

**STATE OF FLORIDA AUDITOR GENERAL**

**Operational Audit**

**STATE BOARD OF ADMINISTRATION**

Florida Hurricane Catastrophe Fund,  
Selected Administrative Activities,  
and Prior Audit Follow-Up



Sherrill F. Norman, CPA  
Auditor General

## **Board of Trustees and Executive Director of the State Board of Administration**

Article IV, Section 4(e) of the State Constitution (1968), as amended, establishes the State Board of Administration (SBA). The SBA Board of Trustees is composed of the Governor, as Chair, the Chief Financial Officer, and the Attorney General. The Trustees delegate administrative and investment authority to an appointed Executive Director. Ashbel Williams served as Executive Director and Chief Investment Officer through September 30, 2021, and Lamar Taylor served as Interim Executive Director and Chief Investment Officer from October 1, 2021, through the end of our audit period.

The team leader was Thomas Drawbaugh, CPA, and the audit was supervised by Joshua T. Barrett, CPA.

Please address inquiries regarding this report to Joshua T. Barrett, CPA, Audit Manager, by e-mail at [joshuabarrett@aud.state.fl.us](mailto:joshuabarrett@aud.state.fl.us) or by telephone at (850) 412-2804.

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**State of Florida Auditor General**

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# STATE BOARD OF ADMINISTRATION

## Florida Hurricane Catastrophe Fund, Selected Administrative Activities, and Prior Audit Follow-Up

### **SUMMARY**

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This operational audit of the State Board of Administration (SBA) focused on the Florida Hurricane Catastrophe Fund and selected SBA administrative activities. The audit also included a follow-up on Findings 2 and 3 noted in our report No. 2021-135. Our audit disclosed the following:

**Finding 1:** SBA controls over mobile device text messaging and Apple® device iMessages® and the retention of text and iMessages in accordance with State law continue to need improvement.

### **BACKGROUND**

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The State Constitution<sup>1</sup> establishes the State Board of Administration (SBA) governed by a three-member Board of Trustees composed of the Governor, as Chair, the Chief Financial Officer, and the Attorney General. The SBA provides investment management and debt administrative services to various State and local governmental entities. As of June 30, 2023, SBA-managed assets were valued at approximately \$237.7 billion while SBA-administered long-term debt totaled approximately \$12.3 billion.

State law<sup>2</sup> specifies that there is a compelling State interest in maintaining a viable and orderly private sector market for property insurance in the State. Accordingly, the Florida Hurricane Catastrophe Fund (FHCF) was established<sup>3</sup> to provide insurers coverage at a lower cost than that of private reinsurance markets. The SBA administers the FHCF.

State law<sup>4</sup> requires participating insurers to provide the FHCF the information necessary to calculate the insurer's reimbursement premium by September 1 of each year and requires the FHCF to inspect, examine, and verify the records of each insurer's covered policies at such times necessary to validate the accuracy of exposures and losses required to be reported under the terms and conditions of the reimbursement contract. According to FHCF records, the FHCF completed 177 exposure and 70 claims examinations during the period July 2021 through March 2023. Table 1 shows the number of FHCF insurer loss reimbursements and the amounts paid, by hurricane, during the period July 2021 through March 2023.

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<sup>1</sup> Article IV, Section 4(e) of the State Constitution.

<sup>2</sup> Section 215.555(1), Florida Statutes.

<sup>3</sup> Section 215.555(3), Florida Statutes.

<sup>4</sup> Section 215.555(4)(f) and (5)(c), Florida Statutes.

**Table 1**  
**Insurer Loss Reimbursements by Hurricane**  
**July 2021 Through March 2023**

Hurricane	Number of Loss Reimbursements	Amount of Loss Reimbursements
Irma	674	\$1,297,555,339
Ian	165	1,163,928,313
Michael	223	53,403,907
<b>Totals</b>	<b><u>1,062</u></b>	<b><u>\$2,514,887,559</u></b>

Source: FHCF records.

