

**OFFICE OF INSURANCE REGULATION**

Insurer Rate Filing Review Process  
and Prior Audit Follow-Up



Sherrill F. Norman, CPA  
Auditor General

## Commissioner of the Office of Insurance Regulation

The Office of Insurance Regulation is established by Section 20.121(3)(a)1., Florida Statutes. The Office is administratively supported by the Department of Financial Services, but operates under the direction of the Financial Services Commission which is composed of the Governor, Attorney General, Chief Financial Officer, and Commissioner of Agriculture. The head of the Office is the Director of the Office of Insurance Regulation, who may also be known as the Commissioner of Insurance Regulation. During the period of our audit, the following individuals served as Commissioner of Insurance Regulation:

David C. Altmaier From May 2, 2016  
Kevin M. McCarty Through July 4, 2016<sup>a</sup>

<sup>a</sup> At the request of the Commission, Commissioner McCarty temporarily served in an advisory and mentoring capacity after Commissioner Altmaier's appointment.

The team leader was David Welling, CPA, and the audit was supervised by Allen G. Weiner, CPA. Please address inquiries regarding this report to Lisa A. Norman, CPA, Audit Manager, by e-mail at [lisanorman@aud.state.fl.us](mailto:lisanorman@aud.state.fl.us) or by telephone at (850) 412-2831.

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# OFFICE OF INSURANCE REGULATION

## Insurer Rate Filing Review Process and Prior Audit Follow-Up

### **SUMMARY**

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This operational audit of the Office of Insurance Regulation (Office) focused on the Office's rate filing review process for health insurers and rate and form filing review processes for property and casualty insurers. The audit also included a follow-up on the findings noted in our report No. 2014-009. Our audit disclosed that Office policies and procedures did not specify the nature and extent of the Office's independent reviews of the judgments, calculations, and conclusions made by Office actuaries and analysts during insurer rate filing reviews or the documentation to be maintained to evidence such reviews. In addition, Office records did not always demonstrate that approved health insurer rates were accurately communicated to the insurer or appropriately reviewed by Office actuaries and analysts.

### **BACKGROUND**

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State law<sup>1</sup> specifies that the Office of Insurance Regulation (Office) is responsible for all activities concerning insurers and other risk bearing entities, including, but not limited to, licensing, rates, policy forms, and claims. The Office's Life and Health Product Review Unit is responsible for reviewing all health policy rates and forms submitted by insurers and other insurance-related entities to determine compliance with State law,<sup>2</sup> Office rules, and actuarial standards. Similarly, the Office's Property and Casualty Product Review Unit is responsible for reviewing all property and casualty policy rates and forms to determine compliance with State law,<sup>3</sup> Office rules, and actuarial standards. According to Office management, as of June 30, 2016, there were 440 licensed life and health insurers and 867 licensed property and casualty insurers.

### **FINDINGS AND RECOMMENDATIONS**

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#### **Finding 1: Rate Filing Reviews**

Pursuant to State law and Office rules,<sup>4</sup> Office actuaries and analysts are to review health, property, and casualty insurer rate filings to determine if a rate is excessive, inadequate, or unfairly discriminatory. In making that determination for property and casualty insurer rate filings, for example, the Office is to consider, in accordance with generally accepted and reasonable actuarial techniques, factors including an insurer's past and prospective loss experience, adequacy of loss reserves, trends in actual losses,

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<sup>1</sup> Section 20.121(3)(a)1., Florida Statutes.

<sup>2</sup> Chapters 627 and 641, Florida Statutes.

<sup>3</sup> Chapters 626 and 627, Florida Statutes.

<sup>4</sup> Sections 627.062(2)(b), 636.017(1), 641.31(2), and 641.42(2), Florida Statutes, and Office Rule 69O-149.005, Florida Administrative Code.

and the degree of competition among insurers for the risk insured. During the period July 2014 through January 2016, the Office approved 507 health insurer rate filings and 1,742 property and casualty insurer rate filings. During that same period, the Office did not approve 195 health insurer rate filings and 90 property and casualty insurer rate filings.

