



RICK SCOTT  
GOVERNOR

STATE OF FLORIDA

# Office of the Governor

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January 15, 2013

Mr. Barry Gilway  
President/CEO and Executive Director  
Citizens Property Insurance Corporation  
2312 Killearn Center Boulevard  
Tallahassee, FL 32309

Dear Mr. Gilway:

Enclosed please find a copy of the Office of the Chief Inspector General's review of Citizens Property Insurance Corporation's travel expenses incurred during the period January 1, 2012 through August 31, 2012. This review was conducted pursuant to the September 2012 request from Governor Rick Scott.

We are providing you our findings and recommendations for review and comment. You may submit a written response to our office within 20 working days. Upon receipt of your written response, we will review the response and determine if any further review by our office is warranted.

You may email your response to [melinda.miguel@eog.myflorida.com](mailto:melinda.miguel@eog.myflorida.com) or mail/deliver to the following address:

Office of the Chief Inspector General  
Suite 2103, The Capitol  
Tallahassee, FL 32399

Your response will be included in the final report. If you do not wish to respond, please contact our office as soon as possible.

Should you have any questions, please contact me or Kim Mills, Director of Audit, at (850) 717-9264.

Sincerely,

A handwritten signature in blue ink that reads "Melinda Miguel".

Melinda M. Miguel  
Chief Inspector General

Enclosure

cc: Carlos Lacasa, Chair, Board of Governors, Citizens Property Insurance Corporation

# EXECUTIVE OFFICE OF THE GOVERNOR



## OFFICE OF THE CHIEF INSPECTOR GENERAL



**Citizens Property Insurance Corporation  
Travel Review**

**REPORT NUMBER 2013-10  
JANUARY 15, 2013**

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**EXECUTIVE SUMMARY**

Based on a September 2012 request from Governor Scott, the Chief Inspector General's Office reviewed a portion of the travel expenses incurred by Citizens' Board Members, Senior Managers and Employees and determined whether these expenses were incurred in accordance with Citizens' travel policies. Specifically, we reviewed approximately 350 Business Expense Reports (BERs) of travel and travel related expenses for Citizens' eight Board Members, 13 selected current or former Senior Managers and 18 selected Employees<sup>1</sup> for the period January 1, 2012 through August 31, 2012.<sup>2</sup> Additionally, we identified weaknesses in the policies and internal controls that, once addressed, would improve the oversight of meals, travel and travel related expenses.

During our review, we found that travel expenses incurred by Board Members, Senior Managers and Employees were generally compliant with Citizens' Travel Policies that were in effect at the time the travel was incurred. However, the policies were ambiguous and lacked specific requirements to ensure that travel was necessary and conducted in the most economical manner. Further, the policies allowed for expenses to be incurred by Board Members, Senior Managers and Employees in excess of the state travel guidelines.

We believe that the examples contained in this report, while incurred within the parameters outlined in Citizens' written policies in place at the time, are excessive by state standards, this type of spending will continue to occur if Citizens does not follow state travel laws. Therefore, we recommend that Citizens be required to follow state travel laws.

We recommend that Citizens' travel policies be updated to reflect that state travel laws apply to Board Members, Senior Managers and all Employees. We also recommend that Citizens enhance their internal controls to address the findings contained in this report.

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<sup>1</sup> We selected 18 Employees below the Vice President level who had incurred travel during the review period.

<sup>2</sup> For a complete listing of names, see Appendix A

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## INTRODUCTION

An August 25, 2012, Miami Herald article entitled *Higher premiums for customers, lavish spending for Citizens* [Citizens Property Insurance Corporation (Citizens)<sup>3</sup>] executives reported that "executives at the state-run company have been living large at the same time they are asking hard-pressed Florida property owners to pay more for insurance." The article included examples of traveling executives staying at luxury hotels, dining at "swank" restaurants, and violations of company policy by using the corporate credit card to purchase alcoholic beverages and pay personal expenses.

In a letter dated September 4, 2012, Governor Rick Scott notified Citizens' President Barry Gilway<sup>4</sup> that he had become aware of travel expenses incurred by Citizens' personnel that, on their face, appear excessive. Governor Scott further notified Mr. Gilway in the same letter that he was requesting Executive Office of the Governor's Chief Inspector General (CIG) Melinda Miguel to conduct a review of travel expenditures at Citizens and make recommendations regarding appropriate controls to ensure that all travel is done as cost effectively as possible.<sup>5</sup>

## BACKGROUND

### STATUTORY AUTHORITY

In accordance with Section 627.351(6), Florida Statutes (F.S.), Citizens was created by the Florida Legislature as a government entity effective July 1, 2002. As outlined in Florida Statutes, Citizens is the state's last resort insurer, and ensures hundreds of thousands of homes, businesses, and condominiums whose owners otherwise might not be able to find coverage.

