

ACTION ITEM

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Audit Committee Meeting, September 22, 2020
Board of Governors Meeting, September 23, 2020

- Contract – New Committee or Board Minutes
 Contract – Amendment of Contract Terms Product Changes
 Contract – Additional Spend Other _____

Contract ID	Audit Committee Meeting Minutes June 3, 2020
Budgeted Item	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No – N/A
Procurement Method	N/A
Contract Amount	N/A
Contract Term(s)	N/A
Purpose/Scope	Review of the June 3, 2020 Audit Committee Meeting Minutes to provide opportunity for corrections and historical accuracy.
Recommendation	Staff recommends the review and approval of the June 3, 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 TELEPHONICALLY WEDNESDAY JUNE 3, 2020**

The Audit Committee of Citizens Property Insurance Corporation (“Citizens”) was convened telephonically at 10:00am on Wednesday June 3, 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:

Blake Capps

The following Citizens Staff were present:

Jay Adams	Christine Ashburn
Violet Bloom	Kelly Booten
Jennifer Dilmore	Brian Donovan
John Fox	Deena Harrison
Bonnie Gilliland	Barry Gilway
Mark Kagy	Joe Martins
Jennifer Montero	Jeremy Pope
Nancy Staff	Dan Sumner
Betty Veal	Barbara Walker

The following were also present:

Brian Smith, Dixon Hughes Goodman
Mike Deas, Dixon Hughes Goodman
Matt Church, Dixon Hughes Goodman
Dave Newell
Kevin Stokes

Call Meeting to order

Barbara Walker: Good morning and welcome to the June 3rd, 2020 Audit Committee meeting that is noticed in the Florida Administrative Register, and we will convene momentarily with roll call. If you are not speaking on today's call, please press star 6 to mute your line and pound 6 to unmute your line. We ask that you do not place this call on hold. Citizens' Board and committee meeting recordings are recorded and transcribed and available at our website. Thank you. Chairman, may I convene with roll call?

Chairman Dunbar: Yes, Barbara, please proceed.

Barbara Walker: Chairman Dunbar.

Chairman Dunbar: Here.

Barbara Walker: Governor Brown.

Governor Brown: Here.

Barbara Walker: Governor Holton.

Governor Holton: Here.

Barbara Walker: And just for the record, staff, do we have Joe Martins?

Joe Martins: Here.

Barbara Walker: Jennifer Montero.

Jennifer Montero: Here.

Barbara Walker: Barry Gilway.

Barry Gilway: Here.

Barbara Walker: Dan Sumner.

Dan Sumner: Here.

Barbara Walker: Nancy Staff.

Nancy Staff: Here.

Barbara Walker: And I believe I heard speaking on the agenda, Brian Smith.

Brian Smith: Here.

Barbara Walker: Mike Deas.

Mike Deas: Here.

Barbara Walker: And Matt Church.

Matt Church: Here.

Barbara Walker: Chairman, you have a quorum and your speakers are on the line.

Chairman Dunbar: Great, thank you, Barbara, I appreciate it. Good morning all. Thanks again for all your hard work to get us ready for this committee meeting. I guess the first item of business is to approve the Minutes, and subject to a couple of corrections that I sent to Barbara this morning, I will entertain a motion to approve the Minutes.

Governor Brown: Move to approve.

Governor Holton: Move to approve. Second.

Chairman Dunbar: All right, without objection, let's show that approved. Let's go ahead now and go to tab two, and Joe, you have the floor.

Joe Martins: Thank you, Mr. Chairman. Good morning Governors. For the record my name is Joe Martins, Chief of Internal Audit. I would like to refer you to section 2A, tab 2A of the documents. First, I am going to walk you through our internal audit progress, and summarize the work

completed at a high level. On page 1 of the Executive Summary we indicate that 43 percent or 13 of the projects scheduled for the period January 1 to December 31 have been completed. Since the previous meeting we completed seven engagements, including an audit of the effectiveness of the Assignment of Benefits Implementation. The objective of this audit was to assess the readiness, adequacy and efficiency of processes and ensure the program is effective. Our work indicated the appropriate processes were implemented to manage AOB receipts to ensure consistent processing in overall handling. Process improvement opportunities were also noted and shared with management.

Continuing to page 2, I refer to the Microsoft Teams Cloud Implementation project advisory. We, together with Enterprise Risk, facilitated the project risk assessment to ensure relevant risks are identified and are advised and managed. We further evaluated IT security governance and compliance processes implemented, participated in user acceptance testing, and provided control recommendations where needed. With the Proof of Repair Audit, we evaluated the adequacy and effectiveness of controls implemented for the receipt of proof of repair for Hurricanes Irma and Michael claims. Focusing on timeliness and adequacy of agent and policy notification documentation, renewal eligibility on the non-renewal process, we concluded that there are adequate and effective processes and controls in place. Through the Remittance Processing we evaluated the adequacy of processes implemented and noted that adequate controls are in place relating to the authorization of premium refunds and suspense disbursements: completeness and accuracy of premium payments received from policy office and adequate system controls surrounding premiums paid on behalf of agents. On the Software Asset Management program enhancement project, we provided advice which included a benchmark analysis of the Software Use Policy, Software Asset Management Committee Charter, comparative leading practice standards, maturity models and a checklist that includes third-party software audit preparation, notification and process details. We were also engaged by the Office of the Inspector General to provide audit support on two of the claims' investigations. Results of the audits were shared with the Office and included in their investigation results.

