

## OFFICE OF INSURANCE REGULATION

Financial Oversight  
and Market Regulation of Insurers  
and Selected Administrative Activities



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. David C. Altmaier served as Commissioner of Insurance Regulation during the period of our audit.

The team leader was David N. Cain, CPA, and the audit was supervised by Allen G. Weiner, CPA.

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# OFFICE OF INSURANCE REGULATION

## Financial Oversight and Market Regulation of Insurers and Selected Administrative Activities

### **SUMMARY**

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This operational audit of the Office of Insurance Regulation (Office) focused on the Office's financial oversight and market regulation of insurers and selected administrative activities. The audit also included a follow-up on the finding noted in our report No. 2017-050. Our audit disclosed the following:

#### **Financial Oversight and Market Regulation of Insurers**

**Finding 1:** Office controls for timely removing user access privileges to the Financial Analysis and Monitoring Electronic Data Management System need improvement.

**Finding 2:** The Office did not conduct periodic reviews of TeamMate user access privileges and the Office was unable to demonstrate that user access privileges to TeamMate were timely removed when access was no longer required.

#### **Selected Administrative Activities**

**Finding 3:** The Office did not always timely post contract information to the Florida Accountability Contract Tracking System as required by State law or update contract status information in accordance with Department of Financial Services procedures.

### **BACKGROUND**

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State law<sup>1</sup> establishes the Office of Insurance Regulation (Office) within the Financial Services Commission, a separate budget entity of the Department of Financial Services (Department) that is not subject to control, supervision, or direction by the Department. The Office is responsible for all activities concerning insurers and other risk bearing entities, including, but not limited to, licensing, rates, market conduct, solvency, and administrative supervision. For the 2018-19 fiscal year, the Legislature appropriated \$32,338,634 to the Office and authorized 287 positions.<sup>2</sup>

### **FINDINGS AND RECOMMENDATIONS**

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FINANCIAL OVERSIGHT AND MARKET REGULATION OF INSURERS
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The Office's Life and Health (L&H) and Property and Casualty (P&C) Financial Oversight Units are responsible for monitoring the financial condition of all regulated life and health and property and casualty entities through financial analysis, examinations, and the admissions process for entities entering the State's marketplace as well as entities expanding into additional lines of business. Similarly, the Office's L&H Market Regulation and P&C Market Regulation units are responsible for conducting market conduct

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

<sup>2</sup> Chapter 2018-9, Laws of Florida.

examinations and investigations regarding business practices and patterns of alleged violations of the Florida Insurance Code.<sup>3</sup>

To facilitate the financial oversight and market regulation of insurers, Office employees and contractors utilize TeamMate<sup>4</sup> to manage and document financial and market conduct examinations. In addition, the Office uses the Financial Analysis and Monitoring Electronic Data Management System (FAME) to compile financial data received from life and health and property and casualty entities. The Department, Office of Information Technology (OIT), manages access to the network and servers used by Office employees and contractors to access Office applications, including TeamMate and FAME. Access to the applications is managed by the Office.

### **Finding 1: FAME Access Privilege Controls**

Agency for State Technology (AST)<sup>5</sup> rules<sup>6</sup> require State agencies to ensure that information technology (IT) access privileges are removed when access to an IT resource is no longer required. Prompt action to remove access privileges is necessary to help prevent misuse of the access privileges.

Users accessed FAME through the Department's network and established FAME user access accounts. Upon an employee's separation from Office employment, Office management was responsible for removing the user's FAME access privileges and the Department's OIT was responsible for disabling the user's network access. According to Office records, 150 FAME user accounts were active as of March 13, 2019. As part of our audit, we evaluated whether FAME user access privileges were timely removed upon a user's separation from Office employment. Our examination of Office records disclosed that the FAME user access privileges for 3 of the 49 Office employees who separated from Office employment during the period July 2017 through January 2019 remained active 60, 80, and 165 business days after the employees' separation dates. In response to our audit inquiry, Office management indicated that the delays in removing FAME user access privileges were due to employee oversight and delays in receiving employment termination notifications.

Timely removing FAME user access privileges upon an employee's separation from Office employment reduces the risk that the access privileges may be misused by the former employee or others.

**Recommendation: We recommend that Office management ensure that FAME user privileges are removed immediately upon an employee's separation from Office employment.**

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<sup>3</sup> Chapters 624 through 632, 634 through 636, 641 through 642, 648, and 651, Florida Statutes.

<sup>4</sup> TeamMate is a software application made available to state insurance regulators through the National Association of Insurance Commissioners.

<sup>5</sup> Effective July 1, 2019, Chapter 2019-118, Laws of Florida, created the Division of State Technology within the Department of Management Services (DMS) and transferred the existing powers, duties, functions, personnel, records, property, and funds of the Agency for State Technology (AST) to the Division of State Technology.

<sup>6</sup> AST Rule 74-2.003(1)(a)8., Florida Administrative Code. Effective July 1, 2019, AST Rules, Chapter 74-2, Florida Administrative Code, were transferred to DMS Rules, Chapter 60GG-2, Florida Administrative Code. AST Rules, Chapter 74-2, were in effect during our audit period (July 2017 through January 2019).

