

ACTION ITEM

1 | PAGE

Audit Committee Meeting, December 15, 2020
Board of Governors Meeting, December 16, 2020

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

Contract ID	Audit Committee Meeting Minutes September 22, 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 September 22, 2020 Audit Committee Meeting Minutes to provide opportunity for corrections and historical accuracy.
Recommendation	Staff recommends the review and approval of the September 22, 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 TUESDAY, SEPTEMBER 22, 2020**

The Audit Committee of Citizens Property Insurance Corporation (“Citizens”) was convened telephonically at 10:00am on Tuesday, September 22, 2020.

The following members of the Audit Committee were present:

Chairman Marc Dunbar
Governor Bette Brown
Governor Jim Holton

The following Citizens Staff were present:

Alden Mullins	Andrew Woodward
Anthony Huebner	Barbara Walker
Barry Gilway	Belinda Miller
Betty Veal	Bonnie Gilliland
Candace Bunker	Chelsea Garfield
Chuck Bowen	Dan Sumner
Deena Harrison	Francisco Aristiguieta
Gary Sharrock	Jay Adams
Jennifer Montero	Jeremy Pope
Jill Stafford	Joe Martins
John Fox	Karen Wittlinger
Kelly Booten	March Fisher
Mark Kagy	Michael Peltier
Mike Sills	Mike Walton
Patrick Lynch	Paul Kutter
Robert Sellers	Sarah Harrell
Shari Hamilton	Sheila Hilton
Stephen Guth	Violet Bloom
Ximena Baquerizo	

The following were also present:

Mike Deas, Dixon Hughes Goodman
R. Williams, Jeffries
T. Patterson, Jeffries

Call Meeting to order

Barbara Walker: Good morning, and welcome to Citizens Audit Committee webinar hosted through the Zoom platform. The meeting is publicly noticed in the Florida Administrative Register to convene at 10:00 a.m. For any users who are attending today's session through the public link, you are automatically in listen only mode. Citizens' Board and committee meetings are recorded with transcribed minutes available on our website. Thank you for identifying yourself prior to addressing the committee.

Chairman Dunbar, would you like me to proceed with roll call?

Chairman Dunbar: Yes, Barbara, please do, thank you.

Barbara Walker: You are welcome. Chairman Dunbar.

Chairman Dunbar: Here.

Barbara Walker: Governor Brown.

Governor Brown: Here.

Barbara Walker: Governor Holton.

Governor Holton: Here.

Barbara Walker: Chairman, you have a quorum.

Chairman Dunbar Great. Let's go ahead and get item number one which is the approval of the minutes. I will accept a motion to approve the minutes.

Governor Brown: Move to approve.

Governor Holton Second.

Chairman Dunbar: Great. Without objection, let's show that approved. The next item, Joe Martins. It looks like you have a slew of items and I will give you the floor.

Joe Martins: Good morning, Governors. For the record, I am Joe Martins Chief of Internal Audit. I would like to refer you to page 1 of the Office of Internal Audit Executive Summary where I provide an overview of the audit progress and noted that 53 percent or 15 of the projects scheduled for the period April 1st to March 31st, 2021 have been completed. Since the previous meeting we completed eight engagements. These include an overview of the Agency Management System Implementation where we provided consultancy support over areas of elevated risks and assurance of the design of controls for key activities. On page 2 of the document we noted an overview of the recent Disaster Recovery Exercise where we participated in the exercise and provided feedback regarding the attainment of plan objectives, management's observations and strengths and opportunities. With the Executive Leadership Team Recruitment Selection Advisory, we provided a comprehensive analysis of the Board of Governors' role in the executive recruitment selection, promotion and termination or separation processes for senior managers. We also benchmarked Citizens' practice with standards supplied by comparable state entities. An audit of policy of the Claims Experience where we assessed the controls and processes of the claims customer experience are adequate to capture customer feedback and measure customer satisfaction. We also noted an opportunity to enhance access controls over the voice of customers survey data storage. Internal Audit periodically reviews procurements which could be considered the sole source or single bid. For RFP 20-005 we noted that adequate and appropriate controls were exhibited in compliance with company policies per Florida Statute. With the SOC audit we evaluated the adequacy and effectiveness of the SOC report governance process and noted an opportunity to enhance the process by implementing exception tracking and monitoring. On page 3 with the Third-Party Access audit we focused on the adequacy of