Moving on to the internal audit work in progress, which is on pages 3 through 5 of the Executive Summary, we have 10 engagements in progress. We have the Agency Management System Implementation advisory. We have a review of the Centerpoint Role Redesign implementation project, and advisory support on the Background Checks Initiative, the E-disbursement Project advisory, the Identity and Access Management advisory, Policyholder Claims Experience audit, Service Organization Controls audit, Third-Party Access audit, Third-Party Risk Assessment Management audit and the Wire Transfer and ACH audit.

Work planned to commence during the third quarter of 2020 which is on pages 4 and 5 of the summary includes a Centerpoint Configuration audit, Co-employment audit, Office of Foreign Assets Controls audit, and lastly we will be coordinating support to both the Auditor General staff and the Office of Insurance Regulation for their regulatory reviews.

With regards to control deficiency resolution, which is on page 6 of the Executive Summary, Internal Audit is tracking two open observations, neither of which are of high impact. All open items are being worked on and audit follows up on monthly progress. That concludes the internal audit feedback.

I continue with an update of progress for the Internal Controls team. The team facilitates Citizens' internal control framework which is designed to strengthen the governance, oversight and

accountability of Citizens' control environment. During this period the team continued to meet with control owners for the 2020 control self assessments teams, communicate the ongoing internal control framework assessments and to establish expectations for the year. The Internal Controls team also performs quality reviews to assess and enhance the current control environment. Quality reviews are currently in progress in Purchasing, Compliance and Contract Management and the Special Investigations Unit.

An update for Enterprise Risk is on pages 7 and 8 of the Summary. Enterprise Risk's focus is risk identification and management support to the organization through three distinct processes, namely operational risk assessments, project and scenario-based risk assessments and strategic risk assessments. For the period they continue to assist the business units with their operational risk assessments and roll out the project and scenario risk-based assessment process. At the request of business area leaders, Enterprise Risk facilitated the scenario based risk assessment focused on several emerging and present risks, considering COVID-19 occurring concurrently with the upcoming tropical cyclone season and provided the project risk assessment focus in a timely and secure implementation of phase one of the Microsoft Teams implementation project. Both risk assessments included participants from various divisions across Citizens. The risk assessment results are being utilized to assist decision-making and to ensure additional mitigating activities are designed and implemented when needed.

At the last committee meeting we mentioned that 17 strategic risks were identified and assessed in February. At the time COVID-19 was mentioned as an emerging risk. Since then it was added to Citizens 2020 strategic risk and COVID-19 continues to create significant organizational, economic and societal impacts to our employees, policyholders, agents and vendors.

During the upcoming storm season these risks may become even more pronounced with a combination of a hurricane and COVID-19, since COVID-19 will add complexity to the other 17 strategic risks mentioned. Mitigating activities included business continuity and catastrophe response plans are in place. Those are to be monitored and executed as necessary. Specific strategic risks and ratings are listed on page 9 and 10 of the Executive Summary.

This concludes my report. If there are no questions, I would like to continue with presenting revisions to the Audit Committee Charter and the Office of Internal Audit Charter consideration and approval.

Chairman Dunbar: Members, does anybody have any questions? All right, seeing none, Joe, go ahead and move on to the Audit Committee Charter. And before we get into the recommended items, one of the things I wanted to update the committee on. I had asked Joe and his team to take a look at the charter and to do a backwards look to balance the practices and procedures of the committee against the charter and then recommend changes to make sure that our charter reflects what the committee actually has been doing. And so, some of those changes are what is reflected here, and they are more what I would consider just kind of technical cleanup stuff. So, with that, Joe, feel free to roll forward.

Joe Martins: Thank you, Mr. Chairman. Behind tab 2G I present the Audit Committee Charter revisions. The Audit Committee Charter is a formal document that sets out the authority of the committee to carry out responsibilities established by the Board of Governors. The charter defines that the purpose of the committee is to assist the Board in fulfilling its oversight responsibilities for the integrity of Citizens' financial statements, Citizens compliance of legal and regulatory

requirements, the independent auditor's qualifications and independence, and the performance of the Office of Internal Audit and independent auditors. In discharging its responsibilities, the Committee will have unrestricted access to members of management, employees and information it considers necessary to discharge its duties.

Annually, the Chief of Internal Audit completes a review of the charter against industry best practices and Citizens' statute. This year as the Chairman mentioned under his direction the Office of Internal Audit also completed an assessment of the committee's execution of its duties through an analysis of past committee meeting Minutes. Following this assessment, the Chief of Internal Audit noted the specific statements in the charter that require revision. The revised draft charter was also provided to Citizens' Compliance and Ethics Officer for review. If there are no questions, I will proceed with reading the recommendation.

