

ACTION ITEM

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Audit Committee Meeting, July 13, 2021
Board of Governors Meeting, July 14, 2021

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

Contract ID	Audit Committee Meeting Minutes March 2, 2021
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 March 2, 2021 Audit Committee Meeting Minutes to provide opportunity for corrections and historical accuracy.
Recommendation	Staff recommends the review and approval of the March 2, 2021 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 2, 2021.**

The Audit Committee of Citizens Property Insurance Corporation (“Citizens”) was convened at 12.30 pm on Tuesday, March 2, 2021.

The following members of the Audit Committee were present:

Chairman Bette Brown
Governor Marc Dunbar
Governor Carlos Lopez-Cantera
Board Chairman Carlos Beruff

The following Board members were present:

Governor Reynolds Henderson
Governor Scott Thomas
Governor Lazaro Fields

The following Citizens Staff were present:

Jay Adams	Eric Addison	Francisco Aristiguieta
Christine Ashburn	Ximena Baquerizo	Violet Bloom
Kelly Booten	Chuck Bowen	Candace Bunker
Mathew Carter	Jennifer Dilmore	TJ Dubocq
Jessica Dubois	March Fisher	John Fox
Brittany Fuzia	Chelsea Garfield	Barry Gilway
Stephen Guth	Jorge Hallon	Deena Harrison
Sarah Harrell	Shari Hamilton	Jerilyn Hauger
Clifford Haynes	Lynn Hewitt	Sheila Hilton
Anthony Huebner	Mark Kagy	Spencer Kraemer
Bethany Kocher	Paul Kutter	Derek Leonard
Lingmin Jiang	Patrick Lynch	Joe Martins
Cassandra Marcus	Belinda Miller	Jennifer Montero
Alden Mullins	Ray Norris	Michael Peltier
Wendy Perry	Jeremy Pope	Meagan Rector
Juan Carlos Rivera	Robert Sellers	Gary Sharrock
Mike Sills	Angela Smith	Nancy Staff
Jill Stafford	Betty Veal	Catharine Wadkins
Barbara Walker	Mike Walton	Marsha Watson
Brian Weaver	Karen Wittlinger	Andrew Woodward
Nick Zelaya		

The following were also present:

Brian Smith, Dixon Hughes Goodman	Mike Deas, Dixon Hughes Goodman
Janet Hartman	Dillon Harrell
Rick Jain, Tech Army LLC	Joel Meyer, SBA FL
Sheryl Parker FLOIR	Dave Newell, FAIA
Denisha Sword, My Florida.com	Rebecca Griffiths, My Florida.com
Aimee Coleman, FSU	Tamaa Paterson, Jeffries

Call Meeting to order

Barbara Walker: Chairman, you have a quorum.

Chairman Brown: Thank you, Barbara. Well, welcome everybody. You guys did a great job of putting us in a room safely and combining the rest of the Board for today and tomorrow, and I appreciate that effort. It can't have been easy. So, let's go ahead and I will ask for a motion to approve the Minutes of the December 15th meeting, please.

Board Chairman Beruff: So, moved.

Governor Dunbar: Second.

Chairman Brown: Hearing no objection, that motion passes. Joe Martins, you are recognized. Could you give us your report, please?

Joe Martins: Good morning Governors. For the record I am Joe Martins, the Chief of Internal Audit. I would like to refer you to page 1 of Executive Summary. I have provided an overview of the audit progress and noted that 32 percent or seven of the projects scheduled for the period have been completed. So, following the previous meeting we finalized two engagements. With the Contingent Workforce Audit, we confirmed that the contingent worker policy and procedures were appropriately designed and consistently managed. We noted an opportunity to improve the contingency worker annual review process to ensure that assignment extensions are properly approved. For the IT Security and Risk Incident Response Exercise, we provided advice and feedback regarding the exercise objectives, management's observations from the exercise and the completeness of plan documents. We currently have 8 engagements in progress, and I highlight an audit of Commercial Underwriting Compliance to assess the adequacy and effectiveness of controls in place to meet statutory underwriting requirements. The Appraisal Process Audit will assess process adequacy and effectiveness. With the Cloud Migration Program Review Internal Audit will provide insight related to risks and controls associated with the migration of applications and infrastructures to cloud services and evaluate project governance. System Application logging is required to provide an audit trail of business and system transactions. We wanted to access and correlate events that may require additional research and follow up. With the Logging Monitoring Audit, we will assess whether appropriate logging practices have been implemented and event monitoring is occurring across many platforms.

