

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2025-011
August 2024

**CITIZENS PROPERTY INSURANCE
CORPORATION**



Sherrill F. Norman, CPA
Auditor General

Board of Governors and Executive Director of Citizens Property Insurance Corporation

Citizens Property Insurance Corporation (Citizens) is established by Section 627.351(6), Florida Statutes. Section 627.351(6)(c)4., Florida Statutes, provides that Citizens operate subject to the supervision and approval of a Board of Governors (Board). 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.

During the period of our audit, Barry Gilway served as President/Chief Executive Officer and Executive Director through January 31, 2023, Timothy M. Cerio served in that role from February 1, 2023, and the following individuals served as Board members:

Carlos Beruff	Chair
Joshua Becksmith	From June 6, 2022
Jason Butts	From February 9, 2022
Bette Brown	Through May 14, 2021
Marc Dunbar	Through July 31, 2022
Lazaro Fields	Through June 15, 2022
Jillian Hasner	From May 14, 2021
Reynolds Henderson	Through June 6, 2022
Jim Holton	Through May 14, 2021
William Kastroll	Through May 14, 2021
Erin Knight	From May 14, 2021
JoAnne Leznoff	From June 17, 2022
Carlos Lopez-Cantera	Through August 20, 2021
Charlie Lydecker	From August 1, 2022
Nelson Telemaco	From May 14, 2021
M. Scott Thomas	

The team leader was Clint C. Boutwell, CPA, and the audit was supervised by Joshua T. Barrett, CPA.

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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 (IT) controls. The audit also included a follow-up on the findings noted in our report No. 2022-011. Our audit disclosed the following:

Underwriting and Eligibility

Finding 1: Citizens controls need enhancement to ensure that policies are issued and renewed in accordance with statutory coverage limits.

Probable Maximum Loss Financing

Finding 2: Citizens records disclosed that authorized premium amounts for the 2021 through 2023 calendar years were approximately \$2.8 billion less than the premium amounts that would have been due using actuarially determined rates that included the costs of reinsurance for a 1-in-100-year storm. Additionally, as of December 31, 2023, Citizens projected a shortfall of \$542 million for a 1-in-100-year storm that may require the levy of surcharges on Citizens' policyholders.

Clearinghouse

Finding 3: Of the 48 insurance companies that wrote more than 1,000 personal residential property insurance policies during the period April 2023 through June 2023, only 6 insurers as of June 2023 participated in the Clearinghouse established by Citizens pursuant to State law. These 6 insurers represented only 10 percent of the personal residential property insurance market excluding Citizens.

Finding 4: Citizens controls continue to need enhancement to ensure that all applicable new and renewal policies are made available for consideration by participating insurers.

Customer Service

Finding 5: Analysis of customer service data and surveys of policyholders and agents indicated that the quality of customer service Citizens provides is generally comparable to that provided in the voluntary market.

Selected Administrative Activities

Finding 6: Citizens controls for promptly canceling purchasing cards upon a cardholder's separation from Citizens employment continue to need improvement. Additionally, while reimbursed by the bank, two fraudulent charges were made on a purchasing card subsequent to the cardholder's separation from Citizens employment.

Information Technology Controls

Finding 7: Certain security controls related to logical access and user authentication continue to need improvement to ensure the confidentiality, integrity, and availability of Citizens data and IT resources.

BACKGROUND

State law¹ 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,² 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 law³ provided that all revenues, assets, liabilities, losses, and expenses of Citizens were to be divided into three separate accounts,⁴ as follows:

- *Personal lines account (PLA)* – for personal residential policies issued by Citizens. Such policies were to provide comprehensive, multiperil coverage on risks that were 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 also included policies that did not provide coverage for the peril of wind on risks that were located in such areas.
- *Commercial lines account (CLA)* – for commercial residential and commercial nonresidential policies issued by Citizens. Such policies were to provide coverage for basic property perils on risks that were not located in areas eligible for coverage in the FWUA, as those areas were defined on January 1, 2002. The CLA also included policies that did not provide coverage for the peril of wind on risks that were located in such areas.
- *Coastal account* – for personal residential policies and commercial residential⁵ and commercial nonresidential property policies issued by Citizens that provided coverage for the peril of wind on risks that were located in areas eligible for coverage in the FWUA, as those areas were defined on January 1, 2002.

Table 1 summarizes, by account, the number of Citizens policies in force, amounts of premiums with surcharges, and loss exposure amounts, as of December 31, 2021, 2022, and 2023. As shown by Table 1, the number of policies in force increased by over 469,000 policies (62 percent) from

¹ Section 627.351(6), Florida Statutes.

² Section 627.351(6)(c)4., Florida Statutes.

³ Section 627.351(6)(b)2.a., Florida Statutes (2022).

⁴ Pursuant to Section 627.351(6)(b)2.b., Florida Statutes, effective January 1, 2024, Citizens consolidated the three separate accounts into a single Citizens account to enhance the ability to pay claims for future storms and minimize the potential for assessments. The single Citizens account is authorized to provide coverage to the same extent as provided under each of the three separate accounts.

⁵ 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.

December 31, 2021, to December 31, 2023. Since December 31, 2018, the number of policies in force increased 187 percent, from 427,397 policies to over 1.2 million.

Table 1
Summary of Citizens Policies in Force,
Premiums with Surcharges, and Loss Exposure
As of December 31, 2021, 2022, and 2023

Account	Policies in Force	Premiums With Surcharges	Loss Exposure
December 31, 2021:			
Personal Lines Account (PLA)	589,028	\$1,280,496,248	\$167,886,789,888
Commercial Lines Account (CLA)	719	17,970,384	4,424,671,810
Coastal	169,558	517,750,183	60,190,861,831
Totals	<u>759,305</u>	<u>\$1,816,216,815</u>	<u>\$232,502,323,529</u>
December 31, 2022:			
PLA	917,696	\$2,290,328,010	\$315,957,546,730
CLA	1,067	64,932,882	11,925,248,510
Coastal	227,048	863,802,241	95,070,557,135
Totals	<u>1,145,811</u>	<u>\$3,219,063,133</u>	<u>\$422,953,352,375</u>
December 31, 2023:			
PLA	989,969	\$2,540,244,284	\$360,213,085,997
CLA	4,487	311,996,545	44,980,917,340
Coastal	234,262	1,406,449,153	147,565,987,948
Totals	<u>1,228,718</u>	<u>\$4,258,689,982</u>	<u>\$552,759,991,285</u>

Source: Citizens records.

Pursuant to State law,⁶ to reduce the number of policies in force and Citizens' exposure to loss, authorized insurers may take policies out of Citizens. Table 2 summarizes the policies taken out of Citizens during the period January 1, 2021, through August 22, 2023.

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

**Table 2
Citizens Policy Take-Outs**

January 1, 2021, Through August 22, 2023

Calendar Year	PLA		CLA and Coastal		Totals	
	Number of Policies	Exposure	Number of Policies	Exposure	Number of Policies	Exposure
2021	2,323	\$ 858,593,879	491	\$168,658,000	2,814	\$ 1,027,251,879
2022	15,712	6,952,552,226	696	221,373,033	16,408	7,173,925,259
2023 ^a	30,234	13,668,327,564	414	186,645,115	30,648	13,854,972,679
Totals	<u>48,269</u>	<u>\$21,479,473,669</u>	<u>1,601</u>	<u>\$576,676,148</u>	<u>49,870</u>	<u>\$22,056,149,817</u>

^a Through August 22, 2023.

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,⁷ annual non-sinkhole premium rate increases for calendar years 2021, 2022, and 2023 were limited to 10, 11, and 12 percent, respectively, even if the application of actuarially determined rates indicated larger increases.

