

**CITIZENS PROPERTY INSURANCE CORPORATION
TRANSCRIPT OF THE MINUTES OF THE AUDIT COMMITTEE MEETING
HELD TUESDAY MARCH 26, 2019**

A meeting of the Audit Committee of Citizens Property Insurance Corporation ("Citizens") was held at 2:00 pm on Tuesday March 26, 2019 in Maitland, FL.

The following members of the Audit Committee were present:

Governor Bette Brown, Chairwoman
Governor Jim Holton (telephonically)
Governor Marc Dunbar (telephonically)

The following members of the Board were present:

Gary Aubuchon
John Wortman
Blake Capps

The following Citizens Staff were present:

Jay Adams	Eric Addison
Steve Bitar	Kelly Booten
Bonnie Gilliland	Barry Gilway
Mark Kagy	Joe Martins
Jennifer Montero	Michael Peltier
Nancy Staff	Dan Sumner
Barbara Walker	David Woodruff
Andrew Woodward	

The following were also present:

Brian Smith, Dixon Hughes Goodman
Dave Newell, FAIA
Kapil Bhatia, Raymond Jones
Henry Reyer, JP Morgan

Call Meeting to order

MS. WALKER: Ladies and gentlemen, we are about to convene Citizens' Audit Committee meeting. This meeting is noticed for March 26, 2019. It is a publicly noticed meeting in the Florida Administrative Register with recorded Minutes that are available on Citizens' website. Chairman Brown, would you like for me to open the meeting with a roll call?

CHAIRMAN BROWN: Yes, please.

MS. WALKER: Chairman Bette Brown.

CHAIRMAN BROWN: Here.

MS. WALKER: Governor Marc Dunbar.

GOVERNOR DUNBAR: Present.

MS. WALKER: Governor Jim Holton.

GOVERNOR HOLTON: Here.

MS. WALKER: Chairman Brown, you have a quorum.

CHAIRMAN BROWN: Wonderful, thank you, Barbara. We have to approve the Minutes from the meeting of December 11th, 2018. May I have a motion to do so?

GOVERNOR DUNBAR: Move approval.

GOVERNOR HOLTON: Second.

CHAIRMAN BROWN: And who made the motion, please?

GOVERNOR DUNBAR: Marc Dunbar.

CHAIRMAN BROWN: Okay. And there is a second.

GOVERNOR HOLTON: Jim Holton seconded.

CHAIRMAN BROWN: Thank you. No corrections, the minutes are approved as recommended. I see that Joe Martins is up front here and going to talk a little about the work he has done the last quarter. You are recognized, Joe.

MR. MARTINS: Good afternoon, Governors. I prepared a presentation which I will work through and would like to refer to you to tab two, page 14 of the pack. On page 14 we start with the annual charter update. The Audit Committee charter is a formal written document that defines the authority and responsibility of the committee as delegated by the Board. The Audit Committee charter was originally approved at March 2008, with subsequent approvals annually thereafter. This year review of the charter resulted in the recommendation of minor changes. I recommend that the Audit Committee approve the updated charter for presentation to the Board of Governors at tomorrow's meeting.

CHAIRMAN BROWN: Joe, are you asking that we review both the OIA and the Audit Committee charters and approve them together?

MR. MARTINS: Yes, Governor. The Office of Internal Audit Charter establishes our position with the organization, authorizes access to records, personnel and physical property relevant to the performance of engagements and defines the scope of our activities. This year's review of the charter resulted in minor changes. In the duties and responsibilities, it recognizes the inclusion of Enterprise Risk and Internal Control functions within the Office of Internal Audit while maintaining the independence of the internal audit function. I request that the Audit Committee considers both the Audit Committee Charter as well as the Office of Internal Audit Charter for approval, and then for presentation of the Audit Committee Charter to the Board tomorrow.

CHAIRMAN BROWN: Okay. For the members here and those on the phone, Joe did send me those changes. They were minor. Some additions, subtractions were changes. Nothing major at all. So, I would take a motion to approve the amendments to the OIA and Audit Committee Charters.

GOVERNOR HOLTON: Move to approve, Jim Holton.

