

## Approval of Audit Committee Minutes

**ACTION ITEM**

**New Contract**

**Contract Amendment**

**Other** \_\_\_\_\_

**CONSENT ITEM**

**Contract Amendment**

**Existing Contract Extension**

**Existing Contract Additional Spend**

**Previous Board Approval** \_\_\_\_\_

**Other** \_\_\_\_\_

**Action Items:** Items requiring detailed explanation to the Board. When a requested action item is a day-to-day operational item or unanimously passed through committee it may be moved forward to the board on the Consent Index.

**Move forward as Consent:** This Action item is a day-to-day operational item, unanimously passed through committee or qualifies to be moved forward on the Consent Index.

**Consent Items:** Items not requiring detailed explanation to the Board of Governors. Consent items are contract extensions, amendments or additional spending authorities for items previously approved by the Board.

<b>Item Description</b>	Audit Committee Minutes Meeting September 21, 2021.
<b>Purpose/Scope</b>	Review of the September 21, 2021 Audit Committee Meeting Minutes to provide opportunity for corrections and historical accuracy.
<b>Contract ID</b>	N/A
<b>Committee Recommendation</b>	Staff recommends the review and approval of the September 21, 2021 Audit Committee Meeting Minutes.
<b>CONTACTS</b>	Joe Martins, Chief of Internal Audit.

**CITIZENS PROPERTY INSURANCE CORPORATION  
TRANSCRIPT OF THE MINUTES OF THE AUDIT COMMITTEE MEETING  
HELD TUESDAY, SEPTEMBER 21, 2021.**

The Audit Committee of Citizens Property Insurance Corporation (“Citizens”) was convened at 1:00PM on Tuesday, September 21, 2021.

**The following members of the Audit Committee were present:**

Chairman Erin Knight  
Board Chairman Carlos Beruff  
Governor Scott Thomas

**The following Board members were present:**

Governor Lazaro Fields  
Governor Nelson Telemaco

**The following Citizens Staff were present:**

Eric Addison	Christine Ashburn
Violet Blook	Kelly Booten
Matt Carter	Tim Cerio
Jennifer Dilmore	Bonnie Gilliland
Barry Gilway	Jennifer Montero
Joe Martins	Michael Peltier
Jeremy Pope	Barbara Walker
Andrew Woodward	

**The following were present:**

Brian Smith, Dixon Hughes Goodman (telephone)  
Dave Newell, FAIA

**Call Meeting to order**

**Barbara Walker:** Good afternoon, and welcome to Citizens' Audit committee meeting that is publicly noticed in the Florida Administrative Register to convene at 1:00 p.m. Those in attendance through the public link are automatically in listen only mode. Video today is scheduled as presentation viewing only. Citizens' Board and committee meetings are recorded with transcribed Minutes available on our website. Thank you for identifying yourself prior to addressing the committee. May I proceed with roll call?

**Chair Knight:** Yes.

**Barbara Walker:** Thank you. Chairman Knight.

**Chair Knight:** Present.

**Barbara Walker:** Board Chair Beruff.

**Board Chair Beruff:** Present.

**Barbara Walker:** Governor Thomas.

**Governor Thomas:** Present.

**Barbara Walker:** Chairman Knight, you have a quorum.

**Chair Knight:** Thank you. Good afternoon. I would like to call the September 2021 Audit Committee Meeting to order. Our first item of business is approval of the July 13th, 2021 Minutes. Is there a motion?

**Governor Thomas:** So moved.

**Chair Knight:** Any discussion?

**Board Chair Beruff:** No discussion.

**Chair Knight:** The Minutes are approved. Mr. Martins, I would like to invite you to share your executive report.

**Joe Martins:** Thank you, Madam Chair. Good afternoon, Governors. I would like to refer you to page 1 of the Executive Summary where I provide an overview of audit progress and noted that 52 percent of scheduled projects during the period have been completed. Since the previous meeting we have finalized seven engagements and I highlight an advisory on the use of in-house counsel where Audit provided information and insights of different models and approaches for management's consideration should they choose to expand the role of the in-house counsel. We also completed an audit focused on procedures deployed to manage the billing and financial accounting, impact of the Policy Cancellation Moratorium, and an audit of Citizens' Insurance Services which is Citizens' in-house agency. For both audits we concluded that effective processes and controls were observed. Three project advisories were also completed. These focused on the Cloud Migration Program and Implementation of House Bill 1079 and Senate Bill 76. As part of Citizens' COVID compact response group, Internal Audit independently validates and certifies the identification and notification of individuals potentially exposed through contract with Citizens' independent adjusters, and a number of those certifications has occurred during the period. We currently have 10 engagements in progress spanning across most areas of the organization, including audits of Clearing House Operations, an audit of the Effectiveness of the Corporate Compliance Program managed by the Compliance Officer, and the Evaluation of the Payable Process and related controls following recently implemented system enhancements. We assess the implementation of system and application logging and monitoring to ensure that appropriate advanced monitoring is occurring, and a post implementation audit of the Agency Management System, myAgency. We also have three advisories and two project support engagements currently in progress.

