

ACTION ITEM

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Audit Committee Meeting, June 3, 2020

CONTRACT ID	Audit Committee Meeting Minutes March 24, 2020
BUDGETED ITEM	N/A
CONTRACT AMOUNT	N/A
PURPOSE / SCOPE	Review of the March 24, 2020 Audit Committee Meeting Minutes to provide opportunity for corrections and historical accuracy.
CONTRACT TERM(S)	N/A
PROCUREMENT METHOD	N/A
RECOMMENDATION	Staff recommends the Audit Committee review and approve the March 24, 2020 Audit Committee Meeting minutes.
CONTACTS	Joe Martins, Chief of Internal Audit

**CITIZENS PROPERTY INSURANCE CORPORATION
TRANSCRIPT OF THE MINUTES OF THE AUDIT COMMITTEE MEETING
HELD TUESDAY MARCH 24, 2020**

The Audit Committee of Citizens Property Insurance Corporation ("Citizens") was convened telephonically at 3:00 pm on Tuesday March 24, 2020.

The following members of the Audit Committee were present:

Chairman Marc Dunbar
Governor Bette Brown
Governor Jim Holton

The following members of the Board were present:

Bo Rivard
Blake Capps
Carlos Lopez Cantera

The following Citizens Staff were present:

Jay Adams	Eric Addison
Christine Ashburn	Steve Bitar
Violet Bloom	Jennifer Dilmore
John Fox	Deena Harrison
Bonnie Gilliland	Barry Gilway
Mark Kagy	Joe Martins
Jennifer Montero	Nancy Staff
Dan Sumner	Barbara Walker
Steven Woods	

The following were also present:

Brian Smith, Dixon Hughes Goodman
Mike Deas, Dixon Hughes Goodman
Kapil Bhatia, Raymond Jones

Call Meeting to order

Barbara Walker: Good afternoon, and welcome to citizens March 24th, 2020 Audit Committee meeting. It is publicly noticed in the Florida Administrative Register and recorded with transcribed Minutes available at our website. For procedural clarification, please state your name before speaking. If the call drops, we will try to immediately reestablish the call. Please dial back in if the call is dropped. Please do not place this call on hold. Press star 6 to mute your line and pound 6 to unmute your line. Also please note that the Florida Channel will be recording Citizens' Audit, Finance Investment, and Board of Governors' meeting today and tomorrow.

Chairman, may I convene with roll call?

Chairman Dunbar: Yes, please go ahead and presume roll call.

Barbara Walker: Governor Brown.

Governor Brown: Here.

Barbara Walker: Governor Holton.

Governor Holton: Here.

Barbara Walker: Chairman, you have a quorum.

Chairman Dunbar: Thank you. I will go ahead and take a motion now to approve the Minutes from the December 10th meeting.

Governor Brown: Bette Brown, move to approve.

Governor Holton: Jim Holton, move to approve.

Chairman Dunbar: All right, without objection show that motion adopted, and the Minutes approved. Let's go ahead to John Fox and Deena Harrison with a report from the Office of Internal Auditor.

John Fox: Thank you very much, Governor Dunbar. For the record, my name is John Fox, and I am the director for Internal Audit for Citizens. First, I am going to walk you through our internal audit progress. I am starting on page 1 of the Executive Summary which covers page 1 and 2 of the dashboard. We have completed five engagements since the last committee meeting in December, and we have 11 engagements currently underway. I am going to summarize the work at a high level. We were engaged by Underwriting Management to perform an Automated Underwriting Advisory and project support, and this was related to the controls associated with the streamlining of the automated underwriting back end review process for new business applications. And really the purpose of this streamlining is to improve loss frequency, ensure critical rating variables are accurate and positively impact expenses. We concluded that the process changes implemented align with underwriting regulatory requirements, and that there were adequate monitoring and validation procedures that were going to be implemented. Next, we performed an audit of Claims Litigation and Legal Billing, and the essence of this audit was really to evaluate the effectiveness of processes and controls in place to monitor and manage claims legal expenses. The Claims and Legal Billing departments have made improvements to address caseload and legal defense counsel expenses. Most notably, claims litigation implemented a formal litigation budget approval process detailing projected cost by case. In addition, they are piloting video trial prep sessions to reduce travel and related expenses, and the claims legal team provided ample case legal support to the claims process. We did identify an opportunity to strengthen oversight by the addition of monthly and annual aggregate defense counsel billing monitoring the reporting which will provide a more holistic insight into defense counsel's aggregate billing practices and help identify any potential billing anomalies.