An additional seven audit engagements are planned to commence in Q2. These include three project advisories, namely the procurement of Claims Litigation Management System, the implementation of Claims Consultant's litigation management recommendations, and an analysis of current underwriting staffing models. The other four engagements are scheduled audits and will focus on the evaluation of process and control strength. These include an audit of Citizens' Insurance Services, Application and Infrastructure Standards, the Compliance Program and IT Service Management. Internal Audit recently appointed Juan Carlos Rivera as an Internal Audit Manager. Juan Carlos is a qualified attorney; he has extensive claims litigation management experience and will initially focus exclusively on claims litigation processes.

For the control deficiencies Internal Audit is tracking five observations of which two are high impact. Both high rated open items relate to the recent OFAC audit and significant progress has been made by the affected business units through the completion of a series of risk assessments

and understanding the scope of the initiative required to develop a business appropriate OFAC program.

The Internal Controls team continues to work closely with the business units, ensuring that the Internal Control Framework remains current and that annual control, self-assessments are completed properly. During 2020, 102 primary controls were assessed by management throughout the organization. The results from these control self-assessments indicate that 93 of the primary controls are effectively designed and operating as intended, while opportunities were noted to improve control design for nine of the primary controls. Next slide, please. The Enterprise Risk team partners with business areas to deliver forward looking and insightful risk perspectives. In February Enterprise Risk facilitated the 2021 Strategic Risk Assessment with the Executive Leadership Team. Results from this assessment are being confirmed with each risk owner and action plans are being recorded. The complete list of risks will be provided to the committee at the July meeting.

The next two slides focus on two action items. Before we continue, I would like to ask if there are any questions? (No questions asked.)

Joe Martins: Thank you, Madam Chairman. I wish to refer to 2-B of your pack titled Action Item Audit Committee Charter. 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 with legal and regulatory requirements, independent auditors' 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 to consider necessary. The Office of Internal Audit completed the review of the charter against industry best practices and Citizens' Statute and found the charter to be appropriate and have no suggested changes. Madam Chairman, if there are no questions, I will read the recommendation.

Chairman Brown: There are no changes to the charter. Do any of the members have questions of Joe before he reads the recommendation? Go ahead, Joe.

Joe Martins: Staff recommends that Citizens' Audit Committee approve the Citizens Audit Committee Charter for presentation to the Board of Governors at the next meeting on March 3rd, 2021.

Barbara Walker: Chairman Brown, before you take that vote, we are joined now by Governor Lopez-Cantera.

Chairman Brown: Great. Let me ask, Governor Lopez-Cantera, do you have any questions about the charter that we are about to vote on? There are no changes to it. The recommendation is no change.

Governor Lopez-Cantera: No, thank you.

Chairman Brown: Okay, great.

Joe Martins: We would like the vote.

Board Chairman Beruff: Motion.

Chairman Brown: Thank you. Is there a second? Is there a second?

Governor Dunbar: Second.

Chairman Brown: Okay, with no objection then this motion passes. Thank you.

Joe Martins: I wish to refer you to tab 2-C of the pack titled Action Item, Office of the Internal Audit Charter. The Charter in accordance with Florida Statute establishes the Internal Audit activities, positions within the organization, including the nature of the Chief Internal Audit functioning reporting relationship to the Board; authorizes access to records, personnel and to physical properties relevant to the performance of the engagements and defines the scope of Internal Audit's 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 Internal Audit found the Charter to be appropriate, that no suggested changes. Madam Chairman, if there are no questions, I will read the recommendation.