Chairman Dunbar: Members, any questions? All right, Joe, go ahead and move forward with the recommendation.

Joe Martins: The Chief of Internal Audit presents for review and approval Citizens' Audit Committee Charter for presentation to the Board of Governors at the next scheduled Citizens Board of Governors meeting on June 24, 2020.

Chairman Dunbar: Members, do I have a motion? I heard a motion and a second, I think.

Governor Holton: This is Holton, I will move to approve.

Chairman Dunbar: Governor Brown, was that a second?

Governor Brown: Sure, yes.

Chairman Dunbar: Great, thank you. So, without objection let's show that approved. Which will take us on to our next item, Joe.

Joe Martins: Thank you, Mr. Chairman. Behind tab 2H I present the Office of Internal Audit Charter revisions. The Office of the Internal Audit Charter is a formal document that defines the internal audit activities' purpose, authority and responsibility.

The charter in accordance with Section 627, Section 351, subsection (6)(i) of Florida Statutes, establishes the internal audit activity's position within the organization, including the nature of the Chief of Internal Audits' functional reporting relationship with the Board; authorizes access to records, personnel and physical properties relevant to the performance of the engagements and defines the scope of internal audit activities. Annually the Chief of Internal Audit completes a review of the charter against industry best practices, Citizens' statute and the Audit Committee Charter. Following this assessment, the Chief of Internal Audit noticed some statements in the charter that require revision. The revised draft charter was also provided to the Citizens Compliance and Ethics Officer for review.

If there are no questions, I will proceed with reading the recommendation.

Chairman Dunbar: Members, any questions?

Governor Brown: None here.

Chairman Dunbar: All right, hearing none go ahead and read the item.

Joe Martins: The Chief of Internal Audit presents for review and approval the Office of Internal Audit Charter for approval by the Audit Committee.

Governor Brown: Move to approve.

Governor Holton: Second.

Chairman Dunbar: We have a motion and a second. Without objection, let's show that approved. So that should take care, Joe, I think of all your items, correct?

Joe Martins: Thank you, Mr. Chairman.

Chairman Dunbar: Thank you, Joe. So, I guess that means Jennifer is up with the CFO report. Jennifer.

Jennifer Montero: Thank you, good morning. For the record I am Jennifer Montero, Citizens' Chief Financial Officer. For your reference the materials I will be discussing are located behind tab three in your books, the document titled *1Q 2020 Results of Operations and Financial Position* provides an overview of Citizens unaudited financial position, including cash flows, invested assets and surplus, as well as operational results for the quarter ending March 31, 2020. While the document titled *1Q 2020 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.

At March 31, 2020, Citizens held consolidated cash in invested assets of 8.86 billion marking a slight decline of 22.2 million from December 31, 2019. The decline in total invested assets was largely due to the January 2020 bond redemption, partially offset by cash flows from operations. Consolidated surplus at March 31, 2020 was 6.4 billion, or 114 million more than December 31, 2019, and was largely driven by consolidated first quarter net income of approximately the same amount. Direct written premium as of March 31, 2020 increased from the first quarter of 2019 by \$24 million or 12 percent. This is the result of an increase in policies in force within the personal lines accounts, mostly due to the Florida Specialty policies and an uptrend in renewal rates. Offset by a decrease in policies in force within the commercial lines account and the coastal account.

On a consolidated basis, losses incurred through the first quarter of 2020 were relatively unchanged as compared to year end 2019. Consolidated ultimate direct losses in LAE related to Hurricane Irma, 2.16 billion which is unchanged from year end 2019, and of that amount, 879.8 million is recoverable under Citizens' reinsurance contracts with both the FHCS and private reinsurance. Consolidated ultimate direct losses in LAE related to Hurricane Michael were 149.9 million, also reflecting no change from year end 2019. There are no reinsurance recoverables related to Hurricane Michael as the attachment levels of the reinsurance arrangements were not met.

Within the commercial lines account, losses in LAE related to sink hole claims were relatively unchanged. However, volatility in older non-sink hole claims contributed to material quarterly variances in reported loss in LAE ratios. Through the first quarter of 2020, Citizens' expense ratio was 25.6 percent reflecting a 2.4 percentage point decrease from the same period in 2019, and a .6 percentage point decrease as compared to budget. We anticipate that the actual expense ratio for fiscal year 2020 will be in line with or less than the budget expense ratio of 26.2 percent. Administrative expenses incurred during the first quarter were substantially unchanged from the prior year quarter end. Budget to actual results were favorable, and through the first quarter of

2020 were 4.6 million less than budgeted. Staffing costs, professional services and software maintenance were the biggest contributors to the budget to actual variance. Evaluation of first quarter variances are listed in full since we are only three months into the year. Investment income increased due to reduction in interest expense as \$150 million of bonds matured in January 2020, as well as increases in investment returns driven principally by increases in realized gains. Total assets and surplus remain well positioned to meet any potential claims payment obligations, and together with our 2020 risk transfer replacement, surplus is protected to continue the elimination of investments at a one and 100-year storm level. If there are no questions, that concludes my financial report.