policies, inventories, user account management, connections and monitoring. Our work indicated two areas the operational controls could be strengthened. An audit of policyholders in late 2019, Citizens completed the migration to a new vendor to provide commercial banking, including wire transfer and ACA services. Results from our audit work indicated that they are effective processes and controls relating to the authorization of wire transfers and ACH transactions, completeness, and accuracy of activity via ACH. Oversight of third-party banking, relationships and system access control surrounding online banking systems.

At the bottom of page 3 I refer to the Internal Audit work in progress. We currently have 10 engagements in progress which include an audit of Centerpoint configuration to confirm that Centerpoint modules are properly configured to ensure that security is adequate and prevents the override of key controls, appropriate log in is enabled and business control operational process needs are met. On page 4 with the Centerpoint Role Design Implementation audit we will validate new roles for adequate segregation of duties and with the current Employment Audit we will evaluate that adequate governance practices are employed to manage contingent staff. On page 5 we list the OFAC audit which is scheduled to assess the effectiveness of the OFAC validation processes deployed. And with the Third-Party Risk Management audit we will assess processes employed throughout Citizens to monitor and manage third-party vulnerabilities. We also continue to provide support to the Office of Insurance Regulation and the Auditor General in the execution of their regulatory reviews. At the bottom of that page I refer to work scheduled to commence during the third quarter of 2020. This includes audits of commercial underwriting compliance, systems logging and monitoring and key events on assets.

On page 6 of the Executive Summary I noted that for control deficiencies Internal Audit is tracking four new observations. None of these observations are high impact. In general, the business units do a stunning job integrating and identifying control failures and all the issues resolved by the end of July this year. On page 7, I continue with an update on progress from the Internal Controls team. Through various touch points with the business areas the Internal Controls team continues to ensure that the Citizens' internal control framework standards are followed and that control assessments continues to add value and strengthen Citizens control environment. As of August, 128 primary controls have been recorded across 71 business processes. Annually, business units' complete control self-assessments for every document that primary controls. With the control self-assessments, they evaluate the adequacy of control design, the effective execution of controls, and issues identified recorded and corrective action plans are implemented. The Internal Controls team performs selective quality assurance reviews to ensure that the standards are met. To date 10 quality reviews were completed across a broad-spectrum touching Claims, Legal, Financial Services and Enterprise Operations. And on page 8 I continue with an update of the progress from the Enterprise Risk team. Enterprise Risk continues to mature the enterprise risk management throughout the organization with facilitated interactive operational project and scenario-based risk assessments and training. This enables Risk Champions and management to self-identify, assess and manage risks that may impact their ability to achieve business objectives. As of August, a total of 385 operational risks have been identified and assessed across the organization. At the request of management, Enterprise Risk facilitated two cross functional risk assessments. The first assessment considered several emerging or present threats from COVID-19 occurring concurrently with the tropical cyclone season. And the second assessment focused on the roll out of new agency management system, My Agency, and the type of risk that should be monitored and managed. Thank you, Mr. Chairman, this concludes my report.

Chairman Dunbar Those are great numbers. Do we have any questions for Joe? All right.

Governor Brown: I have no questions.

Chairman Dunbar: Super. I guess then that takes care of tab two. We will move on to tab three. Jennifer's CFO report.