CHAIRMAN BROWN: Is there a second?

GOVERNOR DUNBAR: Marc Dunbar, second.

CHAIRMAN BROWN: Any objection? The motion passes, thank you.

MR. MARTINS: Thank you. On page 15 of the pack we present the three audits completed since the last meeting. The first audit refers to the Alternative Work Arrangements in which we evaluated the adequacy of the processes deployed within the AWA program. We found that the program was successfully implemented and both management and employees embrace the program and reflects a positive impact on the morale with the organization. We noted some minor opportunities to strengthen the oversight effectiveness and employee education.

The second audit that we presented was the CenterPoint User Access audit. With this audit we evaluated the adequacy and effectiveness of user access controls, deployed working CenterPoint modules. The results from our work indicate that there was proactive collaboration with the design and implementation of the controls among all parties. However, the system limitations and the complexity of the article roles and permissions contributed to challenges ineffectively managing user access. We noted that improvements are needed to strengthen controls related to ensuring users are assigned roles with the least coverage necessary to perform the job functions. And the last audit was the Manage Repair Program audit where we noted that management established well defined and thorough processes to support the MRP program.

CHAIRMAN BROWN: Members, any questions of Joe on the overview of the internal audit progress? Joe, do you need a motion on this?

MR. MARTINS: No.

CHAIRMAN BROWN: Okay.

MR. MARTINS: On page 16 we refer to the audits that are currently in progress, which are five audits and three advisories. We have audits of critical IT security control, litigation settlement, targeted payroll analytics, claims mitigation, legal billing, and a payroll audit that is currently in progress. We have three advisories, the first one refers to the responsive vendor review scoring model, the second focuses on the SIU process, and last we are looking at the insurance scoring programs that they are currently developing.

We have two new audits scheduled, that haven't been presented to the Audit Committee, which we will start late Q2, to be completed in Q3. The first one refers to the information classification and handling policy audit and the second one is the audit of our reinsurance recovery processes.

On page 18, we also refer to the control deficiency resolution. And we are currently tracking 19 open observations of which only two are high rated. Both high rated open observations refer to work performed from CenterPoint user access. We believe that all the open items are being worked on and Audit follows up monthly to assess progress within the organization. On page 19, we present the updates and reviews of two Office of Internal Audit policies. The first one is policy 801, the internal audit policy which provides clarity to the organization of relevant internal audit. And then policy 802, which is the open item management policy; our review of both policies indicated changes. These are necessary to align the policies to current practices and none of the changes were material in nature. I recommend that the Audit Committee approve both the internal audit corporate policy 801, and open items policy 802.

CHAIRMAN BROWN: Is there a motion to approve the amendments to policy 801 and policy 802?

GOVERNOR HOLTON: Motion to approve, Jim Holton.

CHAIRMAN BROWN: Is there a second?

GOVERNOR DUNBAR: Second, Marc Dunbar.

CHAIRMAN BROWN: Any nays to the vote? The motion passes.

MR. MARTINS: Thank you. On page 19 we refer to the Internal Control Office, and this office facilitates the roll out of the internal control framework throughout the organization. There are currently 17 processes remaining to be implemented, and we believe that these will be completed by June 30th this year. That will then complete the roll out of the internal control framework throughout Citizens. With this framework we also have annual control self assessments, and the CSA's four completed process reviews are currently in progress and scheduled to be completed by November 30th this year. The internal control's office monitors the completion of the control self assessments and assesses quality of the management reviews being performed.

On page 21, we refer to the Enterprise Risk office. During February we completed the annual executive strategic risk assessment. Four new risks were documented and a total of 17 top risks were identified. A list of those risks has been included within the pack. The four new risks documented refer to the ability to adapt the change in revenue, the Manage Repair program, the market dependence on reinsurance and rate differential. We also have an operational risk management program which is our bottom up program. Here we implemented the Resolver tool and are commencing with risk training to management within the organization. Six inherent risk assessments are remaining to complete the ICS support. A total of 72 residual risk assessments were completed later during the year, and by the end of this year the business unit management should be equipped to manage risks within their process areas, and according to Citizens aligned risk framework. And that completes my presentation.

