

**CITIZENS PROPERTY INSURANCE CORPORATION
TRANSCRIPT OF THE MINUTES OF THE AUDIT COMMITTEE MEETING
HELD TUESDAY DECEMBER 11, 2018**

A Board meeting of the Audit Committee of Citizens Property Insurance Corporation (“Citizens”) was held at 1:00 pm on Tuesday December 11, 2018 in Maitland, FL.

The following members of the Audit Committee were present:

Governor Bette Brown, Chairwoman
Governor Jim Holton
Governor Marc Dunbar
Governor John McKay (telephonically)

The following members of the Board were present:

Gary Aubuchon
John Wortman
William Kastroll

The following Citizens Staff were present:

Jay Adams	Eric Addison
Christine Ashburn	Steve Bitar
Violet Bloom	Kelly Booten
Brian Donovan	Bonnie Gilliland
Barry Gilway	Stephen Guth
Mark Kagy	Paul Kutter
Joe Martins	Jennifer Montero
Michael Peltier	Jeremy Pope
Nikki Smith	Dan Sumner
Barbara Walker	David Woodruff
Andrew Woodward	

The following were also present:

Matt Church, Dixon Hughes Goodman
Mike Deas, Dixon Hughes Goodman
Dave Newell, FAIA
Kapil Bhatia, Raymond Jones
Doug Draper, Bank of America Merrill Lynch
Coleman Corden, Bank of America Merrill Lynch
Mark Weiberg, Citi
Rona Williams, Jeffries
Tamaa Pattison, Jeffries
John Geralli, Wells Fargo
Ken Vincent, Guy Carpenter
Jason Kutz, Guy Carpenter
Danny Krits, Guy Carpenter

Call meeting to Order.

MS. WALKER: Welcome to the December 11th Audit Committee meeting that is publicly noticed in the Florida Administrative Register and recorded with transcribed Minutes available at our website. We will convene with roll call for quorum. Chairman Bette Brown.

CHAIRMAN BROWN: Here.

MS. WALKER: Governor Marc Dunbar.

GOVERNOR DUNBAR: Here.

MS. WALKER: Governor Jim Holton.

GOVERNOR HOLTON: Here.

MS. WALKER: Governor John McKay.

GOVERNOR MCKAY: Here.

MS. WALKER: Chairman, you have a quorum.

CHAIRMAN BROWN: Thank you. Let's call the meeting to order then. The first order of business would be the approval of the Minutes of September 25th, 2018. Members, are there any corrections to the Minutes?

GOVERNOR MCKAY: Move to approve.

GOVERNOR DUNBAR: I will second subject to I sent a couple of corrections to Bonnie that I think she is making. So subject to that, I second the approval.

CHAIRMAN BROWN: Great. The motion passes. Joe Martins, nice to see you at the dais. You have some reports for us today.

MR. MARTINS: Yes, thank you, Governor Brown. Good afternoon, for the record, I am Joe Martins, Chief of Internal Audit. I would like to start behind tab two, focusing on the dashboard page 9 of the pack.

In the first section we are looking at an overview of audit progress and I wish to mention that for the year we have had relatively good progress. We had 22 engagements scheduled for the year, of which 19 were completed. Two are currently in progress and reports should be ready within the next week or two. We also commenced with work for the first quarter of 2019. On the bottom of the page we reported on work completed on the Responsible Vendor Review and noted that the review indicated that the organization is approaching the process relatively well and Citizens is comparing very well with the other state entities in terms of being responsive or requesting vendors to be responsible. On page 10 we look at the work currently in progress. In progress we have three projects the Managed Repair Program, Alternative Work Arrangements, and Centre Point User Access for Finance and Procurement. Scheduled in the plan for the first quarter of 2019 we listed audits of Payroll and Critical IT Security Controls plus an advisory on SIU processes.

