

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.

Item Description	Audit Committee Minutes Meeting December 14, 2021.
Purpose/Scope	Review of the December 14, 2021 Audit Committee Meeting Minutes to provide opportunity for corrections and historical accuracy.
Contract ID	N/A
Committee Recommendation	Staff recommends the review and approval of the December 14, 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, DECEMBER 14, 2021.**

The Audit Committee of Citizens Property Insurance Corporation ("Citizens") was convened at 1:00PM on Tuesday December 14, 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 Nelson Telemaco
Governor Marc Dunbar (by telephone)

The following Citizens Staff were present:

Jay Adams	Eric Addison	Christine Ashburn
Violet Bloom	Kelly Booten	Matt Carter
Tim Cerio	Jennifer Dilmore	Brian Donovan
Bonnie Gilliland	Barry Gilway	Mark Kagy
Paul Kutter	Jennifer Montero	Joe Martins
Alden Mullins	Ray Norris	Michael Peltier
Jeremy Pope	Barbara Walker	David Woodruff
Andrew Woodward		

The following were present:

Brian Smith, Dixon Hughes Goodman
Sam Wishard, Dixon Hughes Goodman
Dave Newell, FAIA
Kapil Bhatia, Raymond James

Call Meeting to order

Barbara Walker: Good afternoon, and welcome to Citizens' Audit committee, December 14th, 2021, 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. Citizens Board and committee meetings are recorded with transcribed Minutes available at our website. Thank you for identifying yourself prior to addressing the committee. I will proceed with roll call to establish quorum. Chairman Knight?

Chair Knight: Present.

Barbara Walker: Governor Beruff?

Governor Beruff: Present.

Barbara Walker: Governor Thomas?

Governor Thomas: Present.

Barbara Walker: Chair Knight, you have a quorum.

Chair Knight: Thank you. Good afternoon, everyone, I would like to call the Audit Committee meeting to order, with the first item on the agenda, approval of the September Minutes.

Governor Beruff: I move to approve.

Governor Thomas: Second.

Chair Knight: Okay, motion passes, and I would like to call Mr. Martins from the auditor's office to provide his report.

Joe Martins: Thank you, Madam Chair. Good afternoon, Governors. For the record, I am Joe Martins, the Chief of Internal Audit. I would like to refer you to page 1 of the executive summary where I provide an overview of audit progress and noted that 54 percent of the projects scheduled for the period have been completed. Since the previous meeting we finalized seven engagements and I highlight. We monitored the process followed with the procurement of the Claims Litigation Management System and provided advisory support where requested. We completed the audit of Clearinghouse processes. Results indicated that although the processes implemented are not very efficient, control functions implemented are effective and are working adequately. An audit of the Compliance Program confirmed several sound business practices are in place and highlighted some opportunities where processes could be enhanced and strengthened. Specifically, the audit also noted that the governance and oversight component of the compliance program needs to have clear assigned roles with accountability and authority within the organization. Our audit of Financial Services Payable processes confirmed that there are effective business processes and controls in place. Two minor observations were shared with management and process enhancements are underway. The Logging and Monitoring audit confirmed logging has been implemented in most systems and various types of monitoring are performed for operational and security purposes. An opportunity was noted to elevate the maturity level of logging and monitoring governance practices. Two advisory engagements were also completed. These related to the EY implementation project and to a review of the Underwriting Staffing Analysis process. We currently have five engagements in progress, including audits of myAgency which follows the successful implementation of the agency management system, and we will evaluate the adequacy and effectiveness of processes and controls deployed. Rate Override Technology, policy center now enables authorized underwriters to correct system generated premium for new business and for renewal policies. Premium changes are necessary under certain circumstances, such as rate capping adjustments to maintain Citizens' glide path. Since the process has changed significantly Internal Audit will validate the control structure and ensure the controls are working as intended. We also have one advisory and two project support engagements in progress. An additional four audits are planned. These include audits of the Application and Infrastructure Standards and Conformance, Employee Benefit, Manage Repair Program, and the Underwriting Quality Assurance Process.