CHAIRMAN BROWN: Joe, I would ask you to go into a little more detail about how you are handling over the management of the risks for each of these units. I thought it was a really good idea. We talked a little bit prior to the meeting about how the units were doing it and I would love for you to just share, because I thought it was a great idea.

MR. MARTINS: Certainly, I will do that. The Enterprise Risk office's role is to facilitate, enable and monitor. We facilitate a singular risk framework throughout the organization, and with that we are training management to do their own risk assessments and enable them to perform their own risk assessments through the tool that we are providing. The Enterprise Risk Management office monitor how management manages and develops their risk. So, in theory what we have done is we assisted management in developing their first assessments and we facilitated that assessment. Now when we train management, we are handing over those risks to managers. We are training them on the tool to document and monitor the achievement of mitigating action of those risks, and to self-evaluate risks noted within their specific processes. Management will then manage the risks within the environment and the Enterprise Risk office will monitor the work that management is doing and continuously ensure that we apply the risk framework that we have defined and that we have consistency in the process throughout the organization.

CHAIRMAN BROWN: I think it is a great idea.

MR. MARTINS: Thank you.

CHAIRMAN BROWN: Members, any questions of Joe while he is here? Joe, did I forget to get anything approved that you needed approved for the Board meeting for tomorrow?

MR. MARTINS: I think you got everything approved. Thank you.

CHAIRMAN BROWN: Thank you, Joe. I think we have Jennifer Montero coming up. Hi Jennifer, how are you?

MS. MONTERO: I am okay. How are you?

CHAIRMAN BROWN: Great. No complaints.

MS. MONTERO: Thank you.

CHAIRMAN BROWN: Welcome.

MS. MONTERO: Behind tab three you will find the final summaries.

GOVERNOR DUNBAR: And we need Jennifer at a microphone, please.

MS. MONTERO: Sorry. Behind tab three, is that better?

GOVERNOR DUNBAR: Better, thank you.

MS. MONTERO: Thank you. Behind tab three you will find the financial summary and statement of operations for December 31st, 2018, and the quarterly financial update. I am going to summarize the quarterly financial update, but I wanted to point out that these are unaudited financial statements. You will hear from Brian Smith a little while later from Dixon, Hughes, Goodman. He is our external auditor and he will be giving an update on the 2018 audit which is currently still underway. So, despite Hurricane Michael in October of 2018, adjustments to net loss in LAE reserves from Hurricane Irma and continued challenges with non-weather water

losses and assignment of benefits, Citizens will enter the 2019 hurricane season on a strong financial footing. At December 31st, 2018, Citizens held a total cash invested assets of approximately 9.3 billion and reported year-end surplus of 6.2 billion. The 2018 consolidated net loss of 151.4 million included 151.7 million of loss in LAE related to Hurricane Michael, as well as 68.2 million in net development of loss in LAE reserves related to Hurricane Irma. The year-end direct written premium of 868.4 million was three percent less than the prior year. The personal lines account increased less than two percent, while the CLA and the coastal account observed decreases in PIFF of 30 percent and 12 percent respectfully primarily due to commercial book leaving Citizens.

At December 31st, 2018, consolidated direct loss in LAE reserves related to Hurricane Irma were increased by 104.5 million. This increase was largely concentrated in the personal lines account and was driven by increases in projected claim counts, increases in loss severity, increases in LAE severity and overall increases in ULAE costs. The primary data suggests that the increases in loss severity is being driven by increases in inflationary trends due to demand surge, whereby significant increases in cost of labor have been observed. Hurricanes Michael and Irma added 220 million to the 2018 consolidated net loss. The consolidated ultimate direct loss in LAE reserves related to Hurricane Irma were 1.9 billion, of which 697.2 million is recoverable under Citizens' reinsurance contract with both the FHCF and private reinsurers.

