

CITIZENS PROPERTY INSURANCE CORPORATION
TRANSCRIPT OF THE MINUTES OF THE
AUDIT COMMITTEE MEETING HELD TUESDAY JUNE 21, 2016

A Board meeting of the Audit Committee of Citizens Property Insurance Corporation (“Citizens”) was held at 11.30am on Tuesday June 21 2016 in Maitland, FL.

The following members of the Audit Committee were present:

Juan Cocuy, Chairman
Jim Henderson
Bette Brown - via telephone

The following Citizens staff members were present:

Steve Bitar	Violet Bloom
Kelly Booten	Matthew Gerrell
Bonnie Gilliland	Barry Gilway
Joe Martins	Cindy McVay
Bruce Meeks	Jennifer Montero
Sue Register	John Rollins
Dan Sumner	Barbara Walker
Mike Walton	David Woodruff
Andrew Woodward	

The following persons were present:

Matt Church, Dixon, Hughes, Goodman
Brian Smith, Dixon, Hughes, Goodman
Steve Russ, FIRM

The following persons attended by telephone:

Ann Burke
March Fisher
John Fox
Nancy Staff
Betty Veal
Janice Watts
Karen Wittlinger

Call Meeting to Order

MS. WALKER: Good morning, and welcome to Citizens' June 21st, 2016, Audit Committee Meeting. Chairman Cocuy, would you like for me to begin with a roll call?

CHAIRMAN COCUY: Yes, please.

MS. WALKER: Chairman Juan Cocuy?

CHAIRMAN COCUY: Here.

MS. WALKER: Governor Bette Brown?

GOVERNOR BROWN: Here.

MS. WALKER: Governor Jim Henderson?

GOVERNOR HENDERSON: Present.

MS. WALKER: Chairman, you have a quorum.

CHAIRMAN COCUY: Thank you, Barbara. We will begin the meeting with the approval the March 15th, 2016, Minutes.

GOVERNOR HENDERSON: Motion for approval.

GOVERNOR BROWN: Second.

CHAIRMAN COCUY: A motion and a second. All in favor?

GOVERNOR HENDERSON: Aye.

CHAIRMAN COCUY: Aye, motion carries. Moving on to the report of the Office of the Internal Auditor, Joe Martins, Chief Internal Auditor. Joe, please proceed.

MR. MARTINS: Thank you, Mr. Chairman. For the record, I am Joe Martins, Chief of Internal Audit.

I wish to refer you to page 13 of your books. On this page, we note the number of changes to the audit plan. The plan is a living document and is developed to flex as the organization change or progress and following discussion with management we added two new projects and canceled or combined seven others. At the onset, this may seem many changes, but these were necessary in order to realign focus and to ensure that we provide the best assurance and continue to add the most value through the work we offer. We added an advisory review of the Check Processing Media process, upon management's request, and added an audit of the Commercial Co-insurance process following recent changes in this area. Following the revised focus of forensic audit, we opted to cancel an audit of the Cash Transfer process, and further combine a forensic audit of Cost Center Spend with an expanded audit of Executive Expenses. An advisory assessment of Citizens management of anticipated changes in the Fair Labor Standards Act was canceled as the revised act had minimal impact on Citizens operations. Three IT advisory projects were canceled, as it was felt that the original objective of these reviews were already fulfilled within the organization.

On page 14, I highlight progress against the plan. As of the beginning of June, we have completed 42% of the work scheduled for this year, and have another 34% or 16 engagements in progress. You will note that of the 16 engagements in progress, 10 are scoped as audits while we are providing control guidance on the three advisory engagements and continue to keep an eye on

three projects or system enhancements. In the third quarter, our activities will span across systems and operations, corporate risk, underwriting claims and finance.

Work completed during the second quarter indicated a few minor control issues that are being addressed by management. I wish to highlight the results from our audit of the sinkhole management program. The objective of this audit was to provide assurance that the program is properly functioning, and to offer guidance for future managed repair programs. Results from our work indicated that there is opportunity for improvement in the development and management in the future similar initiatives. We found that there is a need to strengthen the management of subcontractors and decrease onsite inspections. In addition, more detailed liability insurance requirement for vendors would ensure appropriate coverage and reduce potential risk for future managed repair programs and other contracted services.

