

## HOUSE OF REPRESENTATIVES STAFF ANALYSIS

**BILL #:** CS/HB 433 Inspector General of Citizens Property Insurance Corporation

**SPONSOR(S):** Insurance & Banking Subcommittee; Richardson and others

**TIED BILLS:** **IDEN./SIM. BILLS:**

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR or BUDGET/POLICY CHIEF
1) Insurance & Banking Subcommittee	13 Y, 0 N, As CS	Callaway	Cooper
2) Regulatory Affairs Committee	14 Y, 0 N	Callaway	Hamon

### SUMMARY ANALYSIS

Citizens Property Insurance Corporation (Citizens) is a state-created, not-for-profit, tax-exempt governmental entity whose public purpose is to provide property insurance coverage to those unable to find affordable coverage in the voluntary admitted market. Although it operates like a private insurance company, it is not a private insurance company. As of December 31, 2012, Citizens is the largest property insurer in Florida with over 1.3 million policies and over \$429 billion in exposure. Citizens insures almost 450,000 residential and commercial policies in Florida's coastal areas and over 860,000 residential policies in Florida's non-coastal areas. The remaining 8,000 policies are commercial policies insured in Florida's non-coastal areas.

Citizens does not currently have an inspector general and is not required by law to have one. However, current law requires Citizens to have a Chief of Internal Audit and provides job duties and responsibilities for this position.

Citizens operates under the direction of an eight member Board of Governors (Board). The Governor, Chief Financial Officer, Senate President, and Speaker of the House of Representatives each appoint two members of the Board. Only the Citizens' President/CEO/Executive Director and the Chief of Internal Audit report directly to the Citizens' Board. Other Citizens' senior managers report directly to the President/CEO/Executive Director.

The bill creates an inspector general for Citizens. The bill outlines the job qualifications and duties and responsibilities of the position. The Citizens' inspector general is appointed by the Financial Services Commission (FSC), comprised of the Governor and Cabinet, and can be removed from office only by the FSC. However, the inspector general will report to and be supervised the chairman of the Citizens' Board. The Citizens' Chief of Internal Audit is mandated to cooperate and coordinate activities with the Citizens' inspector general to avoid overlap of duties and responsibilities of these positions.

The bill has no fiscal impact on state or local governments. Citizens will incur salary and benefit costs associated with the inspector general position created by the bill.

The bill is effective July 1, 2013.

# FULL ANALYSIS

## I. SUBSTANTIVE ANALYSIS

### A. EFFECT OF PROPOSED CHANGES:

Citizens Property Insurance Corporation (Citizens) is a state-created, not-for-profit, tax-exempt governmental entity whose public purpose is to provide property insurance coverage to those unable to find affordable coverage in the voluntary admitted market. Although it operates like a private insurance company, it is not a private insurance company.<sup>1</sup>

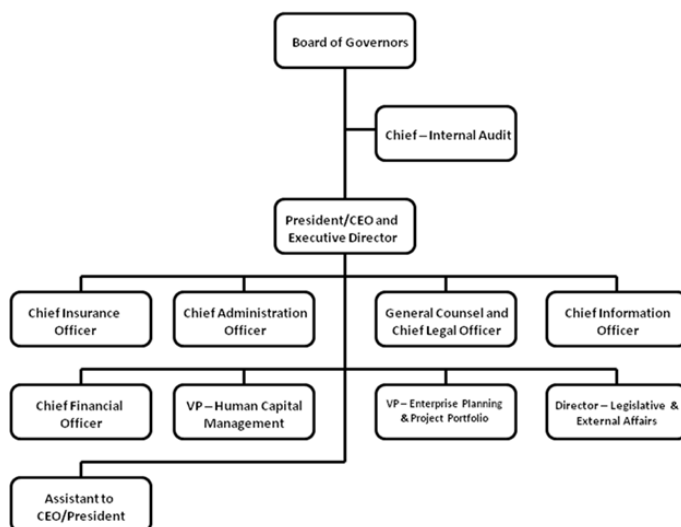
As of December 31, 2012, Citizens is the largest property insurer in Florida with over 1.3 million policies and over \$429 billion in exposure. Citizens insures almost 450,000 residential and commercial policies in Florida's coastal areas and over 860,000 residential policies in Florida's non-coastal areas. The remaining 8,000 policies are commercial policies insured in Florida's non-coastal areas.<sup>2</sup>

Citizens operates under the direction of an eight member Board of Governors (Board). The Governor, Chief Financial Officer, Senate President, and Speaker of the House of Representatives each appoint two members of the Board. Board members serve three year staggered terms.<sup>3</sup> At least one of the two board members appointed by each appointing officer must have demonstrated expertise in insurance. The board members are not Citizens' employees and are not paid.