Chairman Dunbar: Members, anybody have questions for Jennifer? Okay, great. Jennifer, thank you.

Jennifer Montero: Thank you.

Chairman Dunbar: You can move on to the next item.

Jennifer Montero: Next I am going to ask Brian Donovan to speak. He has a qualification documentation for the appointed actuary.

Chairman Dunbar: Super, thanks.

Brian Donovan: Good morning, Chairman and committee members. My name is Brian Donovan, Chief Actuary at Citizens. I will be addressing item 3C of the meeting document. This is a housecleaning item and not an action item. This is to keep myself and Citizens in compliance with the leasing change implemented by the NAIC in conjunction with the American Academy of Actuaries, the Academy of Actuarial Society and the Society of Actuaries.

In 2010 I was appointed by Citizens Board as the Qualified Actuary. This means I was appointed to sign off on year-end loss reserves in the Annual Statement. Prior to 2019, the rule was that once an actuary is appointed by the Board there is no need to discuss this at the committee or Board meeting unless and until there was a change in appointed actuary. At the end of 2019, the aforementioned organizations made a change in its rule that now requires the appointed actuary to provide the appropriate committee and/or Board documentation that demonstrates that he or she is qualified to be the appointed actuary. The reason for this change had to do with the fact that the Society of Actuaries who traditionally worked with health insurance patient plans and life insurance wanted to make a foray into the property and casualty field by offering actuarial premiums related to property and casualty property loss reserves.

Traditionally actuarial premiums related to P&C loss reserves were the domain of the casualty actuarial society. In order to ensure that proper standards are maintained in terms of who was qualified to sign off on a P&C loss reserve opinion, these standards were revisited. The conclusion was that any P&C actuary who was already deemed qualified will remain qualified provided they remain in good standing with the Casualty Actuarial Society. Meaning that they have met the required continuing education credits through the year. However, documentation outlining these qualifications must now be presented to the appropriate committee and/or Board each year going forward. So that is the purpose of this agenda item.

Included in the document that you have are five items. The first item is a formal letter made to Citizens Board outlining my qualifications. The second letter, the second item, the letter from the

actuary who worked as a consultant for Citizens basically since its inception in 2002, is a resume of my qualifications and concurs that I still meet the standards required.

The third item is a transcript of all the exams I have successfully completed and received credit for. Credit for exam 6U regulation, financial reporting in the United States is a specific exam requirement needed. And the fourth and fifth items pertaining to an audit the Casualty Actuarial Society did of me in 2016 verifying that I do keep current with the continuing education requirements. Bottom line is nothing has changed regarding my qualifications to render actuarial loss reserve since I have been appointed in 2010. The only thing that changed is that all appointed actuaries must now provide this documentation each year. Are there any questions?

Chairman Dunbar: Members, any questions?

Governor Brown: I have no questions.

Chairman Dunbar: No questions, great. Thank you. All right, do we need to make a motion or anything, Brian, or is this just for information purposes?

Brian Donovan: Yes, this is just for information purposes. I don't believe there is any motion that needs to be made.

Dan Sumner: Mr. Chairman, this is Dan Sumner. Can I make a comment on this?

Chairman Dunbar: Of course, Dan, go ahead.

Dan Sumner: I think that in the guidance there are a couple of things. I agree that there doesn't need to be an action item, but there are a couple of things that I think should be covered, and I believe this should also go to the Board. I think the first is that there must be documentation of the review, and I believe that Brian's presentation does that. There also needs to be an acceptance by the committee of his report, and essentially confirm whether any additional information is needed. If no information is needed, then what I believe would be the appropriate action of this committee would simply be to move to accept this report for presentation to the Board.

Chairman Dunbar: Okay, thank you, Dan. With that then I will accept a motion to move to accept this report and move it on to the full Board for consideration.

Governor Holton: So, moved.

Governor Brown: Second.

Chairman Dunbar: Thank you for that. Without objection, let's show that done and get this on to the Board so that we can comply with the statutes and keep Brian gainfully employed.

Brian Donovan: Thank you.

Chairman Dunbar: On to I believe the next item, which is Brian Smith, correct, Jennifer? We are done with the CFO report, right?

Jennifer Montero: That is correct. The auditors, the external auditors are on the line to go over the audited financials for 2019. I will make one statement, that the December 31, 2019 financials I presented in March, have no change from the audited financials that Brian is going to discuss with you today. There were no changes from what I presented last time.

Chairman Dunbar: Great. With that Brian, you are up.

Brian Smith: Good morning, this is Brian Smith for the record. With me is Matt Church and Mike Deas. Matt Church was the signing partner here for the 2019 audit. So, I am going to let Matt take it away and start communications and then we will round up discussions from there. So Matt, go ahead.

Matt Church: Thank you, thanks Brian and hopefully everyone can hear me. I have been getting lot of feedback, so I must move around. So hopefully my signal and connection are good here.