The last completed project I wish to highlight refers to our advisory work on the current budget process. Although we initially looked at the budget management process in isolation, it was clear that greater value would be provided if we expand the scope of work to focus on the entire financial planning and forecasting practices. Management has taken a major step in strengthening financial planning processes with the development and implementation of scenario planning during 2015, and forecasting income and expenses for a rolling eight quarters. Overall, OIA noted that fundamental, as well as some advance elements of financial planning and analysis functions are present, under development or being refined for 2016. Following our analysis of current best practices, we advised management to consider formally assigning leadership over the financial planning and the analysis activities to establish consistent processes with technologies and deliverables while at the same time maintaining cross-departmental participative collaboration. In addition, management may well contemplate calling meetings between the finance function and the chiefs to discuss business unit variances, rolling expenses, re-forecasting, budget management and financial expectations in response to changing conditions.

On page 18, I provided a brief summary on progress with the Citizens' internal control framework project. With me, I have Mike Walton. Mike is an internal audit manager and is currently assisting the organization by leading the roll out of the ICF program. I have asked Mike to introduce the program progress and give an insight into the program and its deliverables.

MR. WALTON: Thank you. For the record, I am Mike Walton, Internal Audit Manager at Citizens. The Citizens internal control framework, or CICF, is an Enterprise wide initiative aimed at strengthening and improving the overall control and operating environment. Officially launched in September 2014, the project focuses on three main objectives.

Strengthening governance and accountability to form an opinion as to the effectiveness of Citizens system of internal controls and to identify and improve the control maturity level of the organization. To meet these objectives the decision was made to implement COSO 2013 principles. If you turn to page 68 in your pack, you will see a summary of the stages of the internal control framework review float for the three-year roll out period. The process illustrated in this slide describes a uniform flow for all ICF reviews and facilitates the creation of process deliverables and initial testing that lay the groundwork for the self-assessment model that the CICF will be carried out with upon roll out. To kick off the review the ICF team initially meets with

the designated owner of the process to provide insight into the ICF process review steps and expected deliverables during the period of the review. At this meeting, we will coordinate with the process owner to ensure that the appropriate individuals from their business unit attend the walk-throughs. We use this meeting to understand the processes objectives, which can also be thought as the primary goals of the process. We further discuss existing policies, procedures and flow charts to aid the ICF team in understanding the process to ensure an effective walk-through and to avoid wasted efforts and time from the business.

Following kick off we schedule and conduct walk-through meetings where we focus on understanding how the processes function from beginning to end with probing questions being asked along the way in relation to risks, controls as well as potential process improvement opportunities. Follow up meetings may be scheduled to address questions and artifacts from the initial walk-through. Upon gathering all relevant information we develop a process narrative describing the process in totality, a flow chart to provide a visual flow of the process, a risk control matrix which ties objectives, risks and controls together and identify any potential improvement opportunities for consideration. If you turn to pages 69 through 71 you will see a snapshot of what typical process narratives, flow charts and risk control matrix deliverables look like. Upon ICF completion of draft deliverables meetings will be held with the process owner and contacts to confirm documented deliverables and to confirm recommended improvement opportunities if any. The process owner will approve documentation prior to the testing stage.

During the testing stage, the ICF team develops testing scripts to ensure that the testing procedures are designed to evaluate whether the objectives of the control are designed and operating effectively. The majority of the controls will be tested by the ICF team. Ideally, at least one control will be tested by a member of the subject area in order to prepare for the day when the project transition is primarily a self-assessment using ICF team support and guidance where necessary. Meetings are held to review testing approach and the results for the process owner. If you turn to pages, 72 and 73 you will see a snapshot of what the testing scripts look like. The ICF team creates testing scripts for each identified key control. The procedures used in each testing script are developed to test both the design and operating effectiveness of the control. The testing script and initial testing results documentation completed by the ICF team is designed with the idea that it will be as turnkey in nature as possible from an ease of testing perspective in order to prepare for the day when the framework transitions to be primarily a self-assessment by the respective business units. The idea is to create a testing road map that is easy to follow as well as effectively testing objectives of the control. This is accomplished by the ICF's team continued efforts to properly document both testing procedures as well as supporting artifacts uncovered in such a manner that someone without an audit background could efficiently and effectively complete using ICF team support and guidance where necessary.

If you turn to page 74, you will see a snapshot of an example of what a control improvement opportunity identified if identified looks like. The process owner has the option to accept, reject or provide an alternative to the ICF team's recommended action. Once the review is completed all finalized documentation is provided to the process owner. Finalized documentation is also retained in the control management system for ongoing monitoring and administration by the ICF team. Thank you.