Chairman Brown: Go ahead and read it, please.

Joe Martins: Staff recommends to the Citizens' Audit Committee approve the Office of Internal Audit Charter as presented.

Board Chairman Beruff: Madam chair.

Chairman Brown: Go ahead.

Board Chairman Beruff: Thank you. So, there is no change in this either?

Joe Martins: That is correct, sir.

Board Chairman Beruff: Motion to approve.

Chairman Brown: There is a motion to approve. Is there a second?

Governor Dunbar: Second.

Chairman Brown: Who was that second? I couldn't hear who that was.

Governor Brown: Marc Dunbar.

Chairman Brown: Good, thank you. Without objection, we will pass that motion. Thank you.

Joe Martins: Thank you, this concludes my report.

Chairman Brown: Okay. Joe, did I miss it and you talked about the Contingent Workforce Audit Report?

Joe Martins: I did mention that.

Chairman Brown: I am sorry, all right. I wanted to make sure we covered that because I didn't hear. So, thank you very much.

Mr. Martins: Thank you.

Chairman Brown: Nice to see you again. Jennifer Montero, you are on. Nice to see you, too.

Jennifer Montero: Thank you. Good afternoon. 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 4Q 2020 Results of Operations and Financial

Position, provides an overview of Citizens' unaudited financial position, including cash flows, invested assets and surplus, as well the operational results for the period ending December 31st, 2020. While the document titled 4Q 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 December 31st, 2020, Citizens held consolidated cash and invested assets of \$8.7 billion, a decline of 133 million from the prior year. The majority of the reduction in cash invested assets was due to the January 2020 bond redemption and scheduled June 2020 bond principal repayment. Consolidated surplus on December 31st, 2020 was 6.4 billion or 124 million more than the prior year and was largely driven by consolidated 2020 net income of approximately the same amount. Consolidated direct written premium for year end 2020 was 1.2 billion or 34 percent greater than year-end 2019. This is the result of an increase in new policies written in Dade, Broward and Palm Beach Counties, along with increases in renewal rates largely due to the temporary payment exceptions and deferral of certain underwriting procedures in response to the COVID-19 crisis. As of December 31st, 2020, consolidated ultimate direct losses and LAE related to Hurricane Irma were 2.27 billion, reflecting 110 million or five percent increase compared to 2019. Of the 110 million of its adverse developments, 73 million was in the personal lines account, with the majority of development related to LAE cost. The coastal account experienced a total of 35 million of adverse development with the majority of development on the coastal residential claims. And the CLA experienced 2 million of development. The primary driver of the development for the personal lines and coastal residential claims was the increase in the ultimate litigation rate. It increased from 17.7 percent to 21.8 percent in the personal lines account, and 10.2 to 12 percent in the coastal account.

Board Chairman Beruff: Excuse me, Madam Chair.

Chairman Brown: Yes, go ahead, sir.

Board Chairman Beruff: Could you repeat those percentages again?

Jennifer Montero: Sure. For the personal lines account, it was the increase in ultimate litigation from 17.7 percent to 21.8 percent, and in the coastal account it was 10.2 percent to 12 percent.

Board Chairman Beruff: Thank you.

Jennifer Montero: Sure. Of the 2.2 billion of Hurricane Irma losses and LAE across all three accounts, 935.8 million is recoverable under Citizens' reinsurance contracts with both the FHCF and private reinsurance. Consolidated ultimate direct losses and LAE related to Hurricane Michael were 150 million as of December 2020, reflecting no change from 2019. There are no reinsurance recoverable related to Hurricane Michael as the attachments levels of the reinsurance arrangements were not met. Total losses and LAE associated with Hurricane Sally and other minor storms in 2020 were 51.6 million at December 31st. With Hurricane Sally comprising approximately 97 percent of total losses and LAE. There were no reinsurance recoverable related to these 2020 storms as the attachment levels of the reinsurance arrangements also were not met.

