

## 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 March 22, 2022.
<b>Purpose/Scope</b>	Review of the March 22, 2022 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 March 22, 2022 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, MARCH 22, 2022**

A meeting of the Audit Committee of Citizens Property Insurance Corporation ("Citizens") was held at 2:00 p.m. on Tuesday, March 22, 2022, in Lake Mary, FL.

The following members of the Audit Committee were present:  
Board Chairman Carlos Beruff (acting as Audit chair)  
Governor Scott Thomas

The following members of the Board were present:  
Nelson Telemaco  
Jillian Hasner  
Lazaro Fields  
Jason Butts

The following Citizens Staff were present:  
Jay Adams                      Eric Addison  
Christine Ashburn          Andrew Woodward  
Violet Bloom                  Kelly Booten  
Brian Donovan                Bonnie Gilliland  
Barry Gilway                  Mark Kagy  
David Woodruff                Joe Martins  
Jennifer Montero              Michael Peltier  
Barbara Walker

The following were also present:  
Brian Smith, Dixon Hughes Goodman  
Sam Wishard, Dixon Hughes Goodman  
Kapil Bhatia, Raymond James

**Call Meeting to order**

Barbara Walker: Good afternoon, and welcome to the Citizens' Audit committee, March 22nd, 2022 meeting that is publicly noticed in the Florida Administrative Register to convene at 2:00 p.m. Those in attendance through the public link are automatically 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. May I proceed with roll call?

Chairman Beruff: Please do, thank you.

Barbara Walker: Chairman Knight is unable to attend today, and Chair Beruff agreed to chair the Audit Committee. Governor Beruff.

Chairman Beruff: Here.

Barbara Walker: Governor Thomas.

Governor Thomas: Here.

Barbara Walker: You have a quorum, Chairman.

Chairman Beruff: Thank you. We are going to go ahead and approve the prior meeting Minutes. Do we have a motion?

Governor Thomas: A motion and a vote from me.

Chairman Beruff: Do we have a quorum, or do we need one or what?

Barbara Walker: There are three on the committee, sir. So, you have a quorum.

Chairman Beruff: So, two out of three, we are good. Okay, thanks. The motion carries, thank you. Mr. Martins, you are up.

Joe Martins: Thank you, Mr. Chairman. Good afternoon, Governors. For the record, I am Joe Martins, Chief of Internal Audit. I would like to refer you to tab two, page 1 of the Executive Summary where I provide an overview of audit progress and noted that 41 percent of the projects scheduled for the period have been completed. So, at the previous meeting, we finalized four engagements and I highlight the check printing software implementation where we evaluated user access configuration to confirm that appropriate processes and controls are in place to monitor and manage user access and provisioning of the new tech printing software. We also validated the system users are appropriately segregated with the process and noted some realignment is needed with information, and the system access management policy. This was discussed with Management and remediation was implemented. With the claims and litigation, legal services guidelines in response to suggestions made by E and Y in the claims litigation review participated with management and provided input in their revision of these outside counsel guidelines. The draft of the revised guidelines was completed by the business and the project team and provided to management for review. An audit of the revised and automated rate override process indicated that the process is well designed, and adequate controls are in place to ensure that proper use and clear rules, guidelines, and procedures are in place for when qualifying premium rate changes occur. Every year the internal audit actively participates and supports the implementation of process changes resulting from Legislative changes. With the implementation of Senate Bill 1598 requirements, we participated in the project and provided oversight and guidance where appropriate.

Next slide, please. We currently have 11 engagements in progress which includes four audits and seven project support engagements. The project support engagements referred to initiatives where Internal Audit provides proactive support and either the assessment or development of new workflows and processes for the implementation of newly purchased systems and related process changes. The four audits we engaged in refer to Managed Repair program which is a customer-focused turnkey service that returns the customer's property to pre-loss conditions and helps to reduce the rising cost of water litigation. The service is provided through a third-party vendor which manages fourth party contractors to repair the policyholder's property. Internal audit will assess the vendor's contracted due diligence, management of contractors, after job quality inspections, contract assignment process, and handling of customer complaints. In addition, Internal Audit will review the MRP strategy and objectives, program performance, and the presence of embedded controls in the process to ensure operational failures are mitigated. The agency management system was implemented in 2020. The platform supports the tracking and monitoring of agents' licenses, commissions, performance, investigation, complaints, and key performance indicators. Internal Audit will

evaluate the adequacy and effectiveness of controls related to agency management processes and its application by reviewing agent appointments, reappointments, and renewals, agency suspension, and terminations, book of business transfers, system interface controls, system defects handling, access to assess the setup of electronic funds transfers for commission payments, provision, and de-provisioning of agents, and licensed customer service representatives.