By statute, Citizens is to "provide affordable property insurance to applicants who are in good faith entitled to procure insurance through the voluntary market but are unable to do so." Additionally, according to Section 627.351(6)(a)1, F.S., the Legislature intends that:

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<sup>3</sup> According to its website, Citizens Property Insurance Corporation (Citizens) "is a not-for-profit, tax-exempt government corporation whose public purpose is to provide insurance protection to Florida property owners throughout the state." Further, its website reports that Citizens mission "is to serve the people of Florida by providing property and casualty insurance protection and superior customer service" and its vision, in part, is "aspire to be responsive stewards of the public trust, setting the standard for courteous, prompt and professional customer service, operational efficiency and fiscal responsibility."

<sup>4</sup> Mr. Gilway is Citizens President/Chief Executive Officer (CEO) and Executive Director who began employment on June 18, 2012.

<sup>5</sup> Pursuant to Section 14.32(2)(k), Florida Statutes, the Chief Inspector General shall conduct special investigations and management reviews at the request of the Governor.

... affordable property insurance be provided and that it continue to be provided, as long as necessary, through Citizens Property Insurance Corporation, a government entity that is an integral part of the state, and that is not a private insurance company. To that end, the corporation [Citizens] shall strive to increase the availability of affordable property insurance in this state, while achieving efficiencies and economies, and while providing service to policyholders, applicants, and agents which is no less than the quality generally provided in the voluntary market, for the achievement of the foregoing public purposes. Because it is essential for this government entity to have the maximum financial resources to pay claims following a catastrophic hurricane, it is the intent of the Legislature that the corporation [Citizens] continue to be an integral part of the state and that the income of the corporation [Citizens] be exempt from federal income taxation and that interest on the debt obligations issued by the corporation [Citizens] be exempt from federal income taxation.<sup>6</sup>

#### PLAN OF OPERATION

Section 627.351(6), F.S., states that Citizens "shall operate pursuant to a plan of operation approved by order of the Financial Services Commission"<sup>7</sup> and specifies what should be included in the plan of operation. Citizens' current Plan of Operation, effective date August 1, 2002 and as amended July 28, 2009, indicates that Citizens is governed by a Board of Governors (Board) consisting of eight individuals responsible for administering the plan. The Governor, the Chief Financial Officer, the President of the Senate and the Speaker of the House each appoint two members of the Board, and at least one of the two members must have demonstrated expertise in insurance. The Chief Financial Officer designates one of the appointees as Chair of the Board.

In accordance with statute and the Plan of Operation, Citizens' Executive Director (President) and Senior Managers<sup>8</sup> shall be engaged by and serve at the pleasure of the Board. The Executive Director (President) is subject to confirmation by the Senate and is responsible for employing additional staff as the corporation (Citizens) may require, subject to review and concurrence by the Board. The Plan of Operation specifies that the Chair of the Board is responsible

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<sup>6</sup> During our review, we noted a Certificate of Exemption from state taxes issued by the Florida Department of Revenue for Citizens based on a "state government" exemption category.

<sup>7</sup> In accordance with Section 20.121, F.S., the Financial Services Commission is comprised of the Governor, the Attorney General, the Chief Financial Officer, and the Commissioner of Agriculture.

<sup>8</sup> According to Citizens' Plan of Operation, "Senior Manager" of the Corporation means "a person who serves as an officer of the Corporation [Citizens] including the President, one or more Senior Vice Presidents, one or more Vice Presidents, the Chief Financial Officer, the General Counsel, and any other person designated and engaged by the Board as an officer."

for supervising, reviewing the performance, and establishing annually the compensation of the Executive Director (President). The Plan of Operation, lists among other things, the duties and responsibilities of the Executive Director (President) to include in pertinent part:

- (13) Approve all travel, lodging, and other travel related expenses pursuant to appropriate guidelines and forms for presenting the same for reimbursement.

