



OFFICE OF INSURANCE REGULATION

FINANCIAL SERVICES
COMMISSION

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KEVIN M. McCARTY
COMMISSIONER

February 28, 2014

Mr. Kevin M. McCarty
Commissioner of Insurance
Office of Insurance Regulation
200 E. Gaines Street
Tallahassee, Florida 32399

Re: Auditor General Report #2014-009: Operational Audit

Dear Commissioner McCarty:

Pursuant to Florida Statutes, Section 20.055(5) (h), the Office of Inspector General is required to provide a written response to the agency head on the status of corrective actions taken no later than six months after publication of a report on the state agency by the Auditor General. A copy of the response is also filed with the Legislative Auditing Committee. Information regarding the status of corrective actions that have been taken in response to the findings that were documented in the referenced report is provided in the attached documentation.

Please let me know if you have any questions regarding this matter.

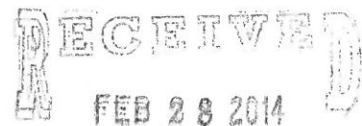
Sincerely,

Bonnie Deering
Inspector General

BD/ag

Enclosure

Cc: Rebecca Matthews, Chief of Staff
✓Legislative Audit Committee



OIR/OIG AUDIT FOLLOW-UP REPORT

Audit Title: 2013 Operational Audit of the Office of Insurance Regulation

Original Audit Project #: AR-1213-062

Follow-Up Project #: AR-1314-042

Follow-Up Date: 1/29/2014

Due Date: 2/27/2014

Finding Number	Finding Summary	Recommendation	Management Response	Management Follow-Up	Status
1.	Office policies and procedures should be enhanced to require that the reasoning and judgments supporting Property and Casualty (P&C) rate filing decisions be sufficiently documented.	We again recommend that the Office enhance its policies and procedures to require Office staff to sufficiently document the reasoning and judgments supporting P&C rate filing decisions.	The Office will enhance its transmittal documentation to provide additional detail of the reasoning and judgments supporting property and casualty rate filing decisions. The Office will also look into using an outside actuary to review its documentation of rate filings to further ensure its filings are fully supported and files are complete.	The Office retained an actuarial firm in December 2013 to review its documentation of rate filings. The final report will be available in March 2014. Based on the actuarial firm's recommendations and the Office's internal review, the Office will enhance/amend rate filing documentation accordingly.	Open
2.	The Office did not use existing accounting codes to facilitate the preparation of, nor had the Office prepared, detailed analyses comparing regulatory costs to the regulatory fees and taxes designated to cover those costs.	We recommend that the Office utilize established accounting codes to facilitate periodic comparisons, by business unit, of regulatory costs to associated regulatory fees and taxes. In the event rate and tax changes are necessary to defray the expenses incurred by the Office in the discharge of its duties, the Office should propose such changes for legislative consideration.	Office revenue is deposited into the Insurance Regulatory Trust fund (IRTF). The IRTF collects revenue from the Office along with the Department of Financial Services divisions such as Fire Marshal, Insurance Fraud, Agent and Agency Services and Consumer Services. Most revenue generated by the Office including license fees and taxes are authorized in Florida Statutes. Statutes establish the sources of the revenues and dictate the amount. Fines and penalties for noncompliance with the insurance code are also permitted under Florida Statute. When the Office was created in 2003, there was coordination with the DFS	The Office has performed a review of the current process of the revenues deposited in the IRTF and determined that the current allocation of revenues by account codes is appropriate. The Office will continue to perform monthly reviews of the revenue reports that are received from DFS Accounting. The Office Budget Director will also continue to review the IRTF on a quarterly basis in coordination with the DFS budget office. We concur that the revenue the Office receives is not sufficient to cover the current expenditures appropriated by the Legislature.	Open