CHAIRMAN COCUY: Thank you, Mike. Great progress so far on this, great presentation as well. I really appreciate that. You know, obviously it is kind of a painful slow process as I mentioned that in the last quarter, we had completed about 18, and we are at about 21 right now in terms of the process, or the documentation of the processes, and we have got to get to 54. As I was talking to Joe earlier, one of the challenges in this type of environment is that you get to let's say 40, and then you may have to circle back sometimes to some of the previous controls because something may come up in one of the later ones that say it is really kind of inconsistent with a previous one, or maybe even go back to those previous ones and make sure that you are testing them so that the controls are working as they are designed, because a lot can happen in a two-three-year period certainly. So you document something, you put it up on the shelf, human nature comes in and then somebody is turned over and somebody says I don't like the way this works and let's do it this way, this is the way I did it at my old job, and things sometimes just evolve into something different than what is documented. So, we need to be constantly reviewing even the ones that we think we are finished, need to pick them up and kind of blow off the dust and make sure that they are still working.

MR. WALTON: Certainly, and you know what we actually are doing is every September for the processes that have previously been reviewed, say for the processes that were reviewed last year, during this three-year roll out on an annual basis we are going back and looking at those processes and we are contacting the process owner and having them review their documentation over again and actually they are conducting the testing for the new year. Therefore, that is an ongoing effort to make sure that those, in your words, that those processes are not stale and basically, we looked at them in 2015, and we do not look at them again until the self-assessment roll out. This is an ongoing effort and then obviously as things come up, as there is different developments, such as we are aware of the ERP and some of the processes that are going to change, we will address those as they come up and when the business has the time to dedicate to re-evaluating those processes and those controls that we previously documented.

CHAIRMAN COCUY: Right, we need to keep going and the ERP may have a monumental change on everything, but don't stop, keep going and then we will reassess everything once the dust settles from that transition.

MR. WALTON: Certainly.

CHAIRMAN COCUY: Joe, can you go back to page 15 and just expand a little bit on the bullet point, the compliance governance? I think that is also another area that we need to be concerned about, because compliance being that we are a governmental unit, it is extremely important.

MR. MARTINS: Certainly, sir. What we have on page 15 is our projects that we have in progress or planned for this quarter. We are approaching the governance audit more as an advisory product to the organization instead of doing an audit where we kick the tires in every area. We have noticed that our compliance governance process is still in development and we are currently doing a gap analysis based in terms of what is current market practice out there and how some consulting organizations advise organizations to have in place for a compliance governance function. We are doing a very thorough best practice analysis in identifying where the gaps are within the way we as Citizens manage compliance from an Enterprise perspective through the

compliance office, and our expectation would be that the audit report at the end of the day which hasn't been developed yet, would probably come back and say that our compliance governance function is still in a developmental phase and these are the areas which they need to address. We will then give the organization an opportunity to select of the best practices, which is most appropriate for Citizens to focus on and implement these within time.

CHAIRMAN COCUY: Okay. Thank you very much.

MR. MARTINS: Just to finalize my report, sir, on page 19, I wanted to highlight the control deficiency resolution. On this page we mention that there are 14 remaining open items, two of which are currently overdue. None of the issues overdue poses a significant threat to the organization and management is working diligently in resolving these as quickly as possible. As a final item on the same page I wish to note that the Office of Internal Audit reassessed the writing of the audit issues and audit results and we have a copy of that included on the page 76 for an update, but you can refer to page 76 for an update definition. In essence we decided to revise the original needs improvement rating by adding a needs minor improvement to differentiate between the areas. I think our opinion was that we had the three ratings, satisfactory, needs improvement, unsatisfactory. The needs improvement was a very wide band and we wanted to bring that a little bit closer to reality with the organization where in many instances you have an area that needs to be addressed but it is really not that major of an issue. That really concludes my report, sir.

CHAIRMAN COCUY: Anything you want to touch on, on the dashboard, page 64?

MR. MARTINS: On the dashboard specifically I think what we addressed on the dashboard is progress on the plan. We have 28 of audits planned for the year, of which we have a sizeable number. I think that was in the 40% running so the dashboard, itself, is indicating to us that from a percentage perspective we are really progressing well with the audit. The 42% really completed and another 34% in progress. In essence, 76% of the work is either completed or in progress with 24 percent remaining. I think we are relatively in a good position to complete our work this year.