Actuarial standards require actuaries to create records and other appropriate documentation to identify the data subject to analysis, assumptions applied to the data, and methods used to analyze the data. The actuary's documentation should include a description of any adjustments or modifications made to data, other than routine corrections, including the rationale for such adjustments or modifications, with sufficient clarity that another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the actuary's work. In addition, a quality assurance program designed to independently evaluate, on a risk-basis, whether the judgments, calculations, and conclusions made by Office actuaries and analysts are valid and adequately supported facilitates the timely detection of individual or systemic rate filing review errors that may lead to excessive, inadequate, or unfairly discriminatory rates.

### **Rate Filing Review Policies and Procedures and Documentation**

In our report No. 2014-009 (finding No. 1), we noted that Office policies and procedures should be enhanced to require that the reasoning and judgments supporting property and casualty insurer rate filing decisions be sufficiently documented. As part of our audit follow-up procedures, we inquired of Office management and evaluated Office policies and procedures for reviewing rate filings from health insurers and property and casualty insurers. In response to our audit inquiry, Office management indicated that completed rate filing reviews were subject to various independent reviews to determine whether requested rates were excessive, inadequate, or unfairly discriminatory, and whether the actuary or analyst needed to revisit any judgments, calculations, or conclusions. These independent reviews consisted of peer reviews, risk-based quality assurance reviews of high-impact rate filings by senior Office management, and other supervisory reviews of lower-impact rate filings.

However, while we noted that the Office had established policies and procedures for actuary and analyst rate filing reviews, the policies and procedures did not specify the nature and extent of the Office's independent reviews of the judgments, calculations, and conclusions made by Office actuaries and analysts during rate filing reviews, nor the documentation to be maintained to support the independent reviews. In addition, our audit procedures disclosed that the Office did not always maintain documentation evidencing the independent reviews of health, property, and casualty insurer rate filings.

The establishment of policies and procedures specifying the nature and extent of independent Office reviews of the judgments, calculations, and conclusions made by Office actuaries and analysts during rate filing reviews, and how such reviews are to be documented, would serve to demonstrate and provide Office management greater assurance that approved rates are valid and adequately supported.

### **Rate Filing Reviews**

We also examined Office records for 55 health insurer rate filings and 55 property and casualty insurer rate filings, received and processed by the Office during the period July 2014 through January 2016, to

determine whether Office actuary and analyst rate filing reviews were timely conducted and adequately documented and Office management reviewed and approved the judgments, calculations, and conclusions of the actuary or analyst. We also examined Office records related to 5 of the 55 health insurer rate filings and 5 of the 55 property and casualty insurer rate filings, for which Office records indicated that the Office had approved rates that differed from the insurers' requested rates, to determine whether the Office's rationale for the rate adjustments was adequately documented and the judgments, calculations, and conclusions of the actuary and analyst were reviewed and approved by Office management. Our examination disclosed that Office records did not always demonstrate that approved rates had been accurately communicated to insurers or appropriately reviewed by Office actuaries and analysts. Specifically, we noted that:

- For one health insurer rate filing, Office records indicated that the Office had not approved the insurer's request for a 14.8 percent average rate increase. However, our audit procedures disclosed that the Office had approved the insurer's requested rate, but due to staff oversight, indicated in the approval letter sent to the insurer that an average increase of 16.3 percent had been approved. While in response to our audit inquiry the insurer indicated that it had implemented an average rate increase of 14.8 percent, the communication of a rate in excess of the approved rate could result in inappropriate rates being charged to customers.
- The Office utilized a *Rate Filing Summary* form and supporting records to document actuary and analyst review of health insurer rate filings. For 3 of 43 applicable health insurer rate filings, the Office was unable to provide a completed *Rate Filing Summary* form evidencing actuary and analyst review of the filings. A properly completed *Rate Filing Summary* form documents that approved rates have been subject to appropriate actuary and analyst review.