Litigation of non-weather water claims continues to impact the personal lines account with historically high litigation rates that remain in the 40 to 50 percent range. Favorable loss development on older water claims was offset by adverse development in the ALAE. Additionally, adverse development on older sink hole claims contributed to an increase in the reported loss in LAE ratio within the personal lines' accounts. The 2018 year-end expense ratio was 24.6 percent as compared to 25.3 percent in 2017. Favorable variances in salaries primarily driven by year over year decreases in head count was the largest driver, 3.6 less than 2017, and five percent below budget. Other items contributing to favorable variances in administrative expense included reductions in depreciation expense due to delays or deferrals in the acquisition of capital assets and reductions in professional services largely due to lower utilization of contingency reserves for enterprise projects, as well as other deferrals and delays of projects. Investment income increased due to reduction in interest expense, as 225 million of bonds matured during 2018, as well as increases in investment returns. This increase was partially offset by realized losses that were taken to liquidate portfolios to make claims payments.

Over the next several months we will be placing the 2019 reinsurance program with the primary goal of protecting policyholder's surplus and continue the elimination of assessments at a one in 100-year event. Our total assets in surplus remain well positioned to meet any potential claims payment obligations. And I will pause there for any questions.

CHAIRMAN BROWN: Members, any questions of Jennifer, please? Hearing none, thank you, Jennifer.

MS. MONTERO: Thank you.

CHAIRMAN BROWN: Appreciate it. For the ethics and compliance report is Nancy Staff. How are you?

MS. STAFF: Good afternoon, my name is Nancy Staff and I am the Director of Ethics and the Compliance officer for Citizens. And I appreciate the opportunity to give you a status report of the ethics and compliance program at Citizens. I was very fortunate to attend an academy this past December that was sponsored by the Society for Corporate Compliance and Ethics. And at that academy there were over 30 hours of live training by some of the best faculty in the country. The academy was one of the 75 attendees and they came from all over. Most were from private companies. While I was learning I was also thinking as I am sitting through this, I should think about how Citizens compares to the industry standard in compliance and ethics. And I am pleased to say, we hold our own. We have a strong compliance and ethics program at Citizens. So, I wanted to give you a status update of that.

First, in order to have a strong compliance and ethics program an entity must promote an organizational culture that encourages ethical conduct. That is straight out of the sentencing guideline which is a bedrock of compliance and ethics programs in the United States. And how do we do that at Citizens? First and foremost, we have a code of ethics. Our code of ethics, you are all familiar with. We recently amended it last September to include the lobbyist registration required policy. It is a living, breathing document. We house it on our internal website, as well as our external website for the public. It includes a conflict of interest policy which was adopted by the Board of Governors in March of 2015, as well as standards of conduct for our employees. So that is the first and most important I believe component of our promoting ethical culture. We have an accessible ethics officer, at least I hope she is accessible, that is me. I provide ongoing ethics education as needed. I meet with new leaders in a new leader training every year. I mean, every time it is offered, we have an ethics component. I answered over 200 inquiries last year, and there was an Ask Ethics e-mail box. So, employees can write their questions and send it to Ask Ethics if they would rather do that, or they can always call or walk in. Something that I am very proud of which I think is a gem at Citizens, is that we have an annual no conflicts of interest attestation every year. This is statutorily required. And just to refresh your recollection, every July 1, every employee at Citizens must attest that they do not have a conflict of interest with their personal life and their employment at Citizens. So how do we implement this? We roll out an online course which gives folks information about what is likely to cause a conflict of interest. Conflicts of interest is not intuitive. It needs to be taught. So, I created the course so that I could identify indicators. And if someone has some of these indicators as they are going through, they can immediately stop and send an e-mail. They just type it out and it comes straight to the ask ethics e-mail box. I respond to them, work with them to either allay their concerns or to figure out a mitigation strategy so they can safely attest that they do not have a conflict of interest and then the course is reloaded. It is an interactive course. We also gauge and measure our ethical culture. We have an ethics survey that we administer every two years. The last survey was administered this past November. It is completely anonymous. It is not tied to individual IP addresses. I ask the employees to self identify their division and their geographical location. We had a 75 percent response rate in November, which is an excellent response rate and it is 10 percent higher than our response rate in 2016. I am still working through all the responses, but I put some highlights in here for you.