Next, we performed a Cloud Readiness Audit which the objection is to assess the current state of Citizens' cloud readiness to ensure the protection of Citizens' and customer information, and to avoid or minimize business disruptions as additional cloud services are implemented. The audit focused on key characteristics of a well-designed cloud adoption program. A result of our work showed overall good alignment between Citizens' cloud program and accepted practices.

Moving on to internal audit work in progress which is on pages 3 to 5 of the dashboard, we have 11 engagements in progress. We have the Agency Management System implementation on Assignment of Benefit audit, our Background Checks advisory, E-disbursements advisory, Identity and Access Management advisory, Proof of Repairs audit, Remittance Processing audit, Software Asset Management advisory, a Third-Party Access audit, a Third-party Risk Management audit, and then a Wire Transfer and ACH audit. We have six audit engagements planned to commence during the second quarter of 2020, which are on pages 5 and 6 of the dashboard. The first one is a Centerpoint Configuration audit; also, a Co-employment audit, a Policy Claims Experience audit, a Microsoft Teams Cloud Implementation project, Office of Foreign Asset Controls audit, and then lastly, the Service Organization Controls audit.

With regards to control deficiency resolution, which is on page 6 of the dashboard, Internal Audit is tracking three open observations, none of which are high impact. All open items are being worked on and audit follows up with them on a monthly basis. If there are no questions, that concludes my report and I will turn it over to Deena.

Chairman Dunbar: Are there any questions? All right, Deena, you can go ahead and proceed, thank you.

Deena Harrison: Thank you, Governor Dunbar. Good afternoon. For the record, my name is Deena Harrison, Director of Risk and Controls. My first update is for internal controls on page 4 of the Executive Summary which covers pages 7 and 8 of the dashboard. The internal controls team facilitates Citizens' internal control framework which is designed to strengthen the governance oversight and accountability of Citizens' control environment. During the fourth quarter of 2019, the multi-year project to roll out Citizens' internal control framework was successfully completed. The internal controls team recently hosted events in Jacksonville and Tallahassee to celebrate the launch of the framework and to show appreciation for the support from the business area and the success of this initiative. Management performs annual control soft assessment to evaluate the overall operating effectiveness of their primary controls. A total of 126 primary controls have been identified and documented. Results from the completed 2019 control self-assessment indicate control design efficiency and control operational effectiveness for 81 percent, with minor control design improvements noted for 19 percent. The 2020 annual control self-assessment commenced in the first quarter.

My next update is for Enterprise Risk which is on pages 5 and 6 of Executive Summary and pages 9 and 10 of the dashboard. Enterprise Risk is focused on creating and maintaining a collaborative and engaging risk identification and assessment environment across the organization. As of February 2020, a total of 457 operational risks have been documented for over 70 business processes. Quarterly Enterprise Risk works closely with the risk owners to ensure existing risks and mitigating activities are reviewed and updated. Citizens continues to closely monitor the emerging risks of the Coronavirus COVID-19. Business continuity plans are in place and have been executed as necessary. During the first quarter, Enterprise Risk facilitated the completion of the 2020 strategic risk assessment with the Executive Leadership Team. A total of 17 strategic risks were identified. The specific risks and ratings are listed in appendix one and you can find the detailed appendix on pages 11 and 12 of the dashboard. Brief descriptions of the risks are included in appendix two on pages 5 and 6 of the executive summary or pages 13 and 14 of the dashboard. Today we will provide a high-level overview of the first four strategic risks listed in appendix one of the dashboard. As we review the four risks, I will provide a brief description to

provide context to the topics followed by the risk statement. Summaries of current and future mitigation activities will be developed beginning in March.

The first risk we will cover is rate differential. Citizens complies with the legislative glide path that caps rate increases at 10 percent excluding coverage changes and surcharges. As rate increases incur in the private market, the rate differential will continue to grow leaving Citizens with more competitive lower premiums resulting in repopulation. And the risk statement is: *"Citizens' competitive position in the market may be impacted by the combination of a statutory rate glide path of 10 percent, increasing litigation and improve rate increases for other Florida insurers leading to repopulation."*

The next risk is claims abuse. Citizens is committed to fighting property insurance fraud, waste and abuse as an integral part of our mission to serve the people of Florida. Citizens continually assesses and pursues opportunities to mitigate the potential for fraud, waste or abuse. And our risk statement is: *"Failure to identify and stay in front of claims abuse schemes that increase litigation costs for Citizens."*