For Q2 2019, we bring for approval to the Audit Committee six audit engagements: Centre Point Configuration Management, Claims Legal Billing, Insurance Scoring, Litigation Settlement, SOC Reporting and Targeted Payroll Analytics. In all of these projects we will assess the efficiency and effectiveness of controls and process design. For control deficiency resolution, you will notice that there was a bump in terms of the number of open items. The increase mainly relate to work that was completed by the OIR and their findings were included in our open audits register for monitor to completion of the agreed corrective action. On page 14 we look at the internal control framework process. I am pleased to say that we have completed most of the work that we scheduled. For this year we had 12 engagements. In 2019, we will get ready to finalize the project implementation with the last 15 process reviews that will commence in the first quarter of 2019. You will see on page 15 that we have also commenced the internal control self-assessments. With these self-assessments the business units assess and evaluate the design effectiveness and control efficiency of each recorded key control on an annual basis. For next year we envision that we will do CSAs for most of the 72 identified processes. We further recorded eight control deficiencies, from 99 key controls documented, which are currently being addressed by management. On page 16, we look at the Enterprise Risk Management progress, and specifically focus on the Operational Risk Management. We also implemented a Risk Management administration tool which gives us the opportunity to roll out a very comprehensive Operational Risk Management process throughout the organization.

The last piece that I want to work through is on page 23, the Office of Internal Audit 2019 Strategy and Plan, and I would like to spend a little bit of time on the plan itself. I refer you to page 13 of the plan where we noted that throughout the year the audit plan continuously evolves to support our dynamic risk environment thereby, we keep focusing on current and emerging risks. To achieve the greatest impact the internal audit rebalances the internal audit activities in a rolling audit plan to ensure sufficient focus on Citizens' strategy, issues and critical processes. In determining Citizens' audit universe, we engage with management across the organization and assess potential auditable entities. The primary responsibility of internal audit is to determine whether Citizens' network of governance processes, risk/opportunity management and internal control are designed and well represented. In determining the types of services, internal audit developed a specific audit theme in identifying planned audit activities and audit coverage. Themes-placed audit planning is a value adding approach that helps the internal audit to determine, consolidate and provide high level insights into the following period audit focus areas. For 2019, we identified six specific themes that we plan to do our work in. We have expense management, reliance on third parties, fraud detection and deterrents, innovation and system conversion, enterprise resiliency, security and privacy controls. For these six themes we have listed a number of potential audits. Potential audits were identified through a vigorous risk analysis that the audit function does, and these engagements are listed with each of the themes throughout the pack. I am not going to go through every one of the audits and we have brought the Q1 and Q2 audits already to the Committee for approval.

On page 41 we focus on the Enterprise Risk Management plan for next year. During 2018, Enterprise Risk focused its attention to the roll out of the details and comprehensive strategic risk identification and assessment approach. The implementation of the Risk Management administration tool is also to be completed, and this provides us the opportunity during 2019, to continue to introduce business unit management and its delegates to Citizens' Operational Risk Management methodology, with the primary objective to enhance Citizens' risk culture with the

operational management and business units. The facility to roll out the Operational Risk Management approach will also introduce our SAAS based Enterprise Risk Management administrative system. During 2019,

Citizens will also enter the final phase of the internal control framework processes in 2019. During the first quarter of 2019, the Internal Control Office will commence with the final 15 process reviews and complete 72 reviews scheduled for the project. Once these reviews are completed, relevant process and control documentation will be housed in the control administration tool with the business unit management and the selected representatives will be able to perform annual self-reviews focused on the varying control design and operating effectiveness. Following the completion of the internal control framework review and implementation, the internal control staff will monitor the business unit progress and completion of the annual control self-assessments, support the business of inherent risk and control documentation, refresh and perform quality assurance reviews for approximately one-third of the processes completed every year.

GOVERNOR DUNBAR: Madam Chair, can I ask a quick question?

CHAIRMAN BROWN: Yes. Joe, have you completed your presentation on this subject?

MR. MARTINS: I have completed my presentation on internal controls. The next step will be the budget.

GOVERNOR DUNBAR: A couple of quick questions. So we are going to establish our internal controls and then we are going to periodically test the internal controls through random audits, right, of different subject matters to check?