But first I just wanted to say a couple of things. One, I wanted to thank Jennifer and her team. The Citizens finance team as we are all aware with dealing with sort of unchartered territory and we were fortunate that her team was very, very engaged with us as we work to complete final field work which really kicked off in April, and kind of ran through reporting on May 15th, when we issued and her team, Andrew, Nancy, Mike, Jennifer, were all very diligent and I can't say that for all of our clients. The work from home dynamics have been a challenge and I just wanted to commend the Citizens' financial team on making it very, very successful, and very painless for us. So that was appreciated.

Second, and probably more important, just wanted to say that this was my last year as the engagement partner on the Citizens' account due to mandatory rotation. And again, I just wanted to commend Jennifer, Andrew, Joe, Mr. Gilway, really just for the relationship, right, the willingness to meet, talk, deal with issues as we needed to deal with them, make sure we got to the right answers and the collaborative approach at which we work. As we discussed at the meeting, I believe it was in December, Brian Smith who you will hear from momentarily, will be taking over as the lead engagement partner, and I can assure you that you are in great hands. So, with that again, just wanted to say thank you to everyone. I am going to turn it over to Mike Deas who is our engagement manager to review our required communications.

Mike Deas: Thanks, Matt, and good morning. For the record, this is Mike Deas from Dixon Hughes. We are here to present a report on the 2019 audit of Citizens on both a statutory basis as well as a GAAP basis under government accounting standards. We issued our audit on May 15, for the 2019 year, and we are required to communicate certain matters in our audit to the Audit Committee, and as we go through, please feel free to ask questions. First, there are no new accounting pronouncements during the year. We are also required to communicate any significant accounting estimates or significant areas in our audit. One of those is evaluating loss reserves. For the 2019 audit we have engaged a third-party actuary from Molinas & Associates, and they work with Brian Donovan and his team in the actuarial department to look at the assumptions and the actuarial methodology that are used in determining the December 31 reserves.

In addition to this, we also audit the data provided to the actuaries. We look at loss claims and loss reserves and evaluate those on a sample basis and look at the reasonableness of those reserves. Overall based on the procedures performed, we determined the overall loss reserve to be adequate. We are pleased to report that. Another significant accounting estimate is the evaluation of investments. In order to test that, we leverage our DHG valuation services team to assist us in testing the fair value bond. We also assess the potential for other than temporary impairment which involves comparing the investments in an unrealized loss position at 12/31 to subsequent sales. We are also required to communicate that we had no corrected or uncorrected misstatements to report to the Audit Committee, which is good. And then lastly, we are pleased

to report that we had no difficulty in working with management. And with that, I will turn it over to Brian Smith.

Brian Smith: Thank you, Mike. I will pause for the committee for any questions and I have just a couple other items to go over after that. Are there any questions with Mike's report?

Chairman Dunbar: Committee members, anybody have any questions for Mike?

Governor Holton: None here.

Governor Brown: No questions.

Chairman Dunbar: I had one regarding the letter, management representation letter in Appendix A. Paragraph 58 of that letter of May, I guess 15, there is the following statement. *None of the company's third-party service providers upon which the company relies has known problems which will likely threaten the reliability of the company's information systems and/or the systems internal controls or which could materially impact the company's statutory basis financial statements.*

And the question that I had relative to that statement is, how exactly is that tested in your audit? How do you go through and troubleshoot our IT systems and the related internal controls? Is it something that you do and have an audit module for, or is it something that you are relying on us to certify? Can you walk me through sort of what you do to confirm that statement?

Brian Smith: Yes, I can answer that. So, our approach for testing controls, we are not opining on the effectiveness of internal controls. However, under our standards we are required to understand and test the design implementation of controls. And so, with that we do bring in our IT specialist team and they work with Citizens and we go through and look and understand the controls in place. We scope the systems that are being utilized, both internal and outside vendors and we look for certain controls over change management and access controls as well. So, while we are not opining on controls, it is our standards we are required to understand controls. In doing so, we did not identify any significant deficiencies or material weaknesses in that process. However, I will reiterate that we do not opine on controls.

Chairman Dunbar: How about the statement as it relates to none of the company's third-party service providers? Do you do anything relative to looking at our third-party service providers related to IT systems to confirm that statement?

Brian Smith: We do. We obtain any third-party SOC reports. So if a third-party vendor is having their own internal SOC audit report that they would produce to the company, we would review those as well to understand if there are gaps in a third-party's controls should they have all the evidence available.

Matt Church: This is Matt. Just to add one to that real quick. I think Marc, to go back to your original question. It is in the way that that is written and the nature of the representation, it is also us asking and sort of confirming with management that nothing has risen to their knowledge that would have an impact on the third-party service providers. To Brian's point, we do obtain and we do review SOC reports when we deem a system or something to be material to the process, but at the same time and I think where you are going, we can't audit everything, right, with every third-party vendor. But we know internally at DHG if there was an issue, we would have like a reporting mechanism that we would report outward to our clients. Presumably all third parties would have

that same similar sort of reporting requirement or mechanism, and it would have been notified or management would have received some sort of a notification if there was a breach or something related to the service or the software provided. So, it is kind of a twofold to answer your question, it is really both. We do look at it. We do kind of review the material items, but then at the same time we are also asking management to confirm that they're not aware of any issues related to the third-party service providers.