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			<p>Accounting/Revenue Processing Section to ensure that the proper codes were set up to track the funds as they are received and processed. DFS performs invoicing and receipting services for the Office.</p> <p>We do concur that the revenue the Office receives is not sufficient to cover the current expenditures appropriated by the Legislature. However, this was not the case until a change in law in 2009. Prior to 2009, a portion of the Surplus Lines Premium Tax revenues (approximately 15%) was directed to the IRTF to cover Office operations. However, beginning in Fiscal Year 2009-2010, 100% of the Surplus Lines Premium Tax was redirected to the General Revenue fund. On June 30, 2014, this law expires.</p> <p>The Office will perform a review of the current process of recognizing the revenues deposited in the IRTF to determine if the current allocation of revenues by account codes is appropriate. The Office will continue to perform monthly reviews of the revenue that is received and will also continue to review the IRTF on a</p>	<p>However, this was not the case until a change in law in 2009. Prior to 2009, a portion of the Surplus Lines Premium Tax revenues (15.74%) was directed to the IRTF to cover Office operations. However, beginning in Fiscal Year 2009-2010, 100% of the Surplus Lines Premium Tax was redirected to the General Revenue fund. On June 30, 2014, this law expires and will revert to back to 15.74% being directed to the IRTF to fund the Office. The Office will monitor this issue throughout Session.</p>	

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			<p>quarterly basis.</p> <p>Annually, the Office reviews the fines and fees established by the Legislature for the Office. For several years, the Office has presented Revenue Generating Options to the Legislative Appropriations Committees of jurisdiction and has made it known that some of the fees have not changed since 1993 and longer in some cases. In addition, the state of Florida does not charge form and rate filings fees, as some states do to support regulatory function and services to the insurance industry. While the Office has made the Legislature and Appropriations committee staff aware of these issues, the policymakers have not elected to change the fees charged by the Office.</p>		
3	<p>Periodic information technology (IT) user access reviews had not been conducted by individuals knowledgeable of user roles and responsibilities. Additionally, Office-specific procedures addressing Office IT applications had not been developed.</p>	<p>We recommend that the Office ensure that periodic reviews of user access privileges are performed by supervisory staff knowledgeable of each user's roles and responsibilities. In addition, we recommend that the Office establish Office-specific procedures for controlling access</p>	<p>The Office agrees with this recommendation. IT application access control written procedures will be formalized to ensure that periodic reviews are performed by the appropriate and knowledgeable staff.</p>	<p>Management is currently reviewing a draft Memorandum outlining the Office's Deviation from Department of Financial Services Administrative Policy & Procedure 4-05 (Application Access Control) regarding IT application access controls. It is anticipated this Memorandum will</p>	Open

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		to all its IT applications		be adopted in early March. It should also be noted that the Office recently concluded its semi-annual application access control review. This review was performed by supervisory staff knowledgeable of each user's roles and responsibilities. Furthermore, the Office follows the DFS process for granting access to Office applications as defined in DFS AP&P 4-05.	
4.	The Office had not timely obtained and reviewed the independent service auditor's report related to the controls designated and established by the National Association of Insurance Commissioners (NAIC) for the database that maintains the P&C insurer financial information used by the Office in its financial analysis processes.	We recommend that the Office timely request, obtain, and document review of independent service auditor's reports on the effectiveness of NAIC controls established for the FDR	<p>In 2011, the Office requested and received a service auditor's report pursuant to SAS 70 from the NAIC to cover the six-month period ending January 31, 2011. In 2013, the Office received independent service organization control reports (SSAE16) from the NAIC for the periods February 1, 2011 to January 31, 2012 and January 1, 2012 to December 31, 2012.</p> <p>In addition, the Office would like to note that in an effort to ensure NAIC Financial Data Repository (FDR) database is accurate and complete, the Office receives audited financial statements prepared by independent certified public accountant firms in</p>	The Office requested a copy of the 2013 SSAE16 report from the NAIC on January 2, 2014. The NAIC advised that the report would not be available until early March and a copy would be provided when available.	Open

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			PDF format. Office examiners and analysts compare the audited financial statements to the electronic filings of the insurer's annual statements in the FDR database and have found no inaccuracies or incompleteness in the FDR data. Correspondingly, Office examiners perform periodic onsite field examinations of insurers and compare the general ledgers and accounts of the insurers to the electronic filings in the FDR database.		