MR. MARTINS: That is correct.

GOVERNOR DUNBAR: So how are those audits determined, how do you see the determination on what aspects of the internal control plans will be tested at which time? And before you answer I am wondering if senior management has input on saying, look, I would like to test these elements of the plan this year. The Board, this committee is going to have an input in it, and also will there be almost a blind bucket to where you will be able to on your own or your group not give anybody a heads up and announce that you are going to do an internal control audit. Because from my background, the thing I always worry about internal controls and internal control audits is if you don't have some randomness to it and keep a little bit confidential on what the plan is, sometimes you will not necessarily be testing the internal controls because you are giving too much of a heads up. Does that make sense?

MR. MARTINS: Right.

GOVERNOR DUNBAR: So how do you envision the various groups impacting the audits on the internal control?

MR. MARTINS: So there are two approaches that we follow. The one is the Internal Controls Office is a separate office from the Internal Audit, and the office, through the development of the framework, has determined that they will do a three-year cycle of quality assessments. So over the three-year period what the Internal Controls Office will be doing is focusing on how well does management do their self-reviews. Within the Internal Audit Office, we don't envision to audit specific controls, per se. We do risk assessments which we bring with this plan to the Audit

Committee, and when we perform these audits, we will include a focus on embedded process controls which may include some of the key controls identified in ICF.

GOVERNOR DUNBAR: So, could leadership decide that they want like I would like you to look at this area and then task the group with going ahead and auditing that outside of the cycle?

MR. MARTINS: That is correct.

GOVERNOR DUNBAR: Okay, thank you.

CHAIRMAN BROWN: Any other questions of Joe?

MR. MARTINS: There is one more item that I wanted to bring in front of you. On page 44 we have the 2019 Office of Internal Audit budget. The budget compares well to the 2018 budget. You will notice that it is a negative point zero percent growth, which really relates to reduction in one staff for the team and it fits into our strategy and the work that we schedule for ourselves. And that completes my report to the Committee and I am open for any questions. I would also ask the Committee for a motion to approval of the strategy and plan and the 2019 audit budget.

CHAIRMAN BROWN: Members, any more questions of Joe? I will make a comment. I was noticing the budget was really tight and you have one less member I believe.

MR. MARTINS: That is correct.

CHAIRMAN BROWN: And you are watching it close and I always appreciate that. So thank you, Joe. It is a big job that you have and you have some quality people, but I appreciate that. May I have a motion to approve the 2019 strategy and plan, please?

GOVERNOR HOLTON: Move to approve.

GOVERNOR DUNBAR: Second.

CHAIRMAN BROWN: Any objection? It passes. Thank you, Joe, very much.

MR. MARTINS: And I would like to refer you to Section three of the pack. Within that section is an update of the strategic risks. The Enterprise Risk Office has identified 15 strategic risks together with management. And every meeting we have requested one of the ELT members to present their strategic risk to the Audit Committee, and today it is Kelly Booten's turn to talk to you about her risks.

CHAIRMAN BROWN: Thank you, Joe. Welcome, Kelly, you are recognized. Welcome.

MS. BOOTEN: Today I have four risks to cover. They are all Enterprise risks for which Systems and Operations has primary responsibility to govern those risks in partnership with the business units. The first two risks, data quality and availability and data security and data privacy are interrelated in protecting the confidentiality, integrity and availability of data and treating it as an important asset of the company. The first risk is lack of complete and accurate data available to support management decisions. At Citizens we have an enterprise data management or EDM function that is a cross division, representation from across the company that focuses on data quality and data availability concerns. There are roles for data owners, those that are responsible for the data. There are data stewards that are responsible for making sure that the appropriate controls are in place, that we make sure that the data is of good quality; has tests for the right

data, and also making sure that the right people have access to it. And then we have custodians of the data that are typically in IT that are to protect the data from access from a technical perspective and make sure that our databases are secured, our data is encrypted, et cetera. All of those things along with standards, education and quality reviews mitigate against this risk. We partner with our business on the data quality reviews. There are multiple layers of quality checks within the business units and across the enterprise.

