

## 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 July 12, 2022
<b>Purpose/Scope</b>	Review of the July 12, 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 July 12, 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, JULY 12, 2022.**

The Audit Committee of Citizens Property Insurance Corporation (“Citizens”) was convened at 1:00 PM on Tuesday, July 12, 2022.

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, FORVIS  
Sam Wishard, FORVIS  
Dave Newell, FAIA  
Kapil Bhatia, Raymond James  
Mark Weinberg, Citi  
Trent Smyer, Gallagher Re  
John Generali, Wells Fargo

**Barbara Walker:** Good afternoon, and welcome to Citizens July 12th, 2022, Audit Committee meeting that is publicly noticed in the Florida Administrative Register to convene at 1:00 PM. It will be recorded with transcribed minutes available on our website. For those attending today's section through the public link, you are automatically in a listen-only mode.

**Chair Knight:** We have no speaker requests for today's meeting. Panelists, thank you for identifying yourself prior to addressing the committee. I will proceed with roll call. Chair Knight.

**Chair Knight:** Present.

**Barbara Walker:** Board Chair Beruff.

**Board Chair Beruff:** Present.

**Barbara Walker:** Governor Thomas.

**Governor Thomas:** Present.

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

**Chair Knight:** Thank you. Welcome everyone, it is nice to see you. I would like to call the second quarter Audit Committee meeting to order. Our first matter of business being approval of the prior meeting minutes from March 22<sup>nd</sup>.

**Board Chair Beruff:** So, moved.

**Governor Thomas:** Second.

**Chair Knight:** Okay. Assuming all in favor, we will pass the approval of the minutes, and I would like to welcome Mr. Martins for the Executive Summary and following reports.

**Joe Martins:** Thank you, Madam Chair. Good afternoon, Governors. I would like to refer you to page 1 of the Executive Summary behind tab two, where I provide an overview of audit progress and noted that 37 percent of the projects scheduled for the period have been completed. Since the previous meeting, we completed seven engagements and I highlight audits of the Managed Repair Program where we evaluated program efficiency and how objectives are being met. Our work indicated that there is effective management oversight to ensure that the MRP network contractors meet industry and quality standards. We discussed two low-rated observations for which action plans have been put in place.

With the post-implementation review of My Agency, we assessed the effectiveness of the system's adequacy of its functions and controls. We noted several favorable practices and highlighted the strengthening controls of user access and monitoring of changes to the electronic funds' transfer account details. An audit of the self-funded benefit plan confirmed that there are effective business processes and controls in place to ensure adequate management of the Citizens' self-insurance health care plan. We highlighted the need to obtain vendor systems and organization controls, and SSU reports, as SSU reports provide assurance of the effectiveness of the vendor control processes.

The audit of underwriting control validated that there are effective processes and controls in place to monitor the transactions and performance of underwriting. The availability of real-time

performance strength metrics provides for immediate actionable improvement and better communication between units which enhances underwriting performance. Internal Audit also performs a variety of activities to prevent, detect, and respond to occupational fraud in the organization's programs and operations. These activities include anti-fraud training and awareness supporting enterprise risk on fraud risk implication and occupational fraud risk review, targeted audits, and anti-fraud analytics. Every quarter we run approximately 50 different types of data analysis throughout the organization and assess the results and trends. Following this quarter's analysis, we conducted a targeted audit of some payroll transactions and scheduled a targeted audit of certain personal expense actions. None of these reviews indicated any wrongdoing but provides assurance that our control infrastructure remains strong.

Next slide, please. We currently have 12 engagements in progress which includes six audits and six project advisory engagements. The project support and advisory engagements refer to initiatives where Audit provides proactive support in either the assessment or development of new workflows and processes of the implementation of newly purchased systems and related process changes. The audits we engage in refer to the application infrastructure standards conformance audit. We will review high-risk application infrastructure components against IT security and targeting standards to validate compliance.

Monthly the Enterprise Performance Metrics team constructs and publishes the Executive Leadership Team metrics reports. The ELT metrics report is used by management to monitor organizational progress and make important business decisions. The internal audit will assess the adequacy and effectiveness of controls related to data quality and accuracy. House Bill 1079 was introduced during the 2021 legislative session. The Bill makes several changes relating to the evaluation, management, and oversight of competitively procured contracts for commodities and contractual services. Internal Audit will validate that the required components of the Bill have been implemented into the daily processes to ensure regulatory compliance. Senate Bill 76 which became effective on July 1, necessitated changes in processes, procedures, and workflows in many business units, particularly Claim operations. The internal audit will evaluate the effectiveness and adequacy of the control processes, procedures, and workflows implemented by Claims management in response to the Bill's requirements. Managing cyber risks includes identifying, evaluating, resolving, and reporting security vulnerabilities in systems and software. The processes and corresponding threat mitigation are important to minimize the attack surface and actively manage the risks within the network environment. The purpose of the vulnerability and path management audit is to review implemented policies, practices, and procedures to ensure that the processes are working as intended to close security gaps promptly and reduce risks to an acceptable level. Advisory support will also be provided for the rollout of the holistic inspection program and the implementation of this year's legislative changes.

