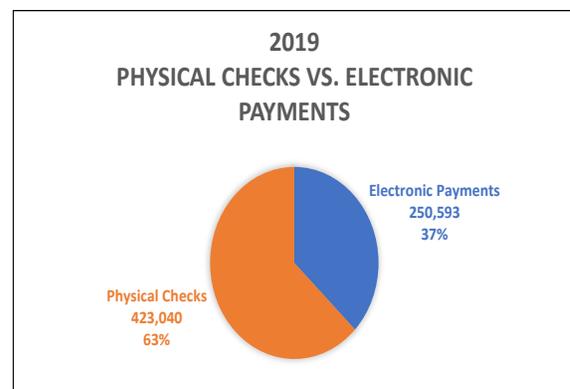
Executive Summary

Background

One of Citizens core business functions is the receipt and processing of new Property & Causality insurance applications and policy renewals. The receipt and processing of premium payments is a critical support function of the insurance application and policy renewals process. Premium payments are received by the organization physically, in the form of checks or through Automated Clearing House (ACH) payments. Premium Remittance Processing, a unit within Citizens Financial Services area performs the intake, processing and application of the physical premium check payments. The electronic ACH payments are processed by a third-party vendor.

In 2019, Citizens received approximately 673,000 premium payments; of which, approximately 423,000, or 63%, were physical payments, with the remainder paid electronically.

In late 2018, the Premium Remittance Processing unit completed the migration of physical remittance processing to a new system. The premium remittance processing system is currently used to process more than \$800 million in physical premium payments annually.



Audit Objectives and Scope

The objective of the audit was to evaluate the adequacy and effectiveness of processes and controls in place to monitor and manage the receipt and recording of both physical and electronic premium payments. Our scope included a review of the following areas:

- System Access
- Physical Access
- Segregation of Duties
- Third-party payment vendor processes and controls
- Premium refunds & suspense account management
- Premiums paid by agents on behalf of policyholders

Audit Results

Results from our audit work indicate that there are effective processes and controls relating to the authorization of premium refund and suspense disbursements, completeness and accuracy of premium payments received from policyholders and system controls surrounding premiums paid on behalf of agents.

Specifically, we observed:

- Effective reconciliations are in place to ensure the completeness and accuracy of both physical premium checks and ACH premiums received from policyholders.

Report Number: 2020-AUD-01 Remittance Processing



Executive Summary

- Premium refund and suspense disbursement returns were properly authorized in accordance with the Company's established authorization hierarchy in BillingCenter. Further, we noted that premium refunds were disbursed in a timely manner, in accordance with FL statutes.
- Safeguards are in place in the PolicyCenter system to prevent potential premium misappropriation surrounding Agents paying premiums on behalf of policyholders.
- Analytical audit procedures were performed to validate there were not any instances of duplicate refund disbursements or unexpected trends in disbursements.

We noted that there were certain control activities which needed to be strengthened going forward to properly ensure effective segregation of duties in the remittance processing area.

The following control enhancements were noted:

- **There are an excessive number of Citizens staff which have Administrator role access in the RT Lawrence remittance processing system. Furthermore, we noted that Administrator activity is not currently being logged and monitored, which would have served as a partial mitigation of this observation.** Reviews of system access identified a total of eleven (11) users that had the Administrator role. The Administrator role in RT Lawrence includes the abilities to configure the system, provision/deprovision users, batch verification, which could result in the loss or corruption of data.

During the audit we also noted a minor observation which was shared with Management.

As a process improvement opportunity, Internal Audit encourages management to consider increasing efficiency around remittance processing activities with the following:

- We suggest management look for opportunities to encourage policyholder use of premium ACH payments. Currently, ACH payments make up approximately 37% of total premium payments received. Through the audit, we determined processing of payments via ACH is generally more efficient than processing checks manually with comparable controls. Management noted marketing of ACH payments to policyholders occurred when it was initially available, but marketing efforts did not persist. We encourage Financial Services to once again partner with the Communications team to continue marketing ACH payments as a payment method for Citizens policyholders.

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



Appendix 1

Distribution

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

Addressee(s) **Business Leaders:**
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Jennifer Montero, Chief Financial Officer
Christine Turner Ashburn, Chief, Communications, Legislative & External Affairs
Mark Kagy, Acting Inspector General
Mike Sills, Director – Assistant Controller

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

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Under the Direction of Joe Martins, Chief of Internal Audit