CHAIRMAN COCUY: Okay. Fellow committee members, Jim, do you have anything?

GOVERNOR HENDERSON: No, I think very good report, Joe, and well done, staff, on it. I think on Juan's comments on the internal control framework, the update, the kind of world we are in we know how very, very important that is. And so, I would hope that that progress is not impacted by staffing levels, though I have not any indication that they are, but it is very important to get those wrapped up as soon as possible. And so, just a statement, and I think the other indication of your staffing update if there is certainly anything this committee can do with respect to resources to you, we really look to you in terms of not just the audit side, but I think a quality control advising counsel to the CEO and to the staff within Citizens. They are an organization that frankly has to kind to reinvent itself every several months, and I think your oversight and involvement is very critical of keeping that on track. So thank you for what you are doing.

MR. MARTINS: Thank you, sir. I think to respond to the ICF, when we developed the ICF project from day one, we decided on a three-year documentation of our control environment that is already implemented. The roll out of the program is over a three-year period, mainly so that we do not put too much pressure on the organization. In deciding the process to follow we originally

had three options. The first option was to bring in a consultant to help us do this relatively quickly in a six-month period, or secondly to do a little bit more of an extended consultation between audit as well as an external firm for a year or a year and a half or finally to do it over a three-year period and put a framework in place at a pace that will be most appropriate for the organization. That is a decision that we have made as a group then and as a result we work slowly with the roll out of the ICF program to the organization at a time that fit the organization without us disturbing the operations too much. Staffing has been an issue, but I think Mike and the team that he has with him is progressing well. We are revisiting the plan at the moment to consider changes within the organization as well as bolt that in. Our original plan delivery date was November 2017, and I don't think we will be too far from that. Mike is still working on the revised plan, but I think from a project perspective we are relatively on track in terms of the delivery, and it sounds a long time to say, well we only completed three processes in the quarter, but it takes us about 10 weeks from start to the end of a process assessment. That takes us to the three and Mike has been a single contributor for the last six months.

From a resourcing perspective, I think we are now relatively well staffed. We have well educated and trained staff that are providing in my opinion an excellent service to the organization. We try to maintain that quality. What the committee has provided us is a budget and if we find an area where we do not have the expertise, we have the ability to tap into external resources. We have not had that need this year. The only vacancy we have is the forensic audit area, and we are reconsidering the position. We certainly need to bring in a person later this year because audit has the responsibility to focus on occupational forensics in the organization more from a proactive perspective and we are not really addressing that right now. So that is one area that we will fill as we get closer to the end of the year.

CHAIRMAN COCUY: Very good. Thank you.

MR. MARTINS: Thank you, sir.

CHAIRMAN COCUY: We discussed this many times and this is strictly a voluntary process that we are going through. This isn't required, we are not a publicly traded company but we are a governmental unit and we have many stakeholders and we also benefit from external auditors and from anybody else knocking on the door asking questions by going through this process and really having all our ducks in a row.

MR. MARTINS: That is true, sir. I think the ICF project itself will add a lot of benefits to the organization.

CHAIRMAN COCUY: Thank you. Governor Brown, did you have anything?

GOVERNOR BROWN: Yes, I have been through this with Joe and I just want to compliment him. I think he does a great job. I know it is very detailed as there is a lot to go. We have people review that you must do in a year. There is a lot to do and there is a lot of detail in the company. So, I compliment him and his team. He does a good job. I also thought the suggestion of adding another layer in the rating of the audit was great, and I just compliment him on a good job.

CHAIRMAN COCUY: Thank you. Okay, thank you, Joe.

MR. MARTINS: Thank you, sir.

CHAIRMAN COCUY: Now, we are moving on to item three of the agenda, the Chief Financial Officer's report, Jennifer Montero.

MS. MONTERO: Good morning.

CHAIRMAN COCUY: Good morning.

GOVERNOR HENDERSON: Good morning.

MS. MONTERO: You have several documents before you today, including the 2016 first quarter financial results, as well as the 2015 audited financials and the 2015 management discussion and analysis. There were no material differences between the year-end financials presented in March and these audited financials. Our external auditors with Dixon Hughes & Goodman are here today and will give you an update regarding the audit after I complete my report on the March 2016, financial statements.