Next slide, please. Additionally, an additional four audits are planned to start the next quarter. These include the audits of the Distributed Workforce, suspense account management, third-party technology risks, and will also be providing support to the Office of Insurance Regulation with a biannual market conduct exam that will start shortly.

Next slide, please. For the open items, Internal Audit is tracking five observations, of which one is of high impact. The high impact issue added in the last year refers to governance and oversight of the compliance program within Citizens. All of the open items are being worked on and progress is assessed monthly.

Next slide, please. We have four action items for consideration by the committee. We are

presenting two charters, the Audit Committee charter as well as the Office of Internal Audit charter for review and approval. Both charters are presented to the committee annually for approval and after approval, the Audit Committee charter goes to the Board for consideration. The Audit Committee charter sets out the authority of the committee to fulfill responsibilities established by the Board of Governors. 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 compliance, the independent audit 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 the members of management, employees, and information it considers necessary to fulfill its duties. I completed a review of the charter against industry best practices and the Citizens statute and with minor changes, found the charter to be appropriate. As for the Office of Internal Audit charter, the charter defines the Internal Audit activities' purpose, authority, and responsibility. The charter by Section 624-351(6)(i) of the Florida Statutes establishes the Internal Auditor's activities, and position within the organization including the nature of the Chief of Internal Audit's functional reporting relationship to the Board, authorizes access to records, personnel and physical properties relevant to the performance of engagements, and defines the scope of Internal Audit activities. I completed the review of the charter against industry best practices and to Citizens' statute. Following the review, some structural changes were made to the charter, of which none appeared to materially change the role of the Chief of Internal Audit and the Office.

Madam Chair, if there are no questions, I will read the recommendation.

**Chair Knight:** Any questions? Okay, go ahead.

**Mr. Martins:** Staff recommends that the Citizens' Audit Committee approve the Citizens Audit Committee charter for presentation to the Board of Governors at the next meeting and approve the Office of Internal Audit charter as presented.

**Board Chair Beruff:** So, moved.

**Governor Thomas:** Second.

**Joe Martins:** Thank you.

**Chair Knight:** The motion carries.

**Joe Martins:** Internal Audit operations are also governed by two policies. The Internal Audit policy 801 and the Open Audit Observation Management Policy 802. Both these policies have been periodically reviewed and changes were last approved by the committee in March 2019. The Internal Audit policy informs the organization of the purpose and authority of the Internal Audit office and clarifies expectations throughout the organization. My review indicated that minor changes were needed to align the policy with current practice, but none of the changes are material. The Open Audit Observation Management Policy informs the organization of the need to have an audit observation management process and ensures that management action plans have been effectively implemented and clarify audit and business expectations and responsibilities. My review indicated that changes are needed to align the policy with current practice. None of the changes were material and were mainly structural in nature. Madam Chair,

if there are no questions, I will read the recommendation.

**Chair Knight:** Any questions?

**Joe Martins:** Staff recommends that the Citizens Audit committee approve changes made to both the Internal Audit, Policy 801 and the Open Audit Observation Management Policy 802.

**Board Chair Beruff:** So, moved

**Governor Thomas:** Second.

**Chair Knight:** Okay, motion carries.

**Joe Martins:** Next slide, please. The alignment of the Internal Control team in 2014 and the Enterprise Risk team in 2017, with the responsibilities of the Chief of Internal Audit, created the unique opportunity to develop a strong collaborative assurance approach. This provided the ability to gain a holistic picture of the principle of risks and the level of risks and residual exposure that Citizens is required to manage through risk mitigation and a strong control environment. This involves aligning and optimizing Citizens' structure over the management of those risks and core business activities in line with the risk appetite and support risk oversight and risk-taking. It promotes shared risk intelligence and accountability with a common goal of strengthening the organization's risk management and oversight.

Our recent acquisition of a single governance risk control through AuditBoard provides a better opportunity to work beyond the traditional functional boundaries to honest collective risk intelligence across the organization and to optimize assurance without impairing the independence of any one of the functions involved. With me is Deena Harrison the Director of Enterprise Risk Control who will take us through the role that both Enterprise Risk and Internal Controls fulfill in Citizens.

**Chair Knight:** Welcome, Ms. Harrison.

**Deena Harrison:** Thank you. Good afternoon, my name is Deena Harrison, Director of Risk and Control. Next slide, please. The Enterprise Risk team facilitates, enables, and partners with risk champions and management throughout Citizens to identify, assess, and mitigate risks. A high-level overview of Enterprise Risk is included in the Executive Summary on pages 1 and 2 to provide awareness of Citizens' strong risk culture and the progress that we have made in maturing our Enterprise Risk Management framework to support daily operational decision-making through strategic performance. Citizens Enterprise Risk Management framework was established in 2017. The framework provides a consistent and structured approach to identify, assess, and mitigate risks across the organization. The framework is also integrated within various corporate policies. Collaboration is a key component to the success of Enterprise Risk. As highlighted on pages 1 and 2 of the Executive Summary behind tab three, we continue to receive strong support from all levels in each division. Annually the Executive Leadership Team participates in a risk assessment to identify Citizens' top strategic risks. Risk champions have been designated for each process area or division. Ongoing operational risk assessments are performed for 80 business processes across Citizens. Management has embraced the framework and frequently requests Enterprise Risk support in facilitating project and scenario risk assessments. Our project risk assessments provide a risk-based approach to assist with the prioritization of resources and ongoing mitigating activities, while the scenario risk assessments assist the organization with preparing for emerging risks. These proactive cross-functional risk