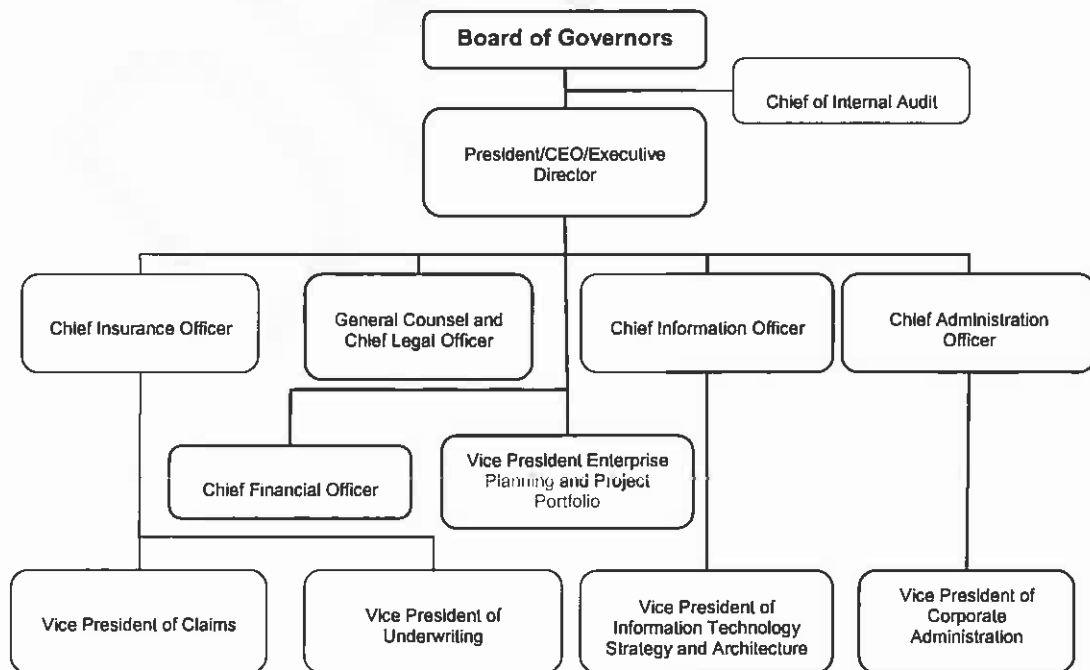
**CITIZENS' ORGANIZATIONAL CHART AND SENIOR MANAGEMENT**

Citizens' organizational chart as of September 19, 2012 shows that the President/CEO/Executive Director and the Chief of Internal Audit report to the Board. The following Senior Managers report directly to the President:

- Chief Insurance Officer
- General Counsel and Chief Legal Officer
- Vice President of Enterprise Planning and Project Portfolio
- Chief Financial Officer
- Chief Administration Officer
- Chief Information Officer

Additionally, the Vice President of Corporate Administration reports to the Chief Administration Officer, the Vice President of Claims and Vice President of Underwriting report to the Chief Insurance Officer and the Vice President of Information Technology Strategy and Architecture reports to the Chief Information Officer.

**Chart 1: Citizens' Organizational Chart as of September 19, 2012**



## PURPOSE, SCOPE AND METHODOLOGY

We reviewed a portion of the travel expenses incurred by Citizens' Board Members, Senior Managers and Employees and determined whether these expenses were incurred in accordance with Citizens' travel policies. Specifically, we reviewed approximately 350 Business Expense Reports (BERs) of travel and travel related expenses for Citizens' eight Board Members, 13 selected current or former Senior Managers and 18 selected Employees<sup>9</sup> for the period January 1, 2012 through August 31, 2012.<sup>10</sup> Additionally, we identified weaknesses in the policies and internal controls that, once addressed, would improve the oversight of meals, travel and travel related expenses.

To accomplish our objectives, we:

- reviewed applicable governing directives, policies and procedures;
- analyzed records related to travel and travel related expenses; and
- conducted interviews and/or obtained information from Board Members, Senior Managers and selected Employees.

## APPLICABLE CITIZENS' GOVERNING DIRECTIVES, POLICIES, PROCEDURES AND GUIDELINES

*Citizens Travel and Travel Reimbursement Policy  
Administrative Information Memorandum 2005-01  
October 2005*

This policy states in pertinent parts:

It is the policy of Citizens Property Insurance Corporation (Citizens) to reimburse employees for all ordinary and necessary travel expenses incurred as a result of performing duties on behalf of the organization. Such duties include, but are not limited to:

- Business meetings
- Professional conferences, *and*
- Industry or educational seminars

<sup>9</sup> We selected 18 Employees below the Vice President level who had incurred travel during the review period.

<sup>10</sup> For a complete listing of names, see Appendix A



Consistent with this policy, it is expected that expenses will be both reasonable and appropriate. Primary responsibility for controlling expenditures and maintaining adherence to the expense reimbursement policy lies with the individual employee incurring the expenses.

#### Pre-Approval Form for Travel

Employees engaged in travel must complete the Travel Approval Form and submit it to their supervisor before travel will be approved. The Travel Approval Form should list the destination and the purpose of the trip as well as the estimated cost.

**Exemption:** Employees who travel between Citizens' offices or employees traveling as part of catastrophe deployment are **not** required to complete the Travel Approval Form.

#### Business Expense Report (BER) Form

**NOTE:** The Business Expense Report should be completed and submitted for approval within ten (10) calendar days after the employee's return to the office.

*Citizens Meal Reimbursement Policy<sup>11</sup>  
For Employees, excluding Board of Governors and Senior Management  
September 2006*

This policy states in pertinent parts:

It is the policy of Citizens Property Insurance Corporation (Citizens) to reimburse employees or pay for meals while performing duties on behalf of the organization not associated with travel. Such duties include, but are not limited to:

- Business meetings
- Training sessions
- Incentives

Consistent with this policy, it is expected that expenses will be both reasonable and appropriate. Primary responsibility for controlling expenditures and maintaining adherence to the expense

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<sup>11</sup> In an email dated October 24, 2012, from Citizens' Risk Manager Flo Dickinson, she included a copy of a memorandum from Linda Crew, Accounting Manager, that advised "the Business Meal Reimbursement Guidelines has not been updated to reflect any applicable changes required to bring in line with other current policies. We are in the process of reviewing this now to determine if it will be revised or replaced with an official policy."

reimbursement policy lies with the individual employee incurring the expenses.