The third risk is external influences. Financial instability in the property insurance market has a direct impact on Citizens as our mission is to provide insurance protection to Florida policyholders who are entitled, but are unable, to find property insurance coverage in the private market. The risk statement is: *"Uncertainty related to external events, including new or changing laws and regulations and changing market conditions that require rapid adjustment where Citizens' missions and operations are disrupted resulting in a potentially significant financial impact."*

And the fourth risk is the litigation management system. Claims litigation and claims legal services currently utilize the acuity system to manage a large volume of claims related litigation. In 2020 plans are to procure a litigation management system for use by both internal and external stakeholders to more effectively manage litigated claims and associated litigation billing. Separate interfaces and permissions are required for internal claims and legal staff and external counsel to provide a secure environment that both parties can access to collaborate on the handling of litigated claims, as well as the integration with an outside billing counsel system to allow for submission and review of electronic legal invoices. And the risk statement is: *"The outcome of the solicitation of the mission critical litigation management system which is required to effectively manage litigation cases may result in data conversion challenges and significantly impact internal and external resources."* This concludes our report if there are no questions. Thank you.

Chairman Dunbar: Are there any questions?

Governor Brown: No questions.

Chairman Dunbar: Thanks a lot.

Deena Harrison: Thank you.

Chairman Dunbar: All right, let's move on to I think the next agenda item which is Jennifer with our CFO report.

Jennifer Montero: Good afternoon Mr. Chairman, Governors. For the record, I am Jennifer Montero, Citizens' Chief Financial Officer. For your reference the materials I will discussing are located behind tab three in your books, the document titled, 4Q 2019 Results of Operations and Financial Position, provides an overview of Citizens' unaudited financial position, including cash flows, invested assets and surplus, as well as the operation results for the fiscal year ending December 31st, 2019. The document titled 4Q 2019 Results of Operations and Financial Position Commentary, provides commentary discussion and analysis of those operating results and financial position. I will be providing a summary of information contained within the commentary document which I believe is document 3-C if you are following along electronically. At December 31st, 2019, Citizens held consolidated cash and invested assets of 8.9 billion, a decline of 373 million from the prior year. A majority of the reduction in cash invested assets was due to repayments of principle on Citizens' outstanding pre-event bonds. Consolidated surplus at December 31st was 6.3 billion or 87 million more than the prior year and was largely driven by consolidated 2019 net income of approximately the same amount. Consolidated direct written premium at year end was 876.6 million, which was substantially unchanged from the prior year, less than a one percent increase. The 8.1 million increase is a result of an increase in policies in force within the personal lines account mostly due to Florida Specialty that outpaced the decrease in commercial lines policies both within the commercial lines account and the coastal accounts. Pre-ceded through reinsurance arrangements total 228.2 million or 6.3 million less than 2018. The decline in reinsurance premium ceded was largely driven by declines in premium ceded to the FHCF partially offset by an increase in premiums through traditional reinsurance arrangements with the placement of coverage in the personal lines account. As of December 31st, 2019, consolidated ultimate direct losses in LAE related to Hurricane Irma were 2.16 billion marking a 125.6 million increase relative to September 30th. Of the 2.16 billion in losses in LAE, 879.8 million is recoverable under Citizens' reinsurance with both the FHCF and private reinsurers. The majority of the development that occurred during the fourth quarter occurred within the personal lines account and resulted from an increase in claims count and loss severity, particularly within the southeast region of the state. Ultimate losses and loss adjustment expenses related to Hurricane Michael were 149.9 million, which reflects a \$1.8 million decrease from 2018. There were no reinsurance recoverables associated with Hurricane Michael as the loss in LAE attachment levels were not met. Current accident year loss in LAE unrelated to sink holes and hurricanes did not experience meaningful variances from prior accident years, and development of the prior accident year losses in LAE was minimal. Although litigated non-weather water claims continue to be a dominant driver of loss in LAE activity within the personal lines account, litigation rates for accident years 2018 and '19 continue to show improvement in comparison to accident years 2014 through 2017. Within the commercial lines account volatility and older sink hole claims continue to contribute to material variances in reported loss in LAE ratios, while loss in LAE development within the CLA are less significant to the accident years to which they relate, the diminishing size of the overall commercial lines book of business leaves it more susceptible to material swings in the loss in LAE ratio as a result of development in prior accident years when the commercial lines book was considerably larger.