Only the Citizens' President/CEO/Executive Director and the Chief of Internal Audit report directly to the Citizens' Board. The following senior managers report directly to the President/CEO/Executive Director:

- Chief Insurance Officer,
- Chief Administration Officer,
- General Counsel and Chief Legal Officer,
- Chief Information Officer,
- Chief Financial Officer,
- Vice President of Human Capital Management,
- Vice President of Enterprise Planning and Project Portfolio, and
- Director of Legislative and External Affairs.

An organizational chart of the senior managers at Citizens is as follows:



Citizens does not currently have an inspector general and is not required by law to have one. Current

<sup>1</sup> s. 627.351(6)(a)1., F.S.

<sup>2</sup> <https://www.citizensfla.com/about/corpfinaicals.cfm> (last viewed February 1, 2013)

<sup>3</sup> s. 627.351 (6)(c)4., F.S.

law, however, requires Citizens to have a Chief of Internal Audit. The Chief of Internal Audit position was created in Citizens in 2006.<sup>4</sup> Citizens' first Chief of Internal Audit started in January, 2007. The position has been filled almost continuously since that time, with Citizens employing four Chiefs of Internal Audit since 2007.<sup>5</sup>

Generally, the duties of the Chief of Internal Audit include: fostering and promoting accountability and integrity in Citizens; holding the Citizen's leadership, management and staff accountable for efficient, cost-effective operation; and preventing, identifying, and eliminating fraud, waste, corruption, illegal acts, and abuse. Specific duties and responsibilities for the position are contained in s. 627.351(6)(i), F.S. The Chief of Internal Audit carries out his duties primarily through audits, management reviews and investigations.

From December 2010 until October 2012, Citizens also had an Office of Corporate Integrity (Office).<sup>6</sup> The Office handled employee complaints, particularly those that could indicate ethics violations and internal fraud. From December 2010 until July 2012, the employees in this office reported to Citizens' General Counsel and Chief Legal Officer. Thereafter, they reported to the Citizens' Chief of Internal Audit. The Office was disbanded by Citizens' Board in October 2012, but its functions were absorbed by other Citizens' staff, including the Office of Internal Audit, the Ethics Officer, and the Employee Relations Office.<sup>7</sup>

### Governor's Inspector General Report

In September 2012, Governor Rick Scott asked his Office of the Chief Inspector General (Inspector General) to review travel expenses incurred by Citizens' Board members, Senior Managers, and employees to determine whether the expenses were incurred in accordance with Citizens' travel policies.<sup>8</sup> The Governor requested the review after newspapers published articles relating to Citizens' employees' travel expenses.<sup>9</sup> The Inspector General issued a report on January 15, 2013.<sup>10</sup> The report found travel expenses incurred by Citizens' Board and staff were generally compliant with the Citizens' travel policies in effect when the travel was incurred. But, the Inspector General also found Citizens' travel policies were ambiguous and lacked specific requirements to ensure travel was necessary and conducted in the most economical manner. Additionally, the report noted the policies allowed for travel expenses in excess of the State of Florida travel guidelines. The Inspector General recommended Citizens be required to follow state travel laws and that Citizens' travel policies be updated to reflect that state travel laws apply to Board Members, Senior Managers, and all employees. The Inspector General also recommended Citizens enhance their internal controls to address the findings in the report.

### *Governor's Response to the Inspector General Report*

---

<sup>4</sup> See Section 15, Ch. 2006-12, L.O.F.

<sup>5</sup> The Chief of Internal Audit position was not filled between 6/9/2007 and 11/4/2007 due to a lapse between the resignation of one Chief and the hiring of a replacement.

<sup>6</sup> The Office of Corporate Integrity began as the Office of Corporate Compliance within the Administration/Human Resources Department in Citizens. The Office of Corporate Compliance was established in June 2008.

<sup>7</sup> Press Release from Citizens dated October 18, 2012, available at [https://www.citizensfla.com/about/pressreleases.cfm?show=text&link=/shared/press/articles/new/10\\_18\\_2012.cfm&showyear=2012](https://www.citizensfla.com/about/pressreleases.cfm?show=text&link=/shared/press/articles/new/10_18_2012.cfm&showyear=2012) (last viewed January 22, 2013). The Office was disbanded by the Citizens' Board upon a recommendation of the Audit Committee of the Board.

<sup>8</sup> The Inspector General reviewed approximately 350 expense reports of travel and travel related expenses for Citizens' eight Board members, 13 Senior Managers and 18 other employees.

