STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2019-016
August 2018

CITIZENS PROPERTY INSURANCE CORPORATION



Sherrill F. Norman, CPA
Auditor General

CITIZENS PROPERTY INSURANCE CORPORATION BOARD OF GOVERNORS

Section 627.351(6)(c)4., Florida Statutes, provides that Citizens Property Insurance Corporation (Citizens) operate subject to the supervision and approval of a Board of Governors (Board). Members of the Citizens Board who served during the period September 2014 through August 2018 were:

Gary Aubuchon From August 2013, Interim Chair, From August 2018

Bette Brown	From March 2014	Jim Henderson	August 2014 through July 2017
Blake Capps	From August 2017	James Holton	From January 2014
Juan Cucoy	April 2013 through July 2017	John McKay	From August 2017
Marc W. Dunbar	From April 2018	Freddie Schinz	From August 2013
Christopher B. Gardner	Through August 2018 Chair, From August 2013	J. John Wortman	September 2011 through January 2016 and from October 2017
Don Glisson	April 2012 through August 2017		

PRESIDENT/CHIEF EXECUTIVE OFFICER AND EXECUTIVE DIRECTOR

Pursuant to Section 627.351(6)(c)4.a., Florida Statutes, the Executive Director of Citizens is engaged by the Board, subject to confirmation by the Senate, and serves at the pleasure of the Board. Barry Gilway served as President/Chief Executive Officer and Executive Director during the period of our audit.

The team leader was Clint C. Boutwell, CPA, and the audit was supervised by Allen G. Weiner, CPA.

Please address inquiries regarding this report to Kathryn D. Walker, CPA, Audit Manager, by e-mail at kathrynwalker@aud.state.fl.us or by telephone at (850) 412-2781.

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CITIZENS PROPERTY INSURANCE CORPORATION

SUMMARY

This operational audit of Citizens Property Insurance Corporation (Citizens) focused on claims handling, customer service, take-out programs and bonuses, underwriting and eligibility, financing agreements, procurement of goods and services, internal controls, the internal audit function, and information technology controls. The audit also included a follow-up on the findings noted in our report No. 2016-009. Our audit disclosed the following:

Service Organization Controls

Finding 1: Citizens contracted with service organizations to, among other things, provide electronic working paper administration and retention services for the Office of the Internal Auditor. However, after contracting for these services, Citizens did not take steps to reasonably ensure that service organization controls relevant to the services performed on behalf of Citizens were suitably designed and operating effectively. In addition, Citizens did not evaluate the adequacy and effectiveness of controls established by the subservice organization responsible for hosting the electronic working paper system.

Underwriting and Eligibility

Finding 2: Citizens controls continue to need enhancement to ensure that only eligible policies are renewed.

Finding 3: As similarly noted in prior audit reports, most recently in our report No. 2016-009, Citizens controls did not always ensure that errors in applications for coverage were timely corrected.

Clearinghouse

Finding 4: Our analysis[1] disclosed that, as of September 2017, only 15 of the 123 insurance companies writing personal residential property insurance policies participated in the Clearinghouse established by Citizens pursuant to State law.[2] Excluding Citizens, these 15 insurers represented only 23 percent of the personal residential property insurance market.

Finding 5: Citizens controls for the Clearinghouse need enhancement to ensure that all applicable policy renewals are submitted to the Clearinghouse for consideration by participating insurers.

Customer Service

Finding 6: Analysis of customer service data and surveys of policyholders and agents indicated that Citizens provided customer service comparable to the quality generally provided in the voluntary market. However, survey results also showed that the Citizens Insurance Suite, used by agents to administer policies, claims, and billing functions, could be enhanced to improve user satisfaction.

[1] Our analysis did not include the data for one major insurance company that does not publicly disclose policyholder data.

[2] Section 627.3518, Florida Statutes.

Probable Maximum Loss Financing

Finding 7: While Citizens had taken reasonable steps to minimize its net financing costs (cost-of-carry), it may be possible over time to further reduce these costs as the premiums collected become more consistent with those that would be calculated using actuarially determined rates.

Claims Handling

Finding 8: Citizens procedures for obtaining proof of loss statements and recording and analyzing data for claims with an assignment of benefits need improvement.

Information Technology Controls

Finding 9: Certain security controls related to selected Citizens information technology systems need improvement.

Purchasing Card Controls

Finding 10: Citizens did not always timely deactivate purchasing cards upon a cardholder's separation from Citizens employment.

BACKGROUND

State law[3] establishes Citizens Property Insurance Corporation (Citizens) to provide affordable residential and commercial property insurance to applicants who are in good faith entitled to procure insurance through the voluntary market but are unable to do so. Citizens is a governmental entity that is an integral part of the State and is not a private insurance company.

In accordance with State law,[4] Citizens operates subject to the supervision and approval of a nine-member Board of Governors (Board). The Governor, the Chief Financial Officer, the President of the Senate, and the Speaker of the House of Representatives are each to appoint two members of the Board, and at least one of the two members appointed by each appointing officer must have demonstrated expertise in insurance. Additionally, the Governor is to appoint the ninth Board member who is to serve as a consumer advocate. The Executive Director of Citizens and senior managers are engaged by and serve at the pleasure of the Board and the Executive Director is responsible for employing other staff as Citizens may require, subject to review and concurrence by the Board.

State law[5] provides that all revenues, assets, liabilities, losses, and expenses of Citizens are to be divided into three separate accounts, as follows:

- *Personal lines account* (PLA) - for personal residential policies issued by Citizens. Such policies are to provide comprehensive, multiperil coverage on risks that are not located in areas eligible for coverage in the Florida Windstorm Underwriting Association (FWUA), as those areas were defined on January 1, 2002. The PLA is to also include policies that do not provide coverage for the peril of wind on risks that are located in such areas.

[3] Section 627.351(6), Florida Statutes.

[4] Section 627.351(6)(c)4., Florida Statutes.

[5] Section 627.351(6)(b)2.a., Florida Statutes.

- *Commercial lines account* (CLA) - for commercial residential and commercial nonresidential policies issued by Citizens. Such policies are to provide coverage for basic property perils on risks that are not located in areas eligible for coverage in the FWUA, as those areas were defined on January 1, 2002. The CLA is to also include policies that do not provide coverage for the peril of wind on risks that are located in such areas.
- *Coastal account* - for personal residential policies and commercial residential[6] and commercial nonresidential property policies issued by Citizens that provide coverage for the peril of wind on risks that are located in areas eligible for coverage in the FWUA, as those areas were defined on January 1, 2002.

Table 1 provides a summary, by account, of Citizens policies in force, amounts of premiums with surcharges, and loss exposure amounts, as of December 31, 2015, 2016, and 2017. As shown by Table 1, the number of policies in force decreased by approximately 63,000 (13 percent) from December 31, 2015, to December 31, 2017.

Table 1
Summary of Citizens Policies in Force,
Premiums with Surcharges, and Loss Exposure
As of December 31, 2015, 2016, and 2017

December 31/Account	Policies In Force	Premiums With Surcharges	Loss Exposure
2015:			
Personal-Residential (PLA)	299,902	$ 452,707,462	$ 55,276,921,630
Commercial (CLA)	3,121	55,962,864	12,957,521,324
Coastal	200,842	541,060,524	82,260,747,111
Totals	**503,865**	**$1,049,730,850**	**$150,495,190,065**
2016:			
PLA	293,118	$ 446,094,083	$ 55,809,906,012
CLA	1,891	35,279,875	8,448,379,179
Coastal	160,834	415,791,566	59,804,770,552
Totals	**455,843**	**$ 897,165,524**	**$124,063,055,743**
2017:			
PLA	300,507	$ 486,355,689	$ 59,826,764,706
CLA	1,308	20,567,991	5,049,380,887
Coastal	138,591	353,786,796	47,433,379,254
Totals	**440,406**	**$ 860,710,476**	**$112,309,524,847**

Source: Citizens records.

Pursuant to State law,[7] to reduce the number of policies in force and Citizens' exposure to loss, authorized insurers may take policies out from Citizens. Table 2 summarizes the policies taken out from Citizens during the 2015 through 2017 calendar years.

[6] Section 627.351(6)(b)2.a., Florida Statutes, specified that, effective July 1, 2014, Citizens was to cease offering new commercial residential policies providing multiperil coverage and instead was to continue to offer commercial residential wind-only policies. Citizens was permitted to offer commercial residential policies excluding wind and to continue to renew commercial residential multiperil policies on buildings that were insured by Citizens on June 30, 2014, under a multiperil policy.

[7] Sections 627.351(6)(q)3.a., and 627.3511, Florida Statutes.

Table 2
Citizens Policy Take-Outs

For the 2015 Through 2017 Calendar Years

	PLA		CLA and Coastal		Total	
Calendar Year	Number of Policies	Exposure	Number of Policies	Exposure	Number of Policies	Exposure
2015	174,144	$34,131,842,501	98,641	$30,698,209,058	272,785	$64,830,051,559
2016	46,087	9,320,306,691	41,913	14,042,607,762	88,000	23,362,914,453
2017	17,160	2,562,191,807	16,848	4,873,219,627	34,008	7,435,411,434
Totals	**237,391**	**$46,014,340,999**	**157,402**	**$49,614,036,447**	**394,793**	**$95,628,377,446**

Source: Citizens records.

In general, the premium due from a Citizens policyholder is determined using a standard calculation that incorporates applicable factors obtained from standard manuals, depending on the type and amount of coverage, and then reducing the result by any eligible discounts, for example, wind mitigation credits. Pursuant to State law,[8] annual non-sinkhole premium rate increases since January 1, 2010, have been limited to 10 percent, even if the application of actuarially determined rates indicated larger increases.

As shown in Table 3, Citizens actuarial estimates depicted a difference of approximately $698 million between the premiums that would have been due using actuarially determined rates and the statutorily capped premiums actually authorized for the 2015 through 2017 calendar years.[9] This represented a $1.263 billion decrease in estimated foregone premiums compared to the $1.959 billion in premiums estimated to be foregone during the 2012 through 2014 calendar years. However, primarily due to an increase in loss trends for water claims, the estimated premiums forgone increased by approximately $300 million between the 2016 and 2017 calendar years.

[8] Section 627.351(6)(n)6., Florida Statutes.

[9] In providing these estimates, Citizens assumed that policy counts would remain constant, but indicated that, had actuarially determined rates been used during the 2015 through 2017 calendar years, some policyholders may have obtained insurance in the private (voluntary) market, thus reducing the estimated foregone premiums. However, Citizens did not estimate how many policyholders may have gone into the private market or how much the estimated foregone premiums would have been reduced.

Table 3
Premiums Foregone Due to Statutory Capping

(In Millions)

Calendar Year	PLA/CLA	Coastal	Total
2015	$ -	$ 85	$ 85
2016	8	151	159
2017	333	120	454
Totals	**$341**	**$ 356**	**$ 698**

Source: Actuarial estimates provided by Citizens' Chief Actuary.

State law[10] requires the Auditor General to conduct an operational audit of Citizens every 3 years. The scope of the audit is to include, but not be limited to, claims handling, customer service, take-out programs and bonuses, financing arrangements, procurement of goods and services, internal controls, and the internal audit function. Our findings are described in this report under the heading ***FINDINGS AND RECOMMENDATIONS*** and a detailed description of the audit work performed is included under the heading ***OBJECTIVES, SCOPE, AND METHODOLOGY***.