The reported loss ratio for 2019 was driven by favorable development on outstanding loss reserves for older sink hole claims where the current accident year loss ratio was driven by a single hole claim for a loss that occurred in 2019. Administrative expenses incurred during 2019 of 124 million were 2.2 million less than the prior year and 14 million less than budgeted. Variances and contingent staffing were primarily due to lower than anticipated need for independent adjusters that were engaged in response to Hurricanes Irma and Michael, as well as a higher than anticipated number of claims entering mediation. We ended 2019 with an expense

ratio of 24.3 percent which reflects .3 percent decrease from 2018, and a 2.3 percent decrease compared to budget. Total investment income in 2019 was 232.5 million which is 34.7 million greater than 2018 despite a seven percent decline in total average invested assets during 2019. The increases in investment income were driven by significant reductions and realized losses partially offset by 12.3 million in realized losses arising from the disposition of certain legacy assets and increased yields persisting from investing in a higher interest rate environment. Over the next several months we will be placing our 2020 reinsurance program with the primary goals of protecting policyholder surplus and continue the elimination of assessments at a one in 100-year storm level. Our total assets in surplus remain well positioned to meet any potential claim payment obligation. And if there are no questions, that concludes my report.

Chairman Dunbar: Are there any questions for Jennifer? Thank you, Jennifer.

Jennifer Montero: Thank you.

Chairman Dunbar: With that, let's go ahead and move on to the next item.

Brian Smith: Good afternoon, this is Brian Smith from Dixon, Hughes, Goodman. Also, on the phone with me is Mike Deas, one of our managers serving the Citizens audit engagement. The purpose of our time today is to provide the Audit Committee with a status update of our 2019 audit of Citizens. As of today, we are substantially completed with our interim auditing and IT procedures. We spent the month of December and early 2020 in Tallahassee and in Jacksonville on-site, performing our procedures. We are pleased to report as of today we have no significant or material findings to report to the committee. We are scheduled to begin our audit procedures for the year end December results the week of April 6th, which we will continue six consecutive weeks to complete our procedures with the intent and goal of filing and issuing our opinion the week of May 15th. We do want to communicate to the committee, we are responding to Citizens' procurement response to the COVID-19 pandemic along with DHG's response and plans. We plan to work remotely and virtually to complete our procedures here in the month of April and May, and with having visited Tallahassee and Jacksonville on-site with management during our interim procedures, along with scheduling several meetings with management through the pandemic, we believe the goal of completing these procedures virtually is achievable and we are on track to complete the week of May 15th. That completes our update. Want to take any questions should you have any.

Chairman Dunbar: Any questions? Okay. Let's go on to Mark Kagy with the *Tell Citizens* hotline update.

Mark Kagy: Good afternoon. For the record, my name is Mark Kagy, I am Citizens' acting Inspector General. A little bit about *Tell Citizens*, it is a complaint reporting hotline and website. It is operated by Navex which is a third-party vendor and it is administered by the Office of Inspector General. So, all complaints come directly to me. Complainants have the opportunity to provide information in a named manner or they can remain anonymous as well. At Chairman Dunbar's request during the last Audit Committee meeting, the OIG completed a 2020 plan to raise the profile of Citizens, *Tell Citizens hotline*, both internally and externally. Beginning on slide one behind tab five, how do employees know about *Tell Citizens*? Currently there are multiple mandatory trainings that employees are made aware of, *Tell Citizens* and the Office of Inspector General. We also have an internal IG web portal page that provides information about what it is

that we do and how we do it. I provide multiple presentations throughout the corporation about the role of the Inspector General's Office, as well as *Tell Citizens*, and each employee upon coming on board you see is not given just a name ID badge, but also a card that goes along with that badge that has information from -- about *Tell Citizens* and reporting. On to slide two, I thought this was interesting. Every two years the Citizens' ethics office conducts a survey that is designed to try to gauge the ethical culture of the corporation. 75 percent of employees responded to the survey. That is a pretty high mark. And of those 75 percent, 93 percent answered either strongly agree or agreed with the following statement.

I am aware that Tell Citizens reporting program is available to Citizens' employees to report employee misconduct, including violations of the Code of Ethics. I think this is a pretty high bar. I think this shows that current employees at a minimum they are aware of the ways to report concerns or provide complaints.