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 paid⁸ (losses) including associated expenses, litigation costs, retention of experts if applicable, provision of damage estimates to policyholders, assignment of benefits (AOB) status, and establishment of reserves.⁹ To ensure that claims were processed in accordance with Citizens policies and guidelines, Citizens established an entitywide quality assurance program with a unit dedicated to reviewing claims. Table 3 summarizes Citizens claims activities during the period January 2021 through August 2023.

⁷ Section 627.351(6)(n)5., Florida Statutes.

⁸ Pursuant to the *Citizens 2023 Best Claims Practices and 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.

⁹ 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.

**Table 3
Citizens Claims Activity ^a**

During the Period January 2021 Through August 2023

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
2021	21,794	\$ 189,046,663	\$ 29,892,281	\$ 35,319
2022	57,980	904,354,479	80,505,494	97,748
2023 ^c	67,354	1,543,429,776	128,832,012	231,058
Totals	<u>147,128</u>	<u>\$2,636,830,918</u>	<u>\$239,229,787</u>	<u>\$364,125</u>

^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 Data from January through August 2023.

Source: Citizens claims records.

To have sufficient cash on hand to pay catastrophic losses, Citizens utilized pre-event bonds (bonds issued in anticipation of storm events) during the period January 2021 through December 2023. During the period January 2021 through December 2023, the cost of providing additional liquidity of approximately \$350 million (average amount of pre-event liquidity bonds for the 2021, 2022, and 2023 calendar years) to pay potential claims in the event of a catastrophic event was approximately \$30.4 million as shown in Table 4.

**Table 4
Bond Interest Expense and Earnings on Investment of Bond Proceeds
January 2021 Through December 2023**

Bond Issue ^a	Par Value of Bonds	Par Value of Bonds at December 31, 2023	Interest Expense	Interest Earnings	Cost-of-Carry
PLA/CLA 2012A	\$1,500,000,000	\$ -	\$12,063,452	\$ 1,611,397	\$ (10,452,055)
Coastal 2015A	1,000,000,000	-	32,451,704	12,508,688	(19,943,016)
Totals	<u>\$2,500,000,000</u>	<u>\$ -</u>	<u>\$44,515,156</u>	<u>\$14,120,085</u>	<u>\$(30,395,071)</u>

^a No pre-event bonds were issued during the period January 2021 through December 2023.

Source: Citizens records.

State law¹⁰ 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, underwriting and eligibility, financing agreements, 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**.

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

FINDINGS AND RECOMMENDATIONS

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 underwriters¹¹ (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 and provide regular quality assurance reports to Citizens.

Finding 1: New and Renewal Policy Coverage Limits

Pursuant to State law,¹² structures with a dwelling replacement cost or Coverage A¹³ of \$700,000 or more, or single condominium units with combined dwelling and contents replacement costs of \$700,000 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. For counties identified by the OIR as not having a reasonable degree of competition,¹⁴ the statutory coverage limits were less than \$1,000,000. Citizens must complete nonrenewal procedures in sufficient time to comply with statutorily required nonrenewal notice periods¹⁵ 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 January 2021 through August 2023 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:

¹¹ Underwriters evaluate applications and determine whether to provide insurance, coverage amounts, and premiums.

¹² Section 627.351(6)(a)3.d., Florida Statutes.

¹³ Citizens Coverage A is for the replacement cost of the insured dwelling. Contents coverage (Coverage C) must be purchased separately.

¹⁴ The OIR identified Miami-Dade County and Monroe County as not having a reasonable degree of competition.

¹⁵ 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, cancellation, or termination.

- 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-8 (Modified Homeowners) policy, which is a highly restricted policy that covers 11 named perils, with several major exclusions (e.g., water damage).
- 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 (Dwelling Fire) policy, 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.

Our analysis disclosed that 1,820 of the 3,330,805 non-commercial policies issued or renewed during the period January 2021 through August 2023 exceeded statutory thresholds. Table 5 summarizes, by policy type, the number of new or renewed policies that exceeded the applicable statutory threshold and, for those policies, shows the range of policy coverages for each policy type.

Table 5
Number of New or Renewed Policies
Exceeding Statutory Thresholds
During the Period January 2021 Through August 2023

Policy Type	Number of Policies	Range of Coverage	
		From	To
Counties with Competition (Limit < \$700,000)			
HO-3	1,222	\$700,000	\$798,000
HO-8	9	709,500	758,900
DP-1	40	706,200	777,000
DP-3	142	701,400	786,800
DW-2	50	701,300	843,000
HW-2	213	700,200	906,500
Counties without Competition (Limit < \$1,000,000)			
HO-3	40	\$1,004,800	\$1,106,100
HO-8	1	1,063,800	1,063,800
DP-1	3	1,001,800	1,075,400
DP-3	9	1,012,200	1,086,000
DW-2	4	1,037,400	1,086,500
HW-2	87	1,001,300	1,080,400
Total Policies	<u>1,820</u>		

Source: Citizens policyholder records.

According to Citizens management, during the period February 2023 through August 2023, the automatic non-renewal workflow designed to preemptively non-renew policies when automatic inflationary increases caused coverage amounts to exceed statutory thresholds was inadvertently disabled. Citizens management further indicated that underwriter error contributed to the issuance and renewal of policies that exceeded statutory thresholds.

Effective controls to reject new and renewal policies exceeding statutory coverage limits would provide greater assurance that Citizens only covers eligible dwellings.

Recommendation: We recommend that Citizens management enhance automated and underwriting process controls to ensure compliance with statutory coverage limits.

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).¹⁶ 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. The modeling reflected PMLs ranging from a 1-in-5-year storm through a 1-in-10,000-year storm. For funding purposes, the modeling processes yield 100-year PMLs for the risks accounted for within the Coastal, PLA, and CLA accounts. As of September 2023, the estimated 100-year PMLs for a single storm for the Coastal, PLA, and CLA accounts were \$8.3 billion, \$8.5 billion, and \$1.2 billion, respectively.

Finding 2: PML Financing

State law¹⁷ specifies that Citizens is to make its best efforts to procure catastrophe reinsurance at reasonable rates to cover its 100-year PMLs. If reinsurance is not available at reasonable rates, Citizens is not required to purchase it. However, Citizens must include the costs of reinsurance to cover the projected 100-year PMLs in premium rate calculations, even if it does not purchase reinsurance. According to Citizens management, reinsurance costs are a significant driver of Citizens rate needs and, due to a variety of factors, Citizens did not purchase reinsurance to fully cover the 100-year PMLs. Notwithstanding Citizens recommended rates and OIR's final order regarding Citizens filed rates, State law¹⁸ limits Citizens premium rate increases, including the portion necessary to cover reinsurance costs for a 100-year PML. State law¹⁹ provides that, in the event of a specified deficit in the Citizens account and, after accounting for Citizens policyholder surcharges, Citizens is to levy emergency assessments on assessable insureds.²⁰ Pursuant to State law,²¹ Citizens is to provide a report to the Legislature and

¹⁶ A 1-in-100 year storm is defined as a storm having a 1 percent (1/100) chance of occurrence in any year.

¹⁷ Section 627.351(6)(c)9., Florida Statutes.

¹⁸ Section 627.351(6)(n)5., Florida Statutes.

¹⁹ Section 627.351(6)(b)5., Florida Statutes.

²⁰ Section 627.351(6)(b)1., Florida Statutes, defines assessable insureds as insureds who procure one or more subject lines of business in the State.

²¹ Section 627.35191, Florida Statutes.

the Financial Services Commission²² by February 1 each year identifying the aggregate net PML, financing options, and potential assessments.

As shown in Table 6, we compared the premiums that would have been due using actuarially determined rates, including the costs of reinsurance for 100-year PMLs, and the premiums authorized based on statutory limitations and other considerations for the 2021 through 2023 calendar years and found that Citizens actuarial estimates depicted a difference of approximately \$2.8 billion between the premium amounts.²³ The \$2.8 billion difference represented a \$2.3 billion increase compared to the \$452 million in premiums estimated to be foregone during the 2018 through 2020 calendar years.