assessments result in insightful and engaging discussions on risk mitigation strategies. Cross-functional participation enables a comprehensive view of risks in mitigation plans. Examples of project risk assessments include compliance with various regulations, such as House Bill 1079 and OFAC, as well as system implementation such as My Agency. The most recent scenario risk assessment focused on market conditions. Enterprise Risk collaborates with a Strategic Evaluation group, Strategy and Planning, IT Security and Risks, Compliance and Ethics, and Enterprise Resiliency. Individuals from each of these groups participate in cross-functional risk assessments as needed, present risk updates to the Risk Steering Committee, and connect through recurring touch point meetings to promote transparency, leverage resources, and ensure that Citizen's higher-rated risks are appropriately mitigated. Examples of collaborative efforts include aligning risks to Citizens' strategic themes and initiatives and to applicable laws, rules, and regulations. Enterprise Risk team members are included in various enterprise work groups and committees to provide support to the organization and proactively identify and mitigate risks. Governance is provided by the Risk Steering Committee and ongoing ELT support. The Risk Steering Committee meets at least quarterly and provides oversight in managing exposure to significant risks. Our President, Mr. Gilway, serves as the Chair and the committee is comprised of five ELT members. The remaining ELT members regularly attend and actively participate in the meetings.

Next slide, please. To reflect the progress in our internal practices and to align with changes in external guidance, the Enterprise Risk management framework was revised in June. A copy of the updated framework is located behind Appendix C. The framework provides an overview of Enterprise Risk management, reinforces roles and responsibilities, and summarizes the various perspectives that comprise our risk profile. Provides details on our risk assessment processes, including evaluation criteria, responses, monitoring, and reporting, and describes the governance and oversight structure.

Next slide, please. Citizens' top risks are highlighted on page 4 of the Executive Summary. During the first quarter, Enterprise Risk facilitated the completion of the 2022 strategic risk assessment with the ELT. A total of 16 strategic risks were identified and assessed by estimating the potential impact or severity level the risk event may have on Citizens should the event occur and considering the probability of occurrence. Our top risks are market instability, rate differential, acquisition of reinsurance, claims abuse, external influences, catastrophe response, and data security and privacy. Risk descriptions are included in the Executive Summary on page 4. In Q2, mitigation plans were updated or executed as necessary. For example, mitigation summaries for two of the top risks, market, and stability, and cat response are included in Appendices A and B.

Next slide, please. Page 5 of the Executive Summary includes our current risk assessment results and plans for Q3. As of June, 337 operational risks have been identified and assessed. Operational risks are rated as inherent without consideration of controls and residual with consideration of controls. Currently, there are no high-rated operational residual risks. Operational risk assessments are periodically updated to ensure our risk profile remains current. Ten risk assessments were recently completed and four are currently in progress. Enterprise Risk recently completed a cross-functional pre-implementation risk assessment for the Fraud Analytic Software solution. Plans for Q3 include risk assessment updates to House Bill 1079

and market conditions scenario risk assessments, as well as the annual OFAC risk assessment.

This concludes the Enterprise report if there are no questions.

**Chair Knight:** Questions?

**Board Chair Beruff:** None for me Madam Chairman.

**Chair Knight:** Thank you.

**Deena Harrison:** Thank you. My next update is for Internal Controls. Next slide, please. The Internal Control team facilitates, enables, and partners with control champions and management to assess the design and effectiveness of Citizens' control infrastructure to support the achievement of business objectives and mitigate significant risks.

The Internal Control team facilitates an aligned approach to the recording and management of Citizens' primary controls through its software solution AuditBoard. The team also provides oversight, consultative support, and performs quality reviews. A high-level overview of Citizens' internal control framework, or ICF, is included on page 1 of the Executive Summary. Citizens' ICF was established in 2014, following a request from the Audit Committee to consider an approach through which Citizens can demonstrate the strength of its system of internal controls. The purpose and goal of the ICF are to strengthen enterprise governance and accountability, provide the basis for forming an opinion as to the effectiveness of the system of internal controls, and identify and work to improve the control maturity level of the organization. Management has been proactive in designating control champions, updating process documentation as needed, performing annual control self-assessments, and identifying and implementing process improvements to strengthen Citizens' primary controls. To reflect the progress of our internal practices and to align with changes in external guidance, the internal control framework was revised in June. A copy of the updated framework is located behind the Internal Control Executive Summary. The framework provides an overview of the ICF, reinforces roles and responsibilities, summarizes types of internal controls, and provides details on our control self-assessment process, including process narratives, monitoring quality reviews, and reporting. Our framework assessment life cycle shown on page 1 of the Executive Summary provides a proactive approach for the ongoing validation of the effectiveness of Citizens' primary controls.