I am particularly pleased with senior leaders and the clear message about the importance of Citizens' ethical standards. There was 88 percent of our employees either agreed or strongly agreed with that statement. There is a mistake in the written material. The favorable responses are agree or strongly agree. And, I believe my manager lives up to Citizens' ethical values, 92 percent of our employees. Remember this is a completely anonymous survey. So that is how we set up our ethical culture and just some highlights of that. There are seven infrastructure elements that have been identified in order to have a successful ethics and compliance program. And the

first is having a compliance officer and committee oversight. This Audit Committee is the oversight and that is one of the reasons that I am here today, and I have presented previously to the Audit Committee and I will continue to do so. And also I present to the Risk Steering Committee, and that is an executive level committee which is composed of five of our executive leaders at Citizens and I report regularly to that committee.

And I want to bring up one other committee which isn't an oversight committee, but it is a peer committee. We have a committee of compliance champions. We call them the compliance champion network. They are composed of 16 compliance champions who are located throughout Citizens. They're business unit employees at a managerial level or higher who understand the processes within their business. Because of this they can provide advice and feedback on compliance issues. We have policies and procedures of course which are a very important element of a successful compliance program. We have 47 corporate policies, including the code of ethics that I spoke about earlier. They are clearly written, they are understandable, they are living documents. One of my roles as the ethics and compliance officer is to make sure before a corporate policy is posted on our internal website, that it is correct, and all the approvals have been obtained. It then becomes, thanks to our communications department who has done a great job with our internal website, it is the sole source document.

So, everyone if they're trying to find the code of ethics for example you link back to that sole source. It provides consistency. And I am happy to say that over half of our policies have been updated or amended in the last two years. Education and training are the third element that is necessary. We have quite a bit of compliance education at Citizens. It is coordinated by the learning and development unit within Human Resources. It includes online and in person training. They do a fantastic job. Also, our new managers and supervisors take a live training which is a classroom training that covers most of the mandated compliance topics. Monitoring and auditing, that is probably the very first element that ever existed. And clearly we check all the boxes here. We have an Office of Internal Auditor, you just heard him speak. We also have an independent Inspector General who has the ability and resources to audit if necessary. We are very well covered there. And in the monitoring area we do have a best practice. It was noted as a best practice at this academy that I attended in front of everyone which was kind of nice, and that deals with the compliance champion network and how we every year certify compliance with all the laws, rules and regulations that apply to Citizens. We use our compliance champions to certify compliance, to document adherence and to communicate with each other. And we are going to be working on our third certification in 2019. Reporting, investigating and conducting criminal background checks is a very important part. We are very, very fortunate to have an independent Inspector General at Citizens. They can conduct accurate, fact investigations without any undue pressure. We do require criminal background checks on all our new employees, and we require our current employees to disclose arrests and convictions. That was one of the changes we made to our code of ethics last September 1st. Enforcement, we have effective enforcement and discipline at Citizens. We hold our employees accountable. We have a corrective action policy which is a corporate policy. It is administered by Human Resources and we take discipline when discipline is required.

And finally, and this is the area in the compliance and ethics world that is evolving the fastest. I guess it is sort of the exciting new part that everyone is working on, response and prevention. And that means simply that if something occurs somewhere you fix the problem, maybe discipline the employee, but you also kind of look at it to make sure this doesn't happen again. You need to put some controls in place. You need to improve your process. I think that we have some great areas already in place to continue to build on this. One is the triage composition. If folks make a

complaint to Citizens, we have an anonymous hotline called Tell Citizens. It comes into the Inspector General's office and they review it. Normally they convene the triage, the Inspector General convenes the triage to decide what is the best way to handle that complaint. The triage consists of myself, the Chief of Internal Audit, the Inspector General and the Director of Shared Services in Human Resources. So, the four of us represent different areas of the company and different compliance. We are different compliance actors so to speak. We can help determine the best way to handle the complaint as well as whether there needs to be any remediation. And also of course, the Inspector General and the Office of the Internal Auditor, they have their own procedures to make sure that folks follow up with their recommendations. And the fact that I work or I help to coordinate the corporate policy process also adds to that because I can get the ball rolling if it needs to be. So, as you can see, we have a small ethics and compliance office. It consist of myself and Chuck Bowen who is the privacy officer and he is also an lawyer, but we have a very big ethics and compliance program at Citizens which is owned and implemented by many and we work collaboratively and collegially to ensure an ethical and compliance driven culture at Citizens.