Table 6
Estimated Premiums Foregone

(In Millions)

Calendar Year	Actuarially Determined Premiums		Total Premiums Foregone
	Recommended by Citizens	Approved Premiums	
2021	\$ 2,016	\$1,702	\$ 314
2022	3,727	2,980	747
2023	5,849	4,150	1,699
Totals	<u>\$11,592</u>	<u>\$8,832</u>	<u>\$2,760</u>

Source: Actuarial estimates provided by Citizens' Chief Actuary.

We also reviewed Citizens 2024 annual report to determine the potential financing costs associated with a 50-year PML, 100-year PML, and a 250-year PML, and whether Citizens indicated that policyholder surcharges and emergency assessments on assessable insureds would be necessary to cover PML financing costs. As shown in Table 7, as of December 31, 2023, Citizens projected a shortfall of \$542 million for a 1-in-100-year storm that would require the levy of Citizens policyholder surcharges and a \$12.3 billion shortfall for a 1-in-250-year storm that would require policyholder surcharges and emergency assessments on assessable insureds.

²² The Financial Services Commission is comprised of the Governor, Attorney General, Chief Financial Officer, and Commissioner of Agriculture and oversees the Office of Financial Regulation and the Office of Insurance Regulation.

²³ In providing the estimates, Citizens assumed that policy counts would remain constant, but indicated that, had actuarially determined rates been used during the 2021 through 2023 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 7
Projected PML Financing as of December 31, 2023
(In Millions)^a

Return Time (Years)	PML	Projected Florida Hurricane Catastrophe Fund Reimbursement	Projected Payment From Surplus	Projected Private Reinsurance/ Capital Markets ^b	Projected Policyholder Surcharges	Projected Emergency Assessments
50	\$10,874	\$5,394	\$4,199	\$1,281	\$ -	\$ -
100	\$17,703	\$5,394	\$6,267	\$5,499	\$542	\$ -
250	\$29,494	\$5,394	\$6,267	\$5,499	\$895	\$11,438

^a Surcharge and assessment amounts may not foot due to rounding.

^b According to, and at the time of, the annual report, although financial market conditions were moderately conducive to favorable debt issuance, it was not possible to guarantee future financial market conditions. If long-term bonding in sufficient amounts was not immediately available, Citizens indicated that it would explore alternatives, including the levying of emergency assessments with no financing, issuing bonds in multiple tranches over time, and other interim financing alternatives.

Source: Citizens February 2024 *Annual Report of Aggregate Net Probable Maximum Losses, Financing Options, and Potential Assessments*.

The ability to collect insurance premiums based on actuarially sound rates, and specifically the ability to fully collect from the rates the projected costs of reinsurance to cover projected 100-year PMLs, would decrease the likelihood of surcharges to Citizens policyholders and emergency assessments to assessable insureds to cover PML financing costs.

Recommendation: To minimize the need for potential surcharges on Citizens policyholders and emergency assessments on assessable insureds, we recommend that the Legislature consider revisiting statutory rate limitations, specifically allowing for Citizens to collect from the rates the projected costs of reinsurance to cover 100-year PMLs.

CLEARINGHOUSE

Pursuant to State law,²⁴ Citizens established a clearinghouse program to confirm new applicant eligibility for personal residential policy coverage through Citizens and to 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 implemented the Clearinghouse System (Clearinghouse) and required that all new applications and policy renewals received by Citizens 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 unless the premium for coverage from the authorized insurer was more than 20 percent than the premium for comparable coverage from 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.²⁵

²⁴ Section 627.3518, Florida Statutes.

²⁵ Section 627.351(6)(c)5.a., Florida Statutes, specifies that, for policies that renew on or after April 1, 2023, the risk is not eligible for coverage by Citizens unless the premium for coverage from the authorized insurer is more than 20 percent than the premium for comparable coverage from Citizens.

Finding 3: Clearinghouse Utilization

During the period January 1, 2021, through August 14, 2023, Citizens processed 4,652,223 applications for and renewals of HO-3, HO-6, HW-2, HW-6, DP-3, and DP-1 policies and 253,066 applications for and renewals of MHO-3²⁶ and MDP-1²⁷ policies through the Clearinghouse.²⁸

In our report No. 2022-011 (Finding 1), we noted that, as of June 30, 2020, only 12 of the 133 insurance companies writing personal residential property insurance policies participated in the Clearinghouse, which, excluding Citizens, represented only 17 percent of the personal residential property insurance market. As part of our follow-up audit procedures, we analyzed Clearinghouse and OIR data to determine the percentage of the personal residential property insurance market that participated in the Clearinghouse. Our analysis disclosed that, of the 48 insurance companies that wrote more than 1,000 personal residential property policies during the period April 2023 through June 2023, only 6 insurers participated in the Clearinghouse as of June 2023. As shown in Table 8, these 6 insurers represented only 10 percent of the market share by number of policies,²⁹ excluding the policies held by Citizens.

Table 8
Market Share of Insurance Companies Utilizing Clearinghouse

As of June 30, 2023

	Policies in Force	Premiums	Exposure
Totals for the 6 Insurers Utilizing Clearinghouse	546,447	\$ 1,500,835,991	\$ 234,365,211,129
PLA Totals	5,351,856	\$11,601,731,668	\$2,400,895,273,461
Clearinghouse Participants as a Percentage of Totals	10.21%	12.94%	9.76%

Source: Citizens and OIR Data.

According to Citizens management, after our prior audit Citizens sent letters to approximately 200 insurance carriers to increase Clearinghouse participation and received one reply. Additionally, in May 2022, Citizens management contacted the top 39 insurers writing new policies in the State and interviewed them on the state of the Florida insurance market, appetite for new business, and interest in participating in the Clearinghouse. The majority of insurers indicated that they were satisfied with their current level of new business from existing distribution channels and did not wish to participate in the clearinghouse program.

²⁶ An MHO-3 (Mobile Homeowner) policy covers mobile and manufactured homes when used as the homeowners primary residence. Coverage includes the mobile home, other structures of the property, the owner's personal property, and additional living expenses.

²⁷ An MDP-1 (Mobile Home Dwelling Fire) policy is available for tenant-occupied properties that provides coverage for the dwelling, other structures of the property, personal property, loss of rent, or additional living expenses.

²⁸ The reported number of applications is greater than the number of unique applications received because an application may be resubmitted multiple times as corrections and other changes are made to the application.

²⁹ Market share by number of policies was estimated using data from the OIR's Quarterly and Supplemental Reporting System – Next Generation for the quarter ended June 30, 2023, and certain trade secret information as of June 30, 2023.

The effectiveness of the clearinghouse program in reducing the exposure of Citizens is dependent on insurance companies electing to participate in the program. The higher the market share of insurers participating, the greater the potential for diversion of new and renewed policies and corresponding exposure from Citizens.

Recommendation: To facilitate greater diversion of policies and exposure to the private market, we recommend that Citizens management work with the Legislature to evaluate whether the statutory design of the clearinghouse program is adequate to maximize participation from insurers.

Finding 4: Policy Submissions to the Clearinghouse

To ensure that 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 PolicyCenter³⁰ 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 sent the policy information to the Clearinghouse to initiate requests for offers of coverage from other insurers.