For the 2022, 2021, and 2020 fiscal years, the FHCF’s net premium revenue (i.e., reimbursement premiums paid by the insurer) totaled \$1.21 billion, \$1.21 billion, and \$1.13 billion, respectively. Additionally, exposure coverage, used in the reimbursement premium calculation, for the 2022, 2021, and 2020 contract years<sup>5</sup> totaled \$2.7 trillion, \$2.5 trillion, and \$2.4 trillion, respectively.

## ***FINDING AND RECOMMENDATION***

### **Finding 1: Retention of Text and Instant Messages**

State law<sup>6</sup> requires the SBA to maintain public records in accordance with the records retention schedule established by the Department of State, Division of Library and Information Services. The schedule specifies that the retention period for electronic communications, including text and instant messages, are based on the content, nature, and purpose of the messages. Some of the purposes include administrative correspondence (3 fiscal years), program and policy development correspondence (5 fiscal years), and transitory messages, which are to be maintained until obsolete, superseded, or administrative value is lost.

SBA policies and procedures<sup>7</sup> specified that only instant messaging products authorized by the Director of Information Technology may be used to transmit business-related instant messages on SBA mobile devices. According to SBA records, as of April 24, 2023, 16 Apple devices were authorized to conduct SBA business and those devices sent or received 6,744 text messages during the period July 19, 2021, through March 18, 2023. In June 2021, the SBA contracted with a service organization to provide text message retention services. To ensure that SBA Apple devices were appropriately configured for message archiving, the service organization’s User Guide specified that the SBA should disable iMessages on the devices.

As the SBA relies on a service organization to retain text messages in accordance with State law, it is incumbent upon the SBA to take steps to reasonably ensure that service organization controls relevant to text message retention are suitably designed and operating effectively. Such steps may include SBA monitoring of the effectiveness of relevant service organization controls or, alternatively, requiring the

<sup>5</sup> Section 215.555(2)(o), Florida Statutes, specifies that the contract year begins on June 1 and ends on May 31.

<sup>6</sup> Section 119.021(2)(b), Florida Statutes.

<sup>7</sup> SBA Policy 10-417, *Instant Messaging*.

service organization to obtain and provide assurance that the service organization has established a system to manage risk related to the security of data owned by the user entity.

As part of our audit, we inquired of SBA management, examined SBA records, and evaluated SBA text and instant messaging controls and found that:

- During the period July 2021 through March 2023, the SBA had neither requested nor received and reviewed evidence regarding the effectiveness of the service organization's controls relevant to text message retention. According to SBA management, because the service organization's responsibilities are limited to routing text messages from the mobile device carrier to SBA's Microsoft 365 environment and the service organization does not maintain any SBA data, the SBA did not believe the risk level warranted review of the service organization's controls. However, the lack of visibility into the service organization's controls and assurance that such controls were operating as intended may have contributed to the subsequent issue noted on audit.

Based on management's response, we requested the archived text messages for five selected SBA Apple devices that sent or received 66 text messages during the period November 19, 2022, through December 18, 2022, and noted that the SBA was unable to provide evidence that 12 of the 66 text messages were archived by the service organization or otherwise retained. In response to our audit inquiry, SBA management indicated that, while the service organization provides configuration at the mobile device carrier to forward text messages from configured SBA mobile devices to SBA's Microsoft 365 environment, the SBA does not have visibility into the service organization's controls.

- As similarly noted in our report No. 2021-135 (Finding 3), the SBA had not disabled iMessaging on SBA Apple devices nor established a method to capture and retain iMessages. According to SBA management, iMessaging had not been disabled due to a misconfiguration.

Absent the timely evaluation of the effectiveness of relevant service organization controls, SBA management has reduced assurance that controls relevant to the retention of text messages in accordance with State law are suitably designed and operating effectively. Additionally, absent the disablement of iMessages on all SBA Apple devices, or a verifiable method to capture and retain such messages, iMessages may be sent or received and not retained in accordance with State law, diminishing the SBA's ability to provide access to public records.