Moving to slide three. We wanted to identify who we needed to reach in this effort. We needed to reach both internal and external stakeholders. Our internal folks, obviously, employees, supervisors, managers and above. Externally we want to reach our vendors, our vendor staff and policyholders and members of the public. I want to draw your attention to slide four. There is an image there on slide four which is a screen capture of the internal portal page that all Citizens employees see when they open their browser. This page is the access point for all of Citizens' critical systems. This is basically the starting point for any employee when they begin doing their work. And on this starting page what you see there circled in red is complaints. This is yet to be added but will be added in quarter two. And this will provide a link to a landing page that all employees can access, and they can see information about *Tell Citizens*. They can see information about the Office of Inspector General and what complaints are reviewed and how those complaints are handled. So, employees should look for that addition by the end of quarter two. Moving on to slide five, to continue some of the things that we have been doing and to outline a few of our future goals with our employee awareness, we are going to add some digital signage around Citizens. On that first page that you saw with our portal page, we often have a leader's corner article or a team spotlight article. We do have a *Tell Citizens* article that we are going to place there in the next few weeks. It should run for about three weeks. It will provide information on what *Tell Citizens* is, what the Office of Inspector General is and how to file a complaint. That will be there for all employees to see for an extended period. We are also going to produce distribution materials. These are posters, brochures, table tents, things that we can place throughout the buildings in Citizens' work locations that highlight what *Tell Citizens* is and the need to report matters and complaints to *Tell Citizens.com* or on a hotline. Promotional items, this is our attempt to place items kind of at the actual work site of each of the employees. These are smaller items in nature, pens, pencils, papers, notepads, you know, stress squeezy balls, things like that, that will be emblazoned with the phrase, *Tell Citizens* and the hotline number. This will provide a daily reminder in front of the staff members that they can see throughout their workday. If there are concerns, this will kind of be that daily reminder at the work location. We have already begun the process of reviewing all the mandatory employee and supervisor trainings that go on at Citizens. We have updated each one of those trainings, where it is appropriate to talk about what *Tell Citizens* is and what the role of the IG's office is. And we wanted to make sure that our messaging in each one of those different trainings was consistent. I think there are four different trainings that we have updated with our information there. Presentations, as I said before, I am constantly moving throughout the corporation to meet with different business units and different staff members to talk about the role of the Office of Inspector General and the importance of *Tell*

Citizens. Those will continue. We are going to locate a few other areas that might be a little more, maybe a little bit more unique, a little bit different. It is like the Citizens Health Fair, providing brochures during that time in some of those areas where we can get in front of a large group of people that may not be necessarily what someone would expect to see when they show up at a health fair. And then lastly there, managers, supervisors. Our human resource department at Citizens has developed a lot of leadership ideas and trainings and classes and we are working with them to try to get in front of the appropriate groups to talk about the IG's Office and *Tell Citizens*.

Moving to slide six, similarly to what we talked about with the internal web portal page, this is an image here of the external website that we are planning to add a complaint section with a landing page there similar to the internal website there on the external website, along with an external OIG web page so that people can access our information that way. Moving to page 7, the vendors and vendor staff use Citizens' website quite extensively. There is a lot of information on Citizens' website out there that is directed towards vendor and vendor employees. We are working with our Vendor Management Office at Citizens to try to find appropriate places to add this contact card that you see on the bottom right corner. So as our vendors are researching contracts or learning about how to apply for procurements or participate that way, they can see that there is an Office of Inspector General and they can click there and find out more information about how to report any information that they may need to do so. We are also considering the creation of distribution materials so that our vendors can place in their work locations to advise their vendor staff members of the existence of the Office of Inspector General and *Tell Citizens.com*. So those will be the printed materials that they could put on their H. R. boards and things like that. Moving on to slide eight, moving forward what we plan to do, I don't think it is necessarily appropriate each year to do a *Tell Citizens* kind of a push, but this is certainly something we could do every so often, every few years. But annually we do want to continue to do what we have been doing. This includes updating the trainings, making sure that they have all the correct information, sending information to our vendors, letting them know of our existence and the existence of *Tell Citizens* and producing internal website articles, and then also external website contents where appropriate and continue with our presentations during Citizens' trainings and events. So that is our effort. I think most Citizens' employees will start to see some of this going into effect towards the end of quarter two is my anticipation. With that, are there any questions to our presentation?

Chairman Dunbar: Any questions, members, any questions? Thanks a lot, Mark, I appreciate everything you did on that. I know we had a lot of discussions about how to raise the profile for *Tell Citizens*, particularly as it relates to public basing side of it. I appreciate everything that you have done and now your staff.

Mark Kagy: Absolutely, thank you.

Chairman Dunbar: Does anybody have any new business to bring before the committee? Okay, on that I will take a motion to adjourn.

Governor Brown: Move to adjourn.