On page 5 of the summary, we have an additional three audits planned to commence later during Q4. These include the audits of the Application and Infrastructure Standards and Conformance, Check Printing Software Implementation, and the Rate Override Technology. These will be the last audits we will commence this year. Audit also monitors and tracks the implementation of corrective action associated with findings, and we look at findings from internal audits, the Office of Insurance Regulation and the Auditor General. The only items we currently have in the pack are from Internal Audit. There are a number of findings that we will bring to the next meeting that came from the Auditor General's report that we will report on then. We have not included these yet. And we are currently tracking three open observations of which one is a high impact observation that refers to an audit that we did on OFAC, and management is keeping a close eye on the implementation of the open items. And in general, open items are addressed fairly quickly, and these two open items that we have in the OFAC area are also satisfactory.

We also have two vacancies for the Internal Audit function that are currently being recruited. Also, my responsibility is focused on internal control and enterprise risk. Internal Control is responsible for maintaining and monitoring Citizens' internal control framework. We are monitoring 119 identified primary controls throughout the organization, of which 107 are currently being assessed by the business units through the self-assessment process and will be completed by early November. The Enterprise Risk team facilitates, enables, and partners with the business areas to develop forward looking and insightful risk perspective that supports decision-making. We are currently monitoring 19 risks which are strategic risks and 366 operational risks, and upon request we facilitate cross functional project and scenario risk assessments to enable risk placed decision and a proactive mitigation of risks. We also completed the implementation of our audit risk and control modules of the Office of Internal Audit's new integrated Governance Risk and Control system which is Auditboard. The system provides a centralized risk and control repository with self service capabilities for the business units to update audit issue progress, risk and control information and assessments, and reporting. Finally, every five years Internal Audit should obtain an external quality assessment by a qualified independent reviewer to confirm conformance with the Institute of Internal Audit Code of Ethics and the IIA standards. The assessment has been scheduled for October this year. As part of the process, the assessor has to interview the Audit Committee Chair and Executive Leadership, and these interviews will be scheduled soon. Thank you, madam chair, that concludes my report if there are no questions.

**Chair Knight:** Any questions? I have two questions. On the logging and monitoring, can you expand upon that, what the employees are logging into, each and every system?

**Joe Martins:** The logging and monitoring audit is an application that is deployed within every application that we have, which is a logging application, and it tracks and creates an audit trail of when people access an application, what they have done on the application, and then the organization should monitor that access. It gives you the ability to monitor access and should something go wrong you can always go back and see if it is operating as well as it should be. In the audit we are going to assess whether logging and monitoring has been activated for most of the important systems that we have and whether there is appropriate monitoring of those logs on an ongoing basis.

**Chair Knight:** Thank you. And regarding the OFAC item, what is the timeline for developing the compliance program?

**Joe Martins:** The business unit recently came back to us and asked for an extension to the end of November, which we agreed on. It was September the 30th. There are quite a lot of changes throughout the organization which include system and process changes that are ongoing. I have a system director to assist with the managing of the OFAC legal requirements and to assist further with the compliance and assessments of the primary controls. So that person will be starting I think not this week, next week, and then after that I think the corrective action will commence fairly soon.

**Chair Knight:** Thank you.

**Joe Martins:** Thank you.

**Governor Thomas:** I did have a question, Mr. Martins if I could. On the work in progress, the reference to the Claims Litigation Management System procurement. Maybe you can't tell us much because it is part of the procurement process and it's still in progress, but I am an observer on that. I know kind of the litigation folks' involvement in it. What is the audit? What are we looking at from your perspective?

**Joe Martins:** So from our perspective we are mainly focused on the requirements, specifically focused with the system requirements specified in the procurement, and are those requirements in alignment with E&Y suggestions and alignment with what the business unit expects, and then also Audit had some previous audit findings that we wanted to make sure that those requirements have been included in the procurement, and we are fairly comfortable at this point in time that the procurement traces all of the requirements that we would expect it to have in it. Strictly from the procurement perspective, Audit doesn't really have a direct influence given the practice that we have and the legislation that is around that, but that is really the focus that Audit has is to ensure that the requirements that we have from that procurement have been included in the procurement itself and are sufficient.