## Finding 2: TeamMate Access Privilege Controls

AST rules<sup>7</sup> require State agencies to review access privileges periodically based on system categorization or assessed risk. Periodic reviews of user access privileges help ensure that only authorized users have access and that the access provided to each user remains appropriate. As previously noted, AST rules<sup>8</sup> also require IT access privileges to be removed when access to an IT resource is no longer required. Prompt action to remove access privileges is necessary to help prevent misuse of the access privileges.

Users accessed TeamMate by logging into a Citrix Gateway server that allowed the users access to TeamMate resources. Office management established users' access to the financial and market conduct examinations the users were assigned to and established user profiles for each user within the examination. Upon an employee's separation from Office employment or when a contractor completed an examination, Office management was responsible for removing the user's TeamMate access privileges and the Department's OIT was responsible for removing Citrix Gateway server access. According to Department records, 381 TeamMate user accounts were active as of June 27, 2019, including 39 Office employee accounts, 339 contractor accounts, and 3 Department OIT employee accounts. As part of our audit, we evaluated TeamMate user access privilege controls and noted that:

- The Office did not review the appropriateness of TeamMate user access privileges during the period July 2017 through January 2019. According to Office management, the Office had not established policies and procedures to ensure that Office staff conducted access privilege reviews.
- TeamMate did not have the ability to capture the date that access to the system was removed and the Office did not otherwise maintain documentation evidencing the removal of TeamMate access privileges. Consequently, the Office was unable to demonstrate whether user access privileges were timely removed upon an employee's separation from Office employment or when a contractor completed an examination. In response to our audit inquiry, Office management indicated that Office procedures did not require that the date a user's access privileges were removed be documented and that they relied on the removal of server access to ensure that employees and contractors could not access TeamMate.
- Although Office management indicated that a contractor's user profile was to be removed when the contractor completed an examination, user access privileges were established for, and removed at the end of, a 6-month period, irrespective of the time necessary to complete an examination (unless an extension was requested).

Periodic reviews of user access privileges and prompt removal of user access privileges when access to TeamMate is no longer required provides Office management assurance that user access privileges are authorized and remain appropriate. Additionally, capturing the dates that user access privileges are removed would demonstrate that user access privileges are timely removed when access to TeamMate is no longer required.

**Recommendation: We recommend that Office management establish policies and procedures for conducting periodic reviews of the appropriateness of TeamMate user access privileges. We**

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<sup>7</sup> AST Rule 74-2.003(1)(a)6., Florida Administrative Code.

<sup>8</sup> AST Rule 74-2.003(1)(a)8., Florida Administrative Code.

**also recommend that, when access privileges are no longer required, Office management ensure that the timely removal of TeamMate user access privileges is appropriately documented.**

## SELECTED ADMINISTRATIVE ACTIVITIES

As part of our audit, we also evaluated selected Office administrative activities and controls, including those related to contract information reporting.

### **Finding 3: Contract Information Reporting**

Pursuant to State law,<sup>9</sup> the Department established the Florida Accountability Contract Tracking System (FACTS), an online tool that provides users and the public access to State contract and grant financial information. State law requires, within 30 calendar days of executing a contract,<sup>10</sup> State agencies to post to FACTS for each contract:

- The names of the contracting entities and procurement method.
- The contract beginning and ending dates and the nature or type of commodities or services purchased.
- Applicable contract unit prices and deliverables and the total compensation to be paid or received under the contract.
- All payments made to the contractor to date and applicable contract performance measures.
- If a competitive solicitation was not used to procure the goods or services, the justification of such action, including citation to a statutory exemption or exception from competitive solicitation, if any.
- Electronic copies of the contract and procurement documents redacted to exclude confidential and exempt information.

In addition, Department procedures<sup>11</sup> required State agencies to include the status (e.g., active, closed or expired, terminated) of each contract in FACTS. State agencies were to update a contract's status to closed or expired after the State agency made the last payment and the terms of the contract were completed.

We analyzed FACTS data as of January 31, 2019, for the 91 Office contracts, totaling \$17,058,876, active at some point during the period July 2017 through January 2019 and noted that:

- The Office did not timely post to FACTS the required contract documents for 86 contracts totaling \$9,967,569. The Office posted the contract documents to FACTS 1 to 592 days (an average of 176 days) after the information posting was due.
- The Office did not timely update the status of 23 contracts totaling \$9,978,321. As of January 31, 2019, the contracts remained in an active status in FACTS although the contracts had been closed or expired 55 to 2,041 days (an average of 674 days).

According to Office management, the Office had not established policies and procedures to ensure that contract documents were timely added to, and contract status information was updated in, FACTS.

<sup>9</sup> Section 215.985(14), Florida Statutes.

<sup>10</sup> Section 215.985(2)(b), Florida Statutes, defines a contract to include a written agreement or purchase order for the purchase of goods or services or a written agreement for the receipt of State or Federal financial assistance.

<sup>11</sup> Department *FACTS User Manual*.