**Recommendation: We recommend that SBA management make or obtain independent and periodic assessments of the effectiveness of the service organization's relevant internal controls for ensuring that text messages are retained in accordance with State law and disable iMessaging on all SBA Apple devices.**

## ***PRIOR AUDIT FOLLOW-UP***

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Except as discussed in the preceding paragraphs, the SBA had taken corrective actions for the applicable findings included in our report No. 2021-135.

## ***OBJECTIVES, SCOPE, AND METHODOLOGY***

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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 May 2023 through September 2023 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 the State Board of Administration (SBA) focused on the Florida Hurricane Catastrophe Fund (FHCF) and selected SBA administrative activities. For those areas, the 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 responsibilities in accordance with applicable laws, administrative rules, contracts, grant agreements, and other guidelines.
- Examine internal controls designed and placed into 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, and the safeguarding of assets, and identify weaknesses in those internal controls.
- Identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

Our audit also included steps to determine whether management had corrected, or was in the process of correcting, all applicable deficiencies noted in our report No. 2021-135 (Findings 2 and 3).

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in internal controls significant to our audit objectives; 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; identifying and evaluating internal controls significant to our audit objectives; 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, waste, abuse, or inefficiency.

In conducting our audit, we:

- Reviewed applicable laws, rules, FHCF policies and procedures, and other guidelines, and interviewed FHCF personnel to obtain an understanding of FHCF processes and responsibilities.
- Inquired of SBA management regarding whether the SBA made any expenditures or entered into any contracts under the authority granted by a state of emergency declared or renewed during the period July 2021 through March 2023.
- Obtained an understanding of selected FHCF information technology (IT) controls, assessed the risks related to those controls, evaluated whether selected application IT controls for the Web Insurer Reporting Engine were in place, and tested the effectiveness of the selected controls.
- From the population of 314 insurer contracts active at some point during the period July 2021 through March 2023, with reinsurance premiums totaling \$2,607,235,991, examined FHCF records for 20 selected insurer contracts, with reinsurance premiums totaling \$931,583,952, to determine whether the contracts included appropriate terms and reinsurance premiums were sufficient to cover the risk of loss.
- From the population of 23 updated Proof of Loss reports received by the FHFC from insurers during the period July 2021 through March 2023, with proof of loss increases and decreases totaling \$50,275,501, and \$2,618,341, respectively, examined FHCF records for 7 selected updated Proof of Loss reports, with proof of loss increases totaling \$40,222,927, to determine whether the insurers appropriately corrected previously identified errors and whether amounts due to or from the FHCF were appropriately paid to the insurers or received by the FHCF.
- From the population of nine Automated Clearing House wire transfer instruction changes provided by insurers to the FHFC during the period July 2021 through March 2023, examined FHCF records for four selected ACH wire transfer instruction changes to determine whether FHCF controls over the wire transfer instruction change process were effective.
- Examined FHFC records for the seven exposure and four claims examination examiners who performed examinations during the period July 2021 through March 2023 to determine whether the FHCF ensured that the examiners were appropriately qualified and credentialed prior to performing examinations.
- Analyzed FHCF records for the 164 insurers with contracts active at some point during the period July 2021 through March 2023 to determine whether the FHCF scheduled exposure examinations based upon insurer risk characteristics and whether the FHCF properly allocated resources for the performance of exposure examinations.
- From the population of 177 insurer exposure examinations closed by an FHFC contractor during the period July 2021 through March 2023, examined records for 20 selected insurer exposure examinations to determine whether the examinations were performed in accordance with applicable laws, rules, and other guidelines, and whether the contracted examiners were appropriately monitored by the FHCF.
- From the population of insurer claims paid and subject to examination during the period July 2021 through March 2023 and totaling \$3,815,239,144, analyzed FHCF records related to Hurricane Irma insurer claims paid and subject to examination during the period July 2021 through March 2023 and totaling \$3,401,324,470 to determine whether claims examinations were scheduled based on insurer risk characteristics and whether the FHCF properly allocated resources for claims examinations.