*Expense and Reimbursement Policy for Board of Governors, Board Committee Members, and Senior Management  
August 2006*

This policy states in pertinent parts:

It is the policy of Citizens Property Insurance Corporation (Citizens) to reimburse you [members of the Board of Governors and its Advisory Committees (including non-Board members) are referred to as "Members" and Senior Management is referred to as "Management." Members and Management are referred to as "you"] for all ordinary and necessary travel expenses incurred as a result of performing duties on behalf of the organization. Such duties include, but are not limited to the attendance at:

- Business meetings
- Business meals
- Professional conferences, and
- Industry or educational seminars

Consistent with this policy, it is expected that expenses will be both **reasonable** and **appropriate**. Primary responsibility for controlling expenditures and maintaining adherence to the expense reimbursement policy lies with you.

Forms:

**The Business Expense Report should be completed and submitted for approval within ten (10) calendar days after incurring the expense.** Staff is available to assist you in preparation of the reports.

A footnote reference was added to the 2006 *Expense and Reimbursement Policy for Board of Governors, Board Committee Members, and Senior Management* policy on September 7, 2012 by Corporate Policy Development that stated "By presidential directive and effective immediately, this policy no longer applies to Senior Managers."<sup>12</sup>

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<sup>12</sup> Note: Clarification obtained in an email from Citizens indicates that September 7, 2012 is a typographical error and should be September 17, 2012.

*Corporate Policy Bulletin #EX2012-02  
New Business Travel Expense Standards  
September 17, 2012*

This policy bulletin states in pertinent parts:

Effective immediately, Citizens is issuing new business travel expense standards that affect the following policies:

- Expense and Reimbursement Policy for Senior Managers
- Travel Reimbursement Policy for Employees

These new expense standards apply to all Citizens employees, and receipts are required for any corporate expenditure.

Business travel outside the state of Florida must be approved by the President. The requesting employee must complete Citizens' Out of State Travel Request and obtain approval prior to incurring any travel expense.

*Corporate Policy and Procedure  
Policy Number 301  
Business Travel  
October 24, 2012*

This policy states in pertinent parts:

The purpose of the Business Travel Policy and Procedure is to manage business travel costs while maintaining efficient business operations. This policy sets forth the standards and procedures under which Citizens will pay the cost of travel expenses incurred for the purpose of conducting business on behalf of the corporation.

Primary responsibility for controlling expenditures and adhering to this policy resides with the employee. Notwithstanding the employee's responsibilities, management employees who approve business travel expenses should review each expense to ensure economical and prudent spending by their subordinates within the context of Citizens' governmental function.

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**AUDITOR GENERAL FINDINGS AND RECOMMENDATIONS**

*Auditor General Report Number 2006-096, Citizens Property Insurance Corporation, Operational Audit, dated January 2006, with regard to Finding Number 7, Travel Policy, states in pertinent parts:*

As Citizens is a public body created pursuant to law (that is, Part I of Chapter 627, Florida Statutes) and as there is no statutory provision of law exempting Citizens from the application of Section 112.061, Florida Statutes, it would appear that the travel and per diem expenses of Citizens must be authorized and paid in accordance with the requirements and rates established by Section 112.061, Florida Statutes.

...

Citizens' authority for the authorization and payment of travel expenses at rates different from those authorized by Section 112.061, Florida Statutes, was not clear. Absent compliance with the provisions of 112.061, Florida Statutes, the amounts paid by Citizens for travel expenses incurred by Citizens' staff, consultants, and contractors were likely significantly in excess of the amounts due pursuant to law.

The Auditor General report's recommendation for Finding Number 7 states:

"We recommend that Citizens amend its travel reimbursement policy in such a manner as to make it consistent with the provisions of Section 112.061, Florida Statutes."

The report further indicates that Citizens Management's Response is "Disagree" and Citizens Management Response states:

There is no provision in Citizens' enabling legislation [Section 627.351(6), F.S.] that applies the state travel reimbursement policy to Citizens, including its consultants and independent contractors. If the state travel reimbursement policy were applied to the operation of Citizens, ***it would be impossible for Citizens to compete with the insurance industry for scarce catastrophe adjusting resources.*** [Emphasis added] Citizens would be unable to achieve its mission to provide coverage to and pay the claims of its 800,000 policyholders.

In its Follow-up to Citizens Management's Response, the Auditor General report states:

*In response to this finding, Citizens indicated that there is no provision in Citizens' enabling legislation that applies State travel reimbursement policy to Citizens and that, if the policy were applied, it would be impossible for Citizens to compete for scarce catastrophic adjusting resources. [Emphasis added] We agree that the enabling legislation does not specifically cite the applicability of Section 112.061, Florida Statutes, to Citizens' operations. However, as indicated in our finding, Citizens does appear to meet the definition of public agency, as that term is defined for the purposes of Section 112.061, Florida Statutes, and the enabling legislation does not exempt Citizens from the application of Section 112.061, Florida Statutes. Given Citizens' unique responsibilities, we recommend that the Legislature clarify its intent with respect to the applicability of Section 112.061, Florida Statutes, to the operations of Citizens.*

During our review we noted that Legislative clarification of the applicability of Section 112.061, F.S., to Citizens' operations has not been sought or obtained.

