

CITIZENS PROPERTY INSURANCE CORPORATION
TRANSCRIPT OF THE MINUTES OF THE
AUDIT COMMITTEE MEETING HELD TUESDAY DECEMBER 12, 2017

A Board meeting of the Audit Committee of Citizens Property Insurance Corporation (“Citizens”) was held at 2.00 pm on Tuesday December 12, 2017 in Maitland, FL.

The following members of the Audit Committee were present:

Governor Bette Brown, Chairwoman
Governor John McKay
Governor Jim Holton

The following members of the Board of Governors were present:

Chris Gardner
John Wortman
Gary Aubuchon
Freddie Schinz

The following Citizens staff members were present:

Jay Adams	Christine Ashburn
Steve Bitar	Violet Bloom
Kelly Booten	Scott Crozier
Brian Donovan	Chelsea Garfield
Matt Gerrell	Bonnie Gilliland
Barry Gilway	Mark Kagy
Paul Kutter	Joe Martins
Bruce Meeks	Jennifer Montero
Michael Peltier	Robert Sellers
Nancy Staff	Dan Sumner
Elaine Thomas	Barbara Walker
David Woodruff	Andrew Woodward

The following persons were present:

Brian Smith, Dixon Hughes Goodman
Dave Newell, FAIA
Kapil Bhati, Raymond James
Fred Strauss
Mel Hamilton
Adams Schwebach

Call Meeting to Order

MS. WALKER: Good afternoon and welcome to Citizens December 12th, 2017, Audit Committee meeting, publicly noticed in the Florida Administrative Register. Our meeting will convene momentarily with a roll call for quorum. Citizens' Board and committee meetings

are recorded with transcribed Minutes available at our website. Thank you. Chairman Brown, would you like for me to do a roll call?

CHAIRWOMAN BROWN: Yes, please.

MS. WALKER: Chairman Brown?

CHAIRWOMAN BROWN: Here.

MS. WALKER: Governor Holton?

GOVERNOR HOLTON: Here.

MS. WALKER: Governor McKay?

GOVERNOR MCKAY: Here.

MS. WALKER: Chairman, you have a full quorum.

CHAIRWOMAN BROWN: Thank you, Barbara. We will call the meeting to order. The first order of business I think would be to welcome Governor John McKay who is new to the Audit Committee. Welcome.

GOVERNOR MCKAY: Thank you very much.

CHAIRWOMAN BROWN: Would you like to say anything?

GOVERNOR MCKAY: No, I am alright. Thank you though.

CHAIRWOMAN BROWN: Next approval of the Minutes for June 19th, 2017. If you guys do not have any changes or corrections, I will accept a motion for approval of those Minutes.

GOVERNOR HOLTON: Move to approve.

CHAIRWOMAN BROWN: And a second?

GOVERNOR MCKAY: Second.

CHAIRWOMAN BROWN: Motions are approved. Joe Martins, how are you?

MR. MARTINS: Thank you. Good afternoon, Governors. For the record I am Joe Martins, the Chief of Internal Audit. What I would like to do is just take you briefly through the results of our work since the last meeting. In your packs on page 9, I will start with the executive summary and overview. Here I wish to highlight changes to the plan, with deferral/cancellation/combining a total of six of the projects we had planned. This was necessary given the exposure we had