Next slide, please. For each stage of the life cycle, we continue to mature the framework while focusing on providing collaborative assurance. Key results in relation to the life cycle are summarized on page 2 of the Executive Summary. Currently, 80 processes throughout Citizens are in scope for ICF. For each process, a risk assessment is performed, and a narrative is documented to assist in identifying primary controls. As of June, 85 percent or 68 risk assessments, have been completed, with the remaining plan for Q3 and Q4. Of the process narratives, 81 percent or 65 have been completed. Beginning in Q3 the Internal Control team will collaborate with management to develop the narratives and documentation for the remaining processes. Control champions and management performed annual control self-assessments for each primary control. For 2022, 101 primary controls have been identified and management control self-assessments are on track for completion by the end of the year. Control self-assessments are designed to validate the ongoing effectiveness of Citizens' primary controls and to proactively identify any areas of opportunity. The 2021 control self-assessment results indicated that 89 percent of primary controls are functioning as intended. For the 11 percent, process improvements are in progress or have been implemented to strengthen the controls.



Overall, since the inception of ICF, a total of 38 improvement opportunities have been identified and implemented to enhance the effectiveness of our primary controls.

Next slide, please. Pages 2 and 3 of the Executive Summary focus on our efforts to create and maintain a collaborative and engaging control identification and assessment environment across the organization. The ICF enables proactive self-assessments for the timely detection and correction of any areas of control deficiency. Additional benefits of the ICF include the ability to leverage control information for internal and external audits, additional support to demonstrate compliance is applicable, and oversight consultative support and education to enhance management and control champions' understanding of appropriate control design and validation techniques. The Internal Control team's collaborative approach includes periodic touch points with control champions to ensure the assessments remain relevant and continue to add value and partnerships with IT security and risks, ethics and compliance, and Enterprise Risk to align frameworks and share information. This concludes the Internal Control report if there are no questions.

**Governor Thomas:** If I could go back to the Enterprise Risk report. If I am looking at that correctly that we have got a risk assessment that has identified 16 strategic risks, seven were rated high. Can I get that report that identifies the 16 strategic risks identified?

**Deena Harrison:** Yes, we can give you a copy of this with the risk descriptions, and also in the Enterprise Risk framework on the very last page is a mapping of our strategic initiatives and themes and the list of the 16 risks are in there mapped to those initiatives, but this list will give you, has the description.

**Governor Thomas:** Perfect. I appreciate it. I don't need it right now, but I would like the background, thank you.

**Chair Knight:** Any other questions? Thank you.

**Joe Martins:** Thank you, Madam Chair, that concludes our presentation.

**Chair Knight:** Good afternoon, Ms. Staff.

**Nancy Staff:** Good afternoon. I am very pleased to be here. My name is Nancy Staff, I am the Director and Ethics and Compliance officer, and I am also a lawyer. I report to General Counsel and Chief Legal Officer Tim Cerio.

Next slide, please. I am happy to be here to let you know that we have enhanced our compliance program at Citizens, and it is in your packet. The compliance program framework is behind tab four, and I am going to give you a couple of highlights about it. It is a 10-page document, hopefully relatively easy to read, but one of the things that it does, and it makes it very clear, is that it complies with the principles set forth in the Federal Sentencing Guidelines and the ISAC standard 37.301 which is in regard to the corporate compliance program. I am sure you are probably all familiar with the Federal Sentencing guidelines, but there are certain elements that corporate compliance programs need to have, and while we have always had them here at Citizens, I feel strongly about that. They're now in a one-page document, sort of a one-stop shop. So, if an external stakeholder or an external auditor asks, what is your compliance program, we can hand them this. It documents this framework itself, documents our instrumental compliance functions throughout Citizens, including our very important compliance policies and roles and responsibilities of compliance actors. It also leverages collaborative

culture in my opinion. We are really good I think at working together towards a common goal, and compliance is owned by different folks in different divisions throughout Citizens, and this is the way to integrate all those different responsibilities into a holistic approach.

Next slide, please, thank you. So, to do so, the framework sets out some, well, enhances some defined roles and responsibilities for individuals. First, it clarifies the compliance champion's responsibilities and requires the continued use of the certification process. For those of you who are not familiar with that, we started the certification process in 2017. And what that is, is that every year business units, compliance champions, certify compliance in their area with all laws, rules, and regulations that apply. It has been very successful. We have very, very savvy compliance champions. Some have been champions from the very beginning, so we are building on that. And one of the ways we are doing that is we are going to enhance that network by adding some ex officio members to this group of individuals, and these ex officio members, while they may not necessarily certify compliance with substantive laws, they have very important roles at Citizens in the compliance arena. An example, you have got in the document, it tells you which function, but an example is for learning and development compliance training. We will have someone in this group that can represent that compliance function because it is very important.