Board Chairman Beruff: Excuse me, Madam Chair.

Chairman Brown: Go ahead.

Board Chairman Beruff: Are those numbers on -- what page are those numbers on that you are reading from, because they're not on the screen?

Chairman Brown: They're in the commentary. If you turn to page 3.

Board Chairman Beruff: Page 3 of what?

Chairman Brown: Of the comments, behind tab two, it is the second document.

Board Chairman Beruff: Tab two.

Jennifer Montero: It's the Word document versus the Excel.

Governor Dunbar: Jennifer, this is Marc. Just for what it is worth, did the other members of committee get the written narrative that you put together for me?

Jennifer Montero: No.

Governor Dunbar: Chair, well, I guess both Chairs, it may be worth it. Sometime back I asked Jennifer to give me a copy of the written narrative that she reads from for these meetings, and it is very helpful to me, because it is a lot of material and it is presented very quickly. You all may want to be added to that distribution list, because it allows you to read it the night before and then be able to go through the packet with a little more color, just for whatever that is worth.

Jennifer Montero: I am happy to do that.

Chairman Brown: Thanks Marc, Governor Dunbar. I think I have got one in my folder. So, I am reading -- she is on page 3, so yes. Is everybody on page 3 of the written, because I think that is where we are? Okay. Super, go ahead.

Jennifer Montero: Okay, great. Current accident year losses and LAE unrelated to hurricanes and sinkholes did not experience meaningful variances from the prior quarter as development on prior accident year losses and LAE was as expected. Although litigated non-weather water claims continue to be a dominant driver of losses and LAE activity within the personal lines account, the litigation rate for accident years 2018, '19 and '20 continue to show improvement in comparison to accident years 2014 through 2017. Within the commercial lines account losses and LAE related to sinkhole claims relatively unchanged. However, volatility in older non-sinkhole claims have the potential to contribute to material quarterly variances and the reported loss and LAE ratios in future periods. Administrative expenses incurred in 2020 of 124.5 million were .5 million more than expenses incurred in 2019, and 9.4 million less than budget. Variances in contingent staffing from budget were primarily due to lower than anticipated needs for independent adjusters within the litigated and disputed claims unit. For the year ended December 31st, 2020, Citizens' expense ratio was 20.3 percent, reflecting a four percent decrease from 2019 and a 5.1 percent decrease compared to budget. Total investment income in 2020 was 266.6 million or 16.8 million greater than 2019, while total average invested assets declined 250.5 million or three percent. The decrease in earned income of 27.4 million was principally driven by significant reductions in interest rates during 2020, as well as reductions in tax exempt holdings resulting from the scheduled maturities of certain outstanding bond obligations. However, the decreases in earned income was more than offset by the increase in net realized gains as portfolio managers sold securities that were held in positive market: to market positions through the active management of invested assets to align portfolios to take advantage of market conditions. In January 2020, 150 million of the 2015 A-1 series bonds were redeemed at par prior to their scheduled maturity

date resulting in a \$1.5 million gain that was included in that realized gains. With the close of 2020, Citizens continued to maintain a strong financial position despite the moderately active 2020 hurricane season and operational impacts associated with COVID-19 and the affects that it has had on our policyholders. If there are no questions, that concludes my report.

Chairman Brown: Members, any questions of Jennifer.

Board Chairman Beruff: Madam Chair.

Chairman Brown: Yes, sir.

Board Chairman Beruff: Jennifer, so what was our operational income?

Jennifer Montero: Our underwriting income?

Board Chairman Beruff: Yes. It would have been a loss, right?

Jennifer Montero: It was -- actually it was 3.1 million loss.

Board Chairman Beruff: So, our operations lost \$3.1 million in the fiscal year?

Jennifer Montero: That is correct.

Board Chairman Beruff: Okay. And then our investment income was how much?

Jennifer Montero: The investment income was --

Board Chairman Beruff: It is two categories, right?

Jennifer Montero: Right. 266.6 million.