In our report No. 2022-011 (Finding 2), we noted that Citizens controls for the Clearinghouse needed enhancement to ensure that all applicable policy renewals were submitted to the Clearinghouse for consideration by participating insurers. As part of our follow-up audit procedures, we analyzed Citizens policy data from PolicyCenter and the Clearinghouse for the period January 1, 2021, through August 14, 2023. Our analysis indicated that 284,917 of the 1,082,713 applicable new policies and 209,148 of the 1,633,124 applicable policy renewals identified in the PolicyCenter data were not included in the Clearinghouse data. In response to our audit inquiry, Citizens management indicated that a policy decision was made to allow the 284,917 new policies to bypass the Clearinghouse during the period August 3, 2022, through August 14, 2023. We further examined records for 180 of the 209,148 policy renewals in PolicyCenter and found that 79 of the 180 renewals did not have a Clearinghouse identification number and there was no other evidence that the renewals had been processed through the Clearinghouse. According to Citizens management, underwriting actions and system maintenance issues contributed to the policy renewals not being submitted to the Clearinghouse.

Effective controls that ensure all applicable new and renewal policies are submitted to the Clearinghouse and offered to participating insurers would provide Citizens greater assurance that pertinent policies are available for consideration by participating insurers and further efforts to maximize depopulation efforts. Also, the allowance for a significant number of policies to bypass the Clearinghouse appears to frustrate the intent of the program and efforts to divert policies into the voluntary insurance market.

³⁰ PolicyCenter is a Citizens Insurance Suite module used to process and administer Citizens insurance policies.

Recommendation: We recommend that Citizens management ensure that all applicable new and renewal policies are made available for consideration by participating insurers.

CUSTOMER SERVICE

State law³¹ 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)³² and surveying a sample of policyholders and a sample of agents appointed by Citizens. As described in Finding 5, 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 5: 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 services provided by Citizens, we mailed surveys on February 28, 2024, to 1,000 policyholders. Specifically, we sent surveys to:

- 500 policyholders without claims who had policies in effect at some point during the period January 2021 through August 2023.
- 500 policyholders who had claims closed during the period January 2021 through August 2023.

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

We received 182 policyholder responses to our survey. Our evaluation of the surveyed policyholders' responses, as summarized in Table 9, 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. 2022-011 (84 percent) and 2019-016 (86 percent).

³¹ Section 627.351(6)(a)1., Florida Statutes.

³² The DFS 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, which is communicated to the insurer, as a complaint. An oral communication, which is subsequently converted to a written form, may also be classified as a complaint.

**Table 9
Citizens Policyholder Survey Results**

	Very Dissatisfied to Dissatisfied		Neutral to Very Satisfied		Total Number of Responses ^a
	Number of Responses	Percentage of Responses	Number of Responses	Percentage of Responses	
Policy Issuance and Coverage	17	10%	156	90%	173
Policy Renewal	14	11%	115	89%	129
Insurance Agent Satisfaction	15	9%	158	91%	173
Claims Handling	21	21%	79	79%	100
Customer Service	12	17%	58	83%	70
Overall Satisfaction with Citizens Insurance Policy	24	14%	145	86%	169

^a Not all 182 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 2021 through June 2023 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 10, our analysis disclosed that Citizens received the sixth fewest number of complaints as a percentage of the quarterly average number of policies in force among the top 11 residential, commercial, and other property and casualty insurers in the State. Previously, as reported in our report No. 2022-011, Citizens received the third fewest number of complaints as a percentage of the quarterly average number of policies in force.

Table 10
Analysis of Complaints and
Quarterly Average Number of Policies in Force
During the Period January 2021 Through June 2023

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	55	241,622	0.02276%
2	B	87	314,624	0.02765%
3	C	161	552,271	0.02915%
4	D	74	142,809	0.05182%
5	E	169	313,698	0.05387%
6	Citizens	683	917,132	0.07447%
7	F	238	210,225	0.11321%
8	G	215	183,463	0.11719%
9	H	329	279,881	0.11755%
10	I	976	656,058	0.14877%
11	J	430	192,014	0.22394%

^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: Audit analysis of data provided by the DFS and the OIR.

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, in February 2024 we sent surveys to 600 appointed agents.³³ 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. We received 182 agent responses to our survey and our evaluation of the survey responses, as summarized in Table 11, indicated that most respondents were satisfied with Citizens operations.

³³ Surveys were sent to 600 of the 9,112 agents who held a Citizens appointment at some point during the period January 2021 through August 2023.

**Table 11
Citizens Appointed Agent Survey Results**

	Very Dissatisfied to Dissatisfied		Neutral to Very Satisfied		Total Number of Responses ^a
	Number of Responses	Percentage of Responses	Number of Responses	Percentage of Responses	
Appointment Program	23	13%	159	87%	182
Certification Program	12	7%	170	93%	182
Training	19	10%	163	90%	182
Citizens Insurance Suite	30	16%	152	84%	182
Electronic Document Management	24	14%	149	86%	173
New Policy Issuance	51	28%	131	72%	182
Policy Renewal	25	14%	157	86%	182
Policy Issuance Guidance	15	8%	167	92%	182
Service	11	23%	37	77%	48
Claims Handling	3	4%	73	96%	76
Clearinghouse	28	15%	154	85%	182
Quality Assurance	18	10%	154	90%	172
Replacement Cost Estimator	10	14%	64	86%	74
Overall Satisfaction with Citizens Agent Support	29	16%	150	84%	179

^a Not all 182 appointed agents who responded to the survey provided responses to every question.

Source: Appointed agents survey responses.

Additionally, survey results indicated decreases in satisfaction with Citizens policy issuance, renewals, and service compared to the levels of satisfaction disclosed in our report No. 2022-011 (policy issuance satisfaction decreased from 79 percent to 72 percent, renewal satisfaction decreased from 95 percent to 86 percent, and satisfaction with Citizens service decreased from 93 percent to 77 percent). Agents provided comments such as “system too cumbersome” and “representatives unhelpful” to describe their experience with Citizens policy issuance, renewals, and service.

Recommendation: We recommend that Citizens management continue efforts to provide quality customer service to policyholders, applicants, and agents.

SELECTED ADMINISTRATIVE ACTIVITIES

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

Finding 6: Purchasing Card Controls

In establishing a purchasing card program, Citizens is responsible for implementing key controls, including procedures for timely canceling purchasing cards upon a cardholder’s separation from Citizens employment. Effective May 20, 2019, Citizens required cardholder supervisors to electronically submit MyService User Access Management (UAM) profile requests for all purchasing cardholders. Upon employment separation, the MyService UAM system automatically e-mails cancellation requests to the Purchasing Card Administrators (PCAs). The PCAs were responsible for canceling a purchasing card

upon notification of a cardholder's separation from Citizens employment. During the period January 2021 through August 2023, Citizens incurred 7,741 purchasing card transactions totaling \$2,680,042.

In our prior reports, most recently in our report No. 2021-011 (Finding 7), we noted that Citizens did not always timely cancel purchasing cards upon a cardholder's separation from Citizens employment. As part of our follow-up audit procedures, we compared Citizens cardholder separation dates to purchasing card cancellation dates for the 75 cardholders who separated from Citizens' employment during the period January 2021 through August 2023. Our comparison found that Citizens canceled the purchasing cards for 30 cardholders 2 to 120 days (an average of 9 days) after the employees' separation dates. Additionally, two fraudulent charges totaling \$34 were made to one of the untimely canceled purchasing cards, 86 and 114 days after the employee's separation date. Citizens reported the fraudulent charges to the bank and the charges were subsequently reimbursed. According to Citizens management, the delays in canceling the purchasing cards were primarily due to supervisor oversights and not establishing MyService UAM profiles for cardholders that received a purchasing card before May 20, 2019.

Prompt cancellation of purchasing cards upon a cardholder's separation from Citizens employment reduces the risk that unauthorized purchases will be made.

Recommendation: We again recommend that Citizens management enhance controls to ensure that purchasing cards are promptly canceled upon a cardholder's separation from Citizens employment.