A memorandum from Debby Kearney, Citizens' Ethics and Compliance Officer, to Dan Sumner, Citizens' General Counsel, dated December 5, 2012 with the Subject "Status of Citizens for Purposes of s.[Section] 112.061 [F.S.]" states the following:

ISSUE: Whether Citizens is subject to the per diem and travel expenses of public agency officers, employees, and contractors established in s. 112.061 of the Florida Statutes.

No, Citizens should not be considered subject to the travel policies of s. 112.061. That section defines a public agency for purposes of that section as '[a]ny office, department, agency, division, subdivision, political subdivision, board, bureau, commission, authority, district public body, body politic, county, city, town, village, municipality, or any other separate unit of government created pursuant to law.'

Citizens is not an office [s.20.04(2)], department [s.20.04(1)], division [s.20.04(3)(a)], or bureau. [s.20.04(3)(b)]. It is not a political subdivision or body politic [s. 1.01(8)]. It is not a board or authority [*Florida Department of Insurance, et. al. v. Florida Association of Insurance Agents, et al.*, 813 So.2d 981, 983 (FLA. 1<sup>st</sup> DCA 2003)]. It is not a commission [s. 20.03(10)]. Clearly it is not a district public body, county, city, town, village, or municipality.

It is unlikely Citizens was intended to be included as an 'other separate unit of government for purposes of s. 112.061.' The

listing of entities in this definition reflects public agencies within the traditional meaning of a governmental entity, not quasi-governmental entities that were established for the most part to conduct operations traditionally performed by the private sector and specifically intended to operate differently than traditional state agencies.

If Citizens was intended to be considered a state agency the governing statute would not need to include requirements that the corporation is subject to records retention requirements or the public meetings law. In fact, the governing statute very explicitly sets out the laws the Legislature intended to be applied to Citizens....

### OTHER PERTINENT DIRECTIVES

#### **Section 112.061, F.S., Per diem and travel expenses of public officers, employees, and authorized persons.-**

(1) LEGISLATIVE INTENT.—To prevent inequities, conflicts, inconsistencies, and lapses in the numerous laws regulating or attempting to regulate travel expenses of public officers, employees, and authorized persons in the state, it is the intent of the Legislature:

(a) To establish standard travel reimbursement rates, procedures, and limitations, with certain justifiable exceptions and exemptions, applicable to all public officers, employees, and authorized persons whose travel is authorized and paid by a public agency.

(b) To preserve the standardization established by this law:

1. The provisions of this section shall prevail over any conflicting provisions in a general law, present or future, to the extent of the conflict; but if any such general law contains a specific exemption from this section, including a specific reference to this section, such general law shall prevail, but only to the extent of the exemption.

2. The provisions of any special or local law, present or future, shall prevail over any conflicting provisions in this section, but only to the extent of the conflict.

In addition to Section 112.061, F.S., state guidance includes Rule 69I-42, Florida Administrative Code and Florida Department of Financial Services *Reference Guide for State Expenditures*.

## FINDINGS

During our review, we found that travel expenses incurred by Board Members, Senior Managers and Employees were generally compliant with Citizens' Travel Policies that were in effect at the time the travel was incurred. However, the policies were ambiguous and lacked specific requirements to ensure that travel was necessary and conducted in the most economical manner. Further, the policies allowed for expenses to be incurred by Board Members, Senior Managers and Employees in excess of the state travel guidelines.

### TRAVEL EXPENSES

Based on information provided by Citizens, Citizens' Board Members, Senior Managers and all Employees incurred travel expenses totaling \$1,307,896.02 for the period of January 1, 2012 and August 31, 2012.

The breakdown by expense type appears below.

Expense Type	Amount <sup>13</sup>
Airfare	\$ 163,625.95
Car Expense	454,111.27
Lodging	441,746.82
Meals	138,320.33
Other	2,340.24
Room Fees	107,751.41
<b>Total</b>	<b>\$ 1,307,896.02</b>

We sampled a portion of these expenses and reviewed approximately 350 Business Expense Reports (BERs) for selected Board Members, Senior Managers and Employees listed in Appendix A.

Our specific observations are as follows:

### INSUFFICIENT POLICIES

We noted that Citizens had adopted at least two sets of policies regarding travel – one for Citizens' Employees effective October 2005 and one for Board Members and Senior Management effective August 2006. We noted Citizens had an additional written policy for non-travel related meal reimbursements.

Based on our review of the policies in place for the travel expenses reviewed, we found that both the 2005 and 2006 policies improperly delegates the

<sup>13</sup> Source: Citizens' General Ledger (unverified)

responsibility for controlling expenditures and maintaining adherence to the policy to the individual rather than to the individual and management.

Both the 2005 and 2006 travel policies regarding lodging direct Board Members, Senior Managers and Employees to consider cost, appropriateness and proximity to the business activity or event, but no guidance is outlined to define appropriateness of the lodging expenses incurred.