Moving on to data security and privacy. This risk has to do with the ability to secure and protect the privacy of the data, imputing assets from unauthorized access resulting in the unintentional disclosure of confidential, private, proprietary or sensitive information. This one is probably the most audited, tested and scrutinized area of all the risks. We do external, what are called penetration tests. We do internal tests. We have audits constantly around data access that Joe's group does. All of our external auditors look at all these capabilities. There's multiple levels of defense. We also have data security that is maintained, mostly maintained out of the IT department, but we have a privacy officer in the legal department that we partnership and work together on incident response and security incidents. We have a cyber liability policy. This one is very well mitigated against. We have to continually monitor for new threats and understand what is going on in the outside world to better protect our data. The next one is reliance on third parties. And this is significant reliance and/or over reliance on vendors. In all of our business units we use vendors. Clearly in Claims and Underwriting we use the most and we have a lot of methods to avoid letting risks in the door to begin with. And that starts with the solicitation process and everything we do to check up on our vendors and to make sure that the vendors coming in the front door are those that we should be doing business with.

We also have multiple levels of vendors so that we are never reliant on one vendor. We always have in a lot of cases many vendors, and in some cases multiple vendors to fall back on. We classify our vendors based upon the risk. So we have strategic vendors, operational vendors, and tactical vendors. We have a very robust contract management and vendor management practice in place at Citizens. We have the first line of defense in the business units, and then we have an enterprise function for that. And then the fourth risk is the ability to effectively scope requirements, prioritize, implement and measure the return on technology solutions, both internally developed and external solutions. This one is pretty broad. It is everything to do with systems, and of course, we are reliant on the systems that we have. We look at benefits and what are the benefits of the systems that we have. We rely heavily on the large implementations and tracking benefits realization, tracking the business case to make sure that we are getting the value out of the investment that we are making. We have established some success criteria for each of our projects. We have a process we call Enterprise Rhythm that is governance around all of our projects. We have regular reporting to multiple layers in the company, and we produce reports for the executive leadership team. So this one is very well managed at different intervals throughout the life cycle of any project or system implementation. So that is the overview of those four strategic risks.

CHAIRMAN BROWN: Great. Members, any questions of Kelly?

GOVERNOR HOLTON: Chairman, a quick question. And Kelly, which will come out in the ISAC tomorrow. I know there is going to be a delay as we discussed in the cloud migration. And can you discuss briefly any impacts that may have on data security or for any risk factors?

MS. BOOTEN: Sure. We have a number of our systems that are already in the cloud because that is what they are offered from a point perspective and we do SOC reports for our vendors to make sure that all the controls are in place. We also have reviews that we do ourselves and have audits to follow up on those reviews to make sure that we are protecting our data. Now, this year we are starting a cloud migration of our infrastructure and moving more of the back office functions to the cloud. So we have a cloud strategy that we are working on. We are looking at the different flavors of cloud and what type that we are going to get, and we are in the evaluation process of that and will be working on that this year. But that is of highest concern to make sure that the data is protected.

GOVERNOR HOLTON: Thank you.

CHAIRMAN BROWN: Thank you very much. Any other questions? All right, thanks, Kelly. Jennifer Montero. Thank you for giving your financial report today.