with Hurricane Irma. We assessed the value of those projects and decided to either defer, cancel or combine those projects with others. Of the six, five were advisories and one was an audit. The audit specifically would have focused on the Call Center and I don't think it was an appropriate time for us to do an audit in the Call Center. What we have done though is replaced those six audits with six other audit engagements, specifically focused towards catastrophe changes, processes that are on the string given the storm, and those six audits have been listed in your plan for your awareness as well. I further highlight that we have 100 percent of the remaining planned audit engagements either completed or in progress. Twelve audits are currently in progress and we actually plan to complete nine of those by the end of the year and they are really progressing fairly well. Three of these projects will not be completed. None of those are major, but I think as far as progress is concerned we are very pleased with where we are. Then we have also completed six engagements that we have reported in the pack and we have summaries of those on pages 11 and 12 for your review. Of these engagements I highlight that Automated Underwriting engagement we completed and the results from that review. We also did some work on the Acuity application and if you remember, a few years ago, one of the audits that we completed highlighted some improvement action needed to be acquired in the acuity and we are pleased to note here that that system has been improved well and is delivering what the organization is expecting from it. One of the larger advisories that we completed was an End User Computing and we provided that result to the organization as well and they will use that next year to help them define an End User Computing process and that is really the feedback on the audits. I think I will just pause to see if you have any questions on the results of the work.

CHAIRWOMAN BROWN: Any questions from the committee?

GOVERNOR HOLTON: I don't think so.

CHAIRWOMAN BROWN: Thank you.

MR. MARTINS: The Internal Controls Office has identified a total of 69 processes through which we would assist the organization in defining its internal control framework. The controls have already been defined and they are already in place. What we haven't done is documented and determined which of those controls are really important to the organization and that is what this project is doing. The project is continuing next year. Of the 69 processes we completed 37 or 54 percent. Next we plan to do another 16. During this review we highlighted 88 primary controls and for these, 37 processes, the organization has completed 22 self-reviews this year and we plan to provide a report by the next meeting to show the results of those self-reviews. And then some feedback from the Enterprise Risk office as well. We are reestablishing the Enterprise Risk office. We have identified resourcing. We re-defined the framework and this is being rolled out within the organization and we have a well-defined process and framework and bringing forth the risks that are important for the organization throughout the year.

On page 60 we bring to you the 2018 Office of Internal Audit Plan, and I want to mention that the plan was developed using a risk based approach to understand and assist Citizens Insurance Corporation on its inherent risks. Additional consideration was given for future work to be conducted by the Auditor General and Market Conduct examinations and planned strategic

initiatives. The risk assessment completed by the Office of Internal Audit represents our best effort in understanding the audit universe and issues that may influence the effective execution of Citizens goals and objectives. Our assessment of risk is our own subjective opinion and was derived from client, other assurance party and risk input. The process was performed in two steps including personnel and client interviews following the overall ranking of a residual risk and identification of audit projects. The plan represents a listing of audit projects identified through our analysis of risk. Citizens is best served if the plan is dynamic in nature and continually adjusting to meet the needs of the company. Therefore, this plan will be reviewed quarterly and adjusted as needed as we just did in this meeting. I also would like to mention that within the plan we are scheduling a total of 15 audits, seven advisory projects and several project reviews. We have roughly around 6,000 hours of management operations that we plan to execute, 2,050 hours in compliance and forensic audit and just under 1,900 hours for information technology.

On page 15 is the 2018 audit budget and within this budget we noted that there is a slight decrease year on year on the budget which is in line with the organization's desire to reduce costs and keep current costs as low as we can, but the change is mainly related to a slight change and contingent staffing and we believe that we wouldn't need to have that expenditure this year.

On page 16 I present the Internal Control Office plan and within that plan we highlight that there are 32 total process reviews that are remaining of which we plan to complete 16 next year and the rest of those in 2019. The 16 that we plan to complete would mainly reside in the systems and operations area, 12 of those will be in that area. I also represent on page 17 the Internal Controls Office budget and you will note that the budget is slightly higher year on year, with a 9 percent increase. This is the first year that this function is fully staffed and the change in the budget really reflects the difference in salary given that we have the two members of staff in place at this moment.

Then on page 18 I present the Enterprise Risk Office plan here we mention that we divided the Enterprise Risk Office effort in two areas, strategic risk assessment process (through which we identify strategic risks throughout the organization) and an operational risk assessment process that is currently ongoing and is aligned very well with the Internal Control Office work to which we identify operational risks by process throughout the organization. This give the operations and management the opportunity to identify risk and management risk going forward. Both of these processes will continue to mature next year and hopefully by the end of the year we will have something of reason to bring back to the Audit Committee to consider. What I would like to do now is to present this plan and ask the committee for a motion of approval of the Office of Internal Audit plan and budget and for the budget to be presented together with the organizational budget tomorrow to the Board of Governors for approval.