The 2006 policy for Board Members and Senior Management which is the policy in effect for Board Members states expenses incurred should be "reasonable and appropriate" or "reasonable and appropriate for the circumstances", but the policy fails to specify the conditions for what is reasonable, appropriate, or appropriate for the circumstances leaving this open to interpretation by the individual. We noted that the 2006 policy for Board Members and Senior Management is more permissive than the 2005 Employee policy.

We noted that the 2005 Employee policy sets parameters for meal reimbursements for Directors and below. Both the 2005 and 2006 travel policies specify that the most senior employee may pay for meals for multiple people and report the entire amount for reimbursement. However, the 2006 policy states "business meals should be appropriate, but not extravagant", but appropriate and extravagant are also not defined leaving this open for interpretation as well.

We found that the 2006 policy for Board Members and Senior Management allows for reimbursement of "all ordinary and necessary travel" to include "business meals", but offers no parameters or definition of what constitutes a "business meal" or under what circumstances incurring these expenses are appropriate.

We noted that the 2006 policy applicable to Board Members and Senior Management requires no prior approval for weekday travel and states approval is only "recommended" for weekend travel. Not requiring prior approval makes managing travel difficult.

We also noted that, based on a directive on September 17, 2012, from President Gilway, the 2006 written policy for "Board Members and Senior Management" no longer applies to Senior Managers. However, this policy remains in effect for Board Members.

On October 24, 2012, a new written policy was adopted entitled "Business Travel", but it is unclear if this policy is applicable to Employees only or Employees and Senior Managers.

The October 2012 policy sets limits on in-state, out-of-state, and international lodging rates and requires written justification if the rates are exceeded. However, for out-of-state lodging, the policy states that Citizens will pay actual



hotel costs at the rates established by the United States General Services Administration (GSA) in the Domestic Lodging Rate Table and **up to 20% above** [emphasis added] these rates.

The October 2012 policy also improperly delegates the "primary responsibility for controlling expenditures and adhering to this policy" to the employee, but adds that "Notwithstanding the employee's responsibility, management employees who approve business travel expenses should review each expense to ensure economical and prudent spending by their subordinates within the context of Citizens' governmental function." However, no guidance or procedures are provided to the "management employees" on how to ensure "economical and prudent spending by their subordinates."

### **INSUFFICIENT INTERNAL CONTROLS**

We found that Citizens did not have sufficient controls in place to ensure adequate oversight of travel and travel-related expenses incurred by Board Members, Senior Managers and Employees.

Based on our review of approximately 350 BERs and the policies in effect at the time the travel was incurred, we determined that Citizens did not require sufficient detail to ascertain whether travel or expense information reported was complete. Specifically, we noted that Citizens' accounting for travel expenses did not track the expenses by trip or by person and allowed a traveler to file multiple expense reports for a single trip making it difficult to avoid duplicate charges or detect errors or fraud.

We also noted that Citizens did not require sufficient details for travel incurred to be noted on the BERs, such as time and date of departure and return, point of origin, meeting dates and locations, or any source of complimentary travel, to ensure all details of a trip are fully and completely accounted for and to ensure that the amounts reimbursed are appropriate, non-duplicative and fully transparent.

For the period reviewed, we noted that Citizens allowed employees to claim meals, lodging or business expenses for other employees on their BERs further making it difficult to accurately account for total costs per trip incurred by person or work unit. However, the policy was amended in October 2012 to disallow this practice going forward.

We noted that Citizens did not always require evidence or justification that travel was approved, incurred or reimbursed for reasons that served an authorized public purpose or were necessary for the performance of Citizens' statutory duties and essential to operations. We also noted even though some changes had been made to the travel policy, the 2006 policy that continues to apply to

Board Members allows for discretion and does not require justification of the expenses incurred.

We noted that Citizens did not require the traveler to document that the most economical method of travel was considered (i.e. use of personal vehicles versus a rental car or attendance at meetings via phone rather than in person).

Effective September 17, 2012, Citizens implemented a cap for lodging and meal expenses for Senior Managers and Employees and amended the written policy on October 24, 2012. However, no limits are in place for lodging or meals for Board Members leaving these purchases open to individual interpretation of what is reasonable.

We noted that even though the policy had been updated on October 24, 2012, the policy in force for Board Members had not been updated to disallow alcohol purchases.

The October 2012 travel policy for employees now requires the traveler to obtain approval from their supervisor prior to traveling for business and certain business units or departments **may require** [emphasis added] written pre-approval. However, not consistently requiring written approval makes it difficult to ascertain if travel was in fact authorized in advance.

Finally, we noted that 30% of the approximately 350 BERs reviewed were not submitted for approval within the 10 calendar day timeframe outlined in the Citizens' travel policies. We noted that there were no internal controls in place to ensure timely submission of travel or meal expenses for reimbursement. We also noted that the Meal Reimbursement Policy for Employees required that non-travel meal reimbursement BERs be filed within 5 calendar days. However, this policy applies only to Employees and exempts Senior Managers and Board Members. Having differing policies between Employees, Senior Managers, and Board Members makes policy enforcement nearly impossible and detection of policy violations difficult.