FINDINGS AND RECOMMENDATIONS

Finding 1: Service Organization Controls

As Citizens contracts with multiple service organizations[11] to, among other things, provide electronic working paper administration and retention services for the Office of the Internal Auditor, it is incumbent upon Citizens to take steps to reasonably ensure that service organization controls relevant to the services performed on behalf of Citizens are suitably designed and operating effectively. Such steps may include requiring the service organization provide a service auditor's report[12] on the effectiveness of the controls established by the organization or, alternatively, Citizens monitoring of the effectiveness of relevant service organization controls. Additionally, when the service organizations utilize subservice organizations[13] to perform services for Citizens, it is necessary for Citizens to obtain assurances regarding the controls at subservice organizations relevant to those services.

[10] Section 627.351(6)(m), Florida Statutes.

[11] Service organizations provide services to user entities, some of which may be relevant to the user entities' internal control over financial reporting.

[12] A service auditor's report, as described by the American Institute of Certified Public Accountants, AT-C Section 320, *Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Over Financial Reporting*, provides information and auditor conclusions related to a service organization's controls. Service organizations make service auditor reports available to user organizations to provide assurances related to the effectiveness of the service organization's relevant internal controls. AT-C Section 320.04 states that the guidance provided in AT-C Section 320 may be helpful in reporting on controls at a service organization other than those that are likely to be relevant to user entities' internal control over financial reporting.

[13] A subservice organization is a service organization used by another service organization to perform some of the services provided to user entities that are likely to be relevant to those user entities' internal control over financial reporting.

As part of our audit, we evaluated selected services provided to Citizens by service organizations, reviewed selected Citizens service organization contracts, performed inquiries of management, and reviewed applicable documents to determine whether Citizens took steps to reasonably ensure that service organization and subservice organization controls were suitably designed and operating effectively. We found that the service organization utilized by Citizens engaged a subservice organization to host the electronic working paper system. During solicitation of the service organization contract, Citizens obtained and reviewed service auditor's reports on the design and operating effectiveness of the service organization's and subservice organization's controls relevant to security, availability, processing integrity, and confidentiality. However, after Citizens executed the contract with the service organization in January 2016, Citizens did not obtain additional service auditor's reports on the effectiveness of either the controls at the service organization or the controls at the subservice organization, or otherwise monitor relevant service organization and subservice organization controls.

Absent an evaluation of relevant service organization controls, Citizens management has reduced assurance that relevant internal controls supporting internal audit activities are in place and functioning effectively. Additionally, when service organizations utilize subservice organizations to perform services for Citizens, procedures to ensure that the design and operating effectiveness of the controls at the subservice organizations have been appropriately evaluated are necessary.

Recommendation: We recommend that Citizens management make or obtain independent and periodic assessments of relevant service organization controls. We also recommend that Citizens enhance procedures to verify that service organizations monitor and evaluate the adequacy and effectiveness of subservice organization controls or otherwise ensure that subservice organization service auditor reports provide the necessary assurances.

UNDERWRITING AND ELIGIBILITY

Citizens provides coverage for dwellings, other structures, personal property (contents), rentals and additional living expenses, and has established underwriting guidelines for each line of business for use by agents and underwriting personnel when preparing and reviewing applications for coverage. To ensure applications provide consistent, complete, and accurate information for eligibility and underwriting decisions, the Citizens Agent Appointment Agreement specifies that, in accordance with procedures established by Citizens, agents are responsible for ensuring that all submitted applications are complete and accurate and in compliance with pertinent application requirements for the requested coverage.

Citizens underwriters[14] (internal and contracted) were required, at a minimum, to review applications and supporting documentation and to make decisions concerning eligibility, insurability, and the assessment of the correct premium. Citizens had established a quality assurance function whereby a team of experienced underwriters was to review internal and external underwriters' work each month on a sample basis. The underwriting quality assurance reviewers were dedicated to either commercial or personal lines and provided regular performance reports to Citizens management that identified error rates and trends. Additionally, contracted underwriters were required to perform similar quality assurance reviews

[14] Underwriters evaluate applications and determine whether to provide insurance, the terms of insurance, and the appropriate coverage amounts and premiums.

and provide regular quality assurance reports to Citizens. Our examination of Citizens underwriting controls and records identified opportunities for improvement as described in Findings 2 and 3.

Finding 2: New and Renewed Policy Coverage Limits

Pursuant to State law,[15] effective January 1, 2016, structures with a dwelling replacement cost or Coverage A[16] of $800,000 or more, or single condominium units with combined dwelling and contents replacement costs of $800,000 or more, were not eligible for coverage by Citizens in counties that the Office of Insurance Regulation (OIR) identified as having a reasonable degree of competition. Effective January 1, 2017, these limits were decreased to $700,000 or more. For counties identified by the OIR as not having a reasonable degree of competition,[17] the statutory coverage limits were less than $1,000,000. Any dwellings insured by Citizens as of the end of a calendar year were permitted to remain covered until the end of the policy term. Citizens must complete nonrenewal procedures in sufficient time to comply with statutorily required nonrenewal notice periods[18] to first-named insureds.

As part of our audit, we analyzed data related to Citizens non-commercial policies that were newly written or renewed during the period September 2016 through August 2017 to determine whether Citizens wrote or renewed non-commercial policies that equaled or exceeded the thresholds for dwelling coverage or dwelling and contents coverage for condominiums. Our analysis included but was not limited to coverage provided by the following Citizens policy types:

- An HO-3 (Homeowners) policy, which is a personal residential multiperil policy that provides the owner of an owner-occupied home with building, other structures, contents, additional living expense, and liability coverage.
- An HW-2 policy, which is the wind-only version of the HO-3 policy.
- An HO-6 (Condominium) policy, which covers certain features of a unit's interior, as well as personal property, additional living expenses, and liability coverage. It does not cover the exterior of a condominium building.
- An HW-6 policy, which is the wind-only version of the HO-6 policy.
- A DP-3 or DW-2 policy (Dwelling Fire), which is available for tenant-occupied properties that otherwise may not qualify for an HO-3 or an HO-6 policy with coverage for the dwelling, other structures, personal property, and loss of rent or additional living expenses. Coverage for tenant or renter's contents and liability is available as well.
- A DP-1 policy which is very similar to a DP-3 or DW-2 policy, but with fewer perils covered and at a reduced cost.

As similarly noted in our report No. 2016-009 (Finding 1), our audit procedures disclosed that 264 of the 365,510 non-commercial policies renewed during the period September 2016 through August 2017 exceeded statutory thresholds. Table 4 summarizes, by policy type, the number of policies that exceeded

[15] Section 627.351(6)(a)3.a., Florida Statutes.

[16] Citizens Coverage A is for the replacement cost of the insured dwelling. Contents coverage (Coverage C) must be purchased separately.

[17] The OIR identified Miami-Dade County and Monroe County as not having a reasonable degree of competition.

[18] Pursuant to Section 627.4133(2)(a) and (b), Florida Statutes, with respect to any personal lines or commercial residential property insurance policy, insurers are required to provide first-named insureds at least 45 days advance written notice of the renewal premium and 120 days written notice of a policy nonrenewal.

the applicable statutory thresholds and shows the minimum and maximum policy coverages for each policy type.

Table 4
Number of Policy Renewals Exceeding Statutory Thresholds
During the Period September 2016 Through August 2017

	2016 Statutory Threshold			2017 Statutory Threshold		
Policy Type	**Number of Policies**	**Minimum**	**Maximum**	**Number of Policies**	**Minimum**	**Maximum**
Counties with Competition		**Limit < $800,000**			**Limit < $700,000**	
HO-3	5	$801,500	$863,500	37	$700,000	$842,100
HO-6	-	-	-	1	$700,000	$700,000
DP-1	-	-	-	1	$711,300	$711,300
DP-3	-	-	-	4	$700,100	$833,100
HW-2	26	$800,600	$958,500	151	$700,000	$996,000
HW-6	-	-	-	2	$850,000	$966,300
Counties without Competition		**Limit < $1,000,000**			**Limit < $1,000,000**	
HO-3	1	$1,036,400	$1,036,400	1	$1,046,400	$1,046,400
DP-3	2	$1,007,200	$1,038,000	1	$1,031,200	$1,031,200
DW-2	2	$1,000,400	$1,001,100	2	$1,000,400	$1,007,200
HW-2	6	$1,000,400	$1,013,400	22	$1,000,000	$1,059,800
Total Policies [a]	**42**			**222**		

[a] In addition to the 264 policies exceeding the applicable statutory limit summarized in the table, another 602 of the 365,510 policies non-commercial policies renewed during the period September 2016 through August 2017 had coverage amounts within 5 percent of the applicable statutory limit.

Source: Citizens policyholder records.

In response to our audit inquiry, Citizens management indicated that:

- Prior to the 120-day nonrenewal notice date, coverage for 147 of the 264 policies was evaluated at less than the statutory thresholds using the current terms of coverage and, consequently, the policies were renewed. However, when annual inflation adjustments were subsequently applied at the 45-day renewal premium notice dates, the dwellings' coverages were increased to amounts greater than the statutory thresholds. Citizens management indicated that, because it was too late to provide the insured the required notice of nonrenewal, Citizens renewed the policies and marked them for nonrenewal at the end of the policy term.
- 76 policies failed to automatically nonrenew as designed, including 37 policies that exceeded the statutory thresholds either when coverages for the policies were revised or when the policies were tagged for assumption and later untagged. Citizens management could not identify the reason the other 39 policies failed to automatically nonrenew.
- Various underwriter procedural errors led to the renewal of 41 policies with coverages that exceeded the statutory thresholds.

Subsequent to our audit inquiry, Citizens management indicated that 195 of the 264 policies had been set for nonrenewal, including 55 policies set for nonrenewal that will be delayed for an additional term to

comply with an OIR Emergency Order related to Hurricane Irma.[19] Citizens management also indicated that the coverages for 30 of the policies had either been reduced below the statutory threshold or had been lost due to assumption or cancellation, and that 39 policies had not been nonrenewed and were being further evaluated.

Effective procedures to reject renewals exceeding statutory coverage limits, including the timely application of annual inflation adjustments, would provide greater assurance that only those policies eligible for coverage are being insured by Citizens.

Recommendation: We recommend that Citizens management continue to enhance procedures to ensure compliance with statutory coverage limits.

Finding 3: Underwriting Controls

Citizens personal lines underwriting procedures provided guidance to underwriters when validating Coverage A amounts during the underwriting review process. The Coverage A amount was to be used to calculate the policyholder's insurance premium. The procedures required that:

- Agents accurately complete the Citizens Replacement Cost Estimator (RCE) for the dwelling.
- Each dwelling be insured at its full replacement cost.
- The policy limit for the Coverage A insured value be no less than 100 percent and no greater than 125 percent of the full replacement cost as determined by the RCE.
- An underwriter adjust the Coverage A amount if the underwriter noted discrepancies with the RCE and the underwriter's recalculated estimate of the cost to replace the dwelling was 10 percent more or less than the requested Coverage A amount.

To validate the requested Coverage A amount, the procedures required underwriters to compare the completed RCE with exterior photos, inspection photos, and specified records of the dwelling, and any alternative valuation method, if provided. Our examination of 31 applications for new personal and 1 application for new commercial lines policies selected from the 44,957 applicable[20] new personal and commercial lines policies accepted for coverage by Citizens during the period September 2016 through August 2017 disclosed that 7 applications contained discrepancies that would not require a change in the Coverage A amount. However, 4 (13 percent) of the applications for personal lines policies contained discrepancies that affected the calculation of the RCE that would require a change in the Coverage A amount. For the 4 applications we noted that:

- On one application, a hip roof was incorrectly identified as a gable roof in the property description, 372 square feet of porch space was incorrectly noted as 118 square feet, and a 232 square foot patio had to be added to the property description. As a result of these errors, the estimated replacement cost was understated by $35,000. The recalculated replacement cost of $352,000 was 11 percent greater than the Coverage A amount of $317,000.