CHAIRWOMAN BROWN: Before Joe presents the audit request, do either of you have any questions? Any members have any questions of Joe?

GOVERNOR HOLTON: No.

CHAIRWOMAN BROWN: Okay, go ahead, Joe.

MR. MARTINS: The Chief of Internal Audit request the committee's approval of the 2018 audit strategy and plan which includes the 2018 audit budget. And I would like to ask for a motion from the committee for the approval of that.

GOVERNOR HOLTON: Move to approve.

GOVERNOR MCKAY: Second.

CHAIRWOMAN BROWN: Motion moved and seconded and approved.

MR. MARTINS: Thank you very much. The last item that I have for consideration is an action item in the Risk Management system procurement. You will note that in the back of our section we have the action item, itself, on page 95. I would like to mention that this is a replacement of an application that the Enterprise Risk Office used. We stopped using the old application in January when it came up for renewal. We didn't renew the previous application and the reason for that is we wanted to reestablish the framework to define exactly what we wanted to do, to determine what our needs and requirements are. Bring the staff on board that can help us continue with Enterprise Risk effort within the organization, and then let them define what this should look like together with the business units and we have done that and we would like to bring this tool forward to the committee for approval, and I will just read through the action item. The purpose of the contract is to provide the Enterprise Risk Office as well as the broader Citizens organization with a software-as-a- service enterprise risk management tool. The Enterprise Risk Management system with facility the identification, evaluation of risks throughout the organization and support the use of consistent aligned approach to the treatment of identified risks throughout Citizens. And enable management across all levels of the organization to self-identify, evaluate, record and manage risks through the provision of guidance, training and a software solution. The procurement would effectively replace the Enterprise Risk tool used by the organization until January 2017 when the previous contract expired. The contract will have a five-year base term with five optional one year renewal terms which may be exercised at Citizens sole discretion by delivery of written notice to the vendor in time prior to expiration of then current contract. On July 19, 2017, Citizens issued the request for approval, number 17-0021 for the procurement of an Enterprise Risk Management system. Six proposals met Citizens mandatory requirements and we evaluated by an evaluation committee on September 14, 2017. The evaluation committee conducted a publicly noticed telephone meeting and recommended the award of the contract to Resolver. Staff recommends that Citizens' Board of Governors approve the recommended award and resulting contract including renewal for Enterprise Risk Management System, RFP number 17-0021 to Resolver, and authorize staff to take appropriate or necessary action consistent with this action item.

CHAIRWOMAN BROWN: Members, do you have any questions of Joe on this action item?

GOVERNOR MCKAY: Joe, can you tell us a little bit about the vendor? I am not familiar with them offhand.

MR. MARTINS: Resolver is a Canadian based vendor. It is an internationally acclaimed provider

of Enterprise Risk Management software. It is an organization that has developed a tool that is relatively easy to use, easy to change to your requirements, and it has a whole package of government risk control tools that can be used by most organizations. It doesn't only provide Enterprise Risk Management application, it provides a total package including audit services, internal control services, compliance, compliance monitoring tool, compliance management tool and various other tools that could be used by any organization to deliver that equipment. The company that we currently use to provide the service to our own Internal Control Office as well as Internal Audit does not have an Enterprise Risk Management tool at the moment. So otherwise it would have been appropriate for us to have one system within the organization. Certainly as we continue and we build a relationship with Resolver over time we can obviously consider whether there is an opportunity for us to combine those in one tool instead of having more than one tool in one function.

GOVERNOR MCKAY: And that was the reason for the new RFP, it didn't have any ERM functions.

MR. MARTINS: That is correct.

GOVERNOR MCKAY: Thank you.