And finally, also there is some responsibility to the Ethics and Compliance officer, that is me, and it has to do mainly with monitoring and reporting on the overall health of the compliance program. So, I will continue to do so and work with the Compliance Champions network to enhance that.

And finally, it documents the instrumental role of the Inspector General. The Inspector General by statute is responsible for some of the functions that are fundamental to a corporate compliance program, namely, complaint intake handling, the managing of the Tell Citizens hotline, as well as participating in a response and corrective action process, and you will hear more from the Inspector General in a little bit.

Next slide, please. Finally, the framework calls for enhanced monitoring and reporting, and what I am going to really try to do is to provide integrated holistic reporting to the Risk Steering Committee. I report to them once a quarter, as well as to this committee, at least once a year. I hope to identify with the help of the Compliance Champion network, I hope to identify existing metrics that we can corral and kind of make a holistic focus, and if we don't have them, we will develop them. One of the nice things is I think Joe, Mr. Martins just mentioned the GRC tools. I have access to those, so we will be able to integrate and work more closely with Internal Controls and Enterprise Risk to have a comprehensive approach, and I will continue reporting to the Risk Steering Committee and to this committee.

Next slide. And if you have any questions, I am happy to answer them, or you can contact me

whenever you like. No questions?

**Chair Knight:** No questions?

**Board Chair Beruff:** Not from me.

**Chair Knight:** Thank you for that overview, I appreciate it.

**Nancy Staff:** Thank you.

**Chair Knight:** Ms. Montero.

**Jennifer Montero:** Good afternoon. Hello. If you will turn to tab five you will find the March 31st, 2022, results of operations and financial position which provides an overview of Citizens' unaudited financial position, including cash flows, invested assets, and surplus, as well as the operational results for the period ending March 31st, 2022. The document that follows provides the commentary for those financial results, and I will be providing a summary of that commentary. As of March 31st, 2022, Citizens held consolidated cash and invested assets of 9.5 billion, reflecting an increase of approximately 336 million from December 31st. This increase was driven by an increase in cash flows from operations, largely as a result of an increase in written premium.

Consolidated surplus at March 31st was 6.7 billion, marking an approximate increase of 188 million from December 31st. The consolidated direct written premium for the first three months of 2022 was 554 million which is an increase of 214 million from the same period in 2021, but 39 million less than budgeted. The new business rates during the first quarter of 2022 was 77 percent, and although this is two percent percentage higher than the same period as last year, the renewal rate is slightly below recent and historical renewal rates of 2019 and prior. Through March 31st there were no ceded premiums for private reinsurance and the Florida Hurricane Catastrophe Fund. Premiums ceded for private reinsurance in the Cat Fund coverage are recognized at the beginning of the Atlantic hurricane season which begins June 1st. As of March 31st, consolidated ultimate direct losses in LAE related to Hurricanes Irma and Michael were 2.39 billion, and 150 million respectively, reflecting no change from December 31st of the 2.39 billion of Hurricane Irma ultimate in loss in LAE across all accounts. 1.01 billion is recoverable under Citizens' reinsurance contracts with both the Cat Fund and the private reinsurers. There are no reinsurance recoverables for Hurricane Michael as the attachment level of the reinsurance arrangements was not met. Consolidated ultimate direct loss in LAE for Tropical Storms Ada and Sally that impacted Florida in the latter part of 2020 were likewise unchanged from December 31st and stood at \$238 million at March 31st, 2022. Current accident year losses in LAE unrelated to hurricanes and sinkhole did not experience meaningful variances from the prior quarter as development of prior accident year losses in LAE was as expected. The 2022 accident year non-catastrophe loss in LAE ratios for the personal lines account and the coastal account continue to show improvement from prior years. The dominant driver behind the improvement in loss in LAE is an improvement in the litigation rate which continues to be the single most important factor in non-cat loss in LAE. In 2021, the litigation rate for non-cat and non-sinkhole claims was 14.8 percent in the personal lines account and 16.6 in the coastal account marking declines of 4.2 percent and 1.3 percent relative to 2020 in the PLA and coastal accounts respectively. While still immature, results for the first quarter of accident year 2022 for these accounts are showing signs of similar, if not improved results compared to the accident year 2021. The underlying commercial lines account loss in LAE ratio has increased from 6.5 percent in 2021 to 11.3 percent for the first quarter of 2022, but this is

driven by the inherent volatility in the commercial lines account due to the low premium volume. The increase in the commercial lines account results is not caused by any systematic changes to the underlying loss experience or book of business. Administrative expenses incurred through March were 39 million or 3 million more than the same period a year prior and 6 million less than budget. For the period ended March 31st, Citizens' expense ratio was 17.1 percent reflecting a 2.4 percent decrease from the same period a year prior, and a point two percent decrease compared to budget. Total investment income for the first quarter was 40 million, approximately eight million less than the same period in 2021, while the average invested assets increased by 336 million, the decrease in investment income was largely due to the decrease in realized gain activity. Heading into the 2022 hurricane season Citizens' total assets in surplus together with the 2022 reinsurance program help insure adequate claims-paying resources to meet any potential claim payment obligations that may arise due to hurricanes and continued growth in Citizens policy account. If there are no questions, that concludes my report.