[19] Pursuant to Executive Order Number 17-235, the OIR issued an Emergency Order on September 13, 2017, temporarily suspending cancellations and nonrenewals of property insurance policies during the period September 4, 2017, through October 15, 2017, except at the written concurrence of the insured.

[20] Agents were not required to complete the RCE for homeowner policies covering contents or condominiums (HO-4, HO-6, and DP-3 C policies) or for certain policies that required independent appraisals. Consequently, these policies were excluded from our examination.

- The exterior wall construction was incorrectly identified in the property description for one application as 100 percent wood framing instead of 100 percent concrete, which primarily caused the estimated replacement cost to be understated by $25,000. The recalculated replacement cost of $257,000 was 10.7 percent greater than the Coverage A amount of $232,000.
- On another application, the square footage for two porches was understated by 275 square feet, which caused the estimated replacement cost to be understated by $16,000. The recalculated replacement cost of $152,000 was 11.8 percent greater than the Coverage A amount of $136,000.
- On the fourth application, a hip roof was incorrectly identified as a gable roof in the property description and a 100 square foot patio was incorrectly noted instead of a 201 square foot enclosed porch. As a result of these errors, the estimated replacement cost was understated by $21,000. The recalculated replacement cost of $220,000 was 10.6 percent greater than the Coverage A amount of $199,000.

To help ensure the accuracy of Coverage A amounts, Citizens developed a standard tool for estimating dwelling replacement costs and established multiple levels of review and approval for applications, including a quality assurance function to periodically review and report on the work of underwriters. However, in response to our audit inquiry, Citizens management indicated that the RCE was a tool for estimating replacement cost and underwriters were allowed to use their judgment for slight variations (greater than a 10 percent difference in replacement cost), such as those identified in the applications examined. Subsequent to our audit inquiry and Citizens' recalculation of the four properties' replacement costs, Citizens management elected not to adjust the applicable premiums.

As similarly noted in prior audit reports, most recently in our report No. 2016-009 (Finding 2), the frequency of errors indicate that Citizens controls were not always effective. Absent detection and correction of errors in the RCE and Coverage A amounts, incorrect underwriting decisions and premium calculations may be made and escape timely correction.

Recommendation: We again recommend that Citizens management enhance controls for the review and approval of applications for coverage, and, as applicable, correct identified errors prior to approving applications for coverage.

CLEARINGHOUSE

Pursuant to State law,[21] Citizens established a clearinghouse program (Clearinghouse) to confirm new applicant eligibility for personal residential policy coverage through Citizens and enhance applicant and existing policyholder access to offers of coverage from other authorized insurers. To facilitate offers of coverage from authorized insurers and achieve diversion to the private market, Citizens required that all new applications and policy renewals for certain personal residential coverage be submitted to the Clearinghouse before approving or renewing coverage. Applicants for new coverage were to be deemed ineligible for coverage by Citizens if they received from an authorized insurer an offer for comparable coverage that was less than 15 percent greater than the premium quoted by Citizens. Policyholders renewing their policy were not eligible for coverage by Citizens if they received an offer for comparable coverage with a premium equal to or less than that quoted by Citizens.

On August 22, 2013, Citizens Board approved a 5-year contract, with a 5-year renewal option, with a vendor for Clearinghouse services for an amount not to exceed $44,500,000, primarily based on the

[21] Section 627.3518, Florida Statutes.

number of transactions processed through the Clearinghouse. The vendor is responsible for providing and servicing a single-entry, multiple-carrier interface software solution for the Clearinghouse.

Finding 4: Clearinghouse Utilization

Citizens began processing applications for HO-3 policies through the Clearinghouse in January 2014. Subsequently, renewals of HO-3 policies and applications for and renewals of DP, HO-6, and HW policies were added to the Clearinghouse. Table 5 summarizes Clearinghouse activity for the period January 2015 through September 2017.

Table 5
Summary of Clearinghouse Activity
For the 2015, 2016, and 2017 Calendar Years [a]

Calendar Year	Number of Applications [b]	Number of Eligible Policies [b]	Number of Ineligible Policies [b]	Ineligible Policies as a Percentage of Applications	Number of Policies Diverted Through the Clearinghouse	Exposure Diverted Through the Clearinghouse (In Billions)
New Policies						
2015	162,152	140,539	21,613	13%	10,970	$ 3.10
2016	181,901	160,807	21,094	12%	20,710	5.30
2017 [a]	129,941	119,338	10,603	8%	10,327	2.60
Totals	**473,994**	**420,684**	**53,310**	**11%**	**42,007**	**$11.00**
Renewals						
2015	207,315	204,641	2,674	1%	2,720	$0.64
2016	247,280	242,719	4,561	2%	4,423	0.53
2017 [a]	188,437	186,710	1,727	1%	1,727	0.27
Totals	**643,032**	**634,070**	**8,962**	**1%**	**8,870**	**$1.44**

[a] The 2017 calendar year data includes only the 9 months of data (January through September 2017) available during the conduct of our audit fieldwork.

[b] These numbers are greater than the actual unique number of applications received and policies determined to be eligible and ineligible because an application may be resubmitted multiple times as corrections and other changes are made to the application.

Source: Citizens Clearinghouse records.

We analyzed Clearinghouse and OIR data to determine the percentage of the personal residential property insurance market that participated in the Clearinghouse. Our analysis[22] disclosed that, of the 123 insurance companies that were writing personal residential property insurance policies as of September 30, 2017, only 15 insurers participated in the Clearinghouse. As shown in Table 6, these 15 insurers represented only 23 percent of the market share by number of policies,[23] excluding the policies held by Citizens.

[22] Our analysis did not include the data for one major insurance company that does not publicly disclose policyholder data.

[23] Market share by number of policies was estimated using data from OIR's Quarterly and Supplemental Reporting System (QUASR) for the quarter ended September 30, 2017.

Table 6
Market Share of Insurance Companies Utilizing Clearinghouse
For the Period July 2017 Through September 2017

	Policies in Force	Premiums	Exposure
Insurers in Clearinghouse	1,338,119	$2,173,362,902	$ 436,529,485,182
Personal Residential Totals	5,767,732	$8,697,601,666	$1,947,685,074,645
Clearinghouse Participants as a Percentage of Totals	23.2 %	25.0%	22.41%

Source: Citizens and OIR data.

In response to our audit inquiry, Citizens management indicated that, although some of the original participating insurers had dropped out of the program because of changes in their business profiles, other insurers had begun participating. However, the pool of Citizens policies had been reduced through depopulation efforts and the remaining policies may not be as attractive to participating insurers.

Although we noted efforts by Citizens to increase insurer utilization of the Clearinghouse, including the appointment of a single point of contact for current and potential program participants, the effectiveness of the Clearinghouse in reducing the exposure of Citizens is dependent on insurance companies electing to use the Clearinghouse. The higher the market share of insurers participating in the Clearinghouse, the greater the potential for diversion of new and renewed policies and corresponding exposure from Citizens.

Recommendation: To facilitate the greater diversion of policies and exposure to the private market, we recommend that Citizens management continue efforts to encourage insurers to utilize the Clearinghouse.

Finding 5: Policy Renewal Submissions to the Clearinghouse

To ensure applications for new and renewal residential policies were submitted to the Clearinghouse for marketing to the private insurance market, Citizens established an interface between the Clearinghouse and PolicyCenter[24] information systems. For policy types processed by the Clearinghouse, agents were required to enter relevant policyholder information into the Clearinghouse to create a new policy submission for residential coverage. Once the application was acknowledged in the Clearinghouse, the agent requested offers of coverage from Citizens and other participating insurers. The application for coverage was reviewed by participating insurers and, if no disqualifying offers were made, Citizens would accept a policy for the requested coverage and the policy information would be retained in PolicyCenter.

Prior to renewal, PolicyCenter automatically sends the policy information to the Clearinghouse to initiate requests for offers of coverage from other insurers. A unique Clearinghouse identification number was generated and saved in PolicyCenter for the period the policy was renewed that confirmed the policy had been submitted to the Clearinghouse.

[24] PolicyCenter is a Citizens Insurance Suite application used to process and administer Citizens' insurance policies.

To determine whether all applicable residential policy renewals went through the Clearinghouse as required by State law,[25] we analyzed Citizens policy data from PolicyCenter and the Clearinghouse for the period January 2016 through August 2017. Our analysis indicated that 32,570 of the applicable 401,578 policy renewals noted in the PolicyCenter data were not included in the Clearinghouse data. We further examined records for 27 of the 32,570 renewals in PolicyCenter and determined that none had a Clearinghouse identification number or any other evidence that the policy had been processed through the Clearinghouse. In response to our audit inquiry, Citizens management indicated that:

- Data quality issues prevented 10 of the policies from receiving a Clearinghouse identification number and being processed by the Clearinghouse. These policies were previously identified on Citizens error reports but no further action had been taken.
- Although 5 of the policies had been uploaded to the Clearinghouse, the policies were not processed for unspecified reasons.
- 12 policies were not entered into the Clearinghouse for renewal assessment due to programming defects.

Absent adequate controls that ensure all policy renewals are submitted to the Clearinghouse and offered to participating insurers, Citizens has reduced assurance that all applicable policies are available for consideration by participating insurers.

Recommendation: We recommend that Citizens management enhance controls to ensure that all applicable policy renewals are submitted to the Clearinghouse for consideration by participating insurers.

CUSTOMER SERVICE

State law[26] provides, in part, that it is the intent of the Legislature for Citizens to provide services to policyholders, applicants, and agents which is no less than the quality generally provided in the voluntary market. As part of our audit, we evaluated Citizens' customer service function by analyzing complaint and inquiry data maintained by the Department of Financial Services (DFS),[27] and surveying a sample of policyholders and a sample of agents appointed by Citizens. As described in Finding 6, the survey results indicated that, in general, most policyholders and agents were satisfied with the level of service and support provided by Citizens. Our analyses of complaint and inquiry data maintained by the DFS indicated that Citizens' complaint experience was similar to that of other large property and casualty insurers.

Finding 6: Policyholder and Agent Satisfaction

Policyholder Surveys

Citizens, like other insurance companies, provides a number of services that range from the issuance of policies to the payment of claims. To measure the degree of customer satisfaction with the level of

[25] Section 627.3518, Florida Statutes.

[26] Section 627.351(6)(a)1., Florida Statutes.

[27] The DFS, Division of Consumer Services, utilizes the National Association of Insurance Commissioners' definition of complaints and classifies any written communication that expresses dissatisfaction with a specific person or entity subject to regulation under the State's insurance laws as a complaint. An oral communication, which is subsequently converted to a written form, may also be classified as a complaint.

services provided by Citizens, we mailed surveys during February 2018 to 1,000 policyholders. Specifically, we sent surveys to:

- 500 policyholders without claims who had policies in effect at some point during the period September 2014 through August 2017.
- 250 policyholders who had claims closed during period September 2014 through August 2017.
- 250 policyholders who had claims closed during the period September 2017 through December 2017.

Survey questions addressed satisfaction with services related to policy issuance and renewal, call center operations, and claims handling, as applicable. We also included questions to measure policyholder satisfaction with Citizens' customer service and the services provided by Citizens agents, as well as the policyholders' overall satisfaction with their insurance policies. ***EXHIBIT A*** to this report lists the policyholder survey questions.