CHAIRWOMAN BROWN: Any additional questions? I will entertain a motion to approve.

GOVERNOR MCKAY: Second.

CHAIRWOMAN BROWN: If there are no objections the motion passes. Thank you very much, Joe.

MR. MARTINS: That concludes my presentation.

CHAIRWOMAN BROWN: Joe, you haven't left yet so I just want to compliment you on your strategic move quickly for your audits. I notice that your engagements, there are six or seven that changed as a result of Irma. I think that was really great that you did that, smart, and I thank you for that because you have to be able to move on your feet and at the turn of a dime and you did it. So I wanted to compliment you on that. Thank you, Joe.

MR. MARTINS: Thank you very much, Governor Brown.

CHAIRWOMAN BROWN: The next item is Jennifer Montero, Chief Financial Officer. She is going to give us an update on where we are financially. Welcome.

MS. MONTERO: Good afternoon. For the record my name is Jennifer Montero, I am Citizens' Chief Financial Officer. Behind tab three of your Audit Committee materials you will find the September 30th, 2017, financial summary and the quarterly financial analysis. September of 2017, marked the end of what was almost a 12-year term during which there were no significant storm events. Despite Citizens incurring more than an estimated \$1 billion in net losses and LAE

from Hurricane Irma, Citizens' financial position remains sound. In the days leading up to the expected date Irma was to make landfall, Citizens repositioned its investment portfolio in short of approximately \$1 billion in liquid claims paying resources. Additional efforts were undertaken in financial services to ensure the ability of additional living expense checks and to support the substantial increase in claims check printing volume. Through the end of the third quarter Citizens' consolidated surplus was \$6.5 billion, while cash and invested assets were at \$11.2 billion. We continue to see declines in the overall PIF or policies in force, mostly within the commercial book. The personal lines account only declined one percent. The declines in overall premium volume are somewhat parallel with depopulation which has also decreased substantially. Reductions in the reinsured exposure contributed most significantly to declines in the reinsurance premium which decreases from \$181 million in 2006 to \$92.7 million in 2017, almost a 50 percent decrease while maintaining our goal of preserving surplus and eliminating the assessment risk in a one and 100 year event. Ignoring the effects of Hurricane Irma loss in LAE activity has not changed considerably from the last report. The non-weather water losses continue to be the dominant driver of upward trending loss in LAE ratios and represent close to 75 percent of indemnity losses within the personal lines account. The runoff of sinkhole claims and some adverse development on prior accident years as losses settle contributed roughly \$20 million of the losses in the third quarter. Model Hurricane Irma losses were \$1.2 billion before applying estimated recoveries from the CAT fund of \$194 million. Model losses contemplate 10 percent for LAE, but we expect this number to decline as we have observed the LAE costs along with the private market support a higher percentage. As actually reported claims mature, estimated model results will be replaced with projections based on actual emerging losses in LAE data. Therefore the estimated losses in LAE reported at September 30th, 2017, are expected to change as a result of the year end analysis. The liquidity of approximately \$1 billion of invested assets in advance of Hurricane Irma generated nearly \$17 million in realized gains. In closing I want to reiterate to this committee the strength of our financial position and the importance of our reinsurance program, investment policies and the operating infrastructure which has served as critical resources during and after Hurricane Irma. As we move into 2018, we have placed an emphasis on maintaining our operational resources, continually evaluating prudent opportunities to increase our investment income and continuing to be an active participant in the reinsurance market. If there are no questions that concludes my report.

CHAIRWOMAN BROWN: Jennifer, I thank you, as usual, very concise and informational. Does anyone have any questions of Jennifer? Thank you very much.

MS. MONTERO: Thank you.

CHAIRWOMAN BROWN: I believe we have external auditors here. Brian Smith is here in person, and we have on the phone Matt Church to give us the 2017 financial audit update. Is Matt on the phone? Go ahead, Brian.

MR. SMITH: It is all mine. Good afternoon.

CHAIRWOMAN BROWN: Welcome.