**Chair Knight:** Questions? No. Thank you, Ms. Montero.

**Jennifer Montero:** Thank you.

**Chair Knight:** Move on to the external audit report. Good afternoon.

**Brian Smith:** Good afternoon, Brian Smith for the record.

**Chair Knight:** Thank you.

**Sam Wishard:** Sam Wishard for the record.

**Chair Knight:** Thank you for joining us. Please proceed.

**Brian Smith:** We are here to report our conclusions for the 2021 financial statement audit at Citizens. As a reminder, we complete an audit on a statutory basis and on a government accounting standard basis for Citizens. Our reports are in your package dated May 26, 2022. This is for the 2021 financial statement audit. Sam is going to walk us through our conclusions here.

**Sam Wishard:** I am Sam Wishard, I am the audit manager assigned to the Citizens' audit for 2021. We wanted to know first, that there were no new accounting pronouncements adopted by the company during the year. Additionally, during the audit, we had two significant and sensitive estimates that we identified. The first is going to be around loss and loss adjustment expense reserves. For this estimate, we engaged a third-party actuary, Merlinos & Associates to opine upon the actual methodologies and the assumptions used by Citizens to develop the reserves at year-end. Additionally, we test the information provided to the actuary on a sample basis. The second estimate identified is related to the fair value of investments. For this estimate, we leverage our financial services team who values the entire investment portfolio, and through this evaluation, we noted no material differences in evaluation. Additionally, we note that there were no uncorrected misstatements, no control deficiencies, significant deficiencies, or material weaknesses identified during the audit.

On one additional item to point out, Dixon Hughes Goodman, our firm merged with BKD effective on June 1st of this year. So, we are now known as FORVIS, and as we go into the 2022 year, our opinions and reports going forward will be under FORVIS rather than Dixon

Hughes Goodman. That concluded my report. Any questions?

**Brian Smith:** Thank you.

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

**Mark Kagy:** Good afternoon. How are you?

**Chair Knight:** Good, thank you.

**Mark Kagy:** For the record, I am Mark Kagy, Inspector General for Citizens. I want to thank you, Chair Knight, for the opportunity to be here today. We share a lot of similar responsibilities at the Office of Inspector General and the Audit Committee as far as accountability and oversight functions at Citizens. I wanted to take you through real quick, in your materials you will find an annual report for last year. You will also find the standard quarterly report that I provide the Audit Committee that provides a statistical understanding of the type of work that we receive and work enclosed. We can go ahead and go to the next slide. Establishment of the office, the office is relatively new. The Office of Inspector General was created in 2013 for the purpose of providing a central point of coordination for activities revolving around accountability, integrity, and efficiency.

Next slide. The organizational structure is incredibly important to the Office of Inspector General. The single most important aspect of an IG office is its independence. And the way that the statute identifies our independence is to outline our reporting structure in the Inspector General's office. Rather than reporting up through President Gilway as a dual Citizens' staff member would, I am selected by the Financial Services Commission. And so, in the Inspector General is appointed by, that is your, the Florida Cabinet. Governor DeSantis, Attorney General Moody, CFO Patronis, and Agriculture Commissioner Nikki Fried. And on top of that, not only am I selected by the Financial Services Commission, but I happen to report to, and I am under the general supervision of the Board Chair, Carlos Beruff. So that organizational structure outlines our independence. The statute specifies that Citizens staff do not have the authority to interfere with investigations and audits and things like that conducted by the Office. So that outlines our independence.

Next slide. This slide here has, it is just an outline of all the functions that are outlined in the statute. I won't go through each one of these. I have got a couple of callouts here. You see a few things that are, that are bolded that kind of identify our areas of expertise. We are always looking at fraud, waste, abuse, mismanagement, and malfeasances. Security is very important. You will see the word, "compliance", quite a bit. We do have quite a few responsibilities as it relates to compliance as Nancy alluded to. We are also always going to be concerned with any kind of ethics-related decisions, opinions, and things like that. And the one point I want to call out is Joe talking about providing the Executive Director, providing President Gilway with independent and objective assessment. So, it is always my purpose, my goal to stay as independent, and as objective as I can.

Next slide. There are nine functions that the IG's office can and does produce. Everybody is very familiar with the top one there, our investigation. That work, it is the primary responsibility of what we do. In investigations, we have supported and not supported allegations. We receive complaints. We will talk a little bit about the Tell Citizens Hotline in a minute, and the lower-level investigative work we experience as an inquiry. Those are high-level but require a little bit less effort and are kind of organized in a different way, but it's still an opportunity for to us review a

matter that may not rise to a level of investigation.

Next slide. Substantive projects, these are things that are very important for us, but these are a little bit more proactive in nature as opposed to the investigations which are typically reactive in nature. In our substantive projects, we talked a little bit about compliance reviews.

These are opportunities for us to get into a particular business unit and area and identify the laws, rules, and regulations that that area has to abide by and verify, do a little bit of a quality assurance review and make sure that they are following all those, all of those standards. Process reviews, those are a little bit more simplistic. Those may not necessarily have a particular law, rule, policy, or procedure, but they are, they are good process, they're good actions for us to look at to make sure that Citizens is operating in a high, functioning way.