INFORMATION TECHNOLOGY CONTROLS

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

Finding 7: Security Controls – Logical Access and User Authentication

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 logical access and user authentication need improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising Citizens data and IT resources. However, we have notified appropriate Citizens management of the six findings in the two areas needing improvement.

Without appropriate security controls related to logical access and user authentication, the risk is increased that the confidentiality, integrity, and availability of Citizens data and IT resources may be compromised. Similar findings were communicated to Citizens management in connection with our report No. 2022-011.

Recommendation: We again recommend that Citizens management improve certain security controls related to logical access and user authentication.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, Citizens had taken corrective actions for the findings included in our report No. 2022-011.

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 November 2023 through June 2024 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 (IT) controls. 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.
- Determine whether management had corrected, or was in the process of correcting, all deficiencies disclosed in our report No. 2022-011.
- 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 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, Citizens policies and procedures, and other guidelines, and interviewed Citizens personnel to obtain an understanding of responsibilities related to and processes for 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 (IT).
- From the population of 92,091 claims of \$1,000 or more and totaling \$2,635,173,055, closed during the period January 2021 through August 2023, engaged a specialist to examine Citizens records for 203 selected claims (103 wind, 68 non-weather water-related, and 32 other), each \$1,000 or more and totaling \$5,994,461, 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.
- From the population of claims adjusters associated with the 92,091 claims of \$1,000 or more and totaling \$2,635,173,055, closed during the period January 2021 through August 2023, examined documentation for 40 selected claims adjusters to determine whether the claims adjusters were qualified and adequately trained.
- Interviewed Citizens management and inspected selected Citizens 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.
- Analyzed claims data for the 92,091 claims of \$1,000 or more and totaling \$2,635,173,055, closed during the period January 2021 through August 2023, to determine whether all claims data needed to identify specific cost items or trends was obtained and analyzed by the Citizens Claims Division.
- From the population of 10,590 managed repair program (MRP) eligible claims, totaling \$189,399,694, where policyholders elected to use the MRP and the claims were closed during the period January 2021 through August 2023, examined Citizens records for 25 selected claims, totaling \$483,096, to determine the extent to which Citizens processed the claims in accordance with established policies and procedures and guidelines, and the extent to which the claims were properly adjusted.
- From the population of 21,258 MRP eligible claims, totaling \$238,880,902, where policyholders did not elect to use the MRP and the claims were closed during the period January 2021 through August 2023, examined Citizens records for 25 selected claims, totaling \$315,495, to determine the extent to which Citizens processed the claims in accordance with established policies and procedures and guidelines, and the extent to which the claims were properly adjusted.
- Interviewed Citizens personnel, inspected selected Citizens records, and analyzed Citizens complaint and regulatory complaint data to determine whether Citizens had adequately designed

and implemented controls to ensure claims eligible for the MRP were not denied participation in the MRP.

- Examined Citizens' organizational structure as of January 22, 2024, 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 population of 1,926,597 policyholders who had policies in force at some point during the period January 2021 through August 2023 without claims.
 - 500 policyholders, selected from the population of 92,091 policyholders who had claims closed during the period January 2021 through August 2023.

We then combined and analyzed the survey responses from the 182 policyholders who returned the survey.

- Compared Department of Financial Services (DFS) complaint and inquiries data related to Citizens for the period January 2021 through June 2023 to corresponding data related to the ten other largest 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.
- From the population of 587 regulatory complaints with basis forwarded by the DFS to Citizens during the period January 2021 through August 2023, examined Citizens records for 25 selected regulatory complaints to determine whether Citizens had taken adequate actions to timely and appropriately resolve the complaints.
- From the population of 3,997 complaints recorded in Citizens records during the period January 2021 through August 2023, examined Citizens records for 25 selected complaints to determine whether Citizens had taken appropriate actions to ensure timely and appropriate responses to the complaints.
- To measure appointed agent satisfaction with Citizens services, selected and sent surveys to 600 of the 9,112 agents who held a Citizens appointment at some point during the period January 2021 through August 2023. We then combined and analyzed the survey responses from the 182 appointed agents who returned the survey.
- From the population of 21,968 customer care and vendor evaluation monitoring reports prepared by Citizens during the period January 2021 through August 2023, examined Citizens records for 25 selected customer care and vendor evaluation monitoring reports to determine whether the reports were complete and accurate and, when applicable, whether appropriate recommendations and corrective actions were reported as taken by Citizens.
- Analyzed Citizens take-out activities and policies in force data for the period September 2013 through August 2023 to determine whether the effects of increased claims activity, including hurricane claims, increased the number of new policies issued by Citizens and decreased the number of Citizens policies taken-out by other insurers.
- Compared the number of Citizens policies in force for the period September 2013 through August 2023 to the number of policies removed from Citizens by take-out agreements over the same period to assess the relationship between the number of Citizens policies in force and the number of take-out agreements executed annually.
- From the population of 14 consent orders for take-outs, representing 49,870 take-out policies executed during the period January 2021 through August 2023, examined Citizens records for 5 selected consent orders representing 35,983 take-out policies to determine whether Citizens had adequately designed and implemented controls to operate the take-out program in accordance with Section 626.3511, Florida Statutes.

- From the population of 497,056 new personal, coastal residential, and commercial line policies issued during the period September 2022 through August 2023, examined Citizens records for 46 selected policies to determine whether the policyholders were eligible for a Citizens policy, appropriate underwriting criteria were applied, and the premium was correctly calculated and timely billed and collected.
- From the population of 875,225 policies in force that were renewed during the period September 2022 through August 2023, examined Citizens records for 40 selected policy renewals to determine whether the policyholders remained eligible for a Citizens policy, appropriate underwriting criteria were applied, and the premium was correctly calculated and timely billed and collected.
- Analyzed Citizens data for non-commercial policies newly written or renewed during the period January 2021 through August 2023 to determine whether Citizens complied with statutory thresholds for dwelling coverage.
- Analyzed Citizens data for the 1,082,713 new and 1,633,124 renewal policies that went into effect at some point during the period January 2021 through August 2023 to determine whether the policies included a Clearinghouse identification number prior to approval for coverage. Additionally, for 180 selected Citizens renewal policies that did not include a Clearinghouse identification number, obtained explanations from Citizens management and determined whether it was reasonable for the policies to not be in the Clearinghouse.
- Analyzed Citizens and Office of Insurance Regulation (OIR) data for the period January 2021 through June 2023 to determine the percentage of the personal residential property insurance market utilizing the Clearinghouse. Additionally, interviewed Citizens management to obtain an understanding of the current status of the Clearinghouse and Citizens Clearinghouse Interim Program Solution that was implemented in September 2023.
- From the population of 33 reinsurance agreements (8 capital market and 25 traditional reinsurance) active at some point during the period January 2021 through August 2023, examined Citizens records for 18 selected reinsurance agreements (6 capital market and 12 traditional reinsurance) to determine whether the agreements were appropriately vetted, documented, and approved.
- Examined Citizens records for the two lines of credit entered into during the period January 2021 through August 2023 to determine whether the lines of credit were properly approved and based on the recommendation of Citizens financial advisor.
- Analyzed Citizens financing agreements, including pre-event financing in place during the period January 2021 through December 2023, and any defeasance and redemption of pre-event financing, to determine whether Citizens financing agreements were financed in a cost-effective manner.
- Interviewed Citizens management and reviewed applicable Citizens records to evaluate whether Citizens procedures for estimating its probable maximum loss obligations were adequate.
- Compared Citizens records for approved rates to applicable OIR orders and analyzed the effect of Citizens' inability to charge actuarially determined insurance premium rates on Citizens' surplus for the 2021 through 2023 calendar years. Additionally, interviewed Citizens actuaries to estimate the impact of statutory premium rate limitations on Citizens surplus.
- Reviewed minutes from the 18 Board of Governors (Board) and 12 Finance and Investment Committee (FIC) meetings held during the period January 2021 through August 2023 to determine whether Citizens obtained appropriate Board and FIC approval for the Risk Transfer Program budget and plan of coverage (Layer Charts) for the 2021, 2022, and 2023 hurricane seasons.
- Analyzed Citizens data for the 101 contracts exceeding \$35,000 and executed during the period January 2021 through August 2023 to determine whether Citizens utilized competitive

procurement methods or procured any large or unusual contracts through a non-competitive procurement process.