MR. SMITH: Brian Smith with Dixon, Hughes, Goodman, I am an audit partner in our Tampa, Florida office. A few of you are new to the committee, so welcome from our side. But I want to just take a chance for us to go through our audit plan today, create a dialogue if you have any questions for us before we start our field work. So really this is an open session for you all to understand our role as external auditors. Matt Church could not make it, he is actually sick today. He is in our or Charlotte office. I apologize.

CHAIRWOMAN BROWN: I am sure you will do a great job.

MR. SMITH: That is right. So just a refresher, I am going to go through a few slides here. On the second slide, our scope for the audit is to audit the financial statements of Citizens Property Insurance on both a GAAP, under the government accounting standards, and statutory basis, and also audit the Florida Market Assistance Plan. Going to slide three, we are going to talk through our plan. This is probably repetitive for Bette, but I want to go through and make sure you all understand. Our approach is a risk based approach. So we are going to look and scope certain accounts which have higher risks compared to lower risks, certain transactions as well as align assertions to those accounts for our audit. In January and February, we will have a team of our IT services group which will assess the controls in the IT front, also look at the general ledger conversion which the company imported this year back in the spring. Going to slide four, our test based approach is going to conclude with auditing certain transactions, vouching and tracing to samples, also performing fraud risk assessment procedures. We will not take a control reliance approach. We will understand controls for the company. Slide five we will conclude and report to the Audit Committee in the spring. Going to slide six, we are going to look at certain areas which we believe are significant areas to the audit whether they are significant risks or significant based on voluminous transactions. The first is reserves. The most significant impact to the company is the IBNR reserves. We will engage a third party actuary, being Merlinos & Associates to evaluate the actuary results of the company. We also test certain transactions of claims and paid losses and case reserves of the company throughout the year. With the impacts of Hurricane Irma also continue increases and reserves with non-water, non-hurricane losses with water claims litigation we will have an uptick amount of samples we look at because of those transactions and those impacts throughout the year. Any questions on reserves?

CHAIRWOMAN BROWN: Members, any questions?

MR. SMITH: Okay.

CHAIRWOMAN BROWN: Not so far.

MR. SMITH: I will continue through premiums. We believe premiums, because the volume of transactions and because of the nature of revenue to the company, is a significant risk we will audit revenue transactions with the presumption of significant risks around not only the premiums, but also the collections of premiums receivable. Investment valuation we will look at the valuation of investments, also confirm the portfolio to external parties. Reinsurance on slide nine we will evaluate the reinsurance structure throughout the program year, but also look at accounting items such as risk transfer analysis to make sure those do appropriately transfer risks for accounting

purposes. With any company looking at slide ten, there is a presumption of management override of controls. We will evaluate management override of controls through inquiries, through understanding the controls of the company, but also through fraud inquiries and general entry testing. Looking at slide 11 we will engage certain specialists for our audit. They will include an information technology team within Dixon Hughes. We will include a valuation team within Dixon Hughes to evaluate the valuation of the portfolios. We will hire Merlino & Associates as a third-party external actuary, and also work with internal audit any items that come up throughout the year. Expected completion dates, we expect to report the middle of May, May 15 is our target date to issue our audit. We will be in the field in Tallahassee next week beginning with our test work, and then for our final test work we will be in the field in the month of April. But the plan to take about two weeks to conclude and report back to management. Matt Church who is not here today is our engagement signing partner. Myself, I am a partner within our Tampa office serving an account and we will also include Kevin Ryals who is our concurrent review, engagement quality review partner out of Charlotte. The engagement team has been consistent for a third year in a row from a leadership team which has been beneficial for both management and us. So with that I will conclude my report and take any questions you have.

CHAIRWOMAN BROWN: Thank you very much. I have one question.

MR. SMITH: Sure.

CHAIRWOMAN BROWN: That is about a five-month window. Is that typical?