MS. MONTERO: Good afternoon. Behind tab four you will find the Audit Committee materials, the September 30th financial results consisting of the financial summary and statement of operations, as well as the quarterly financial update. Through the first three-quarters of 2018, Citizens' financial position remains strong and reflective of our successful risk transfer efforts and disciplined investment in expense management. At September 30th, Citizens consolidated surplus with approximately 6.4 billion, with an additional 1.7 billion in pre-event liquidity, 1.4 billion in private risk transfer and 2.2 billion of Cat Fund coverage. Cash in invested assets totaled 9.5 billion at September 30th. Consolidated direct written premium through the third quarter was 679.6 million, which is 22 million or three percent less than the same period a year ago. This decrease is the result of decreases in combined policies in force, primarily commercial lines policies within the commercial lines account and the coastal account. The personal lines account increased 1.1 percent, while the CLA and the coastal account had decreases of 32 percent and 13 percent respectively. The volume of premiums removed through depopulation of 5.3 million during the first quarter of 2018, was 3.6 million less than the same period in 2017, and considerably below the level of depopulation that occurred from 2012 through 2015. Premium ceded through reinsurance arrangements totaled 240.7 million, which is 10.2 million or four percent less than the same period in 2017. The decline was driven by declines in the cost of private reinsurance, as well as declines in premium ceded to the Cat Fund. Both largely due to declines in reinsured exposure and overall declines in risk adjusted pricing on private reinsurance arrangements. On the consolidated basis, losses incurred through the third quarter of 2018, were relatively unchanged as compared to prior calendar year. By account the PLA and coastal account did not have any significant loss development on prior accident years, where the CLA experienced adverse loss development as a result of settlements of sinkhole losses from prior accident years. While loss and loss development within the CLA and commercial line policies within the coastal account are less significant to the accident years to which they relate, the diminishing size of the overall commercial lines book of business leaves it more susceptible to material swings in the loss in LA ratio as a result of development in prior accident years when the commercial lines of book of business was considerably larger. LAE incurred during the current calendar year increased as a result of increased resources, both internally and externally needed to address continued challenges with non-weather water losses. This increase in necessary resources contributed to the overall deterioration of the LAE ratio, particularly within the personal lines account. Recent trends suggest that the fraction of non-weather water claims entering litigation have stabilized, but remains within a historic high range of 40 to 50 percent. Gross

losses in LAE attributable to Hurricane Irma are unchanged from the prior quarter and remain at 1.8 million, sorry, 1.8 billion. These alternate losses in LAE include a projection, a projected litigation rate of approximately 30 percent for all personal lines claims along with the associated increase in loss in LAE severity for claims that entered litigation. Estimated recoveries from the Florida Hurricane Catastrophe Fund are 534.7 million, and estimated recoveries from private reinsurers are 126.4 million within the coastal account. Administrative expenses incurred during the first three-quarters of 2018, of 95.7 million or approximately 4.6 million below the same period a year ago, and 12 percent below budget. Total employee costs were 5.3 million below budget primarily as a result of favorable variances and budgeted head count reported through the third quarter. These employee costs support 40 percent of the total variance to budget. Professional services and software licensing and fees related to the Centerpoint ERP and Guidewire V9 as well as accrued subscription and dues, expenses at year end 2017 that were reclassified to other underwriting expense comprised the majority of the remaining variance. Through September 30th, Citizens' expense ratio is 24.1 percent reflecting a point 5 percent decrease from 2017, and point 6 decrease as compared to budget. We anticipate that the actual expense ratio for fiscal year 2018 will be 25.6 percent or point 9 percent above budget, largely due to the projected declines in new business within the coastal account and the PLA. Total investment income was 146.3 million at September 30th, which is roughly 30.2 million less than the same period a year ago, while the total average invested assets declined 2.3 billion over the same comparable period. Net realized losses were 22 million representing an increase of 37.6 million relative to the same period in 2017. Net realized losses were taken as portfolio managers maintained duration targets across portfolios, reinvested maturing positions and liquidated existing positions to meet scheduled debt service requirements. This resulted in an increase in realized losses due to overall rising market interest rates, volatility and fluctuations in the credit spread. It is expected that these short term realized losses will be more than offset by longer term increases in overall returns when reinvesting in higher interest rate environments. Looking ahead we expect to finish 2018 with approximately 865 million of direct written premium. The decrease of approximately 141 million or 14 percent relative to the 2018 budget. In addition, we anticipate a net loss of 118 million. Approximately 145 million less than the budgeted net income of 27 million. Despite the decline in 2018 projected direct written premium, the variance in projected net income is largely due to the financial impact of Hurricane Michael. The effects of which are not included in the September 30th financial statements since Hurricane Michael occurred on October 10, 2018. So I will pause for any questions.