#### **EXPENSES INCURRED WERE OUTSIDE STATE TRAVEL LAWS**

While the following examples appeared to comply with the parameters outlined in Citizens' written policies in place at the time, we found many instances where Citizens' travel and travel related expenses exceeded state travel laws. However, as noted, Citizens interprets that they are not required to follow state travel laws.

The following are examples of some types of expenses that will continue if Citizens is not required to follow state travel laws:

There were two instances in January and February 2012, where the Board Chair was reimbursed for lodging expenses in Tallahassee that exceeded the negotiated room rate suggested for employees. We found no explanation or documentation to explain why the higher lodging costs were incurred.

On various trips to New York in 2012, the Chief Financial Officer incurred expenses for her stay in hotels with per night rates ranging from \$289 to \$539 (including taxes and fees).

In April 2012, the Chief Financial Officer incurred \$236.17 for a six hour "day use" of a hotel room for a meeting in Zurich, Switzerland.

The Chief Financial Officer upgraded her \$459 per night deluxe room to "gold" status at the Fairmont Hamilton Princess Hotel, bringing the cost to \$633 per night with taxes and fees for a three-day stay in Bermuda in April 2012. We noted the Chief Financial Officer checked into the hotel on a Friday for a Monday meeting. Further, we noted that several changes had been made to her flights for this trip that resulted in cancellation fees and additional costs. We did not find any written explanation for the additional nights stay or added costs.

We reviewed the travel expenses related to Board meetings held from January 2012 through August 2012. We noted that the number of Citizen Board Members, Senior Managers and Employees<sup>14</sup> at these meetings range from 23 to 36 and generally result in one to three nights' hotel stay for the attendees. For example, we noted that the February 2012 Board meeting held in Orlando at the Peabody had a nightly room rate of \$179 (without taxes and fees). We also noted that a July 2012 Rate Workshop was held at the JW Marriott in Miami where the nightly room rate was \$249 (without taxes and fees). A week and a half later, the July Board meeting was at the same location, but for a nightly room rate of \$129 (without taxes and fees). However, there is no documentation of why the room rate varied.

Most of the attendees of the April 2012 Board Meeting incurred lodging costs of \$119 per night, but the president at the time stayed at the Grand Hyatt Tampa Bay for four nights at \$188 per night for a total of \$842.72. We found no explanation or documentation to explain the variance:

Additionally, for the Board Meetings and rate workshop, we noted that, in addition to room rental, audio visual equipment and other miscellaneous costs, Citizens paid for breakfasts, coffee or other beverages, lunches and service charges as follows that would be prohibited by state travel laws, but were allowable by Citizens' policy:

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<sup>14</sup> Outside Counsel and/or representatives from Milliman, a large international, independent actuarial and consulting firm for Citizens, also attended at Citizens' expense.

Location	Meeting Type	Amount
Orlando	February Board Meeting	\$ 8,282.27
Tampa	April Board Meeting	1,845.12
Orlando	June Board Meeting <sup>15</sup>	4,049.43
Miami	July Rate Workshop	1,018.70
Miami	July Board Meeting	<u>5,403.99</u>
<b>Total</b>		<b>\$20,599.51</b>

We noted that Citizens often used their Consumer Certificate of Exemption, as issued by the Florida Department of Revenue, exempting Citizens from state taxes when incurring in-state expenses, such as the above.

We noted an instance in April 2012 where the Chief Financial Officer incurred \$1,268.11 for a two night stay at the Dukes Hotel in London. She incurred \$36.47 for "drawing room" charges for afternoon tea and \$44.58 for room service.

We noted 53 instances where Senior Managers or Directors incurred costs in their town of residence (non-travel related) totaling \$3,854.71 for the period of January 1, 2012 to August 31, 2012 for meals described as follows: "lunch meeting", "working lunch", "staff meeting", "breakfast" or other purpose. The meals were purchased for Citizens' Employees, Senior Managers, Board Members, or others doing business with Citizens.

We noted an instance where the Board Chair went to London in April 2012 with the Chief Financial Officer and Chief Insurance Officer to meet with reinsurance companies and investors. The three had dinner at a cost to Citizens of \$78.30 per person.

We noted an instance in May 2012 where the General Counsel was reimbursed for \$75.80 for his dinner while traveling to Tampa.

We noted two instances in March 2012 where Citizens was billed for the Presidential Search Committee Meetings in Miami where the Board Chair, two Board Members, a former President and/or a Senior Manager had meals totaling \$114.16 and \$172.72.

We found an instance in which the former President took a limousine from his house to the airport for a charge of \$114. He also claimed reimbursement for the use of a car service to travel from his home in Naples to meetings in Ft. Myers and Tampa. Charges for those trips totaled \$225 and \$380.