Chairman Dunbar: Okay, great. So, at its core, it is our job to police and to look after the third-party service providers to ensure that we are not placed in some sort of threatening or compromising position as it relates to our systems. It's not anything that we are relying on you to do for us.

Matt Church: That is correct.

Brian Smith: That is correct, that is right. And in this letter, this is management representing to DHG that they're not aware of anything that needs to come to our attention for purposes of our audit.

Chairman Dunbar: Right. Yes, what I was wondering is if you do anything to look underneath that statement. That is where I just wanted to confirm my understanding of that.

Brian Smith: Right. And we do. So, two last points. On May 28, we issued our agreed upon procedures report to Citizens which was requested by management in correlation with the Citizens 2020 reinsurance placement. Citizens entered a catastrophe bond structure in which the underwriters placed in that structure requested that we do agreed upon procedures, and we issued that report on May 28. So, I wanted the committee to be aware of that report. And the last item, just to touch on Matt's comments. I do appreciate everything we have done in working with Citizens and Jennifer and her team, and I certainly look forward to serving the company going forward in 2020 as the engagement partner. I look forward to working with the committee as we get into the Fall and begin our procedures for the 2020 audit. So that completes our report.

Chairman Dunbar: Okay, great. Does anybody else have any additional questions or are we ready to move on to Nancy?

Governor Holton: No questions here.

Governor Brown: No questions.

Chairman Dunbar: Nancy, you are up.

Nancy Staff: Thank you. Good morning, my name is Nancy Staff and I am the Ethics and Compliance Officer at Citizens. And I thought it would be worthwhile to just give a brief overview of the annual attestation process that I oversee to ensure compliance with our statutory requirement that on or before July 1 of each year all employees of the corporation must sign and submit a statement attesting they do not have a conflict of interest. Now to do that meaningfully, employees need to have some idea of what a conflict of interest is, because this is an area that is not always intuitive. So one thing that has happened as you are well aware is the Board of Governors in 2015 adopted Corporate Policy 101, a conflict of interest policy which really kind of tracks the Florida Code of Ethics guidance, but clarifies and makes it I think easier for employees to understand what is a prohibitive conflict of interest and what they can and cannot do as Citizens employees.

What we have done is, once a year the employees are required to take an online training course, and it is a very, very nice course. It has audio and visual and I have a screen shot. It is a selected excerpt from it just so you can get a flavor of it. But what this course does is it talks about our Code of Ethics, specifically our conflict of interest policy. Goes through the prohibition against gifts and the fact you must have approval for secondary employment and that kind of thing. And then it focuses on indicators that could indicate a potential conflict of interest. And when employees go through it, it might trigger something, oh, yes, maybe this is a conflict. So if it is a potential conflict then they have the ability to reach directly out to me either by phone, e-mail or through the ask ethics e-mail box to ask and to make sure that the situation, the personal situation they have is not. And sometimes what happens is when they ask those questions, I will give them guidance, such as, especially when it deals with relative relationships with vendors, that is where some of these questions come in. We must just make sure that the employee is never involved in any kind of management, supervision or assigning work. So, we create a guidance e-mail so that the employee and their supervisor know what they should and shouldn't do to prevent conflicts of interest. Every employee goes through this every year, and at the end if you look at the very second to last page of the presentation behind tab five, you could see the actual conflict of interest annual attestation, the button that they check through their online attestation which swears or affirms under penalties of perjury that they do not have a conflict of interest.

As of today, May 26, we are 99.5 percent complete and we will be at 100 percent completion next week after the blackout period for LMS system is lifted, and those few employees that have not been able to complete it can go on to the new system and complete the attestation process. And does anyone have any questions?

Chairman Dunbar: Members, any questions?

Nancy Staff: Thank you.

Chairman Dunbar: Thank you. All right, I guess that brings us to Mark Kagy under item six.

Mark Kagy: Good morning everyone, this is Mark Kagy, Acting Inspector General. I have provided a report here that just shows some of our complaint statistics for informational purposes. And in there, there is some definitions that kind of outline some of the tasks that we do in the Office of Inspector General. And so, if there are any questions, I would be more than happy to address those.

Chairman Dunbar: Members, do you have any questions?

Governor Brown: No questions from me.

Governor Holton: None here.

Chairman Dunbar: Mark, can you give us a little bit of an overview of what you looked at in this quarter, particularly the ones that were deemed administrative projects and sort of the process of the evaluation to deem them administrative projects.

Mark Kagy: Yes, the Office of Inspector General receives a great deal of information from multiple resources. We have the Tell Citizens complaint reporting hotline. We have also got other methods, phone calls, e-mails, you name it, we receive information. When information comes in the first step that the Office of Inspector General takes is, we look to see if something, oftentimes things are not necessarily complaints. Sometimes they're just correspondences, things for

discussion purposes, stuff like that. And after our first step in determining whether something is a complaint, we go into a process where we look at every complaint for determination as to whether something might be a whistle blower complaint. A whistle blower is a statute in Florida law, 112.3187. There are some confidentiality provisions in there, and I go through and decide as to whether the complaint will be deemed a whistle blower. Once that is done, we do have a policy, a corporate live policy that talks about complaints being discussed in the triage team environment.