Next slide. We also have administrative projects. I won't go through these individually. I will call out two of them. Our consultation services are highly important. Primarily this is a phone call that I get where someone wants to identify a particular area of concern or a needed area that may be a high liability for the company. These oftentimes are our HR staff sometimes have knowledge of a particular area that may be a concern or a particular situation that may be elevated in nature and they need to speak with somebody to kind of figure out next steps. We will often have those consultation services, and I think they are a very effective way to make sure that we are operating appropriately as a corporation. And then the last one there, referrals. This is the bulk of things that come in and out of the Inspector General's office. A lot of times people will reach out and it is just not necessarily an IG matter. We do get concerns from policyholders that don't agree with their complaint amounts. We get concerns from policyholders about the activities of their agents that aren't acting quite right. And so, we do refer these throughout the company. Jeremy Pope has got a team of great folks and the customer correspondence team is the primary resource to receive those types of concerns. And so, we make a lot of referrals in that, but there are referrals in other areas as well. But that is the primary function of things that go in and out. For the astute observer you will notice that we, I just went through eight different options there. The ninth, we are authorized through statute to conduct audits. However, we do, the statute also requires that the Chief Internal Auditor and the Inspector General cooperate quite a bit. And so, we do have a high level, Joe and myself, we work together constantly and we have a high level of cooperation, and we have outlined in corporate policy if it is investigative work, fact findings, things like that, the Office of Inspector General will take a lead role in that. If it is an audit work the Office of Internal Audit will take a lead role there.

The next slide. The complaint process. So, we do have Tell Citizens. TellCitizens.com is a website that someone can go to and file a complaint. You can do so anonymously. It is also a reporting hotline. It is a 24/7 operated hotline by a vendor staff member. This is run by Navex Global. They are the global leader in complaint intake. And so, you do have the option of going through Tell Citizens to file a complaint. Those complaints come directly to me, and one of the first things that I will do is always document and track everything that comes into the office, but the first, the first step is to identify if there are any whistleblower concerns. Citizens staff, although they're not state employees, per se, they do qualify for whistleblower protections under Chapter 112.3187 and it talks about the criteria for becoming a whistleblower. So that is a determination I will make on the front end. For non-whistleblower complaints, we do have a triage team.

Next slide. The triage team that I will assemble, is always Joe Martins and myself. We also include Nancy, who you met earlier, our Director of Compliance and Ethics Officer. And then there is also an HR representative, an HR VP that we will bring in, and this gives us an

opportunity to assess a complaint, find out if any one of the four of us has a little bit of extra knowledge somewhere on the outside, and we will really work hard to try to come to the right disposition on that complaint and identify the correct area that the complaint needs to be addressed. Oftentimes it may be an OIG investigation. We may refer it to our ethics office and sometimes it's a personnel matter. It may be a concern that is a little bit more on the grievance level as opposed to an IG level. Anything that is not triaged, there are certain circumstances where we may not triage something. A lot of those are going to be if the Chair asks me to look at something specific, obviously, I am not going to triage that, but there are other opportunities too, like whistleblower cases and things like that. But I do want to make a point to identify that I will always bring in Joe Martins on these. It's important that we do have a check and balance there, that we make sure that there is oversight in how those kinds of things are addressed as well.

Next slide. The biggest question that we always get in the OIG is the confidentiality of investigations. That is the first thing everybody wants to know is how confidential is what I am getting ready to tell you. As you know, Florida is an open records, open public record state. We are the sunshine state. And so, there are three criteria where there are specific exemptions to open records. So outside of these three exemptions, our records in the Office of Inspector General are public record. So, the first one is misconduct complaints. During the course of an investigation, if we are investigating a misconduct concern, which is pretty much all of our investigations, those records are confidential and exempt during the course of the investigation. That prohibition, it ends once the case is closed. It does become a public record. Any kind of personal identifying information of the alleged victim of sexual harassment is confidential and exempt throughout. So, it doesn't necessarily need to be a proven case of sexual harassment, it can simply be an alleged case of sexual harassment and that alleged victim's identity is confidential and exempt. And then also as we spoke of before, any identifying information of a whistleblower is confidential and exempt as well.

Next slide. Investigation considerations. So, there are a few things here that we always make sure to consider. One of the callouts here I want to point to is that we do, we do look at contract provisions. One of the standard contract language provisions that we have is that our vendors are required to participate, not just in audits, but in also any kind of work that the Office of Inspector General does. So, we do have full access to their staff, and their documentation. We always document investigative plans. We have access to interview any Citizens staff. We have full access to all Citizens' records and vendor records and staff as well. In our allegations, we use the term supported and not supported. If I find evidence that an individual has violated a particular policy or rule, then I have evidence that supports the allegation against the individual or does not support the allegation against the individual. We do a legal review of sufficiency for many of our cases, not all, but most. In our legal review for sufficiency, we do not go through Citizens General Counsel on this, although we do work closely with the General Counsel's office at Citizens. There is oftentimes where we need an outside independent legal review that maybe isn't attached to the company. And so, we do have on contract a law firm in Tallahassee that provides the Inspector General with their opinions and with their information. The goal is always to be a fact finder, to maintain objectivity and be a fact finder, and one thing that I always tell witnesses, subjects alike, and complainants, is that I will work every bit as hard to prove that a violation was committed as I will to prove that you did not commit the violation. It doesn't matter to me one way or the other. I am just trying to find all the facts that I can find.