Board Chairman Beruff: And the reason we had an operational loss this small is because the increased premium collected on the 100,000 policies?

Jennifer Montero: My apologies, my apologies, I was actually just pulling that from one account. The actual underwriting loss was 98 million.

Board Chairman Beruff: So -- and that loss was actually offset because how much additional premiums have we collected since we had the ramp up in additional policies?

Jennifer Montero: That is correct, with the --with that \$98 million loss and then you add in the investment income, you come out to a net income of 128.9 million.

Board Chairman Beruff: All right, I am a little lost there, but I am a little slow.

Jennifer Montero: It is the difference between the 266 million --

Board Chairman Beruff: 66 minus 98 should give you about \$170 million in income, not 128.

Jennifer Montero: Well, the 128 takes into effect the interest expense, the realized gains, the net investment income, and then other income and expense is a million. So, it is a little off.

Board Chairman Beruff: So, the 266 in investment income is more than offset by the \$98 million in --

Jennifer Montero: Correct. There are other interest expenses in there.

Board Chairman Beruff: To further reduce that Delta of 170 million.

Jennifer Montero: That is correct.

Board Chairman Beruff: Okay. So operationally we lost \$100 million, 98 million.

Jennifer Montero: 98.3 million.

Board Chairman Beruff: Thank you, I just wanted to make sure. Because when you first said 3 million, I am going that is not what I had in my head. Thank you very much.

Jennifer Montero: You are welcome.

Chairman Brown: Good questions. Any other questions of Jennifer?

Jennifer Montero: That concludes my report, thank you.

Chairman Brown: Thank you very much. So, I think we have someone from Dixon Hughes on the phone. Would it be Brian, or would it be Mike?

Brian Smith: Yes, Brian Smith is here.

Chairman Brown: Brian Smith is on the phone. Hi, Brian, how are you.

Brian Smith: Doing well.

Chairman Brown: Great. Are you ready to give your external audit report?

Brian Smith: We are. It will be brief. We are in the middle of our interim procedures and we will complete our audit for the Citizens' Financial Statement Audit on May 15th. So, our report today is just a verbal status update to communicate we have completed our planning and scoping and interim procedures. We have nothing to report today. No findings today and we are on target to complete by May 15th. We will as a remainder engage Merlinos & Associates as an external actuarial firm to evaluate the Citizens' reserves, and then as far as specialists we will also include valuation specialist for our investment valuations. Other than that, we are on target to complete. We will begin our year end procedures the first week of April and we will be in the field for about four weeks of auditing procedures, and we will issue our opinion and our report to the Audit Committee on May 15th, and then our assumption is we will communicate that verbally at the next Audit Committee meeting which I believe is scheduled for July 13th.

Chairman Brown: I am having a little trouble hearing you. So, you will be ready to present in July, is that what you said?

Brian Smith: That is correct.

Chairman Brown: Great, thank you. Any questions of Brian? Hearing none, we will move along. Thank you, Brian, appreciate it.

Brian Smith: Thank you.

Chairman Brown: Looking forward to seeing you in person soon hopefully. Okay. New business, is there any new business to come before the group?

Governor Lopez-Cantera: I have a question, Madam Chair.

Chairman Brown: Yes, sir, go ahead.

Governor Lopez-Cantera: It is actually not necessarily related to the Audit Committee, but I figured since I had you, I could ask you. I noticed something on tomorrow's agenda in the first group under the Chairman's report that you are going to be doing something about the role of the Board and the staff. I was curious of any insight.

Chairman Brown: Just some comments, yes.

Governor Lopez-Cantera: Comments?

Chairman Brown: Yes.

Governor Lopez-Cantera: Okay. That is, it, just comments?

Chairman Brown: We will talk about it tomorrow.

Governor Lopez-Cantera: Okay, I am looking forward to it.

Chairman Brown: Okay, anything else to come before the group?

Governor Lopez-Cantera: Motion to adjourn.

Chairman Brown: Okay, thank you, we are adjourned.

(Whereupon the meeting was adjourned.)