The triage team consist of the Ethics Officer, Nancy Staff, Joe Martins, Chief of Internal Audit, me and the Director of Business Partner Relationships, Nicki Smith. We review the complaints to determine if the proper handling of what is going to be done with that. Oftentimes things just simply don't rise to the level of a complaint. Oftentimes things don't require a response by the Inspector General's Office. Those are often deemed to be administrative closures. And I am going through my data now to see which ones we referenced here as administrative closures, and I apologize, Governor Dunbar, I wasn't prepared for the question and I am not seeing my status sheet in front of me. But I would be more than happy to get back with you personally and address each one of our administrative closures for the quarter end for the year if you would like and we can go through those step by step if you would like me to do so.

Chairman Dunbar: Yes, that would be great. Let's plan to do that before the Board meeting, and let's also just as a regular item plan to do that before each one of the committee meetings, please. The other question I had for you at the last Board meeting or the last committee meeting we talked about raising the profile of the hotline and you had shown some ways we were going to do that, including placing it on the landing page of the website and things like that. Can you update me on sort of the status of that project?

Mark Kagy: Yes, absolutely. As we discussed and as part of your recommendation raising the profile of the Tell citizens Complaint Reporting Hotline is something that we are in the middle of going through. That is something that we have got here at Citizens; we have got an internal portal for all employees and contracted vendors. We have got an external website that the worldwide can access, and on both of those there is the ability to contact the Inspector General's Office through Tell Citizens Complaint Reporting Hotline. We have received a slight uptick in the number of correspondences that we have received through those. And some of those, I would say most of those probably, I would refer to as a procedural. They're more appropriate for other departments within the corporation. Sometimes we have got a couple of folks asking, I don't know who my agent is. We have got a couple of folks asking for statuses of their claims, things like that. We are happy to refer those on to the other departments. And anytime we do provide a referral to another department, we ask that the Department respond back to us just so we can kind of close the loop and document in our files that it has come through.

There are also some other promotional materials that we have yet to release. There is some pamphlets and brochures and things like that that the employee, the employees will start to see. There was a leadership article on our portal page that went out to the entire staff and vendors with access that kind of talks about what Tell Citizens is and the appropriate ways to contact. So, we are seeing a little bit of an uptick in that, and there have been a couple more correspondences come in, but typically a large percentage of those have been more appropriately addressed by other portions of the corporation. So, we refer those on.

Chairman Dunbar: So, when do you think we are going to get the Tell Citizens link on the landing page for the website, our home page?

Mark Kagy: The actual home page itself, I don't know that we had plans to necessarily to do that other than to have the Office of Inspector General and I am looking for the actual link here.

Chairman Dunbar: Because I think you even in the presentation, the Power Point that you gave to us, towards the end of it you actually showed a mockup of where it would go on the tabs across the top.

Mark Kagy: Yes, that link currently exist on our internal portal page. On the website page, there is not a link there yet. That is something that under the governance tab I think there is a link for Office of Inspector General and then from there the person can go to find the Tell Citizens' page. One of the considerations putting a link like that on the top of the page I do have concerns with, when items of complaints for claims coming in and things like that, those are often sometimes there is a statutory mandated office within Citizens that handles concerns, customer correspondence concerns like that. I want to make sure that we are getting people to the right location. So, I like to make sure I am working with those teams, Jeremy Pope's teams to make sure that we are not kind of separating out what some of those concerns are away from the more appropriate location of that correspondence team. Currently under the governance tab when a policyholder clicks governance they can see a link there to the Office of Inspector General, and that takes the user to our to our home page and it talks about what the Office is, what our goal is, and then there is Tell Citizens information there as well.

So, I would be more than happy to have those discussions, but the link we are talking about, about having complaints across the top of the page is on the internal page currently.

Chairman Dunbar: Let us plan to have an offline chat about that.

Mark Kagy: Sure.

Chairman Dunbar: Members, do you have anything for the good of the order or any other questions for Mark? Are we done with Mark?

Governor Brown: Yes.

Governor Holton: Yes, no questions.

Chairman Dunbar: Okay, great, Mark. Anything for the good of the order, members?

Governor Brown: No.

Governor Holton: Not here.

Chairman Dunbar: One thing I wanted to do under new business is just give you a heads up. I have talked to Joe Martins. After the last Board meeting one of the things that Joe and I talked about and Barry and I have since had some e-mail exchanges over the last few months about this, but it has become kind of apparent what while the Statute 627.351(6)(c)(4) says that the ELT members shall be engaged by and serve at the pleasure of the Board, one of the things that becomes somewhat apparent is there is not a formal procedure for hiring ELT members. And one of the things that I have asked Joe to consider looking at, and I wanted to get the committee members' thoughts on this is doing sort of a look back over the last several years of ELT members, how they have gotten into that position, what Citizens has done historically in the hopes of sort of formalizing somewhat some policies, procedures or anything to governs the Board on how we

engage ELT members that report to us and we are responsible for under the statute and the plan of operation.