Through the first quarter of 2016 surplus grew marginally, a little over one percent or \$100 million dollars, primarily due to the first quarter results of operations. We continued to experience year over year declines in premium levels however, the rate of reduction in premium levels appears to be declining. You will note that relative to the first quarter of 2015, and the budgeted first quarter of 2016, depopulation of 12.4 million is significantly below the prior period and the budget period by 75% and 70% respectively. The overall reduction in depopulation activity is most pronounced within the personal lines account where relative to 2015, a reduction of nearly 88% was observed. Despite the decline in depopulation activity, and its related impact to net income, we continue to experience a deterioration of our loss in LAE ratio.

As you will hear about tomorrow during the President's report, water losses remain an issue not only for Citizens, but also for the Florida property insurance industry. However, for the first time in five years sinkhole losses for the first quarter of 2016 had favorable contribution to the overall loss ratio. The sinkhole loss ratio was 27% compared to the overall loss ratio of 43%, underscoring two observations. One that deliberate and timely action on sinkhole coverage reform has improved considerably the amount of coverage sinkhole losses paid by Citizens, and two, the increase in frequency and severity of water losses exhibited by an overall increase in the loss ratio. For some perspective, the sinkhole loss ratio peaked just shy of 900% in 2011, and gradually declined each year thereafter, to 324% in 2012, 109% in 2013, and 84% in 2014, down to 27% as of March 2016.

The expense ratio for the first quarter of 2016 was 28%. Despite a five percentage point increase from the prior year's first quarter we must also consider the continued decline in premium as well as the decrease relative to budget and the expense ratio of five percent. We do expect that the expense ratio to gradually decline throughout the year as a result of front loaded expenses recorded in the first quarter. If there are no questions or further discussion for the first quarter results, I would like to turn it over to Andrew Woodward, our Controller, to speak briefly about our 2015 financial statement audit and introduce our auditors with Dixon, Hughes, Goodman.

CHAIRMAN COCUY: Any questions?

GOVERNOR HENDERSON: None, thank you, Jennifer.

MR. WOODWARD: Thank you, Jennifer. Good morning, committee members. For the record, I am Andrew Woodward the Controller at Citizens. As this committee recalls, we engaged a new independent CPA firm to perform the financial statement audit of our 2015 Stat and GAAP financial statements. If I had to describe our auditors in one word, that word would be thorough. The auditors, specifically the engagement partner and the engagement manager who I will introduce in just a minute here brought exceptional levels of depth of experience and practical application of relevant accounting standards to the audit. This committee should feel very comfortable with the quality of the audit that was performed and the experience of the engagement team. You will note that there were two proposed audit adjustments on our GAAP financial statements and I believe these adjustments are summarized in Exhibit C of the management representation letter for the GAAP audit. Management did determine to waive these adjustments. We did not record them as they were determined as immaterial to the financial statements as a whole and would be inconsistent with the way in which we presented these balances in prior year financial statements. I am sorry the detail is behind tab four of your book, roughly half way through the report to the Audit Committee. In summary, these adjustments involved a proposal to net certain assets and liabilities and we elected to keep those assets and liabilities grossed up. They relate to depopulation, specifically amounts receivable or payable from take-out companies and the unearned premium reserve on those policies at December 31st.

CHAIRMAN COCUIY: Andrew, in that schedule I see that the assets equal liabilities. So basically the reclassification is a wash. There should be no P&L effect, but what is that at the bottom of financial statement caption totals and the P&L, that 38 million, what is that, 38,744,000?

MR. WOODWARD: I think that might be erroneous

CHAIRMAN COCUIY: That doesn't belong there, right?

MR. WOODWARD: I don't believe so, no, because what these adjustments did was to net out assets and liabilities so at the end of the day there is no impact or impact to net assets or anything.

CHAIRMAN COCUIY: That just kind of sticks out.

MR. WOODWARD: Let me check on that. I know the auditor will be up here in just a minute. It is a good question though, and thanks for bringing that up, there is no impact on that asset. So with that I would like to welcome Brian Smith and Matt Church. Brian is the engagement manager and Matt Church is the engagement partner.

CHAIRMAN COCUIY: Welcome, gentlemen.

MR. CHURCH: Gentlemen, just to touch on that last question, those are the financial statement caption totals. So what we presenting here are the adjustments above and how they relate to the total assets and total liabilities. Had there been a P&L impact you would see that P&L impact against the \$38 million of net income. So that is what those are, and then if you look below that the percentages then show you the percentage of the adjustment to the financial statements, sort of subtotal for assets, liabilities, net income and then the net ending position.