Next, Citizens' moved to a self-insured health care benefits strategy in 2017 which so far produced approximately \$2 million in savings to the organization and fund participants. Through the production of administrative reduction of administrative expenses. With this program significant reliance is placed on the third-party vendor who provides Citizens with loss history analysis and benefit plan consulting, to help with program administration. In addition, this information is relied on to adequately budget and plan payments of medical claims and administrative expenses. The success of the process relies on key controls performed by vendors supporting the self-insured health plan which could negatively impact the program status if not working effectively. Internal Audit will evaluate the adequacy of the process by assessing policies and procedures, compliance with regulatory changes, securing of confidential health data, quarterly reserving, stop-loss insurance, payment of claim and administrative expenses, and the ability of participants. The personalized underwriting quality assurance program is intended to provide a review of the personalized underwriting tasks in accordance with procedures. Due to the challenges of the Florida market, Citizens experienced significant growth in personalized policies and increased staffing. Internal Audit will evaluate the adequacy and underwriting quality by assessing the elements included in the quality assurance program, the frequency of program reviews and updates, communication to underwriting management, actions taken, and results of the process.

Next slide, please. An additional nine audit engagements are planned to start in the next quarter. These include the audits of the application infrastructure standards and conformance. ELT and OKR metrics, House Bill 1079 post-implementation, Senate Bill 76 post-implementation, suspense account management, and vulnerability and patch management.

Next slide, please. For open items, Internal Audit is tracking four observations of which one is of high impact. The high impact issue added in 2021 refers to governance and oversight of compliance programs within Citizens. All of these open items are being monitored and managed by management.

Next slide, please. The Enterprise Risk team facilitates, enables, and partners with business areas to deliver forward-looking and insightful risk perspectives that support decision-making. The 2022 annual risk assessments with the Executive Leadership Team were completed in January. The objective was for us to identify risks that may adversely impact Citizens' ability to achieve strategic objectives and key strategic initiatives over the next 12 to 18 months. Results from the assessment and mitigation will be shared with the committee in July. We also monitored 342 operational risks across the organization, and there are no operational risks for the high-risk residual rating.

Next slide, please. The Internal Control team is responsible for maintaining and monitoring Citizens' internal control framework. We are monitoring 116 primary controls. 2021 was the second year that 100 percent of the control self-assessments were performed by control champions and managers while the Internal Control team provide consultant support and performed quality reviews. Results from the 2021 management control self-assessments indicated that the majority of the controls are effectively designed and operating as intended.

Ten of these controls indicated minor opportunities for improving the strength of the control design and/or improving the processes. Progress on implementing a corrective action is being monitored. One of the primary controls was assessed as unable to conclude as results would not be definitively determined. The Internal Control team is providing additional consulting to the business area to more accurately determine whether the items noted were isolated events or opportunities to strengthen the control.

Thank you, Mr. Chairman, that concludes my report if there are no questions.

Chairman Beruff: Thank you, Mr. Martins. Any questions?

Jennifer Montero: Behind tab three of your audit materials, you will find the December 31st unaudited financial statements. December 31st, 2021, Citizens held consolidated cash and invested assets of \$9.1 billion reflecting an increase of approximately \$366 million from December of 2020. This increase was driven by an increase in cash flows from operations, largely as a result of an increase in written premium. The consolidated surplus at December 31st was \$6.5 billion, marking an approximate increase of \$85 million from December 2020. Consolidated direct written premium in 2021 was \$1.8 billion, an increase of \$632 million from 2020, and \$435 million greater than budget. Although renewal rates in 2021 continue to trend below renewal rates from 2020, an increase in new policies written largely within the Dade, Broward, and Palm Beach Counties contributed most significantly to the overall increase in the written premium. Approximately 50 percent of all new personal line policies written in 2021 were from those three counties. Premium ceded through reinsurance, including premiums ceded to the Florida Hurricane Catastrophe Fund of \$452 million was \$225 million or 99 percent more than premiums ceded in 2020. The increase in exposure driven mainly by an increase in policy count was the main driver for the year-over-year increase. As of December 31st, 2021, consolidated ultimate direct losses in LAE reported for Hurricanes Irma and Michael were \$2.4 billion and \$150 million respectively, reflecting an increase of \$124 million for Hurricane Irma only from December 31st, 2020. Of the \$2.4 billion of Hurricane Irma's ultimate loss in LAE across all accounts, \$1 billion is recoverable under Citizens' reinsurance contracts with both the Cat Fund and the private reinsurers. There is no reinsurance recoverable related to Hurricane Michael as the attachment levels of the reinsurance arrangements were not met. Net loss and LAE development on Hurricane Irma, Tropical Storm Ada, and Tropical Storm Sally in 2021 was \$197 million. Development on pending claims in litigation on reopened claims for Hurricane Irma contributed to \$49.3 million of the net adverse development. Tropical Storm Ada which contributed \$132.3 million in adverse development experienced a significant volume of late opened or late reported claims, in addition to a high level of litigation. Current projections indicate that approximately 40 percent of all Tropical Storm Ada claims will enter litigation. Similar to Tropical Storm Ada, Tropical Storm Sally experienced an increase in the number of projected claims and contributed \$15.8 million in adverse development during 2021. No ceded recoverable were recorded for Tropical Storms Ada or Sally due to the losses in LAE not meeting the attachment levels. Current accident year loss in LAE unrelated to hurricanes and sinkholes did not experience meaningful variances from the prior quarter as the development of prior accident year losses in LAE were as expected.