Timely posting valid and required contract information to FACTS enhances transparency, strengthens accountability, and ensures compliance with State law and Department procedures.

**Recommendation:** We recommend that Office management establish policies and procedures to ensure that valid contract information is timely posted to and updated in FACTS as required by State law and Department procedures.

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

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The Office had taken corrective actions for the finding included in our report No. 2017-050.

## ***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 January 2019 through July 2019 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 financial oversight and market regulation of insurers and selected administrative activities. 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, 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. 2017-050.

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 life and health and property and casualty insurer admissions process and the financial examination and market conduct examination process.
- Obtained an understanding of selected Office information technology (IT) controls, assessed the risks related to those controls, evaluated whether selected general and application IT controls for the Companies and Related Entities Navigator, the Financial Analysis and Monitoring Electronic Data Management System, and TeamMate were in place, and tested the effectiveness of the controls.
- From the population of 98 life and health insurers and 178 property and casualty insurers admitted to conduct business in the State during the period July 2017 through January 2019, examined Office records for 25 selected insurers (12 life and health and 13 property and casualty) to determine whether the Office admitted insurers in accordance with applicable State laws, rules, and Office policies and procedures.
- From the population of 11 life and health insurer financial examinations and 28 property and casualty insurer financial examinations completed during the period July 2017 through January 2019, examined Office records for 6 selected financial examinations (3 life and health and 3 property and casualty) to determine whether the Office ensured that the financial examinations were conducted and related enforcement actions were imposed in accordance with applicable State laws, rules, and Office policies and procedures.
- From the population of 17 life and health insurer market conduct examinations and 24 property and casualty insurer market conduct examinations completed during the period July 2017 through January 2019, examined Office records for 4 selected market conduct examinations (2 life and health and 2 property and casualty) to determine whether the Office ensured that the market

conduct examinations were conducted and related enforcement actions were imposed in accordance with applicable State laws, rules, and Office policies and procedures.

- From the population of 2,504 annual filing reviews completed during the period July 2017 through January 2019, examined Office records for 40 selected annual filing reviews to determine whether the Office conducted financial analyses of the insurers, including obtaining and reviewing the insurers' annual audited financial reports, in accordance with applicable State laws, rules, and Office policies and procedures.
- Analyzed Office data for the financial examinations completed by the Office during the period July 2017 through January 2019 to determine whether the Office performed the required number of financial examinations of life and health and property and casualty insurers in accordance with Section 624.316, Florida Statutes.
- Evaluated Office actions to correct the finding noted in our report No. 2017-050. Specifically, we:
  - Reviewed Office policies and procedures to determine whether the policies and procedures appropriately specified 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 the reviews.
  - From the population of 80 health insurer rate filings received and processed by the Office during the period July 2017 and January 2019 for which the Office approved rates that differed from the insurers' requested rates, examined Office records for 8 selected rate filings to determine whether the Office completed a *Rate Filing Summary* form and accurately communicated the approved rates to insurers.
- Reviewed applicable laws, rules, and other State guidelines to obtain an understanding of the legal framework governing Office operations.
- Observed, documented, and evaluated the effectiveness of selected Office processes and procedures for:
  - Cash and revenue management.
  - The administration of Office contracts. As of January 31, 2019, the Office was responsible for 62 active contracts totaling \$14,390,425.
  - The administration of purchasing cards in accordance with applicable guidelines. As of January 2019, the Office had 48 active purchasing cards.
  - The administration of Office travel in accordance with State law and other applicable guidelines. During the period July 2017 through January 2019, Office travel expenditures totaled \$236,635.
- 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.

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is fluid and cursive, with the first name being the most prominent.

Sherrill F. Norman, CPA  
Auditor General

# MANAGEMENT'S RESPONSE

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## OFFICE OF INSURANCE REGULATION

FINANCIAL SERVICES  
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AGRICULTURE

DAVID ALTMAIER  
COMMISSIONER

November 22, 2019

Ms. Sherrill Norman  
Auditor General  
111 West Madison Street  
Tallahassee, Florida 32399

Dear Ms. Norman,

I write in response to your letter of October 23, 2019, regarding the recent operational audit of the Office of Insurance Regulation (the Office). The operational audit focused on the financial oversight and market regulation of insurers and other selected administrative activities. I must thank you for your team's diligence and professionalism throughout the audit process. They were at all times thorough, but also polite and candid in what must have been a difficult assignment.

I am pleased to learn that this operational audit did not find any substantive issues concerning the manner in which the Office engages in the financial oversight and market regulation of insurers. However, as the three administrative findings disclosed by the audit were brought to my attention during the audit process, I directed our team to recommend solutions to address them expeditiously.

Redundancies have been added to the internal process for removing access to our Financial Analysis and Monitoring Electronic Data Management System to ensure that access to this system is timely removed in accordance with our standard user access control process. TeamMate has been added to the Access Control List and additional procedures put in place to ensure appropriate system access deactivation. Finally, I have directed budget personnel to update our contracting and procurement process to specifically include the posting of contract information to the Florida Accountability Contract Tracking System.

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

David Altmaier

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