So my thinking is that we go through probably the last several years starting with how Barry was hired and the process and procedure around that, and then moving forward on what the Board has done as we have looked at the various ELT positions, and if need be, we can go further back, but I thought certainly in the last several years to try and get a feeling for what process and procedures are there, and then maybe have something formal to govern us. So, I throw that out there for your thoughts and comment.

Governor Holton: I think it is a fairly good idea. Are you talking about having staff come up with kind of an overall summary of the past five years or so forth to do this first and then discuss it as a procedure?

Chairman Dunbar: Exactly, yes, exactly.

Governor Holton: Yes, I think it is a great idea.

Governor Brown: Marc, this is Bette. So, there are only two of these executive leaders that report to us. That would be Joe - audit directly to you, and then Barry to us. So, the only two that we really need to look at the procedures for from a Board position would be Barry and Joe. The others all report Barry. And so, he is the executive of the corporation, he would make the decision on who would be hired, you know. Our responsibility does not cover those decisions.

Chairman Dunbar: Actually, and the statute says specifically the executive director and senior managers of the corporation shall be engaged by the Board. And it is my understanding and Barry has confirmed this, that the senior managers are the ELT members, and I think so since the statute speaks to the executive director and the senior managers shall be engaged by the Board, we were going to go ahead and look at all of the ELT members if that is okay, because I think that is what we are required to do.

Governor Brown: Well, then we ought to look at our org chart because that is not how the org chart is set up.

Chairman Dunbar: That is one of the things that I was hoping Joe would be able to look at. I mean, the biggest thing that I am always concerned about is making sure that we function in compliance with the statutes and that our policies and procedures implement those statutes, and if they don't, then we need to tell the Legislature to hopefully tweak the statute.

Once we got done with the charter right now, we went back and did a look at what the Audit Committee did relative to the charter and the statutes, and have now updated the charter to have the charter reflect what we have been doing. And so if Joe comes back and says, well, in reality, the senior managers and the org chart and everything flows up through the executive director and the Board really hasn't been in that role of engaging the senior managers, then we need to discuss that and figure out if we are either out of statutory compliance or we can have the Speaker and the President of the Senate, they have their designees on the Board, they can communicate it back through and they can either update the statute or give us a little bit of guidance next session.

Governor Brown: Okay.

Barry Gilway: Yes, Mr. Chairman, Barry Gilway. Can I make a comment?

Chairman Dunbar: Sure, Barry, go ahead.

Barry Gilway: Thank you, Mr. Chairman. Yes, I had a discussion with Joe Martins in this regard and we have already done considerable work relative to the prior actions taken regarding the appointment of senior managers, at least in the eight years that I have been here. So, I certainly support ultimately some kind of a policy basically that clearly outlines the process that the Board is supportive of in terms of appointing senior managers.

I do have a matter that I discussed with Joe Martins. We have other Board members that have also really weighed in on this kind of reporting. Given the fact that Joe would be looking at statute, would be looking at plan of operation, I have asked Joe to consider on behalf of other Board members, this has been discussed with the Chairman already, that we would expand Joe's support to really look at the overall involvement of the Board in day-to-day operational issues, and also really the involvement of the Board, not only of the appointment of senior managers, but also in terms of organizational design, approach and management of staff and how that applies both from a statutory standpoint relative to the plan of operation and how it might compare and how our Board might compare with other similar Boards with similar requirements. So the recommendation to Joe from the Board members really would be to simply support the overall approach that you are taking here so we get specific direction that can be approved by the Board, but also expand the responsibilities of Joe in this regard to provide a more comprehensive report.

Chairman Dunbar: What I was hoping to do was have the recommendation out of this committee go to the full Board so we could have a sunshine discussion over this at the Board meeting. So, I am pleased you have talked to the other Board members and given them a heads up, that is great. And so what it sounds like is we have support from this committee to move forward with a review of what we have done and relative to this statutory provision, and hopefully make some recommendations or at least put the Board in a position to adopt formal policies and procedures around senior managers are engaged to serve the corporation. As it relates to the day in, day out duties and the role of the Board and all those kinds of things, I think that is super, but I am really focusing on these statutory procedures. So, what we will do is with the committee's support, we will move the discussion on to the Board meeting and then we can sort of refine it as the Board wants to. So, I am pleased that everybody supports this review moving forward, and the parameters of which we will let the Board decide. Any other questions or comments or anything for the good of the order? All right, with that I will take a motion to adjourn.

Governor Holton: Move to adjourn.

Chairman Dunbar: We will take a second from Bette unless she wants to say more.

Governor Brown: Yes, I will second that. I am sorry.

Chairman Dunbar: That is great. All right, we will go ahead and adjourn. (Whereupon, the meeting was adjourned.)