MR. SMITH: It is. Really what we look for is not only time for the team to complete our procedures from interim and final, but we also want to provide the management the opportunity to close their books for their statutory filings. If there are questions that come up throughout the audit or throughout their financial close, we are there to help, whether it is financial accounting questions or whether it is questions of them trying to get the reports out.

CHAIRWOMAN BROWN: Thank you. Members, any questions of Brian? Thank you very much.

MR. SMITH: Thank you, appreciate it.

CHAIRWOMAN BROWN: In your Board book, tab, or in your report book tab five is information on complaint management statistics that you can read at your leisure. And now we welcome Nancy Staff. Welcome, Nancy, who is going to talk about operational compliance government implementation. I didn't even goof it up. That is great. Welcome.

MS. STAFF: Thank you very much. My name is Nancy Staff, and I am the Director of Ethics and the Compliance Officer and I report to Dan Sumner the Chief Legal Officer. And I appreciate the opportunity to have a few moments of your time to update you on I think an exciting project that we have been working on at Citizens. Last September in 2016, the ELT adopted the operational compliance governance framework and that framework is in your packet and you can read if you have an opportunity, really calls for a number of things to occur. What the framework requires is

that all of the relevant laws, rules and regulations that apply to Citizens be identified, integrated into our business practices and where they are integrated identified as such, documented. We make sure there is a process in place so that employees are educated and trained on these laws as well as making sure they are aware when there are any changes and update the system as required, and also addressing areas of non-compliance if there are any in a strategic risk based fashion. This was adopted as a key strategic initiative, step one of this implementation of the framework. I am primarily responsible for coordinating the implementation, but to do so, we have created a group of compliance champions. There are 14 throughout the company, and they are very skilled in their business units and we have been working collaboratively to do a number of things. Fortunately the corporation did understand the importance of this project and did make it a key strategic initiative. We have had some significant success. The compliance champions as a group working individually and collaboratively. We have updated a very old inventory of laws, rules and regulations of over 700 elements and we have updated them. We have looked at them, we have refined them to make sure that they are actually implementable elements. In other words, it is very important to all of us that this be a project that is useful for the business unit. So when we are looking at laws and rules we are looking at how they are actually implemented into the business unit so that when there is a change and if we need to update them it makes sense. We have documented those. We have looked for relationships. In other words, champions are assigned certain laws, it is their responsibility, but we have also looked to see if other business units had an interest in them so that if a change on one end and there is a change downstream everyone knows about it. We spent pretty much 2017 doing that, and I am very proud of the fact that it was all done with internal staff. We did not use any external vendors. This culminated in a certification process which is rudimentary, but it is important, and basically the champions went through all of their elements and asked themselves is it implemented, is it complied with, do we have a plan, and they certified them. So it was a big housekeeping effort, but it was very successful and we are working on some that we need to fully implement, but it was a very good first certification and the idea is to do this annually and not only will you certify compliance but we will also look to make sure that we are catching any changes. We already do that of course very well with State changes but also Federal and local and things like that. There are some statistics in your packet. But I just wanted to introduce myself and let you know that we are doing this and if you have any questions I would be happy to answer them.

CHAIRWOMAN BROWN: Members, do you have any questions of Nancy? I have a question. I assume this is a big project.

MS. STAFF: Yes.

CHAIRWOMAN BROWN: You spent the year doing it. I assume that going forward it is going to be a little less onerous for you.

MS. STAFF: Yes. Well, the inventory was probably the biggest part of the project, and we are continuing to refine and we are going to -- we are continuing to figure out the best way to move forward with that, but yes.

CHAIRWOMAN BROWN: Great, thank you very much.

MS. STAFF: Thank you.

CHAIRWOMAN BROWN: Is there any new business that needs to come before the committee? No, okay. Then I would accept a motion to adjourn.

GOVERNOR HOLTON: Move to adjourn.

CHAIRWOMAN BROWN: Okay, our meeting is adjourned. Thank you.
(Whereupon, the meeting was adjourned.)

Draft