For control deficiencies Internal Audit is tracking five observations of which two are of high impact. All open items are being worked on and progress is assessed monthly. The high impact item added to the last quarter refers to governance oversight of the Compliance Program within Citizens. Management agreed with the results, and the Ethics and Compliance Officer will work with relevant stakeholders to collaboratively create an overarching compliance governance plan that incorporates the audit suggestions. The International Standards for the Professional Practice of Internal Auditing require that the internal audit activity complete a quality assurance review at least once every five years to verify conformance to the Standards. The last QAR was completed

in 2014. Clifton Larsen Allen (CLA) specializes in QARs and completed the review for us. The results from the review were very positive with CLA concluding that the OIA activity is in General Conformance with the Standards which is top rating that can be achieved in a QAR. CLA noted some strengths as well as areas of improvement. The improvement opportunities noted refer to completion of a formal internal assessment of conformance to the Standards. The Office of Internal Audit will develop and complete our first assessment during Q4 2022. Adherence to the five-year requirement for external quality assessment, completion of this QAR review brings Internal Audit in conformance. Annually confirm and document whether any conflicts of interests exist between Internal Audit staff and the company. Following the QAR, we created a formal document that will ensure that staff completes attestation during Q1 every year. And finally, we should consider opportunities to educate the audit committee on their role and responsibilities to Citizens. We recently sought a vacant IT audit director role. The successful candidate, Ajay Kumar also officially joins the Internal Audit at the beginning of January 2022. Ajay is currently employed in Citizens' IT division as the Manager Systems Application Development Business Intelligence. We also have two vacancies, one for a business audit manager, and the second for an IT audit manager, and we are actively recruiting to fill those roles.

The internal control team is responsible for maintaining and monitoring Citizens' Internal Control Framework. We are monitoring 119 primary controls, of which 106 are currently being assessed with the business units through the control self-assessment process. One process refresh is currently underway and 12 are being planned. Sixty individuals within the business units that are responsible for performing and for reviewing control effectiveness, have been trained on the use of our AuditBoard GRC system. The business areas are utilizing self service capabilities to complete and document the control self-assessments within the system. The Enterprise Risk team facilitates and enables and partners with the business unit to deliver forward looking and insightful risk perspectives that support decision-making. The 2022 annual strategic risk assessment with the Executive Leadership Team is scheduled for Q1. The objective is to identify risks that may adversely impact Citizens' ability to achieve strategic objectives and key strategic initiatives within the next 12 to 18 months. 316 operational risks have been assessed across the organization and there are no operational risks with a high-risk residual impact. We are currently monitoring 19 strategic risks, 366 operational risks, and upon request we facilitate cross functional project and scenario risk assessments designed to enable risk-based decisions and the proactive mitigation of risks.

Behind tab two I refer you to the first sub tab where we have an action item entitled "2022 OIA Strategy Plan and Budget". The action item seeks committee approval for the 2022 Office of Internal Audit Strategy Plan and Budget. The plan was developed using a risk-based approach to understand and assess Citizens' operations and associated risks and the objective of the plan is to provide the most timely and comprehensive scope of audit, risk and control coverage by using the resources available to the Office of Internal Audit. The Internal Audit team follows a detailed annual planning process and prepares a themes-based audit plan which considers the possibility of dynamic risk fluctuations and process changes throughout the year. This decision states a reorganization of the audit process and scope so that the appropriate audit focus is always given to important strategic and operational issues and risks. Throughout the year the audit plan continues to evolve to support our dynamic risk environment, focusing on current and emerging reputational compliance, operational information technology and financial risks. To achieve the greatest impact internal audit rebalances audit activities in a rolling audit plan to ensure adequate focus is given to Citizens' strategic issues and critical processes. Internal Audit documented seven

specific audit themes which consolidates and provide high level insights into the years' audit focused areas. As the year progresses the Internal Audit will use its quarterly rolling risk assessment process to identify engagements to be selected for every reporting period. The Enterprise Risk team will continue to facilitate and enable risk assessments from five different perspectives. Namely strategic risks, operational risks, fraud risk, project risk and scenario risk. The Internal Controls team will continue to ensure consistency and sustainability of internal control framework throughout the organization while expanding consultancy of services to include advise and anti-fraud controls. The 2022 Office of Internal Audit budget presented is 3.42 million as compared to 3.33 million budgeted for 2021. I highlight that staffing will remain static next year. Salaries and benefits and continued staffing remain static. Actually, we will fill internal audit vacancies during the first half of the year. Training is based on the dollar allocation to staff member to upkeep professional CPE requirements and develop professionally. The legal services are traditionally a placeholder should the Department need to use external legal services. Professional services reflect anticipated consulting services and the use of a firm in support of the execution of audits while we are replacing and training newly recruited staff following the retirement of both IT auditors. Software management and licensing mainly reflects licensees for our GRC system. Madame Chair, if there are no questions, I would like to read the recommendation.