We received 212 policyholder responses to our survey. Our evaluation of the surveyed policyholders' responses, as summarized in Table 7, indicated that most policyholders were satisfied with the services received from Citizens and Citizens agents. Additionally, 86 percent of the policyholders who responded indicated that they were neutral to very satisfied with their Citizens policy, which is comparable to the policyholder satisfaction percentages reported in our report Nos. 2016-009 (82 percent) and 2013-011 (86 percent).

Table 7
Citizens Policyholder Survey Results

	Very Dissatisfied to Dissatisfied		Neutral to Very Satisfied		
	Number of Responses	Percentage of Responses	Number of Responses	Percentage of Responses	Total Number of Responses [a]
Policy Issuance and Coverage	23	11%	188	89%	211
Policy Renewal	15	8%	162	92%	177
Insurance Agent Satisfaction	19	9%	184	91%	203
Claims Handling	8	13%	54	87%	62
Customer Service	12	21%	46	79%	58
Overall Satisfaction with Citizens Insurance Policy	**29**	**14%**	**173**	**86%**	**202**

[a] Not all 212 policyholders who responded to the survey provided responses to every question.

Source: Policyholder survey responses.

Complaints

We analyzed DFS, Division of Consumer Services, complaints and inquiries data for the period January 2016 through September 2017 to identify any indications of significant customer service issues and compared, by company, the number of complaints against the company to the company's quarterly average number of policies in force during that same period. As shown in Table 8, our analysis disclosed that Citizens ranked ninth among the top 11 residential, commercial, and other property and

casualty insurers in the State in terms of the number of complaints as a percentage of the quarterly average number of policies in force. Previously, as reported in our report No. 2016-009, Citizens ranked fourth.

Table 8
Analysis of Complaints and
Quarterly Average Number of Policies in Force
During the Period January 2016 Through September 2017

Company Ranking	Company	Number of Complaints [a]	Quarterly Average Number of Policies in Force	Complaints as a Percentage of the Quarterly Average Number of Policies in Force
1	A	278	580,438	0.04789%
2	B	81	238,776	0.03392%
3	C	105	327,802	0.03203%
4	D	73	245,822	0.02970%
5	E	66	267,955	0.02463%
6	F	43	184,127	0.02335%
7	G	34	148,222	0.02294%
8	H	31	146,334	0.02118%
9	Citizens	97	459,684	0.02110%
10	I	33	167,638	0.01969%
11	J	11	169,029	0.00651%

[a] Closed complaints for which the company or agent position was upheld, complaints that did not include sufficient information, complaints that were withdrawn, and requests to the DFS for mediation or sinkhole evaluation services were excluded from each company's number of complaints.

Source: Auditor-prepared from data provided by the DFS and the OIR.

Additionally, DFS data showed that one insurer, that considers its policy counts to be a trade secret, had 43 complaints recorded against it during the period January 2016 through September 2017.

Survey of Agents

As part of its operations, Citizens appoints agents to serve policyholders and act as the first line of customer service. Consequently, it is critical to the effective and efficient operation of Citizens that appointed agents have the necessary resources to cost-effectively serve policyholders. Such resources should include adequate training, electronically available policyholder information, and consistent support from Citizens underwriting, claims, and other staff. To measure agent satisfaction with the resources made available by Citizens and to identify potential areas where Citizens could enhance its operations with respect to appointed agents, during February 2018 we surveyed 600 appointed agents.[28] Survey questions were designed to gauge agent satisfaction with, among other things, Citizens' training program, new policy issuance, policy renewal, the Clearinghouse, service provided by Citizens staff, and overall satisfaction with Citizens agent support efforts. ***EXHIBIT B*** to this report lists the agent survey questions.

[28] Surveys were sent to 600 of the 9,436 agents who held a Citizens appointment during the period February 2015 through August 2017.

We received 193 agent responses to our survey and our evaluation of the survey responses, as summarized in Table 9, indicated that most respondents were satisfied with Citizens operations.

Table 9
Citizens Appointed Agent Survey Results

	Very Dissatisfied to Dissatisfied		Neutral to Very Satisfied		
	Number of Responses	Percentage of Responses	Number of Responses	Percentage of Responses	Total Number of Responses [a]
Appointment Program	27	15%	154	85%	181
Certification Program	27	15%	154	85%	181
Training	20	11%	157	89%	177
Citizens Insurance Suite	44	28%	111	72%	155
Electronic Document Management	25	18%	132	84%	157
New Policy Issuance	19	12%	145	88%	164
Policy Renewal	8	5%	157	95%	165
Service	13	12%	96	88%	109
Claims Handling	2	2%	90	98%	92
Clearinghouse	39	25%	115	75%	154
Overall Satisfaction with Citizens Agent Support	**20**	**13%**	**138**	**87%**	**158**

[a] Not all 193 appointed agents who responded to the survey provided responses to every question.

Source: Appointed agent survey responses.

Additionally, agent satisfaction with Citizens staff service and the Clearinghouse increased significantly compared to the levels of satisfaction disclosed in our report No. 2016-009 (service satisfaction increased from 65 percent to 88 percent and satisfaction with the Clearinghouse increased from 60 percent to 75 percent). However, the Citizens Insurance Suite (CIS),[29] which was fully implemented during the period of our survey, received a 28 percent dissatisfaction rating. Agents provided comments such as "difficult" and "time consuming" to describe their experience using the CIS.

Recommendation: We recommend that Citizens management continue efforts to provide quality customer service and evaluate enhancements to make the CIS more user-friendly for agents.

PROBABLE MAXIMUM LOSS FINANCING

Citizens is responsible for ensuring that sufficient resources exist to pay no less than the probable maximum loss (PML) associated with a 1-in-100-year storm (100-year PML).[30] In meeting this responsibility, Citizens utilized catastrophe modeling to predict a worst-case scenario storm and the resulting losses that would be incurred by Citizens, given its policy commitments. These modeling processes yield two 100-year PMLs, one for the risks accounted for within the combined Personal-Residential (PLA) and Commercial (CLA) accounts, and one for the risks accounted for within

[29] The CIS is an insurance operations system that replaced various legacy systems to administer policies, claims, and billing functions.

[30] A 1-in-100-year storm is defined as a storm having a 1 percent (1/100) chance of occurrence in any year.

the Coastal account. For the 2017 hurricane season,[31] the estimated 100-year PMLs for the PLA/CLA and Coastal accounts were $2.1 billion and $4.1 billion, respectively.

To fund the payment of the 100-year PMLs, State law[32] authorizes Citizens to secure the necessary resources from the following sources:

- Available cash on hand from operations and bond financing (surplus).
- Proceeds from policyholder surcharges.
- Proceeds from regular and emergency assessments.
- Private market reinsurance.
- Mandatory reinsurance from the Florida Hurricane Catastrophe Fund (FHCF).
- Borrowed funds, such as those provided through lines of credit and bond issues.

At the December 2017 Board meeting, Citizens management indicated that an estimated $3.3 billion[33] surplus was available to pay claims for the Coastal account, which represented approximately 83 percent of the updated $4.0 billion 100-year PML. The available FHCF reimbursements were reported as $1.2 billion. Citizens management also indicated that an estimated $4.0 billion surplus was available to pay claims for the PLA/CLA accounts, which represented approximately 190 percent of the updated $2.1 billion 100-year PML. According to Citizens' estimates, this surplus would provide sufficient liquid resources to pay claims until FHCF reimbursements (approximately $0.99 billion) became available, and provide additional claims paying resources for additional storms, loss adjustment expenses, or events with losses in excess of those for a 1-in-100-year storm.

Claims in excess of available surplus and FHCF reinsurance would be covered through traditional private reinsurance purchased and catastrophe bonds sold, policyholder surcharges, and assessments. In the event of a 1-in-100-year storm, as of December 2017, the amounts that would be required from such sources were estimated to be $0 for both the Coastal and PLA/CLA accounts.

Finding 7: Liquidity Financing

To have sufficient cash on hand to pay catastrophic losses, Citizens provided for liquidity through various means, such as the issuance of pre-event bonds (bonds issued in anticipation of storm events). Because cash must be readily available to pay claims, a primary goal must be the maintenance of the safety and liquidity of the bond proceeds through conservative investment. However, there is also a need to minimize the net financing cost of carrying the debt (cost-of-carry). The cost-of-carry is defined as the difference between the interest expense accruing on the debt and the investment earnings accruing on the proceeds while they are available for investment. The cost-of-carry can be minimized over the life of the debt by initially structuring the debt issue such that the interest rate on the debt is matched as closely as possible to expected rates of return on conservatively invested proceeds.

[31] The National Hurricane Center defines the Atlantic hurricane season as beginning June 1st and ending November 30th.

[32] Section 627.351(6), Florida Statutes.

[33] The estimates discussed by Citizens management were primarily based on the prior year surplus (unaudited) plus other projected claim-paying resources. The estimates are compared to the single occurrence 100-year PML and not to actual claims payments.

As part of our audit, we evaluated the effectiveness of the steps taken by Citizens to maintain the safety and liquidity of the invested proceeds and to minimize the cost-of-carry. We found that Citizens had issued pre-event debt and paid issuance costs at rates not considered to be excessive and had earnings that appeared reasonable based upon the safety and liquidity criteria in its investment policies. During the period December 2014 through August 2017, the cost of providing additional liquidity of $2.2 billion (amount of pre-event liquidity bonds outstanding at August 2017) to pay potential claims in the event of a catastrophic event was approximately $276 million as shown in Table 10.

Table 10
Bond Interest Expense and Earnings on Investment of Bond Proceeds
December 2014 Through August 2017

Bond Issue	Par Value of Bonds	Par Value of Bonds at August 31, 2017	Interest Expense	Interest Earnings	Issuance Costs and Underwriters Discount	Cost-of-Carry [b]
Coastal 2009A [a]	$1,646,000,000	$ -	$ 81,735,658	$ 14,031,004	$ -	$ (67,704,654)
Coastal 2010A [a]	2,400,000,000	-	83,976,336	20,622,975	-	(63,353,361)
Coastal 2011A [a]	900,000,000	475,000,000	65,392,286	15,475,804	-	(49,916,482)
PLA/CLA 2012A [a]	1,500,000,000	770,000,000	89,947,074	29,364,005	-	(60,583,069)
HRA 2015A	1,000,000,000	1,000,000,000	58,905,349	29,437,426	5,291,699	(34,759,622)
Totals	**$7,446,000,000**	**$2,245,000,000**	**$379,956,703**	**$108,931,214**	**$5,291,699**	**$(276,317,188)**

[a] Issuance costs and underwriters discount were reported as part of the cost-of-carry in our reports Nos. 2013-011 and 2016-009.

[b] The HRA 2015A bond issue occurred during the 2015 calendar year, therefore, the cost-of-carry amount was adjusted for the related issuance costs and underwriters discount.

Source: Citizens records.

While Citizens had taken reasonable steps to minimize its cost-of-carry, it may be possible over time to further reduce these costs as the statutorily capped premiums collected become more consistent with those calculated using actuarially determined rates. For example, as shown in Table 3 in the ***BACKGROUND*** section of this report, the use of actuarially determined rates may have produced additional PLA/CLA and Coastal account premiums of up to $698 million for the period January 2015 through December 2017. The availability of these resources as surplus, together with the earnings thereon, would have reduced the amount of debt financing required.

Recommendation: We recommend that Citizens management continue efforts to reduce the cost-of-carry on pre-event financing while maintaining the safety and liquidity of the financing proceeds through conservative investment. To reduce the amount of debt financing required, we also recommend that, to the fullest extent authorized, Citizens premiums be based upon actuarially determined rates.