<sup>9</sup> "Expense reports for Citizens Property Insurance's top executives show lavish spending," August 26, 2012, available at <http://www.tampabay.com/news/business/banking/expense-reports-for-citizens-property-insurances-top-executives-show/1247636> (last viewed January 22, 2013); "Citizens Property Insurance interim president chucks up almost \$10,000 in travel expenses in two months," June 20, 2012, available at <http://www.tampabay.com/news/business/banking/citizens-property-insurance-interim-president-chucks-up-almost-10000-in/1236203> (last viewed January 22, 2013).

<sup>10</sup> Chief Inspector General Report No. 2013-10, available at <http://www.flgov.com/2013/01/17/statement-from-governor-rick-scott-regarding-inspector-general-report-on-citizens-corporate-travel/> (last viewed January 22, 2013).

In response to the Inspector General Report on Citizens' travel expenses, Governor Scott proposed four reforms.<sup>11</sup> First, the Governor recommended Citizens immediately change their travel guidelines to comply with official state travel restrictions. Second, he recommended Citizens' Board members to change their travel policy to prohibit any international travel. Third, he suggested Citizens' travel policy be further tightened to allow only essential employees to attend board meetings. Lastly, the Governor recommended Citizens have its own independent statutory Inspector General to enforce existing rules and any additional reforms needed. On January 18, 2013, Citizens' President/CEO/Executive Director publically provided support for an Inspector General at Citizens.<sup>12</sup>

### Effect of Proposed Changes

The bill creates an inspector general for Citizens. The bill outlines the job qualifications and duties and responsibilities of the position. The Citizens' inspector general is appointed by the Financial Services Commission<sup>13</sup> (FSC) and can be removed from office only by the FSC. However, the inspector general will report to and be supervised the chairman of the Citizens' Board. The Citizens' Chief of Internal Audit is mandated to cooperate and coordinate activities with the Citizens' inspector general to avoid overlap of duties and responsibilities of these positions.

#### B. SECTION DIRECTORY:

**Section 1:** Amends s. 627.351, F.S., relating to insurance risk apportionment plans.

**Section 2:** Provides an effective date of July 1, 2013.

## II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

#### A. FISCAL IMPACT ON STATE GOVERNMENT:

##### 1. Revenues:

None.

##### 2. Expenditures:

None.

#### B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

##### 1. Revenues:

None.

##### 2. Expenditures:

None.

#### C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

Citizens will incur salary and benefit costs associated with the Inspector General position created by the bill.

#### D. FISCAL COMMENTS:

None.

---

<sup>11</sup> <http://www.flgov.com/2013/01/17/statement-from-governor-rick-scott-regarding-inspector-general-report-on-citizens-corporate-travel/> (last viewed January 22, 2013).

<sup>12</sup> [https://www.citizensfla.com/about/pressreleases.cfm?show=text&link=/shared/press/articles/new/01\\_18\\_2013.cfm](https://www.citizensfla.com/about/pressreleases.cfm?show=text&link=/shared/press/articles/new/01_18_2013.cfm) (last viewed January 22, 2013).

<sup>13</sup> The Financial Services Commission is comprised of the Governor and Cabinet (s. 20.121(3), F.S.).

### III. COMMENTS

#### A. CONSTITUTIONAL ISSUES:

##### 1. Applicability of Municipality/County Mandates Provision:

Not applicable. This bill does not appear to: require counties or municipalities to spend funds or take an action requiring the expenditure of funds; reduce the authority that counties or municipalities have to raise revenues in the aggregate; or reduce the percentage of a state tax shared with counties or municipalities.

##### 2. Other:

None.

#### B. RULE-MAKING AUTHORITY:

None provided in the bill.

#### C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

### IV. AMENDMENTS/ COMMITTEE SUBSTITUTE CHANGES

On March 28, 2013, the Insurance & Banking Subcommittee considered the bill, adopted a strike all amendment, and reported the bill favorably with a committee substitute. The amendment removed all the provisions in the bill and replaced them with provisions that:

- Created an inspector general for Citizens in the Citizens' governing statute, rather than in the statute governing state agency inspectors general.
- Specified qualifications for the Citizens' inspector general.
- Specified duties and responsibilities for the Citizens' inspector general.
- Required the Citizens' Chief of Internal Audit to cooperate and coordinate with the Citizens' inspector general.
- Required the FSC to appoint the Citizens' inspector general.
- Authorized the FSC to remove the Citizens' inspector general.
- Required the Citizens' inspector general to report to and be under the supervision of the chairman of the Citizens' Board.

The staff analysis was updated to reflect the committee substitute.