CHAIRMAN COCUY: So the net income is 38,744,000 without the adjustment. So the net adjustments are zero percent of that?

MR. CHURCH: Right, there was zero impact. Not super intuitive. I agree with that.

CHAIRMAN COCUY: I don't think we have 38 million. I mean, we can look at it later, but it is probably just the way the schedule is set up, if I look at the audit, there wasn't 38.

MR. CHURCH: And that would be on the GAAP statement.

CHAIRMAN COCUY: On the GAAP statement?

MR. CHURCH: Yes.

MS. MONTERO: It is a \$38 million loss on the GAAP statement.

CHAIRMAN COCUY: Oh, got it. Okay.

MR. CHURCH: So thank you, Andrew, for the introduction and the kind words and we would like to echo those sentiments back; as we go through the proposal process every year and as we met with you guys here I believe it was in December we said oh, first year we are doing fantastic. Typically that doesn't go that way and I do want to commend Jennifer, Andrew and the team for allowing that to actually come to fruition. Very great first year audit, couldn't ask for anything better, super cooperative, very responsive and so we do appreciate that as well. What we are going to do is we have the communication with the charge of governance which I think is in tab four of your book and Brian is going to go through those required communications, and what we have done which may be different than prior years, is we just did one letter which combines both the GAAP and the statutory financial statements, we kind of hit the highlights for both as we go through it, and with that I will turn it over to Brian.

CHAIRMAN COCUY: Sure.

MR. SMITH: I am not going to go into every word in the report. I am going to highlight some of the more significant items of communication and certainly stop with any questions along the way. The purpose of this report is to communicate our required communications under our professional standards. At the top of the letter, you will see just a reminder of what the scope of the engagement was. As our engagement letter was dated on September 9th, and we proposed the year plan back on December 8th, we essentially were engaged to audit the GAAP and the stat financial statements of the company. We have no significant changes to our plan from those communications back in December. Just a reminder, management is responsible for the financial statements; we are responsible for auditing those financial statements. In the financial statements both for the stat and the GAAP financial statements there was no significant new accounting standards adopted during the year. Further, nothing came to our attention which would inform us of any lacking authoritative guidance which was applied by the company. On page 3 of our report I am going to touch on a few of the significant items of disclosure and we feel are significant estimates. These are consistent with our communication with our plan back in December. We felt loss reserves and investment portfolio was significant to the financial statements as a whole because of the significant estimates involved with determining those balances. So let's start with loss reserves. I want to highlight what we performed in our audit standards to become comfortable

with those balances. First, with the loss reserves, we felt these are significant because of the amount of assumptions and estimates used to identify that balance. First, we understood the controls around the process, not only from the claims processing but also by the actuaries. Next, we tested the underlying data of those balances. So we looked at claims, loss reserves, we also did some targeted test on a detailed basis for looking for large losses after year end, as well as looking at any reopened claims that may be significant to the case reserves. Next, we engaged Merlinos & Associates, a third party actuary to analyze the assumptions and methods used by the company's actuaries. We analyzed the qualifications of all actuaries involved, not only from Merlinos but also by the company and then we analyzed the estimate and point range of those reserves for consistency over year over year. Any questions with your our approach to loss reserves?

Next, we looked at bonds as a significant estimate. The reason this is significant is because of the underlying evaluation. To test evaluation we provided a sample basis and subjected a third party source of prices to all of the items in the portfolio. We further confirmed the balances with the custodians and then we analyzed any OTTI or other temporary impairments on the portfolio, we did not identify any. Next in our report, we are required to communicate any difficulties encountered during the engagement. We did not have any. As far as corrected, uncorrected misstatements in our report, Andrew reported we had two past adjustments or uncorrected misstatements. These related to a netting arrangement under the GAAP financial statements related to GASB 62 which essentially says any reinsurance balances ceded unearned premium shall be netted with unearned. That is a \$99 million in Appendix C, and then the next item was \$19 million to net any receivable and payable balances with individual carriers under the take-out assumptions. So, in total the assets to the GAAP financial statements were overstated by \$118 million, which we all collectively agreed was immaterial.

The next item in the report we did not identify any third party accountants which management consulted with during the year. Let me move to page six of the report. I am going to talk about page six and page seven combined. This is our required communication on internal controls. As a reminder we were not engaged to opine on the effectiveness of internal controls, therefore we have not. However, we are required to communicate any material weaknesses or significant deficiencies, which were identified. There were not any material weakness identified in our audit. That concludes our report.