CLAIMS HANDLING

The Citizens Claims Division was organized into multiple teams to facilitate both field and desk adjustments. Citizens established claims teams for residential and commercial lines and for specialized claim types such as those related to non-weather-related water damage or sinkholes. Support for claims staff was provided by a Governance team, a Special Investigation Unit, a Litigation team, and a Vendor

Relationship team. Additionally, Citizens augmented claims staffing as necessary by utilizing contracted adjusters who were to receive annual training by Citizens regarding ethics and claims processing.

Documentation of claims administration, processing, and tracking was retained primarily in the ClaimCenter application within the CIS. Citizens promulgated written policies and guidelines to ensure that claims were processed in accordance with industry best practices, including timely and appropriate documentation of verification of coverage, indemnity paid[34] (losses) including associated expenses, retention of experts if applicable, provision of damage estimates to policyholders, and establishment of reserves.[35] To ensure that claims were processed in accordance with Citizens policies and guidelines, Citizens established an enterprisewide quality assurance program with a unit dedicated to reviewing claims. Table 11 summarizes Citizens claims activities during the period January 2015 through August 2017.

Table 11
Citizens Claims Activity [a]
During the Period January 2015 Through August 2017

Calendar Year	Number of Claims Closed	Total Indemnity Paid on Claims Closed	Allocated Loss and Adjustment Expense on Claims Closed	Reserves on Claims Closed [b]
2015	21,940	$129,391,641	$15,321,806	$ 64,878
2016	22,840	201,763,382	29,976,901	42,382
2017 [c]	17,849	198,164,152	44,716,761	71,344
Totals	**62,629**	**$529,319,175**	**$90,015,468**	**$178,604**

[a] Amounts include only closed claims and expenses up to the date of closing.

[b] Claims reserves are management's best estimates of losses and loss adjustment expenses incurred but unpaid.

[c] 2017 calendar year data includes data from January through August.

Source: Citizens claims records.

To evaluate Citizens compliance with its approved policies and guidelines and industry best practices, we examined 103 selected claims files, with indemnity paid totaling $9,334,485, closed during the period January 2016 through August 2017. Our claims sample included 40 claims with non-weather water-related damages and an assignment of benefits[36] (AOB) with total indemnity paid of $1,484,991. Additionally, we selected and examined Citizens records for 100 Hurricane Irma related claims, with indemnity paid totaling $8,149,780, closed during the period September 2017 through December 2017. To assist in our examination, we utilized the services of an insurance claims consultant.

[34] Pursuant to the *Citizens 2017 Best Claims Practices & Estimating Guidelines*, indemnity payments include loss payments for buildings, personal property, loss of use, fair rental value, advance payments, and actual cash value and replacement costs.

[35] Property insurance contracts provide protection from damage, loss, and liability (indemnity) in exchange for premiums. The liability for unpaid losses and associated loss adjustment expenses are estimated at the time of loss, and appropriate reserves are established and adjusted as the claim is processed.

[36] An assignment of benefits is an agreement that, once signed, transfers the insurance claims rights or benefits of the policy to a third party.

Finding 8: Claims Controls and Data

To ensure prompt and efficient handling of claims from initial receipt to final resolution, Citizens developed and promulgated best claims practices[37] that provided Citizens' adjusters guidelines to apply when evaluating claims. Among other guidance, the best practices provided file management guidelines for documenting settlements, repairs, indemnity payments, and AOB. Additionally, most Citizens policy forms included requirements regarding policyholder duties after suffering a loss. Examples of policyholder duties included providing Citizens prompt notice of the loss and cooperating during the claim investigation, retaining the property and protecting it from further damage if possible, and providing written proof of loss within 60 days of Citizens' request. As subsequently described, our examination of the selected claims files disclosed opportunities to enhance Citizens claims process controls and data completeness. Specifically, we noted that:

- For 175 of the 195 applicable claims examined (78 non-catastrophe claims with indemnity paid totaling $7,043,122, and 97 Hurricane Irma claims with indemnity paid totaling $8,143,003), Citizens did not obtain from either the policyholder or their representative a proof of loss statement. A proof of loss statement provides insurers with facts and sworn and signed statements to specified elements of the claim that can be used to determine the insurer's liability for loss payment on a claim. However, Citizens had not established standard parameters for obtaining proof of loss statements from policyholders, such as for claims above a designated amount, and did not routinely obtain signed and sworn proof of loss statements from policyholders or their representatives that established the policyholder's assertions of the time and cause of the loss, all known interests in the property, any other insurance, detailed repair estimates, inventory of damaged personal property, additional living expenses, and any other damages applicable to the loss. Instead, Citizens obtained an independent estimate of the repair costs and discussed the estimate with the policyholder, and only requested a proof of loss statement for claims with litigation or where Citizens anticipated that the claim may be in dispute. Notwithstanding these practices, routinely obtaining a proof of loss statement during the claims adjustment process would aid in identifying the amounts paid for actual repairs and better establish Citizens' liability for the claim.
- Citizens did not record sufficient data to perform comprehensive analyses of AOB claims. The ClaimCenter application was used to process claims and retain documentation related to Citizens claims. As of February 27, 2016, the ClaimCenter application contained an indicator to identify whether a claim involved an AOB. Citizens best claims practices noted that the AOB indicator should be properly utilized and marked as either yes or no for all claims. Our examination of Citizens claims records disclosed that, for 62 of the 149 applicable claims included in our samples, the AOB indicator was not marked as either yes or no.

  Additionally, as part of our audit testing of 203 claims payments, we noted Citizens did not always receive from policyholders or their representatives' sufficient information to identify in the ClaimCenter application the actual amounts paid for repairs (indemnity) and other costs, including attorney costs, related to claims involving an AOB. For 47 claims totaling $2,139,349, Citizens made 48 AOB-related payments, totaling $525,130, to assignees and attorneys for additional indemnity and attorney costs (settlement payments). However, for 12 settlement payments totaling $235,999, the ClaimCenter application did not include sufficient data to differentiate between the amounts paid to assignees for indemnity and the fees paid to the attorney representing the insured or assignee. Table 12 details the settlement amounts paid related to the 48 AOB-related payments. As noted in the table, the 12 settlement payments that did not

[37] *Citizens 2017 Best Claims Practices & Estimating Guidelines*.

differentiate between indemnity and attorney costs had a higher average settlement amount than the AOB-related payments that identified the amounts paid to assignees and the amounts paid to attorneys for representation.

Table 12
Amounts Paid to Assignees and Attorneys
for Claims Identified with an Assignment of Benefits
During the Period September 2015 Through December 2017

Number of AOB-Related Payments	Indemnity Paid to Assignee	Attorney Costs	Did Not Differentiate Indemnity and Attorney Costs	Average Settlement Costs Paid Per AOB Claim
16	$116,156	-	-	$ 7,260
20	88,188	$84,787	-	$ 8,649
12	-	-	$235,999	$19,667

Source: Audit analysis of Citizens ClaimCenter application records.

In response to our audit inquiry, Citizens management indicated that AOB legal costs were recorded when available, but claims that were closed through a negotiated settlement may not include a breakout of legal and repair costs. Notwithstanding Citizens management's response, consistently classifying claims that involve AOB and recording the amounts paid for the claims' indemnity would provide Citizens more reliable data to analyze claims costs drivers and appropriately address areas of concern.

Recommendation: We recommend that Citizens management establish procedures to obtain and retain a proof of loss statement, for example for claims above an amount determined by management, that protects Citizens' interests. We also recommend that Citizens management ensure that the AOB indicator is completed for all claims, obtain and document an itemized list of all available components of AOB claims, and routinely analyze the resulting AOB data for trends and issues requiring further investigation and correction.

INFORMATION TECHNOLOGY CONTROLS

As part of our audit, we evaluated selected Citizens information technology (IT) controls, including controls related to user authentication, access privileges, and logging and monitoring.

Finding 9: Security Controls - User Authentication, Access Privileges, and Logging and Monitoring

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit procedures disclosed that certain security controls related to Citizens user authentication, access privileges, and logging and monitoring need improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising Citizens data and related IT resources. However, we have notified appropriate Citizens management of the specific issues.

Without adequate security controls related to Citizens user authentication, access privileges, and logging and monitoring, the risk is increased that the confidentiality, integrity, and availability of Citizens data and related IT resources may be compromised.

Recommendation: We recommend that Citizens management enhance certain security controls related to user authentication, access privileges, and logging and monitoring to ensure the confidentiality, integrity, and availability of Citizens data and related IT resources.

SELECTED ADMINISTRATIVE ACTIVITIES

As part of our audit, we also evaluated selected Citizens administrative activities and controls, including those related to purchasing cards.

Finding 10: Purchasing Card Controls

During the period January 2016 through August 2017, Citizens incurred 13,700 purchasing card transactions totaling over $2.4 million. In establishing a purchasing card program, Citizens is responsible for implementing key controls, including procedures for timely deactivating purchasing cards upon a cardholder's separation from Citizens employment. During the period of our audit, Citizens utilized several different methods to notify the Purchasing Card Administrator (PCA) of a cardholder's separation from Citizens employment. These methods included communication from the cardholder, the cardholder's supervisor or a Human Resources (HR) employee, or a weekly or monthly termination report from HR. The PCA was responsible for deactivating the purchasing card upon notification of a cardholder's separation from Citizens employment.

To determine whether Citizens timely deactivated purchasing cards upon a cardholder's separation from employment, we compared Citizens employee separation dates to purchasing card deactivation dates recorded in purchasing card records. We identified 76 cardholders who separated from Citizens employment during the period January 2016 through August 2017 and noted that 9 of the cardholders' purchasing cards were deactivated 3 to 92 business days (an average of 14 business days) after the employees' separation dates.

In response to our audit inquiry, Citizens management indicated that, during the period of our audit, Citizens had not established a standard process for alerting the PCA of employee terminations, which contributed to the delays in deactivating purchasing cards. Prior to our audit inquiry, Citizens management initiated a process in January 2018 to require cardholder supervisors provide the PCA an automated notification of the cardholder's separation from Citizens employment.

Although our audit tests did not disclose any charges incurred subsequent to the 9 cardholders' separation from Citizens employment, timely cancellation of purchasing cards upon a cardholder's separation from Citizens employment reduces the risk that unauthorized purchases will be made.

Recommendation: We recommend that Citizens management continue efforts to ensure that purchasing cards are promptly deactivated upon a cardholder's separation from Citizens employment.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, Citizens management had taken corrective actions for the findings included in our report No 2016-009.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from October 2017 through June 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This operational audit of Citizens Property Insurance Corporation (Citizens) focused on claims handling, customer service, take-out programs and bonuses, underwriting and eligibility, financing agreements, procurement of goods and services, internal controls, the internal audit function, and information technology controls. The overall objectives of the audit were:

- To evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, administrative rules, contracts, grant agreements, and other guidelines.
- To examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, the reliability of records and reports, the safeguarding of assets, and identify weaknesses in those internal controls.
- To determine whether management had corrected, or was in the process of correcting, the deficiencies disclosed in our report No. 2016-009.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls, instances of noncompliance with applicable governing laws, rules, or contracts, and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit's findings

and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included the selection and examination of transactions and records. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature, does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, abuse, or inefficiency.

In conducting our audit, we:

- Examined 25 customer care and vendor evaluation monitoring reports selected from the population of 22,598 customer care and vendor evaluation monitoring reports prepared by Citizens during the period September 2014 through August 2017 to determine whether Citizens had established effective monitoring procedures for call center personnel.
- Examined Citizens' organizational structure as of August 2017 to determine whether Citizens created an organizational structure that supported providing policyholders customer service no less comparable than the customer service generally available in the voluntary market.
- To measure policyholder satisfaction, sent surveys to:
    - 500 policyholders, selected from the Citizens Insurance Suite and the population of 698,839 policyholders who had policies in force at some point during the period September 2014 through August 2017 without claims.
    - 250 of the 45,212 policyholders who had claims closed during the period September 2014 through August 2017.
    - 250 of the 53,904 policyholders with claims closed during the period September 2017 through December 2017.