Chair Knight: Are there any questions on the strategic plan and budget?

Joe Martins: Staff recommends that the Citizens Audit committee approve the 2022 Office of Internal Audit Strategy and Plan and approve the 2022 Office of Internal Audit Budget as presented.

Governor Beruff: Move to approve.

Governor Thomas: Second

Chair Knight: All in favor.

Joe Martins: Thank you, Madame Chair, that concludes my report.

Chair Knight: Thank you. Ms. Montero, Welcome.

Jennifer Montero: Hello. Behind tab three of the audit book, you will find the third quarter financial statements along with a commentary, and I will be providing a summary of the information contained within the commentary document. As of September 30th, 2021, Citizens held consolidated cash in investments, invested assets of 9.3 billion reflecting an increase of approximately 590 million from December 31st, 2020. This increase was driven by an increase in cash flows from operations, largely as a result of increase in the written premium. Consolidated surplus at September 30th was 6.5billion marking an approximate increase of 93.4 million from December 31st. Consolidated direct written premium through the third quarter of 2021, was 1.4 billion, an increase of 471.8 million from the same period a year prior, and 309 million greater than budget. Although new business rates in 2021 continue to trend below 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. Premium ceded through reinsurance including premiums ceded to the Florida Hurricane Catastrophe Fund of 445.6 million, were 217.8 million more than premium ceded in 2020. The increase in exposure driven mainly by an increase in policy count was the main driver of the year over year increase. As of September 30th,

consolidated ultimate direct losses in LAE related to Hurricanes Irma and Michael were 2.27 billion and 150 million respectively, reflecting no change from December 31st, 2020. Of the 2.27 billion of Hurricane Irma loss in LAE across all accounts, 936 million is recoverable under Citizens' reinsurance contracts with both the Cat Fund and private reinsurers. 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 \$5 million from June 30th to 158 million. This increase, all of which was LAE was the result of an increase in litigated claims, whereby approximately 20 percent of all personal line claims from Tropical Storm Ada have entered litigation. No ceded recoverables were recorded due to the losses in LAE not meeting the attachment levels of the reinsurance agreements. Current accident year losses for LAE unrelated to hurricanes and sinkholes did not experience meaningful variance from the prior quarter. A development of prior accident year losses in LAE was as expected. Although litigated non-weather water claims continue to be a dominant driver of the loss in LAE activity within the personal lines account, the litigation rate for accident years 2018 through '20 continue to show improvement in comparison to accident years 2014 through 2017. With the accident year 2021 showing the lowest percentage of litigation rates in recent history. Through the third quarter of the combined loss in LAE ratio for the personal lines account was below budget due to this continued improvement in litigation rate for water claims and the reductions in the severity of the claims. Similar to the personal lines account, the combined loss adjustment expense ratio for the coastal account approximated the budget due to favorable litigation trends on water claims. Within the commercial lines account, losses in LAE related to sinkhole claims were relatively unchanged. However, volatility and the older non-sinkhole claims have the potential to contribute to material quarterly variances in the reported loss in LAE ratios in future periods. Administrative expenses incurred through the third quarter of 2021 were 99.2 million or 5.5 million more than in the same period in 2020, and 8.2 million less than budgeted. For the nine-month period ended September 30th, Citizens' expense ratio was 16.9 percent, which reflects a 3.5 percent decrease from the same period in 2020, and a 3.2 percent decrease compared to budget. Total investment income through the third quarter of 2021, was 209.5 million, which is 3.4 million more than the same period in 2020. While average invested assets increased 317.4 million. The decrease in earned income of 16.1 million was principally driven by a significant reduction in interest rates during 2020, as well as reductions in tax exempt holdings resulting from the scheduled maturities of certain outstanding bond obligations. However, this decrease was more than offset by an increase of 19.5 million in realized gains, a significant amount of which was taken in July of 2021. Total assets in surplus remain well positioned to meet any potential claims payment obligations that may arise due to hurricanes and continued growth in Citizens' policy count. And if there are no questions, that concludes my report on the third quarter financials.

Chair Knight: I have a question regarding Tropical Storm Ada. What do you think was driving the increased litigation for that?

Jennifer Montero: The increased litigation in Ada?