Jennifer Montero: Thank you. Good morning, Governors. For the record, I am Jennifer Montero, Chief Financial Officer at Citizens. For your reference the materials I will be discussing are located behind tab three of your books. The document entitled 2Q 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 period ending June 30th, 2020. While the document titled 2Q 2020 Results of Operations and Financial Position Commentary, provides commentary, discussion analysis of those operating results and financial position. I will be providing a summary of information contained within the commentary document. On June 30th, 2020, Citizens held consolidated cash and invested assets of \$8.68 billion marking a decline of 200 million from December 31st, 2019. The decline in the total invested assets was largely due to the January 2020 bond redemption and scheduled June 2020 bond principal repayments partially offset by cash flows from operations. Consolidated surplus on June 30th, 2020 was \$6.49 billion or 130 million more than December 31st, 2019 and was largely driven by the consolidated net income of approximately the same amount. Direct written premium for the first half of 2020 was 552.6 million or 25 percent greater than the first half of 2019. This is the result of policies written, of new policies written in Dade, Broward and Palm Beach Counties, along with increases and renewal rates largely due to temporary deferral of payment cancellations and certain underwriting procedures and response to the COVID-19 crisis. As of June 30th, 2020, consolidated ultimate direct losses in LAE related to Hurricane Irma were 2.16 billion which is unchanged from the prior quarter, and of that amount 879.8 million is recoverable under Citizens' reinsurance contracts with both the Florida Hurricane Catastrophe Fund and the private reinsurance. Consolidated ultimate direct losses in LAE related to Hurricane Michael were 149.9 million also reflecting no change from the prior quarter. There are no reinsurance recoverables related to Hurricane Michael as the attachment levels of the reinsurance arrangements were not met. Although litigated non-weather water claims continue to be a dominant driver of loss in LAE activity within the personal lines account, the litigation rate for accident years 2018 and '19 continue to show improvement in comparison to accident years 2014 through 2017. Within the commercial lines account losses in LAE related to sink hole claims are relatively unchanged. However, volatility in older non-sink hole claims have the potential to contribute to material quarterly variances in reported loss in LAE ratios in future periods. Through the first half of 2020, Citizens' expense ratio was 21.6 percent, reflecting a 3.4 percentage point decrease from the same period in 2019, and a 3.4 percentage point decrease as compared to budget. Administrative expenses incurred during the first half of 2020, a 65.7 million or .6 million or one percent more than the same period in 2019, and 6.8 million or nine percent less than budget. Variances in contingent staffing from budget were primarily due to lower than anticipated needs for independent adjusters, as well as a higher than anticipated number of claims entering mediation. However, it is anticipated that the variance will contract over the next two quarters. Total investment income was 141.8 million or 22.5 million greater than the same period in 2019, while total average invested assets declined 351.4 million or four percent. The relative decrease in the earned income was principally driven by declines in the rate of return within money market funds as well as reductions in tax exempted holdings resulting from the scheduled maturity of certain outstanding bond obligations. The decrease in earned income was more than offset by an increase in net realized gains as portfolio managers sold securities that were held in a positive mark to market position to the active management of invested assets. In January 2020, 150 million

of the 2015 A-1 series bonds were redeemed at par resulting in a \$1.5 million gain that was included in the net realized gains.

As of June 30th, 2020, Citizens' unrealized gains on investments were approximately \$310 million. Total assets in surplus remain well positioned to meet any potential claim payment obligations that may arise due to hurricanes and continued growth in Citizens' policy count. If there are no questions, that concludes my report, Mr. Chairman.

Chairman Dunbar: That is great, Jennifer. Does anyone have any questions?

Governor Holton: No questions.

Chairman Dunbar: Governor Brown, you are muted. There you go.

Governor Brown: I don't have any questions. Just a comment. It looks like we over the last few years positioned the portfolio really well. I think the duration is good and you may have gotten some stuff rolling off. You are getting a good rate of return. So, it is hard to do in this low rate environment. So, I compliment you on that. Thank you.

Jennifer Montero: Thank you.

Chairman Dunbar: All right. Anybody else --I think that is the end of our agenda. Does anyone else have anything for the good of the order? No?

Governor Holton: Nothing here.

Chairman Dunbar: Okay, well, then I will make a motion to adjourn.

Governor Holton: Move to adjourn.

Chairman Dunbar All right, without objection, let's show the meeting adjourned. Thank you everyone.

Jennifer Montero: Thank you.