  We then combined and analyzed the survey responses from the 212 policyholders who returned the survey.
- To measure appointed agent satisfaction with Citizens services, selected and sent surveys to 600 of the 9,436 agents who held a Citizens appointment during the period February 2015 through August 2017. We then combined and analyzed the responses from the 193 appointed agents who returned the survey.
- From the population of 2,021 complaints recorded in Citizens records during the period September 2014 through August 2017, examined records for 25 selected complaints to determine whether Citizens had taken appropriate actions to ensure timely and appropriate responses to the complaints.
- From the population of 247 regulatory complaints and inquiries with basis forwarded by the Department of Financial Services (DFS) to Citizens during the period September 2014 through August 2017, examined documentation for 25 selected regulatory complaints to determine whether Citizens had taken adequate actions to timely and appropriately resolve the complaints.
- Compared DFS complaint and inquiries data related to Citizens for the period January 2016 through September 2017 to corresponding data related to other large residential, commercial, and other property and casualty insurers in the State to assess whether Citizens provided customer service of no less than the quality generally provided in the voluntary market.

- To determine the extent to which Citizens processed claims in accordance with established policies and procedures and guidelines, and the extent to which the claims were properly adjusted, engaged a specialist to examine documentation related to:
  - 103 selected claims, each in excess of $1,000 and totaling $9,334,485, from the population of 21,611 claims in excess of $1,000 and totaling $399,253,125 closed during the period January 2016 through August 2017, including 40 non-weather water damage claims totaling $1,484,881 with an assignment of benefits.
  - 100 selected claims, each in excess of $1,000 and totaling $8,149,780, from the population of 26,479 catastrophe claims, totaling $374,537,590 closed during the period September 2017 through December 2017.
- Performed inquiries of Citizens management and inspected selected documents and records to determine whether Citizens had designed and established a claims quality assurance program to ensure that claims were processed in compliance with governing laws, rules, and guidelines.
- Performed inquiries of Citizens management and inspected selected documents and records to determine whether Citizens had designed and established a catastrophe response plan.
- From the population of 21,611 claims in excess of a $1,000 and closed during the period January 2016 through August 2017, examined documentation for 40 selected claims adjusters included in our test of claims payments to determine whether the claims adjusters were qualified and adequately trained.
- Analyzed claims data for the 21,611 claims, in excess of $1,000 and totaling $399,253,125, closed during the period January 2016 through August 2017, and the 26,479 catastrophe claims, in excess of $1,000 and totaling $374,537,590, closed during the period September 2017 through December 2017, to determine whether all claims data needed to identify specific cost items or trends were obtained and analyzed by Citizens Claims Division.
- Examined documentation related to 5 of the 70 assumptions (take-outs) executed during the period September 2015 through August 2017 to determine whether Citizens' depopulation function operated effectively, whether the assumptions were performed in accordance with applicable statutes, and whether the assumptions were approved by the Office of Insurance Regulation (OIR).
- Analyzed insurance company ratings for 23 selected insurance companies participating in take-outs during the period September 2014 through August 2017 to determine whether, as of the most recent rating date, any of the companies had a negative rating due to claims from catastrophic events or other claims exceeding reserves and reinsurance.
- From the population of 75,450 new personal and commercial line policies issued during the period September 2016 through August 2017, examined documentation related to 46 selected policies to determine whether policyholders were eligible for a Citizens policy, appropriate underwriting criteria were applied, and the premium was correctly calculated.
- From the population of 376,587 policies in force for at least 1 year as of August 31, 2017, examined documentation related to 25 selected policy renewals to determine whether policyholders were eligible for a Citizens policy, appropriate underwriting criteria were applied, and the premium was correctly calculated.
- From the population of 3,120 policy submissions rejected by Citizens during the period March 2016 through August 2017, examined documentation related to 25 selected rejected policy submissions to determine whether only ineligible policy submissions were rejected.
- Analyzed data for personal lines policies newly written or renewed during the period January 2016 through August 2017 to determine whether Citizens utilized the results of the Clearinghouse process and complied with statutory thresholds for dwelling coverage.

- Analyzed data for policies diverted from Citizens through the Clearinghouse process during the period October 2014 through September 2017 and associated Clearinghouse costs to assess the cost effectiveness of the Clearinghouse.
- Analyzed Citizens and OIR data for the period July 2017 through September 2017 to determine the percentage of the personal residential property insurance market utilizing the Clearinghouse.
- Analyzed data for personal lines policies renewed during the period January 2016 through August 2017 and selected and reviewed records related to 27 of the 32,570 policy renewals in PolicyCenter that did not include a Clearinghouse transaction identifier number to determine why the policies were not processed through the Clearinghouse.
- Performed inquiries of Citizens management and inspected selected documents and records for the period March 2017 through January 2018 to determine whether Citizens had appropriately monitored its external investment managers.
- Analyzed investment returns data from external investment managers, Citizens, and other sources to determine whether Citizens' investment performance was consistent with that of investment indices with similar characteristics for the period December 2017 through January 2018.
- Examined all financing arrangements entered into by Citizens during the period September 2014 through August 2017 to determine whether the financing arrangements were properly approved at rates not considered to be excessive.
- Calculated the effect that pre-event liquidity had on Citizens' surplus during the period December 2014 through August 2017.
- Analyzed the effect of Citizens' inability to charge actuarially determined insurance premium rates on Citizens' surplus for the 2014 through 2017 calendar years.
- Performed inquiries of Citizens management and reviewed applicable documents and records to evaluate Citizens procedures for estimating its probable maximum loss obligations.
- From the population of 367 contracts awarded during the period September 2014 through August 2017, examined 25 selected contracts to determine whether the contracts were procured in accordance with Sections 627.351(6)(e) and 287.057, Florida Statutes, and Citizens policies and procedures.
- Analyzed Citizens contract data for contracts effective during the period September 1, 2014, through November 9, 2017, to determine whether Citizens procured any large or unusual contracts through a non-competitive procurement process.
- Examined payment documentation and other records for 25 selected contracts, totaling $445,654, that were active during the period September 2014 through August 2017 to determine whether the contracted goods and services were received, the contracts were monitored, and contract payments were made in accordance with the contract terms and conditions.
- Analyzed Citizens purchasing card records for the period January 2014 through August 2017 to determine whether the number of cards issued and card limits were appropriate and whether purchasing cards were timely deactivated upon an employee's separation from Citizens employment.
- Analyzed Citizens fuel card records for the period January 2016 through August 2017 to determine whether the number of cards issued and card limits were appropriate, and whether fuel cards were timely deactivated upon an employee's separation from Citizens employment.
- From the population of 13,700 purchasing card transactions, totaling $2,420,771, made during the period January 2016 through August 2017, examined Citizens records for 40 selected

purchasing card transactions, totaling $115,371, to determine whether the payments were properly authorized, approved, supported, and appropriate to Citizens' mission and objectives.

- Analyzed Citizens executive salaries and benefits data as of January 2017 to determine whether the salaries and benefits were comparable to that of a peer group of governmental and public insurance companies' executives.
- Observed, documented, and evaluated the effectiveness of selected Citizens processes and procedures for ensuring the proper control and safeguard of, and accountability for, Citizens' property items, including property items of a sensitive or attractive nature, in accordance with applicable guidelines.
- Performed inquiries of Citizens management and inspected selected documents and records to determine whether Citizens internal audit function operated in compliance with applicable professional auditing standards.
- Performed inquiries of Citizens management and inspected selected documents and records to determine whether Citizens had adequately designed and implemented an Enterprise Risk Management framework.
- From the population of 30 internal auditing and consulting reports issued during the 2016 and 2017 calendar years, examined 5 internal audit reports to determine whether the report engagements were conducted in accordance with applicable professional auditing standards.
- Performed inquiries of Citizens management and inspected selected documents and records to determine whether Citizens had adequately designed and implemented an Office of Internal Control function.
- Performed inquiries, observations, and inspected selected documents and records to determine whether Citizens had adequately designed and implemented appropriate authentication controls to limit to authorized individuals access to the Citizens network (Active Directory); Citizens Insurance Suite (CIS), including the database; Claims Administration Information System (CAIS); ePAS; Correspondence Handling and Tracking System (CHATS); and the Agent Appointment System (AAS) and related data.
- From the population of 18,342 user access privilege records as of November 5, 2017, for the CIS, CAIS, ePAS, CHATS, and the AAS, examined 40 selected user access privilege records to determine the appropriateness of the access privileges granted.
- Examined the eight database administration level access privilege records for the CIS database as of November 9, 2017, to determine the appropriateness of the access privileges granted.
- Examined the 25 domain administration level access privilege records for the Active Directory as of December 4, 2017, to determine the appropriateness of the access privileges granted.
- From the population of 131 program changes made during the period September 2014 through August 2017, examined Citizens records for 13 selected program changes to determine whether the programming changes were appropriately authorized, tested, approved, documented, and moved into production by appropriate staff.
- Performed inquiries, observations, and inspected selected documents and records to determine whether Citizens had adequately designed and implemented controls for the periodic and timely review of user access privileges to the CIS, CAIS, ePAS, CHATS, and AAS.
- Performed inquiries, observations, and inspected selected documents and records to determine whether Citizens had adequately designed and implemented CIS input, processing, and output controls to ensure the accuracy and reliability of insurance data.
- Performed inquiries, observations, and inspected selected documents and records to determine whether Citizens had adequately designed and implemented CIS imaging general controls.

- Performed inquiries, observations, and inspected selected documents and records to determine whether Citizens had adequately designed and implemented back-up and disaster recovery controls.
- Performed inquiries, observations, and inspected selected documents and records to determine whether Citizens had adequately designed and implemented catastrophe response controls.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading ***MANAGEMENT'S RESPONSE***.