- From the population of 85 Citizens contracts, each exceeding \$35,000 and totaling \$545,752,435, executed during the period January 2021 through August 2023 that were not exempt from competitive procurement requirements, examined Citizens records for 25 selected contracts totaling \$289,606,888 to determine whether the contracts were procured and documented in accordance with Sections 627.351(6)(e) and 287.057, Florida Statutes, and Citizens policies and procedures.
- From the population of 1,229 Citizens contract payments exceeding \$1,000 and totaling \$394,786,049, made during the period January 2021 through August 2023, examined Citizens records for 25 selected contract payments totaling \$3,143,782 to determine whether the contracted goods and services were received, the contracts were monitored, contract managers were identified, and contract payments were made in accordance with the contract terms and conditions.
- Examined Citizens records for the 75 purchasing cardholders who separated from Citizens employment during the period January 2021 through August 2023 to determine whether Citizens timely canceled the employees' purchasing cards upon the cardholders' separation from Citizens employment and whether any purchasing card charges were made subsequent to the cardholders' separation from Citizens employment.
- From the population of 18 employees who involuntarily separated from Citizens during the period January 2021 through August 2023, examined Citizens records for 7 selected employees to determine whether Citizens properly documented severance settlement agreement decisions and whether severance settlement agreements were appropriately reviewed, approved, and documented in accordance with Citizens policies and procedures.
- From the population of 554 (373 Citizens-owned and 181 personally owned) mobile devices authorized to access Citizens' IT resources as of August 31, 2023, examined Citizens records for 25 selected mobile devices (17 Citizens-owned and 8 personally owned) to determine whether Citizens ensured that security controls were properly deployed on each mobile device in accordance with Citizens policies and procedures prior to authorizing access to Citizens IT resources. Additionally, interviewed Citizens management and examined Citizens records to determine whether Citizens ensured that controls related to text message retention were in place and operating effectively during the period January 2021 through August 2023.
- Reviewed Citizens policies, procedures, and records, and interviewed Citizens personnel to obtain an understanding of Citizens litigation management and to determine whether Citizens controls appeared to be adequately designed to manage litigation claims resources.
- Interviewed Office of Internal Auditor (OIA) management and requested the OIA's most recent external assessment to determine whether the OIA received an external assessment at least once every 5 years in accordance with the *International Standards for the Professional Practice of Internal Auditing*.
- Interviewed Citizens personnel and evaluated Citizens processes to determine whether Citizens made or obtained an independent and periodic assessment of the design and operating effectiveness of service organization controls relevant to the Office of Internal Audit service governance risk and compliance control system and text message retention.
- Obtained an understanding of selected Citizens IT controls for the network, Centerpoint, Central Authentication Gateway, Citizens Insurance Suite, myAgency, Credentialing Administration Information System, Correspondence Handling and Tracking System, Alfresco, and Acuity, assessed the risks related to those controls, evaluated whether selected general and application IT controls for these environments were in place, and tested the effectiveness of the selected

controls. The controls tested included those related to logical access, user authentication, logging and monitoring, change management, disaster recovery, and backup processing.

- 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 that 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 Property Insurance Corporation (Citizens) policy was issued in a timely manner? If you answered 'No', please provide your best estimate of the time period from application to issuance.
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 (a through e with e being very satisfied). If you were less than satisfied, please provide details describing the reason(s) for your dissatisfaction.
4. Did you receive coverage offers from other insurance companies subsequent to your application for Citizens coverage? If yes, why did you obtain coverage from Citizens?

Policy Renewal

5. Has your initial Citizens policy been renewed?
6. Do you feel that you timely received your renewal and premium payment notice? If you answered "No", please provide your best estimate of the time period from application to issuance.
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 (a through e with e being very satisfied). If you were less than satisfied with the renewal process, please provide details describing the reason(s) for your lack of satisfaction.

Insurance Agent

9. Did your Citizens insurance agent appear knowledgeable with respect to your insurance policy coverage provided by Citizens?
10. Did your insurance agent provide information about Citizens insurance premium rates, if requested?
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 your insurance agent through whom you purchased your Citizens policy (a through e with e being very satisfied). If you were less than satisfied, please provide details describing the reason(s) for your lack of satisfaction.

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 (a through e with e being very easy).
15. Did you file your claim(s) directly with Citizens or through another party? If you filed your claim through a third party, please provide details describing the reason(s) for doing so.
16. Did your agent appear familiar with Citizens' claims handling procedures?
17. Did a Citizens Claims Adjuster visit your property to observe the claimed damage?
18. Did the Citizens Claims Adjuster appear to thoroughly evaluate your claimed loss?
19. How long after providing your first notification of loss (informing Citizens or your agent) were you contacted by a Citizens Claim Adjuster?
20. Overall, please rate your level of satisfaction with the service provided by the Citizens Claims Adjuster (a through e with e being very satisfied). If you were less than satisfied, please provide details describing the reason(s) for your lack of satisfaction.
21. Were you represented by a third party?

-
22. If you were represented by a third party, which title below best describes them?
- a. Public Claims Adjustor
 - b. Contractor
 - c. Attorney
 - d. Other
-
23. How did you first contact the third-party representative?
- a. Through a Citizens' representative
 - b. Internet search
 - c. Third-party initiated contact
 - d. Other
-
24. If the third-party representative was compensated as a percentage of indemnity paid, did you receive an amount sufficient to complete the covered repairs?
-
25. Overall, please rate your level of satisfaction with the service provided by the third-party representative (a through e with e being very satisfied). If you were less than satisfied, please provide details describing the reason(s) for your lack of satisfaction.
-
26. If you received a claim payment, how satisfied were you with the timeliness of the payment (a through e with e being very satisfied)? If you were less than satisfied, please provide your best estimate of the time required to receive payment on your claim.
-
27. If you received a claim payment, how satisfied were you with the explanation of the amount paid (a through e with e being very satisfied)?
-
28. If this was a nonstorm related water damage claim, were you provided with the option to utilize Citizens Managed Repair Program?
-
29. If the managed repairs were not addressed in one evaluation, how many evaluations were required?
-
30. If you accepted the option to utilize Citizens Managed Repair Program, please rate your satisfaction with the Program (a through e with e being very satisfied). If you were less than satisfied, please provide details describing the reason(s) for your lack of satisfaction.

Citizens Customer Service

31. Have you contacted Citizens within the last 12 months?
-
32. 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
-
33. Please estimate the number of times that you have contacted Citizens within the last 12 months.
-
34. Please estimate when you made your most recent contact with Citizens.
-
35. Did the Citizens Customer Service Agent help you obtain the information needed?
-
36. How satisfied were you with the timeliness of Citizens' response to your question(s) or issue(s) (a through e with e being very satisfied)?
-
37. How satisfied were you with the way your question(s) or issue(s) was resolved (a through w with e being very satisfied)? If you replied less than satisfied, please provide details describing the reason(s) for your lack of satisfaction.
-
38. If you were less than satisfied with the way your question(s) or issue(s) was handled, did you file a complaint with Citizens?
-

39. If you replied 'Yes' to question 38, 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

40. Did a representative from Citizens contact you regarding your complaint?

41. How satisfied were you with Citizens response to your complaint (a through e with e being very satisfied)? If you replied less than satisfied, please provide details describing the reason(s) for your lack of satisfaction.