- From the population of 70 claims examinations completed by an FHFC contractor during the period July 2021 through March 2023 and involving reimbursed claims totaling \$3,815,239,144, examined FHCF records for 15 selected claims examinations involving reimbursed claims totaling \$2,377,065,196 to determine whether the examinations were performed in accordance with applicable laws, rules, and other guidelines, and whether examiners were appropriately monitored by the FHCF.
- Reviewed service auditor reports and FHCF and SBA records for the two service organizations used by the FHCF for processing insurer exposure data, billing and collecting insurer premiums, processing and collecting excess loss reimbursement payments, and conducting exposure examinations during the period July 2021 through March 2023 to determine whether the FHCF and the SBA had timely requested, obtained, and reviewed service auditor reports on the effectiveness of the service organizations' established controls, including whether the FHCF and SBA had implemented complementary user entity controls necessary for the service organizations controls to be relied upon and followed up on all applicable deficiencies noted in the service auditor reports.
- Evaluated SBA actions to correct Findings 2 and 3 noted in our report No. 2021-135. Specifically, we:
  - Interviewed SBA management and examined SBA records related to the SBA's text and instant message and iMessage retention capabilities to determine whether the SBA had established adequate controls to retain text and instant messages and iMessages in accordance with State law.
  - Reviewed SBA contract reporting policies and procedures and interviewed SBA management to gain an understanding of SBA contract reporting processes and to determine whether SBA management had designed contract reporting procedures that provided for the timely posting of complete contract information to the SBA Web site.
  - From the population of 347 contracts active at some point during the period July 2021 through March 2023, with expenditures totaling \$495,832,122, compared SBA records for 96 selected contracts, with expenditures totaling \$104,350,981, to the contract information on the SBA's Web site to determine whether contracts were timely posted to the SBA Web site. Additionally, reviewed the SBA's Web site to determine whether contracts included all required downloadable fields and attachments.
- Observed, documented, and evaluated the effectiveness of selected SBA processes and procedures for:
  - Purchasing activities.
  - The administration of SBA travel in accordance with applicable guidelines. During the period July 2021 through March 2023, SBA travel expenditures totaled \$1,042,987.
- 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 finding and recommendation that is 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***

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Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each State agency on a periodic basis. 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.

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is fluid and cursive, with a large initial 'S'.

Sherrill F. Norman, CPA  
Auditor General

# MANAGEMENT'S RESPONSE

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November 15, 2023

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

Dear Ms. Norman:

Our response to the preliminary and tentative findings and recommendations which may be included in your report on the operational audit of the State Board of Administration, Florida Hurricane Catastrophe Fund, Selected Administrative Activities, and Prior Audit Follow-Up are discussed below:

**Finding 1:** SBA controls over mobile device text messaging and Apple® device iMessages® and the retention of text and iMessages in accordance with State law continue to need improvement.

**Recommendation:** We recommend that SBA management make or obtain independent and periodic assessments of the effectiveness of the service organization's relevant internal controls for ensuring that text messages are retained in accordance with State law and disable iMessaging on all SBA Apple devices.

**Response:** Management agrees with the need to ensure the accuracy of text message retention and has performed root cause analysis as to the discrepancies identified within the audit report. The analysis has highlighted the need to strengthen the SBA's administration of the text message archiving solution and to implement random comparisons of the mobile service carrier's records and the texts archived within the SBA's Microsoft 365 environment. Additionally, we will perform annual reviews of the service organization's relevant internal controls as available in SOC 2 Type 2 reports.

Please do not hesitate to contact me if you have any questions or need additional information.

Sincerely,

A handwritten signature in blue ink that reads "Lamar Taylor".

Lamar Taylor  
Interim Executive Director/CIO

LT/apw