CHAIRMAN BROWN: Members, any questions of that wonderful report by Ms. Jennifer Montero? Yes.

GOVERNOR DUNBAR: So on page 7 under the administrative expenses. I know this is probably part of my learning curve, but just walking across, we budget on a calendar year or on a state fiscal year?

GOVERNOR DUNBAR: I am sorry, 12 months.

MS. MONTERO: Our fiscal year is December 30th.

GOVERNOR DUNBAR: Okay. So when I look down and I am trying to understand where we are relative to budget and what expenses are going to come in Q4 which will essentially determine whether we are on budget or off budget, right?

MS. MONTERO: Correct.

GOVERNOR DUNBAR: So it looks like you guys are doing a great job staying under budget. So if I go down the line and I am looking at the column under year-to-date that says 2018 budget that is our full budget for the entire year, not for the nine-month period, right?

MS. MONTERO: That is correct. No, no, that is year-to-date. See right above it, it says, year-to-date.

GOVERNOR DUNBAR: That -- that is what I am wondering. So where is the budget line for the year?

MS. MONTERO: I do not think that that is in this report.

GOVERNOR DUNBAR: That is what I am wondering.

MS. MONTERO: Yes.

GOVERNOR DUNBAR: So moving forward because for me if we budget, and I will just take a line, travel, okay, travel 2018 budget 1.3 million, but we have spent 2.2 million on travel as of 09/30/2018. Do you see where I am?

MS. MONTERO: Right.

GOVERNOR DUNBAR: I don't know, that looks like we are over budget by a pretty, you know, it is not a huge amount of money, but in terms of ratio, but if we are not going to spend anything in Q4 it's a timing issue.

MS. MONTERO: Right.

GOVERNOR DUNBAR: But I can't evaluate that from this report.

MS. MONTERO: Okay, we can definitely do that. We can add so that we have the full January to December budget.

GOVERNOR DUNBAR: Exactly. So I know whether or not it is a timing issue or not. So can I ask a question, are we on budget for travel or are we off budget for travel?

MS. MONTERO: Well, year-to-date we would be over budget.

GOVERNOR DUNBAR: We are. And that is what I was wondering, are we over, are we going to finish over budget for travel or are we going to finish on budget for travel do you think?

MS. MONTERO: I would probably say we are going to go over.

GOVERNOR DUNBAR: Okay. So what is the general reason why we are over budget on travel? Is it travel related to the storms or -?

MS. MONTERO: I would say yes, because we are still working on Irma.

GOVERNOR DUNBAR: Right.

MS. MONTERO: Michael is not considered in this number.

GOVERNOR DUNBAR: Right.

MS. MONTERO: So travel will go up because of the deployment with Michael.

GOVERNOR DUNBAR: Okay, okay.

MS. MONTERO: So you will see that December 31st.

GOVERNOR DUNBAR: Thanks. So that will help me on a moving forward basis. I mean, the minute I looked at it, okay, well, we moved a bunch of people to the Panhandle for a while and I am assuming we didn't necessarily plan for it. But whatever the reason is I know that that is a line that some people like to focus on, and I just wanted to ask that question but it will help me moving forward.

MS. MONTERO: Yes, in December we will break it out of why it is over and what caused those overages for travel specifically.

GOVERNOR DUNBAR: Great. And then moving forward on our quarterly reports we will be able to see it, the total budget?

MS. MONTERO: Yes.

GOVERNOR DUNBAR: Got it. Thank you.

MS. MONTERO: No problem.

CHAIRMAN BROWN: Any other questions of Jennifer Montero?

GOVERNOR McKAY: Just a comment. I agree completely with Governor Dunbar assessment of that. I would like to see that as well. But to reflect on what you said, you can't really judge the entire year until you do it.

MS. MONTERO: Exactly.

GOVERNOR McKAY: Hindsight, because of asymmetric patterns of travel. Exactly.

MS. MONTERO: Right. Thank you. Thank you very much.