Next slide. Our final reports are issued to the Chairman, and we also copy the Executive Director, and these are the folks that have the ability to affect change. So, we always copy the ELT member of the affected business unit, the General Counsel, Human Resource officer, Joe,

and the triage team gets a copy of the final report. And I can tell you that one thing that I always do like to call out is that anytime I do have a recommendation or a corrective action, 100 percent of the time the staff at Citizens are very quick to resolve those issues. In fact, most of the time before we even close out the case the issue has already been resolved and we can actually comment in the report that, yes, we found a problem, an opportunity for improvement, and those opportunities were taken and resolved and here is how they were resolved.

Next slide. I put a few numbers out here just to kind of see, that we are constantly growing. Obviously, with Citizens policy count, we expect to grow a little bit, and as Citizens' Office of Inspector General becomes more well-known we are going to increase the number of concerns that come in. One of the things that you will notice in the annual report is that I do spend quite a bit of effort trying to move throughout the company so that people understand there is an Office of Inspector General, what our role is, and how we serve the corporation. Matters and issues received, I refer to these as just correspondence. I track everything that comes into our office as correspondence, and you can see that number last year was 101. This year, at the end of May it was 67. The updated number there is 84. And so, you can see that we are already well more than halfway through last year's numbers. So we are, we are always, each year you will see that we are increasing our numbers.

Next slide. We kind of break out what type of work that we do and what type of violations come in or allegations come in. And you can see some numbers here. A couple of callouts. You will see 2020 was a year, you will see that arrest disposition. I don't want you to think there are 59 arrests in 2020. That is not what that is showing you. We do a baseline; we do a baseline background check on all employees periodically at Citizens. And so, we have an obligation to know if we have any, and I don't know the federal rule offhand. Nancy will kill me for not knowing that, but there is a federal rule that requires we are not allowed to knowingly hire an individual that has been arrested or convicted of a felony within a particular category. These are often crimes of deception and fraud, things like that. And so, in 2020 we did, those 59 interactions were us trying to identify red flags that popped up on background checks. I think 58 of them were resolved and then the one that wasn't was a very minor, minor thing, but these are issues where someone's name was not quite right, or someone's social security number didn't provide the correct information. But you can see there towards the bottom, even if you take those 59 out which would give us 86 for 2020, you can see how we are increasing the numbers year over year.

Next slide. Matters received by division, we try to look to see which divisions and the distribution here are about what you would expect. Enterprise Operations is by far our largest division. That is all of our underwriters. That is our vendor staff, procurement staff, it is all of our IT staff, and IT security. These are very large areas. And so, you can see that our three largest divisions, Enterprise Operations, Claims and Consumer Policy Services, those are, those are where the most, the most correspondences are coming in.

Next slide. And then simply put in my elevator speech, what I want everybody to know is that the Office of Inspector General is an independent investigating entity that is administratively housed within Citizens. Our job is to help Citizens operate with accountability, integrity, and efficiency, and we do this by conducting fact-based analysis and developing impartial reports. And then the final slide there just has some contact information for anybody that is willing to reach out to the Office of Inspector General you can go through Tell Citizens, you can contact



me directly, but that is my presentation. Are there any questions?

**Board Chair Beruff:** Chair.

**Chair Knight:** Yes.

**Board Chair Beruff:** Do we have any pending litigation? Do we have any pending litigation, by any employee?

**Mark Kagy:** No, with the Inspector General's Office, no, none.

**Board Chair Beruff:** Okay, thank you.

**Chair Knight:** When would a compliance or process review be indicated to perform?

**Mark Kagy:** Oh, to perform. A lot of those, we will do a risk-based assessment of those, and each year, as I said, those are proactive efforts. And so those are areas where I am going to look to find and say, hey, what areas are we, are we kind of out there on that we need to look at. There is one going on right now that is actually, it is actually required by statute, but it is a look at our procurement function to make sure that we don't have any preferred vendors, things like that. So, whether it is required periodically or it is something that we independently determine that is necessary, those are going to be kind of the areas that we look at. So, I think in total compliance, when you talk about compliance company-wide, there are over 500 laws, rules, and regulations that we have to follow as a company. There is no way to kind of do a 100 percent review. So, we have to kind of spot-check those with a risk-based assessment.

**Chair Knight:** Thank you for coming and sharing more about the process.

**Mark Kagy:** Thank you for the opportunity.

**Chair Knight:** Is there any new business? No. Okay, then we will adjourn the second quarter audit committee meeting. Thank you.

(Whereupon the meeting was concluded)

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