AUTHORITY

Section 627.351(6)(m), Florida Statutes, requires the Auditor General conduct an operational audit of Citizens Property Insurance Corporation every 3 years. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



Sherrill F. Norman, CPA
Auditor General

EXHIBIT A

POLICYHOLDER SURVEY QUESTIONS

Policy Issuance and Coverage
1. Do you feel your Citizens policy was issued in a timely manner?
2. Did you encounter problems obtaining insurance coverage from Citizens? If you answered 'Yes', please provide a brief description of the problem(s).
3. With respect to the initial issuance of your Citizens policy, please rate your level of satisfaction with the service provided by Citizens and your insurance agent (1 to 5 with 5 being very satisfied). If you were less than satisfied, please provide details describing the reason(s) for your dissatisfaction.
4. Did you receive offers of coverage with other insurance companies subsequent to your application for Citizens coverage?
Policy Renewal
5. Has your initial Citizens policy been renewed?
6. Do you feel that you timely received your renewal and premium payment notice?
7. Did you encounter problems in relation to the renewal of your policy? If you answered 'Yes', please provide a brief description of the problem(s).
8. With respect to the renewal process, please rate your level of satisfaction with the service provided by Citizens and your insurance agent (1 to 5 with 5 being very satisfied). If you had a problem in relation to the renewal of your policy or were less than satisfied with the renewal process, please provide details describing the reason(s) for your dissatisfaction.
Insurance Agent
9. Did your Citizens insurance agent appear knowledgeable with respect to the insurance policy coverage provided by Citizens?
10. Did your insurance agent have readily available information concerning Citizens insurance premium rates?
11. Was your insurance agent able to quickly provide a response to your questions regarding your Citizens policy coverage, amount of premium, and premium payments?
12. Overall, please rate your level of satisfaction with the service provided by the insurance agent through whom you purchased your Citizens policy (1 to 5 with 5 being very satisfied). If you were less than satisfied, please provide details describing the reason(s) for your dissatisfaction.
Claims Handling
13. Have you filed a claim with Citizens in the past 3 years?
14. Please rate the level of convenience of reporting your claim (1 to 5 with 5 being very easy).
15. Did you file your claim(s) directly with Citizens or through your insurance agent?
16. Did your agent appear familiar with Citizens' claims handling procedures?
17. Did a Citizens Claims Adjuster visit your property to observe the damage?
18. Did the Citizens Claims Adjuster appear to thoroughly evaluate your loss?
19. How long after your first notification of loss were you contacted by an adjustor?
20. Overall, please rate your level of satisfaction with the service provided by Citizens Claims Adjuster representative (1 to 5 with 5 being very satisfied). If you were less than satisfied, please provide details describing the reason(s) for your dissatisfaction.
21. Were you represented by a third party?
22. If you were represented by a third party, which title best describes them? a. Public Adjustor b. Contractor c. Attorney d. Other

23. How did you first contact the third-party representative?
    a. Through a Citizens representative
    b. Web site
    c. Third-party initiated contact
    d. Other
24. Overall, please rate your level of satisfaction with the service provided by the third-party representative (1 to 5 with 5 being very satisfied). If you were less than satisfied, please provide details describing the reason(s) for your dissatisfaction.
25. If you received a claim payment, how satisfied were you in regard to the timeliness of the payment (1 to 5 with 1 being very dissatisfied)?
26. If you received a claim payment, how satisfied were you in regard to the explanation of the amount for the payment (1 to 5 with 5 being very satisfied)?
27. How satisfied were you with the completed work (1 to 5 with 5 being very satisfied)?

Citizens Customer Service

28. Have you, within the last 12 months, contacted Citizens?
29. For what purpose(s) did you contact Citizens?
    a. File a Claim
    b. Policy Coverage question
    c. Premium payment question
    d. Billing/late notice
    e. Change information on policy
    f. Other
30. Please estimate the number of times that you have contacted Citizens within the last 12 months.
31. Please estimate when you made your most recent contact with Citizens.
32. Did the Citizens Customer Service Agent help you obtain the information needed?
33. How satisfied were you with the timeliness of Citizens' response to your question or issue (1 to 5 with 5 being very satisfied)?
34. How satisfied were you with the way your question or issue was resolved (1 to 5 with 5 being very satisfied)? If you replied less than satisfied, please provide details describing the reason(s) for your response.
35. If you were less than satisfied with the way your question or issue was handled, did you file a complaint with Citizens?
36. If you replied 'Yes' to question 35, how did you contact Citizens to file your complaint?
    a. Via the Citizens Web site
    b. Via e-mail
    c. Via US mail
    d. Other method
37. Did a representative from Citizens contact you regarding your complaint?
38. How satisfied were you with Citizens response to your complaint (1 to 5 with 5 being very satisfied)?
39. If you replied less than satisfied, please provide details describing the reason(s) for your response.

Overall Assessment

40. In your opinion, does Citizens provide better or worse coverage than other insurance companies?
41. Do you feel having a Citizens insurance policy is safer than having a policy with another insurance company?
42. Overall, please rate your level of satisfaction with your Citizens insurance policy (1 to 5 with 5 being very satisfied). If you were less than satisfied, please provide details describing the reason(s) for your dissatisfaction.

EXHIBIT B

AGENT SURVEY QUESTIONS

Background
1. Name
2. E-mail
3. Approximately, how many years have you been a licensed property insurance agent in the State of Florida?
Agent Appointment and Certification Process
4. Please rate your level of satisfaction with the Citizens Agent Appointment System (AAS), or its replacement (1 to 5 with 5 being very satisfied). If you were less than satisfied, please provide details describing the reason(s) for your dissatisfaction.
5. Please rate your level of satisfaction with the Citizens Agent Certification Portal (ACP), or its replacement (1 to 5 with 5 being very satisfied). If you were less than satisfied, please provide details describing the reason(s) for your dissatisfaction.
6. Please rate your overall level of satisfaction with the training and reference materials currently provided by Citizens (1 to 5 with 5 being very satisfied). If you were less than satisfied, please provide details describing the reason(s) for your dissatisfaction.
7. Which training methods and reference tools are most commonly available from other property insurers that you represent? a. Training seminars b. Electronic training materials c. Technical bulletins d. Other
8. In your opinion, based on your experience with Citizens and other insurers, please indicate the most effective method of training and provide any additional comments or recommendations that you may have relating to Citizens training process.
9. Please rate your level of satisfaction with the Citizens Insurance Suite (CIS) information system (e.g., Policy Center, Claims Center) (1 to 5 with 5 being very satisfied). If you were less than satisfied, please provide details describing the reason(s) for your dissatisfaction.
10. Please rate your level of satisfaction with the Electronic Policy Administration System (ePAS), or its replacement (1 to 5 with 5 being very satisfied). If you were less than satisfied, please provide details describing the reason(s) for your dissatisfaction.
11. Please rate your level of satisfaction with Citizens electronic document management system(s) (1 to 5 with 5 being very satisfied). If you were less than satisfied, please provide details describing the reason(s) for your dissatisfaction.
12. Please provide any comments or recommendations relating to the accessibility of Citizens policyholder information.
Underwriting
13. Please rate your level of satisfaction with Citizens procedures related to the issuance of new insurance policies, including valuation of the covered structure and mitigation credits (1 to 5 with 5 being very satisfied). If you were less than satisfied, please provide details describing the reason(s) for your dissatisfaction.
14. Please rate your level of satisfaction with Citizens procedures relating to the renewal of policies, including valuation of the covered structure and mitigation credits (1 to 5 with 5 being very satisfied). If you were less than satisfied, please provide details describing the reason(s) for your dissatisfaction.
15. How does the commission schedule used by Citizens for renewal policies differ from that of the other insurers you have appointments with for property and casualty insurance? a. Significantly Worse b. Somewhat Worse c. The Same d. Somewhat Better e. Significantly Better

16. Please provide any comments or recommendations related to the efficiency or effectiveness of Citizens' underwriting procedures and practices.
17. Please rate your level of satisfaction with the manuals, bulletins and other documentation related to the issuance of Citizens policies (1 to 5 with 5 being very satisfied). If you were less than satisfied, please provide details describing the reason(s) for your dissatisfaction.
18. Please rate your level of satisfaction with Citizens Clearinghouse Program (1 to 5 with 5 being very satisfied). If you were less than satisfied, please provide details describing the reason(s) for your dissatisfaction.
19. How does the commission schedule used by Citizens for new policies differ from that of the other insurers you have appointments with for property and casualty insurance?
    a. Significantly Less
    b. Somewhat Less
    c. The Same
    d. Somewhat More
    e. Significantly More
20. If you are able to directly bind a policy to Citizens, please rate your level of satisfaction with the Quality Assurance process (1 to 5 with 5 being very satisfied). If you were less than satisfied, please provide details describing the reason(s) for your dissatisfaction.

Claims Handling

21. Since February 2015, have you reported and/or followed up on any Citizens policyholder claims?
22. Did you encounter any problems in reporting claims to Citizens? If you answered Yes, please provide a brief description of the problem(s).
23. Have you encountered any problems in acquiring claim status information? If you answered Yes, please provide a brief description of the problem(s).
24. For claims reported to Citizens, did Citizens timely act to settle the claims?
25. Please rate your level of satisfaction with the manuals, bulletins, and other documentation related to claims handling (1 to 5 with 5 being very satisfied). If you were less than satisfied, please provide details describing the reason(s) for your dissatisfaction.
26. Have you discussed the assignment of benefits process with your clients?
27. Please provide any comments or recommendations relating to the communication of information between you and Citizens.

Service

28. Have you contacted Citizens concerning a problem or question since February 2015?
29. Please identify the subject(s) related to your contact with Citizens.
    a. Policy coverage issues
    b. New policy issuance
    c. Claims
    d. Suspected Insurance Fraud
    e. Other
30. Please rate your level of satisfaction with the service provided by Citizens staff (1 to 5 with 5 being very satisfied). If you were less than satisfied, please provide details describing the reason(s) for your dissatisfaction.

Overall Assessment

31. Please rate your overall level of satisfaction with the agent support provided by Citizens. If you were less than satisfied, please provide details describing the reason(s) for your dissatisfaction.
32. Please provide any additional comments related to any issues not discussed above and any suggestions to improve Citizens agent services.

MANAGEMENT'S RESPONSE

CITIZENS PROPERTY INSURANCE CORPORATION
2101 MARYLAND CIRCLE
TALLAHASSEE, FLORIDA 32303-1001

TELEPHONE: 850-.513-3746 FAX: 850-513-3903

August 23, 2018

Ms. Sherrill F. Norman, CPA
Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Ms. Norman:

Enclosed are the written statements of explanation from Citizens Property Insurance Corporation to each of the findings of the preliminary and tentative audit findings as provided electronically by your office on July 27, 2018.

These written statements concerning the findings include current and proposed corrective actions. Our staff has worked through any initial questions that arose with your office in order to produce this document.

Should any additional questions or issues arise from this submission please do not hesitate to contact Christine Ashburn at (850) 513-3746.

Regards,

Barry J. Gilway

Barry Gilway
President/CEO and Executive Director

Enclosure

Gary Aubuchon, Interim Chairman, Lee County ● Bette Brown, Monroe County
Blake Capps, Martin County ● Marc W. Dunbar, Leon County ● James Holton, Pinellas County
John McKay, Manatee County ● Freddie Schinz, Okaloosa County ● John Wortman, St. Johns County
Barry Gilway, President/CEO and Executive Director

Service Organization Controls

Finding 1: Citizens contracted with service organizations to, among other things, provide electronic working paper administration and retention services for the Office of the Internal Auditor. However, after contracting for these services, Citizens did not take steps to reasonably ensure that service organization controls relevant to the services performed on behalf of Citizens were suitably designed and operating effectively. In addition, Citizens did not evaluate the adequacy and effectiveness of controls established by the subservice organization responsible for hosting the electronic working paper system.

Management Response: The Office of the Internal Auditor at Citizens obtained the most recent System and Organization Controls Report on controls placed in operation and tests of operating effectiveness relevant to security, availability, processing integrity and confidentiality from the vendor in question. In addition steps have now been taken to reasonably ensure that service organization controls relevant to hosting the electronic working paper system on behalf of Citizens were suitably designed and operating effectively and with an upcoming addendum to the contract this will occur annually.

Underwriting and Eligibility

Finding 2: Citizens controls continue to need enhancement to ensure that only eligible policies are renewed.

Recommendation: We recommend that Citizens' management continue to enhance procedures to ensure compliance with statutory coverage limits.

Management Response: The first audit finding regarding Citizens policies renewing with coverage amounts above those outlined in Florida Statute 627.351(6)(a)3.a. is directly related to the application of annual inflation adjustments.

The coverage amount(s) for an active policy term (new or renewal) are utilized to evaluate the policy for eligibility with regard to statutory thresholds. The policy is reviewed 150-130 days prior to the renewal to determine eligibility as the policyholder must be sent a nonrenewal notice no less than 120 days prior to the renewal date. Citizens receives updated inflation factors quarterly and applies these factors to renewing policies 65-days prior to the policy's effective renewal date. As a result, when the policy is initially reviewed for coverage limit eligibility, it is still within the statutory thresholds. However, when the inflation factor is later applied and the new coverage(s) are above the statutory limits, the policy cannot be nonrenewed as the statutory notification requirements will not be met. The statute specifically states "Such dwelling insured by the corporation on (DATE) may continue to be covered by the corporation only until the end of the policy term." As Citizens takes action to set the policy up for nonrenewal for the end of the renewal policy term at the time the coverage limit exceeds the threshold, Citizens meets the guidelines set forth by statute.