**Recommendation:** We recommend that Office management establish policies and procedures to specify the nature and extent of the Office's independent reviews of the judgments, calculations, and conclusions made by Office actuaries and analysts during rate filing reviews and the documentation to be maintained to evidence such reviews. We also recommend that Office management ensure that approved health insurer rates are accurately communicated to insurers and that *Rate Filing Summary* forms are completed and maintained for all rate filing reviews.

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

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Except as discussed in the preceding paragraphs, the Office had taken corrective actions for the findings included in our report No. 2014-009.

## ***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 February 2016 through July 2016 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 Office of Insurance Regulation (Office) focused on the Office's rate filing review process for health insurers and rate and form filing review processes for property and casualty insurers. 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 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, and the safeguarding of assets, and identify weaknesses in those internal controls.
- To 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 deficiencies noted in our report No. 2014-009.

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:

- Reviewed applicable laws, rules, Office policies and procedures, and other guidelines, and interviewed Office personnel to gain an understanding of the health, property, and casualty insurer rate and form filing processes.
- Obtained an understanding of Electronic Document Management System (EDMS) information technology (IT) controls, assessed the risks related to those controls, evaluated whether selected IT application controls were in place, and tested the effectiveness of the controls.
- From the population of 2,477 health insurer rate filings received by the Office through the EDMS during the period July 2014 through January 2016, examined Office records for 10 rate filings to determine whether EDMS controls were sufficient to ensure that only rate filings that included the information required to be provided by insurers were accepted.
- From the population of 702 health insurer rate filings received and processed by the Office during the period July 2014 through January 2016, with an approved or disapproved status recorded in EDMS, examined Office records for 45 rate filings to determine whether Office actuary and analyst rate filing reviews were timely conducted and adequately documented and Office management reviewed and approved actuary and analyst judgments, calculations, and conclusions.
- From the population of 1,684 health insurer rate filings received and processed by the Office during the period July 2014 through January 2016, with an other than approved or disapproved status recorded in EDMS, examined Office records for 10 rate filings to determine whether Office actuary and analyst rate reviews were timely conducted and adequately documented and Office management reviewed and approved actuary and analyst judgments, calculations, and conclusions.
- Interviewed Office management and examined Office records related to five health insurer rate filings received and processed during the period July 2014 through January 2016, for which Office records indicated that the Office had approved rates that differed from the insurers' requested rates, to determine whether the Office's rationale for the rate adjustments were adequately documented and the judgments, calculations, and conclusions of the actuary and analyst were reviewed and approved by Office management.
- Analyzed EDMS data related to life and health insurer rate and form filings reviewed by the Office during the period July 2014 through January 2016 to determine whether the Office timely approved or disapproved rate and form filings.
- From the population of 7,038 property and casualty insurer form filings received by the Office through the EDMS during the period July 2014 through January 2016, examined Office records for 10 form filings to determine whether EDMS controls were sufficient to ensure that only form filings that included the information required to be provided by insurers were accepted.
- From the population of 6,657 property and casualty insurer rate filings received by the Office through the EDMS during the period July 2014 through January 2016, examined Office records for 10 rate filings to determine whether EDMS controls were sufficient to ensure that only rate filings that included the information required to be provided by insurers were accepted.
- From the population of 3,949 property and casualty insurer form filings received and processed by the Office during the period July 2014 through January 2016, with an approved or disapproved

status recorded in EDMS, examined Office records for 45 form filings to determine whether Office form reviews were timely conducted and adequately documented.

