

Office of the  
Internal Auditor

# Advisory Memorandum March 2024

Account Consolidation





## Advisory Memorandum

### Background

Citizens Property Insurance Corporation was formed by the Florida Legislature through Statute 627.351 in 2002, which combined the Residential Property and Casualty Joint Underwriting Association and the Florida Windstorm Underwriting Association. The purpose of creating Citizens was to ensure an orderly market for property insurance for residents and businesses of the state of Florida. Citizens was required by statute to maintain separate accounts, noted as the Personal Lines Account (PLA), Commercial Lines Account (CLA), and Coastal Account, for receipt and distribution of monies, and monies could not be moved between accounts to cover deficits, etc. The requirement stated that the accounts shall remain separate as long as there is outstanding debt for one or more accounts. In December 2022, Senate Bill 2-A was passed during a special legislative session. One of the provisions of the bill noted:

“Consistent with this subparagraph and prudent investment policies that minimize the cost of carrying debt, the board shall exercise its best efforts to retire existing debt or obtain the approval of necessary parties to amend the terms of existing debt so as to structure the most efficient plan for consolidating the three separate accounts into a single account.”

The statute has been changed to allow Citizens to combine accounts once all debt has been settled. Citizens management received direction and approval from the Board of Governors to combine accounts effective January 1, 2024, and execute a legal defeasance of the remaining outstanding Series 2015A-1 bonds in the amount of \$275 million, effective December 2023. The bill also revises the Citizens policyholder surcharge imposed in the event of a deficit from 15 percent per account (maximum 45 percent) to 15 percent for a single account. Once established, the single account would allow Citizens to access its entire surplus to pay claims. This will limit the potential surcharge or assessment on policyholders from one charge per account to a single surcharge if the corporation runs a deficit.

The advantages of combining the accounts are:

- Reducing the number of bank accounts and associated banking fees
- Simplifying bank account reconciliation
- Reducing the number of GL Accounts
- Simplifying remittance processing
- Reduce the need to issue an assessment
- Consolidating reports, etc.

During 2023, Citizens’ management established a cross-functional project team to work on the detailed intricacies of combining the three accounts, effective January 1, 2024. There is no visible impact on the customer as this internal change will happen across the organization.

### Objectives and Scope

Internal Audit participated on the project team, serving in an advisory capacity, providing project, process, risk, and controls advice for the account consolidation. Also, to confirm that the project team was following project management fundamentals and that there was an effective and timely issue escalation and handling process.



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### Results

The purpose of the project was to analyze, develop, and implement the required business and technical changes to consolidate the three accounts into one account. The Project was led by a business unit Project Manager who held regular meetings to analyze potential risks, provided direction by coordinating various work group activities, and ensured a forum for communication between the groups. The project remained on schedule, and the account consolidation implementation was successful, with only minor issues, which were quickly rectified once going live on January 1, 2024.

We thank management and staff for their cooperation and professional courtesy throughout this advisory engagement.



## Distribution

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The External Auditor

*Completed by John Fox, Director Internal Audit, under the Direction of Joe Martins, Chief of Internal Audit.*