CHAIRMAN BROWN: Thank you. Looks like we have Brian Smith and Matt Church from Dixon & Hughes to give us an update in our 2018 audit plan. Welcome.

MR. CHURCH: Thank you, thanks for having us. So I am Matt Church, with me is Mike Deas who is the senior associate. Brian is actually on the phone. He had a conflict with the SEC conference going on this week.

CHAIRMAN BROWN: Okay, welcome.

MR. CHURCH: So we told him we could handle it hopefully.

MR. SMITH: Yes, good afternoon. Brian is on the phone here.

MR. CHURCH: Hey Brian. So one quick introduction to Mike Deas who has served the account. This will be his third year in that senior associate role and is very integral with sort of the day-to-day operations. So what we wanted to cover today is just a real high level review of the 2018 audit plan and take any questions, things like that, as we go through this. So I will start which is kind of giving a quick overview of our approach which is really a three-pronged look at it. So we

start with an understanding of internal controls and then we go from understanding to a more of a substantive approach. So versus Joe was up here and he was talking about the plan and testing controls and things like that. From an audit perspective on the external side there is a cost benefit to which approach you take, because Citizens is well capitalized as it is and in a strong financial position. It is a more efficient audit approach to just take that substantive look knowing the work that the OIA does behind it on the control side if that makes sense. So we do go through. We do gain an understanding, we work with management, we work with the business owners to walk through and understand the risks, how those risks are mitigated, but we are not testing on top of the work being done by the OIA. So we take more of that balance sheet, the income statement approach whereby we look at what are the significant risks and look at them more as an end of the year ending balance approach if that makes sense. So to kind of jump into those significant risks that we have identified at this point, investments which would really be those level three to the extent Citizens has those at year end. Any OTTI considerations. We will look at IBNR, really looking at the completion and the valuation of those reserves. And to do that we will rely upon an external actuary that we bring in as part of our audit team which we will talk about momentarily with our use of specialists. Then we will look at premium recognition, notably cut off policy cancellation, really looking at time and around year end, is everything captured timely and accurately within the period. Reinsurance being sort of the fourth and probably the biggest one. Where we will look at adjustments, any new contracts, we will review those, looking for things like risk transfer. And then we will look at any new Cat Bonds and how those play, come into play. And then the last piece will just be management override of controls, just making sure that there is that proper control structure there. Any questions on that before we move?

CHAIRMAN BROWN: Any questions at this point?

MR. CHURCH: I am going to turn it over to Mike and let him talk about our deliverables and audit timing.

MR. DEAS: Thanks, Matt. So regarding our deliverables, we typically issue our independent audit reports that will include our Citizens Stat and GASB reports as well as the Florida Market Assistance Plan, GAAP report. Then we will go ahead and issue the required communications. Those include our SAS 114 and 115 letters, and then anything required from the Florida OIR which are acknowledgment letters and the letter of qualifications. And then any ad hoc reports that the Board would request, we would be very happy to fill those out as well. Regarding the audit engagement timing, next week we will start our interim planning where we will be on-site in Tallahassee doing all of our standards and our walk-throughs for controls. Then April 8th, 2019, we will be out there for four weeks for a final field work. That is typically four weeks, but what we have seen over the last couple of years dealing with Matt and Andrew who have been a big support, we have been able to get that down closer to three weeks. That sets us up pretty well to be able to issue our audit report on May 17th, 2019.

MR. CHURCH: That is right. So then when we look at use of specialists and the engagement team which is what kind of fills out the second page here. So typically where we look outside of the core engagement team are things like information technology where we will bring in specialists within our firm who really focus on the general control, general controls in place and then any specific application controls that we would want them to dig into. A lot of things that we heard from the previous presentations are relevant, things such as vendor management and reliance upon third parties. We will use our DHG business valuation group to help us with any investment

testing, and valuation testing needs, and then like I said, we use Merlinos & Associates as an outsource solution for us for actuarial. And what you have here also is a recap of the engagement team.