CHAIRMAN COCUY: So again, for the record, there were no material weaknesses or significant deficiencies in internal control?

MR. SMITH: Correct.

CHAIRMAN COCUY: Thanks.

MR. CHURCH: Any other questions?

CHAIRMAN COCUY: And then that is the Audit Committee report, are you discussing the actual audit? No, okay. I have one suggestion and that is that maybe next year you have a little bit more interaction with the Audit Committee in the planning. In the December meeting it was planned out that the Audit Committee would be involved or you guys would have a report, and we did have a

report at planning, but not after or during field work. And I think also it would be probably be a good idea to get these reports in draft form to the Audit Committee prior to the finalizing because we are sitting here in June and we are approving something that is already final. So there is really not a lot of opportunity for the Audit Committee and you guys report to the Audit Committee, so not a lot of time or ability for the Audit Committee to make any comments or suggestions. So let's try to do that next year.

MR. CHURCH: Okay, absolutely.

CHAIRMAN COCUY: Other committee members, any questions or comments?

GOVERNOR HENDERSON: No, none here, thank you.

CHAIRMAN COCUY: Okay.

GOVERNOR BROWN: None here.

CHAIRMAN COCUY: Okay, that concludes our report, appreciate it, great job, guys. Moving on to item number four or number five, Chief Risk Officer John Rollins, Enterprise Risk Management update.

MR. ROLLINS: Good morning, committee members. For the record, this is John Rollins, Chief Risk Officer. I just have one brief activity I would like to call your attention to today. And if you would recall last committee meeting and last Board meeting we talked a little bit about the reframing of Citizens' top risks. We refreshed our look at our top risks to the organization, came up with six and they fell into three categories, managed well in monitoring, managed well in accepting a certain degree of risk and then there were two that fell in a category with managed well with aggressive mitigation activity. The first one of those is claims trends affecting rate adequacy and you will hear much, much more about that tomorrow. So I will hold off discussing that here. The second in that category was business continuity and disaster recovery strategies, and we are engaged in an exercise in business continuity whereby we are kind of blowing the dust off the governance and business impact analyzes we have in the business continuity program and we are crystalizing our efforts towards one thing that I would like to bring your attention to in a fairly short term, which is a relocation requirements assessment associated with the successful strategy and one that has created many financial and non-financial benefits of consolidating our operations into a single building in each of our major cities, Tallahassee, Jacksonville and Tampa. With that success do come some consequences for the business continuity program and a need to refresh our look at how we can handle the situations that may occur in the future when we need a continuity of operations even though we are in one single building and don't have additional buildings available anymore on demand to move resources among in the same city. So we are going to be looking at that very closely. Kelly Booten and I will be sponsoring that together with facilities and IT being major stakeholders as well as Violet Bloom and HR being a major stakeholder there and we will have more to talk about in, probably at the September meeting. The reason I call your attention to that today is simply because there may be some resource requirements and potentially some Board authorizations necessary to get where we need to be once we execute that strategy and crystalize the business continuity requirements around the reality of the single building in each city. Any questions on that issue?

GOVERNOR HENDERSON: Are you using a third party to assist with you either considering, evaluating a location or the move or contract negotiations with the property owners?

MR. ROLLINS: The space consolidation initiative made use of the appropriate resources at the solicitation phase and before. We are not engaging a specific third party at this time to look at business continuity strategy with us now that we have successfully, I shouldn't say we have successfully completed, but we are on path and on pace to successfully complete the consolidation strategy. So good point, not at this time, but again, when we report back to you in the future there may be resource requirements associated with that.

GOVERNOR HENDERSON: Okay, thank you, John.

CHAIRMAN COCUY: You know, especially with the ERP project coming on board and really kind of consolidating a lot of the different systems and gaining some efficiencies there and utilizing technology to the maximum, is there any thought to perhaps looking at converting a number of staff or functions even to kind of a telecommuting function rather than actually having to physically house hundreds of people in a building? You know, anymore these days many, many larger companies take using a large percentage of their work force and telling them work from home. I mean, they can dial in, you can track them, you can track their progress, you can track their productivity, et cetera, and not necessarily have office space for them. So has that been considered?

MR. ROLLINS: I am going to allow Kelly Booten who has joined me here. Kelly, as you know, is our Chief of Systems and Operations and there has been internal policy development and discussion on the topic of alternative work arrangements in general, and I will let her answer your question as it relates to recovery and continuity.