Overall Assessment

42. In your opinion, does Citizens provide better or worse coverage than other insurance companies?

43. Do you feel having a Citizens insurance policy is safer than a policy with another insurance company?

44. Overall, please rate your level of satisfaction with your Citizens insurance policy (a through e with e being very satisfied). If you were less than satisfied, please provide details describing the reason(s) for your lack of satisfaction.

EXHIBIT B

AGENT SURVEY QUESTIONS

Background

1. Name
2. E-mail
3. Approximately, how many years have you been a licensed property and casualty insurance agent in the State of Florida?

Agent Appointment and Certification Process

4. Please rate your level of satisfaction with the Citizens Property Insurance Corporation (Citizens) Salesforce CRM system for appointing agents (or its replacement) (1 to 5 with 5 being very satisfied).
5. If you answered unsatisfied or very unsatisfied to question 4, please provide details describing the reason(s) for your dissatisfaction.
6. Please rate your level of satisfaction with the Citizens Salesforce CRM agent certification portal (1 to 5 with 5 being very satisfied).
7. If you answered unsatisfied or very unsatisfied to question 6, please provide details describing the reason(s) for your dissatisfaction.

Training

8. 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).
9. If you answered unsatisfied or very unsatisfied to question 8, please provide details describing the reason(s) for your dissatisfaction.
10. Which training methods and reference tools are most commonly available from other property insurers that you represent?
 1. Training seminars
 2. Electronic training materials
 3. Technical bulletins
 4. Other
11. In your opinion, based on your experience with Citizens and other insurers, please indicate the most effective method(s) of training and provide any additional comments or recommendations that you may have relating to Citizens training process.

Policyholder Information

12. Please rate your level of satisfaction with the Citizens Insurance Suite information system (e.g., Policy Center, Claims Center) (1 to 5 with 5 being very satisfied).
13. If you answered unsatisfied or very unsatisfied to question 12, please provide details describing the reason(s) for your dissatisfaction.
14. Please rate your level of satisfaction with the Citizens electronic document management systems (1 to 6 with 5 being very satisfied and 6 being not applicable).
15. If you answered unsatisfied or very unsatisfied to question 14, please provide details describing the reason(s) for your dissatisfaction.
16. Please provide any comments or recommendations relating to the accessibility of Citizens policyholder information.

Underwriting

17. Please rate your level of satisfaction with Citizens procedures related to the issuance of new insurance policies, including valuation of the covered structure, mitigation credits, and automated underwriting, if applicable (1 to 5 with 5 being very satisfied).
18. If you answered unsatisfied or very unsatisfied to question 17, please provide details describing the reason(s) for your dissatisfaction.
19. Please rate your level of satisfaction with Citizens procedures relating to the renewal of policies, including valuation of the covered structure, mitigation credits, and automated underwriting, if applicable (1 to 5 with 5 being very satisfied).
20. If you answered unsatisfied or very unsatisfied to question 19, please provide details describing the reason(s) for your dissatisfaction.
21. 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 (1 to 5 with 5 being significantly better)?
22. Please describe your procedures for documenting the current condition of the property during the underwriting process for Citizens new and renewed policies (e.g., physical inspections, drone pictures, owner pictures).
23. Please provide any comments or recommendations related to the efficiency or effectiveness of Citizens underwriting procedures and practices.
24. 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).
25. If you answered unsatisfied or very unsatisfied to question 24, please provide details describing the reason(s) for your dissatisfaction.
26. Please rate your level of satisfaction with Citizens Clearinghouse Program (1 to 5 with 5 being very satisfied).
27. If you answered unsatisfied or very unsatisfied to question 26, please provide details describing the reason(s) for your dissatisfaction.
28. Please rate your level of satisfaction with Citizens Clearinghouse Interim Program Solution (CHIPS) (1 to 5 with 5 being very satisfied).
29. If you answered unsatisfied or very unsatisfied to question 28, please provide details describing the reason(s) for your dissatisfaction.
30. If you are able to directly bind a policy to Citizens, please rate your level of satisfaction with the Quality Assurance process (1 to 6 with 5 being very satisfied and 6 being not applicable).
31. If you answered unsatisfied or very unsatisfied to question 30, please provide details describing the reason(s) for your dissatisfaction.

Claims Handling

32. Since January 2021, have you reported and/or followed up on any Citizens policyholder claims?
33. Did you encounter any problems in reporting policyholder claims to Citizens?
34. If you answered 'Yes' to question 33, please provide a brief description of the problem(s).
35. Have you encountered any problems in acquiring claim status information from Citizens?
36. If you answered 'Yes' to question 35, please provide a brief description of the problem(s).
37. For policyholder claims reported to Citizens, did Citizens timely act to settle the claims?
38. If you answered 'No' to question 37, please provide the time elapsed between the policyholder initially filing their claim and receiving final payment.
39. Please rate your level of satisfaction with the manuals, bulletins, and other documentation related to Citizens' claims handling (1 to 5 with 5 being very satisfied).
40. If you answered unsatisfied or very unsatisfied to question 39, please provide details describing the reason(s) for your dissatisfaction.

-
41. Please rate your level of satisfaction with the replacement cost estimator utilized by Citizens to estimate policy amounts for new policies and claims damage (1 to 6 with 5 being very satisfied and 6 being not applicable).
-
42. If you answered unsatisfied or very unsatisfied to question 41, please provide details describing the reason(s) for your dissatisfaction.
-
43. Have you received information or training materials regarding Citizens' Managed Repair Program sufficient to discuss with your clients?
-
44. Have you discussed Citizens' Managed Repair Program with your clients?
-
45. Please briefly describe the training Citizens provided regarding their Managed Repair Program.
-
46. Please provide any comments or recommendations relating to the communication of information between you and Citizens with respect to the policyholder's claim and utilization of assignment of benefits, Citizens Managed Repair Program, or any other issue.

Service

47. Have you contacted Citizens concerning a problem or question with the policyholder's claim since January 2021?
-
48. Please identify the subject(s) related to your contact with Citizens.
1. Policy coverage issues
 2. New policy issuance
 3. Claims
 4. Suspected Insurance Fraud
 5. Service Request
 6. Other
-
49. Please rate your level of satisfaction with the service provided by Citizens staff (1 to 5 with 5 being very satisfied).
-
50. If you answered unsatisfied or very unsatisfied to question 49, please provide details describing the reason(s) for your dissatisfaction.

Overall Assessment

51. Please rate your overall level of satisfaction with the agent support provided by Citizens.
-
52. If you answered unsatisfied or very unsatisfied to question 51, please provide details describing the reason(s) for your dissatisfaction.
-
53. 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: 850-445-9645



August 15, 2024

The Honorable Sherrill Norman, CPA
Auditor General
Claude Densen Pepper Building
111 West Madison St.
Tallahassee, Fl 32399-1450

Dear Ms. Norman,

On July 16, 2024, we received a copy of the Office of Auditor General's Preliminary and Tentative Audit Findings for Citizens Property Insurance Corporation. I would like to thank you and your staff for thoroughly analyzing Citizens during this operational audit.

As part of the process, I am sending our formal responses to the seven findings and recommendations outlined in the report. I appreciate your consideration of these critical issues. Please feel free to contact me if you have any additional questions or concerns.

Best regards,

A handwritten signature in blue ink, appearing to read "Tim Cerio", is written over a light blue circular stamp.

Timothy M. Cerio
President/CEO and Executive Director
Citizens Property Insurance Corporation

Carlos Beruff, Chairman, Manatee County • Josh Becksmith, St. Johns County • Jason Butts, Pinellas County
LeAnna Cumber, Duval County • Erin Knight, Miami-Dade County • Charlie Lydecker, Volusia County
Jamie Shelton, Duval County • Robert A. Spottswood, Monroe County • M. Scott Thomas, St. Johns County
Tim Cerio, President/CEO and Executive Director

Underwriting and Eligibility

Finding 1: Citizens' controls need enhancement to ensure policies are issued and renewed per statutory coverage limits.