CHAIRMAN BROWN: Thanks, Matt. Any questions, members?

GOVERNOR DUNBAR: I have a quick question. So the outside vendors that you use to help supplement the audit function, did you disclose who those outside folks are in advance?

MR. CHURCH: We do. It is part of the engagement letter. And we do have a discussion prior to finalizing any approach there just to ensure that there is no conflicts.

GOVERNOR DUNBAR: That is what I was wondering.

MR. CHURCH: Yes.

GOVERNOR DUNBAR: So our team knows they vetted them and they are okay.

MR. CHURCH: Yes.

GOVERNOR DUNBAR: I just wanted to make sure. Thanks.

CHAIRMAN BROWN: Any other questions? Thank you very much.

MR. CHURCH: Thank you.

CHAIRMAN BROWN: Yes, Jennifer.

MS. MONTERO: I would like to confirm that the overage in travel as of September 30th is related to Hurricane Irma.

CHAIRMAN BROWN: Thank you.

MS. MONTERO: You are welcome.

CHAIRMAN BROWN: Okay, we have tab six which is complaint management stat statistics. There is nothing significant in that section. Is there any new business to bring before the group? If not, I will entertain a motion to adjourn.

GOVERNOR HOLTON: So moved.

GOVERNOR DUNBAR: Actually, I am sorry, let me just back up to one thing. Because I talked to Joe about an issue under new business. Joe, do you want to come up real quick. I am sorry.

The responsible vendor management program, one of the things that we talked about when we were on the phone going through this was wondering what the status is of a vendor that is mid contract and how we know if that vendor has been subject to material litigation, particularly as it relates to a professional vendor that may have a license issue that is brought against them by a professional license service, a Bar complaint, things like that, and how we know that. I read the language that we had in our contract which is a sort of a trust me. I was just moving forward, for the record, I was hoping that Joe could come back to us and either maybe recommend things that we can add to the responsible vendor program or report on how we keep track of it. So, for example, just for those, if we have a law firm that has been subject to a Bar complaint, how would we know. The way it is set up right now is they would have to essentially disclose it if it is mid, mid

sequence, or if we had a professional license entity that is under contract with us and their licensing board opened an investigation, it is on them to disclose to us. And what I was wondering is do we proactively, periodically test and audit the system to make sure that, you know, randomly that they are in fact giving us all the information. So, with that I want the benefit of the phone call you and I had, I wanted to get your thoughts and put that on the record under new business.

CHAIRMAN BROWN: And Joe, before you go into that. I wonder if we also know if that has ever happened, because it is good to look, check our vendors is certainly a good idea. But the time, value of money, has it ever happened that we have had a problem?

MR. MARTINS: Thank you Governor Brown and Governor Dunbar. Following the discussion that we had, Governor Dunbar, I reached out to the head of the vendor management function. He is with us in the room together with Kelly Booten. I also spoke to Mark Casteel from the general counsel's office and responding to your question first, Governor Brown, Mark Casteel mentioned one specific instance where we were proactive in identifying some action that was pending on a specific firm, and we could react to that. So, there was one instance that was responding to a question that you have, Governor Dunbar.

The audit organization has done numerous audits on the Vendor Management Office and also the Agent Management office. Here we focused mainly on the assessment of the agent licensing, whether those licenses are being kept up to date., When we refer to proactive, I think the organization perhaps isn't that strong in the proactive assessment on a regular basis, and I think there is value in in that for us as an organization. In having discussions with Kelly Booten I noted there is probably value for us as an organization to look at that process and see whether it would make sense for us to have a more proactive approach and the audit team together with the Internal Control Office could work with the organization to look at the development of a control process that will make sense for the organization on an ongoing basis.

GOVERNOR DUNBAR: Thank you. I appreciate it.

CHAIRMAN BROWN: Any other questions? So we had a motion to adjourn, but we didn't have a second.

GOVERNOR DUNBAR: Second.

CHAIRMAN BROWN: All right, we are adjourned, thanks.

(Whereupon, the meeting was concluded.)