MS. BOOTEN: We have initiated a study and research on our AWA program. Constance Joseph out of my department is leading that jointly with our HR business partner to take a recommendation to our executive leadership team in July. We have done a complete analysis of some options using work from home as a tool in business continuity. So yes, we are looking at it. We haven't formalized it or adopted anything yet, but it is one of the strategies and it relates directly to the business continuity strategy.

CHAIRMAN COCUY: Okay, thank you.

GOVERNOR HENDERSON: It is a great idea, but to your point is just make sure that we can weigh and measure and determine and monitor productivity. Our company does that and we find it useful, but it is in environments where we have a really good feedback about productivity and accountability, and it works.

MS. BOOTEN: And thank you for bringing that up. That is one of the key things that is part of the recommendation, is how to measure productivity and that being a component of whether someone is eligible for work from home. And it is my position first then by person in the position and their performance objectives and the ability to track performance is a big component of that.

CHAIRMAN COCUY: Yes, you see throughout business, in the business world, and in my old firm, Ernst & Young, they don't have huge offices anymore. They have, I think it is called

condominiuming. You know if an auditor needs to go to the office they check out a cubicle but they never need them, you know, to be permanently in a building. The office is a lot smaller. I have a cousin that work for FPL in finance, she works in her pajamas pretty much every day. I mean, every once in a while she has to go to a meeting at corporate headquarters, but a lot is being done through telecommuting and with technology, with the cloud and everything else It is doable but we have to have the accountability and make sure that the productivity is measured and that those people working from home are productive.

MS. BOOTEN: Yes.

MR. ROLLINS: As respects continuity, it is certainly part of the strategy. The broader issues that you raise are also a whole another kettle of fish I think in terms of measuring productivity, and I am not aware of a pajama policy at Citizens or any desire for one in the near future.

CHAIRMAN COCUIY: I mean a lot of the times even people that are sitting in the office are not productive, so you have got to measure the productivity anyway. So sometimes they are more productive working from home because they have less distraction and less coffee breaks and cigarette breaks and coffee clashes, things like that, but definitely something to consider.

MS. BOOTEN: Absolutely.

MR. ROLLINS: It is, again, a focus of Enterprise Risk Management as we complete the consolidation is to make sure that everything that we want to do in the business continuity plan can be done in the environment that we are moving into. So there is a lot of policy development around that internally and once again, stay tuned as we bring any further requirements. If you would allow me a quick point of personal privilege to pick up on your comments, Governor Henderson, from a few moments ago about internal audit as well. The other thing I would like to mention is we asked for a consulting engagement from the internal audit group, Joe Martins' group at Citizens regarding assistance in defining our forecasting and scenario planning project and internal audit view points on certain aspects of an effectiveness of that project and we are very, very happy with the results. So to your comments that internal audit can kind of widen its gates sometimes beyond just core activities like the internal control framework as someone charged with corporate risk management for the organization, we have very successful experience. They definitely saw some things from a perspective that will allow us to add value as we build out our dynamic financial analysis capability or our ability to come to you with these rolling eight quarter forecasts and answering the questions that you always have like where do you see our policy count going, where do you see our key metrics and ratios going. That is a concrete example where internal audit was very effective in a consulting role. That is all have in my report.

GOVERNOR HENDERSON: Well, I appreciate your comments and maybe a couple of years I have been on the committee I think that Juan and others that have communication with Joe over time has really, it has been well done. The role of internal audit here that I can see compared to insurance companies and public enterprises is well done and well received, and there is an opportunity there that on the operating side where they become a great feedback to you and others on the management team there that probably in commercial enterprise we have the ability for economic risk reward to monitor activities that you probably don't have that play within Citizens

and we do. So the role that he and others play, they are so important, thank you for doing all of that.

CHAIRMAN COCUY: Yes. It is an absolutely positive proactive rather than gotcha, you screwed up, and kind of an intimidating philosophy. It is more of a proactive helpful philosophy and I really appreciate that.

MR. ROLLINS: Thank you, they are a combination of independents with expertise I think created a very happy customer here. So thank you. That concludes my report.

CHAIRMAN COCUY: Okay. There is also, just for information, the Officer of Inspector General's complaint analysis. Is anybody going to discuss that? I guess it is just for our information.

Any new business? If not we will adjourn the meeting. Thank you very much.

(Whereupon, the meeting was concluded.)

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