The 2021 accident year non-catastrophe loss in LAE ratios across all three accounts showed significant improvement in comparison to prior years. The dominant driver behind the improvement in loss in LAE was a continued downward trend in litigation rates which continues to be the single most important factor in non-cat loss in LAE. Within the commercial lines account losses in LAE related to sinkhole claims were relatively unchanged. However, volatility and 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 in 2021 were

\$130 million or \$6 million more than 2020, and \$9 million less than the budget for the year ended December 31st, 2021, Citizens' expense ratio was \$16.6 percent reflecting a 3.7 percent decrease from 2020, and a 3.4 decrease compared to budget. Total investment income in 2021 was \$264.7 million, approximately the same as in 2020, while the average invested assets increased by \$339 million.

Chairman Beruff: Ms. Montero, you said that the expenses were 9 million dollars less than budgeted. Can you explain why?

Jennifer Montero: The administrative expenses were \$9 million less than budget, yes. I have the information, but I might have to get some help on what was actually driving it.

Chairman Beruff: It's a big number.

Jennifer Montero: Yes. If you look on page 5 of the first, the actual financials you will see a list of the administrative expenses broken out. You will see the December '21, the December '20, and then the budget.

Chairman Beruff: Is that on the annual report? I am still trying to find 5 of 5. I am a little slow.

Jennifer Montero: It's the first document behind tab three. Within the audit materials because I think you have got a combined book.

Chairman Beruff: Okay. I am on 5 on 5, okay.

Jennifer Montero: Okay, so that is the list of administrative expenses broken out by category. The total in December '21 was \$130 million, and the budget was 139. So professional services was under budget. I am looking for the big ones just to pop out. Software maintenance licensing was under.

Chairman Beruff: Professional service is the big one it looks like, eight million as opposed to 12.

Jennifer Montero: Yes, we budgeted 12.3.

Chairman Beruff: 4.2, but that is under that is almost half of what we are looking for or I am looking for. Then there is an employee benefits is roughly 2.4 million, right?

Jennifer Montero: Yes, and contingent staffing is 60 -- well, that one is over actually, 62 versus 58.6. But those are the big ones.

Chairman Beruff: And contingent staffing is over which makes sense because obviously the book of business is growing, so you have to add more staffing.

Jennifer Montero: Operations and maintenance was 1.6, budget was 2.6.

Chairman Beruff: Yes, so there is another million. It is almost real money.

Jennifer Montero: And we can get you more detail on any of these that you would like, Mr. Chairman.

Chairman Beruff: 1,000 on travel.

Jennifer Montero: Yes, COVID, okay. Thank you. That is 9 million is real money. I just want to know where it went or where we saved it. That is a good thing, we saved the money.

Chairman Beruff: Thank you.

Jennifer Montero: Sure.

Chairman Beruff: Please go ahead.

Jennifer Montero: Sure. So back to the investment income. The total investment income in 2021 was \$264.7 million which is approximately the same as in 2020. While invested the average invested assets increased \$339 million. The decrease in earned income of \$16.1 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, this decrease is largely offset by an increase of \$15.9 million in realized gains, a significant amount of which were taken in July of 2021. Heading into the 2022 hurricane season, Citizens' total assets in surplus, together with the 2022 budgeted reinsurance program help ensure adequate claims-paying resources to meet any potential claims payment obligations that may arise due to hurricanes and continued growth in Citizens' policy count. If there are no more questions, that concludes my report.

Chairman Beruff: Mr. Thomas.

Governor Thomas: Nothing from me, Mr. Chairman.

Chairman Beruff: Thank you, Ms. Montero.

Jennifer Montero: Thank you.

Chairman Beruff: Next at bat, Mr. Smith.

Brian Smith: Good afternoon.

Chairman Beruff: Good afternoon.

Brian Smith: Our report from Dixon Hughes Goodman, Brian Smith for the record. Very brief today. We have completed our planning and interim procedures for the external audit for Citizens. At this point, we have no findings to communicate to the Audit Committee. We are on track to complete our audit by May 15th roughly, it is about the time we will plan to issue our report. As a reminder, we have engaged Merlinos & Associates, an actuarial firm to assist with the testing of audit reserves or insurance reserves and that is in process. That is it for our report today but will take any questions you may have during the interim time.

Chairman Beruff: Very good, thank you.

Brian Smith: Thank you.

Chairman Beruff: Inspector General, we don't have any issues to reference, we are done. We will close this committee and we are next on to the next one.

Barbara Walker: Great, thank you, Sir.

(Whereupon the meeting was concluded.)