<sup>15</sup> Hyatt Regency Orlando International Airport

In another instance, we found that a Senior Manager filed for reimbursement for a car service in the amount of \$101.76 for several Senior Managers and a Board Member to travel approximately 30 miles roundtrip to dinner in Orlando in June 2012. It appears that two or possibly three of the Senior Managers reported to be in attendance had vehicles available for use in Orlando including one car rented for Citizens' business. We noted another Board Member incurred \$58 for a taxi to travel alone to the same location for dinner and he had driven his personal vehicle to Orlando for Citizens' business as well. The total cost of the dinner charged to the Citizens corporate credit card was \$918.34 for seven or possibly eight Board Members/Senior Managers and included the purchase of alcoholic beverages. It is unclear whether a \$300 personal check covered a portion of these expenses or not.

We noted an instance in June 2012 where the former Chief Administration Officer claimed reimbursement for mileage to the airport from a location other than her primary residence for an additional cost of \$70.76 over the cost of traveling from her primary residence.

We also noted an instance when the Board Chair traveling to London in April 2012, used his "frequent flyer" points to acquire his plane ticket and did not turn in any actual receipts for any portion of the trip. The documentation used for reimbursement of the frequent flyer points and the hotel stay was receipts for expenses incurred by the Chief Financial Officer for her airfare and her hotel stay. Also, the expense report disclosed that the Chair flew from Miami but used the airfare amount charged by the Chief Financial Officer who flew from Tallahassee. Usually, airfare from Miami is considerably less than airfare from Tallahassee, but no adjustment was made by the Chair in the amount of reimbursement requested. We noted that Citizens did not have a written policy to address payment or reimbursement for frequent flyer points.<sup>16</sup>

We also noted a second instance where the Chair did not use his actual receipts for reimbursement for lodging while in New York in March 2012, but rather used the Chief Financial Officer's actual receipts as documentation for his expenses. The Chief Financial Officer used these same receipts to request her reimbursement. The practice of using someone else's receipts to request reimbursement makes it difficult to ascertain the accuracy and legitimacy of the costs incurred.

We noted instances in which airline tickets were purchased and then trips were rescheduled resulting in airline change fees and additional airfare being charged to Citizens. We noted additional charges ranging from \$50.00 to \$472.50 per change. In other instances, changes were made within a day of making of the original airline reservation. We were unable to determine the reasonableness of

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<sup>16</sup> Chair Lacasa stated that he would be willing to reimburse Citizens for these costs if they were improper.

these changes and the resulting fees because justifications were not documented on the BER for these changes.

### **CIG CONCLUSIONS AND RECOMMENDATIONS**

We believe that the aforementioned examples, while incurred within the parameters outlined in Citizens' written policies in place at the time, are excessive by state standards, this type of spending will continue to occur if Citizens does not follow state travel laws. Therefore, we recommend that Citizens be required to follow state travel laws.

We recommend that Citizens' travel policies be updated to reflect state travel laws apply to Board Members, Senior Managers and all Employees. We also recommend that Citizens enhance their internal controls to address the findings contained in this report.

## APPENDIX A

We reviewed travel expenses reported for the period of January 1, 2012 through August 31, 2012, for the following Board Members, Senior Managers and Employees:

<b>Name</b>	<b>Title</b>
James Adams	Supervisor, Claims Field Operations MCM
Christine Ashburn	Director, Legislative and External Affairs
Nancy Baily	Board Member
John Bigelow	Director, Information Technology Infrastructure
Sharon Binnun	Chief Financial Officer
Steve Bitar	Senior Director, Consumer and Agent Services
Kelly Booten	Vice President of Enterprise Planning and Project Portfolio
Dean Chung	Supervisor, QA Claims Field
Douglas Clark	Supervisor, Claims Field Operations MCM
Brian Donovan	Chief Actuary – Director Actuarial Services
Carol Everhart	Board Member
Chris Gardner	Board Member
Yong Gilroy	Chief Insurance Officer
Barry Gilway	President (As of June 18, 2012)
Don Glisson	Board Member
Thomas Grady	President (March 12, 2002 through June 15, 2012)
Scott Grenville	Manager, Claims Property Field MCM
Lawrence Hadrava	Supervisor, Information Technology Network Engineering
Carlos Lacasa	Board Chairman
Juanita Lester	Senior Director – Human Capital Management
Tom Lynch	Board Member
Lance Malcolm	Vice President of Claims
Casimir Maliszewski	Senior Specialist – Litigation Claims
Joe Martins	Chief – Internal Audit
William Mayo	Supervisor, Claims Property Field MCM
Jennifer Montero	Senior Controller – Director of Accounting
Dennis Mulligan	Supervisor, Claims Field Operations MCM
Debbie Murphy	Vice President of Underwriting
Susanne Murphy	Chief Administration Officer (January 15, 2001 through December 31, 2012)
Jonathan Norfleet	Manager, Treasurer and Investment
Curtis Overpeck	Chief Information Officer
Deric Pantry	Senior Engineer – Information Technology Data Center
Jeremy Pope	Assistant Director – Consumer and Agent Service
John Rollins	Board Member

<b>Name (cont.)</b>	<b>Title (cont.)</b>
Robert Sellers	Vice President of Information Technology Strategy and Architecture
Daniel Sumner	General Counsel
Scott Wallace	President (January 3, 2006 through April 6, 2012)
Beverly Whitesides	Manager, General Services
John Wortman	Board Member

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