Chair Knight: Yes.

Jennifer Montero: Well, it went through the Miami-Dade area. And that is usually where the litigation starts, but I can look that up and get back to you on that one.

Chair Knight: Probably, that is probably the answer. Any other questions?

Jennifer Montero: I will get that for you, thank you.

Chair Knight: Brian Smith here? External audit update. Hi, welcome.

Brian Smith: Good afternoon.

Chair Knight: Good to see you.

Brian Smith: For the record, Brian Smith with Dixon, Hughes, Goodman. I serve as the audit partner for Citizens for the 2021 audit. Joining me is Sam Wishard, he is our audit manager serving the account as well.

Chair Knight: Hi, how are you.

Brian Smith: Okay. We are here today to present our audit plan for the 2021 financial statement audit of Citizens. We do have a required communication to the audit committee. Certainly, ask any questions as we go through this. This is for our current procedures going for the year end audit. Our scope for the 2021 audit is to audit Citizens on both a statutory basis and government accounting standard, GAAP basis. We have started our interim field work. We have also completed our planning procedures. We will present some of those risks we have identified today to the committee. We intend to go back into the field in April of 2022, with the intention of completing our audit in middle of May, targeting a May 15th date of 2022. Going to the second page of our report, we start our audit looking at planning procedures related to internal controls. We look to identify the design and implementation of proper controls. However, we do not issue an opinion on those as we have not been engaged to. Next our procedures will go through and test certain material, accounts based on risks and processes, and once we are completed, we will communicate to the committee our interim procedures again for any findings in the spring Audit committee meeting, along with our findings when we are completed in the summer meeting. Some of the identified significant risks we have identified in our planning. First are investments related, relate to the evaluation of investments, looking for any impairment. We will engage a valuation specialist to assist us in those procedures. Next is any evaluation of reserves related to the IBNR that are incurred, but not reported loss reserves. The company generates those through assumptions and key estimates with an actuarial review. We will engage in a third-party actuary to assist us with those procedures. Next is the premiums and collection of premium accounts. We look for any risks related to cancellations or uncollectible premiums that simply around cut off at the end of the year. And lastly, looking at reinsurance risks related to key assumptions in a reinsurance account, whether that is material, profit sharing or certain structures around CAT bonds. And lastly, there is a risk associated with any company related to the management override and controls. We will do fraud inquiries and evaluate certain risks around management override. Our engagement team does include certain specialists and subject matter experts. Our IT team consist of Ryan Boggs, he is out of North Carolina and has assisted us on this account for several years and is very familiar with the IT function of Citizens. We will engage our own internal evaluation team for the investment portfolio. We will engage Merlinos & Associates as a third-party actuary to review the assumptions and estimates that management has put in for the loss reserves. And then lastly, any key reports coming out of the Internal Audit office that we can leverage or utilize in our planning function, we will look to do so. So that completes our report. Again, I am the audit engagement partner, Sam is our manager, and then we have Wesley McCloud continuing as our concurring partner and Ryan Boggs as our IT director.

Governor Beruff: Madam Chair if I may.

Chair Knight: Okay.

Governor Beruff: Thank you. How much of what you do for us is statutorily required by the State of Florida.

Brian Smith: Correct. So, we are required to issue an audit opinion on the statutory basis financial statements which those go to the, to the OIR, and then also our audit for the government accounting standards as utilized by the State of Florida for their financial statements.

Governor Beruff: So, what is your total cost to Citizens for what you do for us?

Brian Smith: Roughly \$300,000. There is a varying change every year based on the contract, but I can provide that to you if needed.

Governor Beruff: I think that is money well spent quite frankly with the amount of money we go through. Thank you, I don't have any further questions.

Chair Knight: Thank you.

Brian Smith: You are welcome, thank you.

Chair Knight: For reference behind tab five we have the Office of Inspector General's quarterly report for the third quarter for informational purposes. Ms. Montero?

Jennifer Montero: Jay Adams, our Chief Claims officer has informed me that the majority of the litigation in the PLA account related to Tropical Storm Ada is due to a roof decline. They're suing when we deny their roof claim, and then AOB is also part of that, but the majority are the declines, the roofs that we declined.

Chair Knight: All right, thank you. Is there any new business?

Governor Beruff: None for me.

Chair Knight: Okay.

Governor Thomas: None for me.

Chair Knight: Well, this concludes our Audit committee meeting, and we will stand adjourned.