- From the population of 1,054 property and casualty insurance form filings received and processed by the Office during the period July 2014 through January 2016, with an incomplete or withdrawn status recorded in EDMS, examined Office records for 10 form filings to determine whether Office form reviews were timely conducted and adequately documented.
- From the population of 1,832 property and casualty insurer rate filings received and processed by the Office during the period July 2014 through January 2016, with an approved or disapproved status recorded in EDMS, examined Office records for 45 rate filings to determine whether Office actuary and analyst rate reviews were timely conducted and adequately documented and Office management reviewed and approved actuary and analyst judgments, calculations, and conclusions.
- From the population of 803 property and casualty insurer rate filings received by the Office during the period July 2014 through January 2016, with an incomplete or withdrawn status recorded in EDMS, examined Office records for 10 rate filings to determine whether the rate reviews were timely conducted and adequately documented and Office management reviewed and approved actuary and analyst judgments, calculations, and conclusions.
- Analyzed EDMS data related to property and casualty insurer rate and form filings reviewed by the Office during the period July 2014 through January 2016 to determine whether the Office timely approved or disapproved rate and form filings.
- Analyzed EDMS data for the period July 2014 through January 2016 to assess the reasonableness of the number of life and health and property and casualty insurer form resubmissions and rejections.
- Examined EDMS records related to insurer appeals closed by the Department of Management Services, Division of Administrative Hearings, during the period July 2014 through January 2016, to determine whether rate filing appeals were accurately recorded in the EDMS and appropriately processed by the Office.
- Evaluated Office actions taken to correct the findings noted in our report No. 2014-009. Specifically, we:
  - Interviewed Office personnel and examined Office records related to five property and casualty insurer rate filings received and processed during the period July 2014 through January 2016, for which the Office approved rates that differed from the insurers' requested rates, to determine whether the Office's rationale for the rate adjustments were adequately documented and the judgments, calculations, and conclusions of the actuary and analyst were reviewed and approved by Office management.
  - Analyzed Florida Accounting Information Resource Subsystem revenue and expense records for the 2014-15 fiscal year to determine whether the Office utilized appropriate accounting codes to identify revenues to the applicable business unit and Office revenues approximated Office expenses. Additionally, we examined Office records related to the revenue analyses performed by the Office for the months of January 2015 and December 2015 to determine whether Office procedures were sufficient to identify revenue shortfalls and make adjustments, as necessary, in planned spending.
  - Examined Office records for the semiannual user access privilege reviews conducted during the period July 2014 through January 2016 for EDMS, the Financial Analysis and Monitoring Electronic Document Management System (FAME), and the Companies and Related Entities

Navigator system (COREN), to determine whether Office personnel knowledgeable of each user's current roles and responsibilities conducted the access privilege reviews.

- Interviewed Office personnel, reviewed Department of Financial Services policies and procedures, and examined Office records to determine whether established policies and procedures and other controls were sufficient to control access to FAME, EDMS, and COREN.
- Examined Office records to determine whether the Office timely received and reviewed the 2013 and 2014 service organization control reports related to the controls designed and established by the National Association of Insurance Commissioners for the Financial Data Repository.
- 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**

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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.



Sherrill F. Norman, CPA  
Auditor General

# MANAGEMENT'S RESPONSE

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## OFFICE OF INSURANCE REGULATION

**DAVID ALTMAIER**  
COMMISSIONER

November 17, 2016

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

Dear Ms. Norman:

This is in response to your letter of October 20 regarding the recent audit of our Rate Filing Review Process. First of all, thank you for your team's diligence and professionalism throughout the audit process. They were at all times thorough, but polite, candid and professional in what must have been a difficult assignment.

As noted in your letter and attachments, the Office regulates over 1,200 licensed insurance companies that made more than 2,000 rate filings last year. The standard for the Office review of these filings is the statutory standard cited in your draft report of rates that are not inadequate, excessive, or unfairly discriminatory. Our actuarial staff reviews rates using these statutory standards. Our actuaries also comply with the Actuarial Standards of Practice by maintaining documentation "with sufficient clarity that another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the actuary's work." But we do understand that, based on a best-practices approach, the Office should have quality control standards in place to double-check each actuary's work and attempt to create as much consistency in the review of filings as possible. Although we have a "peer review" process in place, we understand that there is an opportunity to improve in the documentation of this practice.

Therefore, the Office will develop additional procedures regarding the nature and extent of review of the judgment, calculations and conclusions of the Office actuarial staff in regards to rate filings and will maintain documentation of that review. This will include a review of the rate communication with the companies for accuracy and maintenance of related documentation.

Thank you again for your time and attention to this audit.

Sincerely,

Belinda Hoffman Miller  
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