Recommendation: We recommend that Citizens management enhance automated and underwriting process controls to ensure compliance with statutory coverage limits.

Management Response: Citizens acknowledges the necessity of improving processes and procedures to prevent the circumvention or overriding of the existing system controls in PolicyCenter®. These controls ensure that policies are issued and renewed in accordance with statutory coverage limits. Additionally, Citizens plans to assess these existing system controls for potential enhancement opportunities. Any modifications to PolicyCenter will be included in the 2025 backlog for updates/enhancements.

Probable Maximum Loss Financing

Finding 2: Citizens' records disclosed that authorized premium amounts for the 2021 through 2023 calendar years were approximately \$2.8 billion less than the premium amounts that would have been due using actuarially determined rates that included reinsurance costs for a 1-in-100-year storm. Additionally, as of December 31, 2023, Citizens projected a shortfall of \$542 million for a 1-in-100-year storm that may require the levy of surcharges on Citizens' policyholders.

Recommendation: To minimize the need for potential surcharges on Citizens' policyholders and emergency assessments on assessable insureds, we recommend that the Legislature consider revisiting statutory rate limitations, specifically allowing for Citizens to collect from the rates the projected costs of reinsurance to cover 100-year probable maximum losses (PMLs).

Management Response: Citizens' rates are determined by two different sets of legislative requirements. The first set of requirements, referred to as the "statutory glide path" limits how quickly Citizens may raise its rates. From 2010 through 2021, Citizens was allowed to raise rates on policyholders by not more than 10% annually. The Legislature then revised the statute to allow Citizens to raise rates by up to 11% in 2022, up to 12% in 2023, up to 13% in 2024, up to 14% in 2025, and up to 15% in 2026 and later years. Additionally, under Senate Bill 2A, Citizens may not lower rates on policies insuring non-primary homes and may not raise rates by more than 50%.

The second set of requirements determines the target for Citizens' rates. That targeted rate includes a provision for reinsurance covering a 1-in-100-year PML regardless of whether Citizens purchases the reinsurance. It also requires Citizens to raise its rates until those rates are noncompetitive.

The statutory glide path can restrict Citizens from collecting enough premium to cover its reinsurance costs. As noted, the Legislature has made several revisions to the statutory glide path. Citizens provided legislative support for those changes, as it does for any legislative change when requested to do so by the Legislature. Should the Legislature consider more changes, Citizens would also provide support for those.

Property Insurance Clearinghouse

Finding 3: Of the 48 insurance companies that wrote more than 1,000 personal residential property insurance policies from April 2023 through June 2023, only six insurers as of June 2023 participated in the clearinghouse established by Citizens pursuant to state law. These six insurers represented only 10% of the personal residential property insurance market, excluding Citizens.

Recommendation: To facilitate greater policy diversion and exposure to the private market, we recommend that Citizens' management work with the Legislature to evaluate whether the statutory design of the clearinghouse program is adequate to maximize insurer participation.

Management Response: Citizens' management acknowledges the need to facilitate a more excellent diversion of policies and exposure to the private market. Citizens has effectively lobbied for and supported state legislation that has begun to improve the Florida insurance market. The legislation supported and enacted has broadened the parameters by which a risk is rendered ineligible to be insured by Citizens. The legislation determining that a risk would be rendered ineligible for a Citizens new-business or renewal policy (if a private-market carrier provides a comparable offer that is no greater than 120% of the Citizens premium) was lobbied for, supported by and implemented by Citizens within the time frame of this audit period.

These changes will increase the clearinghouse program's attractiveness to the Florida insurer population. Further, the new clearinghouse powered by EZLynx[®], with its greater number of insurers already on the platform, reduced technical requirements, increased efficiencies for the agent population, and increased insurer appetite for new business, will allow Citizens to capitalize more fully on the legislative changes that have been implemented. Citizens will continue to work with all constituencies to evaluate changes, statutory and otherwise, that will effectively maximize participation from Florida's insurers.

Finding 4: Citizens controls continue to need enhancement to ensure that all applicable new and renewal policies are made available for consideration by participating insurers.

Recommendation: We recommend that Citizens management ensure that all applicable new and renewal policies are made available for consideration by participating insurers.

Management response: Citizens' management acknowledges and agrees with the information provided in the findings. The auditor examined records for 180 policy renewals in PolicyCenter and found that 79 of the 180 renewals did not have a clearinghouse identification number and that there was no other evidence that the renewals had been processed through the clearinghouse. While accurate, the controls and processes in place for the clearinghouse renewal policies must correctly allow for policies to be reviewed, manually cancelled, nonrenewed and/or reinstated by Underwriting as a routine course of business.

These necessary actions sometimes take longer than the clearinghouse renewal window allows for the policy to be sent through the clearinghouse so that participating insurers may render offers. We recognize the need to ensure that all applicable renewal policies are made available for consideration by participating insurers. We will continue to enhance the controls and timelines for these processes to ensure all eligible renewal policies are processed through the clearinghouse.

Customer Service

Finding 5: Analysis of customer service data and surveys of policyholders and agents indicated that Citizens' quality of customer service is generally comparable to that provided in the voluntary market.

Recommendation: We recommend that Citizens' management continue efforts to provide quality customer service to policyholders, applicants, and agents.

Management response: Citizens is committed to continually improving service to our policyholders, agents, and Florida constituents. With the updating of Citizens' Strategic Plan in 2024, Customer Experience is one of the top three organizational strategic imperatives, further demonstrating the importance of the service Citizens provides. Customer data, including survey data, complaint analysis, and policyholder feedback, is analyzed to identify opportunities to enhance the customer experience. Collaborative meetings are held with stakeholders, which has been instrumental in identifying and implementing process improvements. This includes enhancements to the administrative system based on feedback from agents and internal users. During the survey period, legislative changes impacted many new and renewal eligibility guidelines, which required agents to provide additional proof of flood insurance to renew a policy and proof of full-time residency to maintain a lower renewal rate, which may have resulted in lower satisfaction scores.

Selected Administrative Activities

Finding 6: Citizens' controls for promptly cancelling purchasing cards upon a cardholder's separation from Citizens employment continue to need improvement. Additionally, while reimbursed by the bank, two fraudulent charges were made on a purchasing card after the cardholder's separation from Citizens employment.

Recommendation: We again recommend that Citizens management enhance controls to ensure that purchasing cards are promptly cancelled upon a cardholder's separation from Citizens employment.

Management Response: Management acknowledges that the primary risk of not deactivating purchasing cards in a timely manner upon employee separation is the occurrence of unauthorized or fraudulent purchasing card charges. The process for deactivating purchasing cards for separated employees relies primarily on several preventative control procedures that were implemented in 2021. Under certain specific and infrequent circumstances, should these preventative controls fail, detective controls are utilized to identify fraudulent or unauthorized transactions. Management acknowledges that purchasing cards were not immediately deactivated in some instances and that the detective controls were instead used to mitigate any financial loss to the company. Management further acknowledges that the preventative controls, in combination with detective controls over the purchasing card deactivation process, holistically establish a control environment that eliminates the risk of financial loss to the company.

Information Technology Controls

Finding 7: Certain security controls related to logical access and user authentication continue to need improvement to ensure the confidentiality, integrity, and availability of Citizens' data and IT resources.

Recommendation: We again recommend that Citizens management improve specific security controls related to logical access and user authentication.

Management Response: We appreciate the AG's efforts to improve our information systems and IT business processes. Citizens acknowledges the auditors' comments and continues to review and evaluate our internal controls, systems, and IT business processes for improvement opportunities, which will be evaluated and implemented as appropriate.