CHAIRMAN BROWN: I think a lot of it is your lovely positive attitude and enthusiasm I have to say.

MS. STAFF: Thank you, thank you.

CHAIRMAN BROWN: Members, any questions of Nancy? She gave a comprehensive report on a subject that sometimes can be boring, but you did not make it boring. And there are two questions I have for you. So, I don't remember ever signing, and if I have, I was not paying attention, a conflict of interest attestation as a Board member.

MS. STAFF: Board members are not required to do this. Only Citizens' employees.

CHAIRMAN BROWN: I got that, but I would suggest we look into that. Several other Boards I sit on; I sign conflict of interest forms.

MS. STAFF: Okay.

CHAIRMAN BROWN: We should probably look at that. Just a comment from me. Also, I wanted to compliment you on those 16 compliance champions. It kind of sounds a little bit like what Joe is doing in his area. And again, no offense, audit and compliance are just not the most exciting areas, but they are so, so important, so, so necessary to bring those people from each division as a part of it, as Joe is doing and you are doing, I think it is great. I compliment you on that idea. I think it is wonderful.

MS. STAFF: Thank you very much.

CHAIRMAN BROWN: I really do, and I don't mean to -- I love audit, I love compliance, but you have to love it, right.

MS. STAFF: Right, right. I mean, I think it is fun.

CHAIRMAN BROWN: I know, I can tell. If there are no other questions of Nancy, thank you very much.

GOVERNOR DUNBAR: Madam Chair, this is Marc Dunbar. I have a couple if that is okay.

CHAIRMAN BROWN: Sure.

GOVERNOR DUNBAR: The first thing I will say here is you are subject to the Ethics Commission. When you went on the Board you had the privilege of signing one related to the Florida Ethics Commission that is probably that and then some as it relates to what you are required ethically to do from a conflict standpoint. Nancy, actually without belaboring the committee, because it is not really committee discussions, can you just plan next week to reach out to me, because I have a series of things I want to chat with you about and I don't want to burden the committee, but if you could, that would be great.

MS. STAFF: Oh sure.

GOVERNOR DUNBAR: Okay, thanks, appreciate it. I will hold my questions until then, Chair. Thanks.

CHAIRMAN BROWN: Any other comments from anyone? Thank you, Nancy.

MS. STAFF: Thank you.

CHAIRMAN BROWN: I think we have -- do we have Brian Smith here from Dixon, Hughes? Hi Brian.

MR. SMITH: Good afternoon.

CHAIRMAN BROWN: And Matt.

MR. SMITH: Matt is not able to join. It is just me today.

CHAIRMAN BROWN: That is fine.

MR. SMITH: Our update will be very brief today. We are in the middle of our interim testing procedures and starting field work here in the month of April. We want to report where we are in our status. We completed our interim field work in December in Tallahassee, as well as of ITFF in Jacksonville in January. I am pleased to report no findings or items that need to be communicated to the Audit Committee today. We are on track to complete our audit by May 17th, that is our goal for issuance. We will be in the field two weeks from yesterday. We will be in the field for four weeks in Tallahassee. The most significant item we are looking to complete is testing of loss reserves. We have engaged Merlinos & Associates as our third-party actuary again this year and they're in process working with Brian Donovan and the actuarial team to assess the loss reserves. As far as overall status, we are on track. Nothing to report. That would be the findings as of today.

CHAIRMAN BROWN: Great. Members, any questions of Brian Smith who has just given us a quick update of where they are in the audit process? Okay, thank you much.

MR. SMITH: Thank you.

CHAIRMAN BROWN: We have for informational purposes complaint management statistics in the back of the book for your reading pleasure. Nothing really outstanding there.

Is there any new business to come before the Audit Committee? If there is no business, I will entertain a motion to adjourn.

GOVERNOR DUNBAR: So, moved.

CHAIRMAN BROWN: Is there a second?

GOVERNOR HOLTON: Second.

CHAIRMAN BROWN: We are adjourned, thank you.

DRAFT