**Governor Thomas:** One reason I ask is I know all of these sorts of L and S systems have a substantial sort of built-in to manipulate data. So I didn't know if we were looking at it just from the standpoint of compliance with the requirement or in terms of utility for you as well.

**Joe Martins:** When you look at the requirements some of those that are associated to the data and the access to the data and the ability to manipulate the data to actively assess the productivity and billing of the vendors. So that is an area that we did focus on when we looked at the requirements.

**Governor Thomas:** Thank you.

**Chair Knight:** No further questions, thank you. I will call Ms. Montero for the Chief Financial Officer report.

**Joe Martins:** Thank you.

**Chair Knight:** Thank you. Good afternoon.

**Jennifer Montero:** Hello, good afternoon. Behind tab three are the materials that I will be discussing; the document titled 2Q, 2021, Results of Operations and Financial Position, and then the 2Q, 2021 Results of Operations, Financial Position - Commentary. And it is the commentary that I will be providing a summary of information contained in the commentary document. At June 30th, 2021, Citizens held consolidated cash and invested assets of 9.1 billion reflecting an increase of approximately 363 million from December, 2020. This increase was driven by the increase in cash flows from operations largely as a result of an increase in written premium. Consolidated surplus at June 30th, 2021 was 6.6 billion, making an approximate increase of 121 million from December 31st. Consolidated direct written premium for the first six months of 2021 was 839 million, an increase of 287 million from the same period a year prior, and 158 million greater than budgeted. Although new business rates in 2021

continue to trend below the new business rates in 2020, an increase in new policies written largely within Dade, Broward and Palm Beach Counties contributed most significantly to the overall increase in written premium. As of June 30th, 2021, consolidated ultimate direct losses in LAE related to Hurricane Irma were 2.27 billion, reflecting no change from 12 December 31st, 2020. Of the 2.27 billion of Hurricane Irma ultimate loss in LAE across all accounts, 936 million is recoverable under Citizens' reinsurance contracts with both the Cat Fund and private reinsurers, and we have billed about 700 million. We have collected 100 percent of what has been billed. Consolidated ultimate direct losses in LAE related to Hurricane Michael were a 150 million as of June 30th, reflecting no change since December 2020. There are no reinsurance recoverables related to Hurricane Michael as the attachment levels of the reinsurance arrangements were not met. Consolidated ultimate direct losses in LAE of smaller storms that impacted Florida in the latter part of 2020 increased 9.3 million from March 31st, 2021, to 154 million. This increase was the result of an increase in litigated claims for Tropical Storm Ada. No ceded recoverables were recorded due to the losses in LAE not meeting the attachment levels of reinsurance arrangements. Current accident year loss in LAE unrelated to hurricanes and sinkhole did not experience meaningful variance from the prior quarter, as development of prior accident year losses in LAE was expected. 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 for '18, '19 and '20 continue to show improvement in comparison to accident years 2014 through 2017. With accident year 2021 showing the lowest percentage of litigated rates in recent history. Within the commercial lines account, losses in LAE related to sinkhole claims were relatively unchanged, however, the volatility in the older sinkhole claims have the potential to contribute to material quarterly variances in reported loss in LAE ratios in future periods. Administrative expenses incurred during the first six months of 2021 were 67 million or 1.5 million more than the same period in 2020, and 7.5 million less than budgeted. For the six months ended June 30th, 2021, Citizens' expense ratio was 17.4 percent, reflecting a 4.2 percent decrease from the same period in 2020, and a 3.5 percent decrease compared to budget. The total investment income during the first half of 2021, was 111 million or 30 million less than the same period in 2020, despite a marginal increase in total invested assets. The decrease in investment income was principally driven by decreases in overall interest rates in the decline in net realized gains. With the 2021 reinsurance program in place together with Citizens' current level of highly liquid financial resources, Citizens entered the 2021 hurricane season with ample resources to meet the needs of its policyholders. And that concludes my report, and I will pause for any questions. Thank you.

**Chair Knight:** Thank you. I will just call your attention to tab four which is the Office of Inspector General quarterly report which is for information only. Is there any new business? Okay, I would like to adjourn the September 21st Audit Committee Meeting.

**Governor Thomas:** So moved.

**Chair Knight:** Thank you.

**Chair Beruff:** So moved.

(Whereupon the meeting was adjourned.)