However, to address the various scenarios that may arise, underwriting will obtain and review a monthly report of policies exceeding the threshold that are not already set to nonrenew prior to

the 150 day renewal review period. This report will help ensure the review of risks with coverage amounts over the statutory limit and prevent renewal of risks over the maximum coverage limit.

The second issue pertains to recently discovered situations where policies were not non-renewed due to exceeding the Coverage A limits. Subsequent to the non-renewal, if an underwriter approved a coverage decrease and reversed the non-renewal, the system was not identifying the risk for non-renewal at the subsequent renewal date when the risk again exceeded the maximum coverage limit. Our Business Analyst team determined this to be a system defect and, on June 6, 2018, implemented a solution to stop this from happening. This change now ensures the correct system handling of these types of policies in the future.

Additionally, as mentioned previously, a report will now be generated to identify all policies where the coverage limit exceeds the maximum and the pre-renewal direction to non-renew is not in place; with the exception of policies with open Hurricane Irma claims due to the Executive Order.

With regard to the 41 policies that were renewed incorrectly, Personal Lines Underwriting will review those policies as well conduct training to address issues related to this audit finding.

Finding 3: As similarly noted in prior audit reports, most recently in our report No. 2016-009, Citizens controls did not always ensure that errors in applications for coverage were timely corrected.

Recommendation: We again recommend that Citizens management enhance controls for the review and approval of applications for coverage, and, as applicable, correct identified errors prior to approving applications for coverage.

Management Response: As indicated in our Coverage A Determination Procedures, the underwriters review the completed 360Value cost estimator that has been completed as part of a discussion between the agent and the policyholder. The underwriters then compare the 360Value cost estimator to other factors such as photos and property records, along with other alternative valuation methods if provided by the agent, when determining if the Coverage A limit requested is accurate. These detailed procedures, along with a list of key fields that largely drive replacement cost calculations, have been established by Underwriting and are utilized to ensure the accuracy of 360Value data input by the agent to give an estimate of replacement cost. Enhancements are also made to this tool on a regular basis to ensure that the replacement cost estimates generated are arrived at through the most accurate information available.

Citizens concentrates on correctly rating each policy and every major rating factor. An emphasis on roof shape and construction material will correct many of the errors identified.
Noting the combination of errors in the files reviewed, Citizens' Personal Lines Underwriting Department recognizes the importance of insurance- to- value (ITV) and will conduct training to emphasize our commitment to our 100% ITV program"

Additionally, it is standard procedure for our Quality Assurance team to monitor our underwriting compliance with these procedures by properly identifying 360Value errors and following through to ensure the errors are corrected. This procedural review will continue.

Clearinghouse

Finding 4: Analysis indicates that only 15 of the 123 insurance companies writing personal residential property insurance policies (23%) are participating in the Clearinghouse.

Recommendation: To facilitate the greater diversion of policies and exposure to the private market, we recommend that Citizens management continue efforts to encourage insurers to utilize the Clearinghouse.

Management Response: Citizens management acknowledges and agrees with the information provided in the above finding. While the "123 insurance companies [are] writing personal residential property insurance policies" is technically correct, it deserves further review. While there are many insurers in Florida, some of them do not actively write policies or hold any significant share of the market. Of the 123 companies, approximately 50 did not issue a single policy in 2017, and others less than 500. It is the top 50 insurers who hold approximately 80% of the market that issued approximately 75% of the new policies. The Clearinghouse counts 13 of those top 50 carriers among its participants, including three of the top ten and six of the top twenty. Combined, Clearinghouse participants issued over twenty percent of all new business policies in 2017, an impressive figure given both the fragmentation of the insurance market and that 53% of new policies were written by just ten companies.

Greater insurer participation increases the likelihood that any given applicant for coverage, or existing Citizens policy, will be diverted to the private market. Citizens will continue its on-going efforts to persuade insurers to join the Clearinghouse, targeting especially those with large appetites for new business.

Finding 5: Citizens controls continue to need enhancement to ensure that all applicable policy renewals are submitted through the Clearinghouse.

Recommendation: We recommend that Citizens management enhance controls to ensure that all applicable policy renewals are submitted to the Clearinghouse for consideration by participating insurers.

Management Response: Management acknowledges that all applicable policy renewals must be submitted to the Clearinghouse for consideration by participating insurers and further recognizes that a certain percentage of renewals have not been submitted. In order to implement enhanced controls to ensure all eligible renewal policies are processed through the Clearinghouse, a multifaceted approach will be developed to review and reconcile renewal processing discrepancies.

Customer Service

Finding 6: **Policyholder and Agent Satisfaction:** Analysis of customer service data and surveys of policyholders and agents indicated that Citizens provided customer service comparable to the quality generally provided in the voluntary market. However, Citizens Insurance Suite received a 28% dissatisfaction rating with agents.

Recommendation: We recommend that Citizens' management continue efforts to provide quality customer service and evaluate enhancements to make the CIS more user-friendly for agents.

Management Response: Citizens remains committed to providing quality customer service to our policyholders, agents and the constituents of Florida. Citizens Voice of the Customer survey program for policyholders provides key customer feedback that drives process improvement opportunities companywide.

Citizens continued to increase its agent outreach activities and support prior to this most recent audit. Citizens partners with our Agent Roundtable members on a continuous basis to obtain feedback regarding the use of PolicyCenter and has implemented improvements to enhance the agent experience. We will include the survey feedback in our future Agent Roundtable discussions. Additionally, Citizens has created an agency management team that provides one-on-one support to agents as needed or upon request. To help agents with their experience we also provide robust training material online on a self-serve basis and conduct regular webinars so agents can better understand system changes.

Probable Maximum Loss Financing

Finding 7: While Citizens had taken reasonable steps to minimize its net financing costs (cost-of-carry), it may be possible over time to further reduce these costs as the premiums collected become more consistent with those that would be calculated using actuarially determined rates.

Recommendation: We recommend that Citizens management continue efforts to reduce the cost-of-carry on pre-event financing while maintaining the safety and liquidity of the financing proceeds through conservative investment. To reduce the amount of debt financing required, we also recommend that, to the fullest extent authorized, Citizens premiums be based upon actuarially determined rates.

Management Response: Ensuring the availability and sufficiency of resources to meet policyholder obligations is critically important to Citizens and its stakeholders and is supported by pre-event bond proceeds. Net financing costs are monitored throughout the year in evaluating Citizens' capital structure to optimize the level and availability of claims paying resources at efficient prices. Included as part of this ongoing evaluation are: 1) early retirement of pre-event bonds (In December 2017, Citizens retired $350 million in pre-event bonds), 2) proposing recommended changes to Citizens' investment mandates to increase returns while preserving liquidity and safety or principal, 3) use of liquid and/or highly-rated risk transfer vehicles to reduce Citizens' net retained probable maximum loss. Citizens established premium rates are subject to approval by the Florida Office of Insurance Regulation and must adhere to provisions of Florida Statutes including the glide path.

Claims Handling

Finding 8: Citizens procedures for obtaining proof of loss statements and recording and analyzing data for claims with an assignment of benefits need improvement.

Recommendation: We recommend that Citizens management establish procedures to obtain and retain a proof of loss statement, for example for claims above an amount determined by management that protects Citizens' interests. We also recommend that Citizens management

ensure that the AOB indicator is completed for all claims, obtain and document an itemized list of all available components of AOB claims, and routinely analyze the resulting AOB data for trends and issues requiring further investigation and correction.

Management Response:
Proof of Loss:
Citizens 2018 Best Claims Practices (BCP), requires a claim representative must submit a Proof Of Loss (POL) form to the claimant and request the completed form be returned within 60 days of receipt, for Late Reported Claims (LRC); claims reported to Citizens one year after the date-of-loss. The LRC are the only claims identified within our BCP that requires a POL document from the claimant.

Non-BCP mandated claim situations where a POL is requested and secured on a claim-by-claim basis by servicing team management direction:

- Subrogation / Recovery claims filed against a liable 3rd party.
- Claims where an investigation indicates potential fraud by the claimant has been identified.
- When Citizens makes a written 'Request for Information' to the claimant.
- Dispute resolutions / settlements; ie: appraisals, negotiated settlements, etc.
- Other claims / loss scenarios may initiate Citizens request for a POL from the claimant. These requests are reviewed and handled on a claim-by-claim basis.

Virtually all of Citizens First Party Property policies / forms; residential or commercial, within the 'Conditions' section, under 'Duties of the Insured', support that a claimant is required to complete and present a POL only upon written request by the servicing claim representative.

Factors that could result in a negative impact on a customer's claim experience should a loss dollar threshold be established that require a POL be obtained prior to issuance of claim settlement payment:

- Establishing a specific loss dollar threshold would prejudice other claimants where loss amount did not meet requirement.
- Reduced customer centric claim service experience by delaying issuance of settlement payment.
- Increased opportunity and need for a customer to retain claim representation to complete a POL.
- The customers' financial burden to pay for professional claim representative's service fee to complete a POL.

POL Recommendation Conclusion: Citizens will consider whether standard parameters, in addition to those listed above could be developed to support the need for POL.

Assignment of Benefits (AOB):

Citizens currently captures claims being serviced under an AOB assignment via our electronic claim platform; ClaimCenter, whereupon the claim representative is to acknowledge by initiating the 'indicator' toggle under the 'Claim Status' screen. This claim service requirement is supported within our Citizens BCP document and compliance is measured each month by our Quality

Assurance (QA) audit team via an automated pull-list sampling of 'closed' claims. Team supervisors and managers also conduct open file reviews to gauge compliance.

AOB Recommendation Conclusion: Management has determined that enhanced ClaimCenter programming can support full compliance of claim representative recording of AOB serviced claims, and may add AOB components to acquire additional data for automated acquisition and monthly Metrix reporting.

ClaimCenter programming upgrades are planned for 1st Qtr. 2019, to include:

- System will not allow a claim to move to 'closed status' until the AOB indicator has been initiated, assuring full compliance.
- Additional AOB components are being considered for inclusion of data capture information:
    - Identification of AOB 'Assignee'; ie: Water Mit Vendor, Plumber, etc.
    - A single, or multiple AOB assignees involved with the claim.
    - Any prior claims of the named insured where an AOB assignee was contracted.

Information Technology Controls

Finding 9: Security Controls – User Authentication, Access Privileges, and Logging and Monitoring.

Recommendation: We recommend that Citizens management enhance certain security controls related to user authentication, access privileges, and logging and monitoring to ensure the confidentiality, integrity, and availability of Citizens data and related IT resources.

Management Response: Management has taken note of the findings and are implementing appropriate controls.

Purchasing Card Controls

Finding 10: Citizens did not always timely deactivate purchasing cards upon a cardholder's separation from Citizens employment.

Recommendation: We recommend that Citizens management continue efforts to ensure that purchasing cards are promptly deactivated upon a cardholder's separation from Citizens employment.

Management Response: Effective January 2018, the PCard deactivation process is initiated upon completion of a User Access Management (UAM) ticket by the separating employee's supervisor. The UAM ticket is linked to an active directory of PCard holders and creates a workflow that will send a notification to the PCA that the separating employee is no longer an active employee at which point the PCA will deactivate the PCard. This process is in addition to a review performed weekly by the PCA of all separated employees to ensure none of these employees has an active PCard.