

# INTERNAL AUDIT

Office of Foreign Assets  
Control (OFAC)  
Audit Report

December 2, 2020



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## Executive Summary

### Background

The Office of Foreign Assets Control (OFAC) of the U.S. Department of Treasury administers and oversees a series of laws that impose economic and trade sanctions against hostile entities to further U.S. foreign policy and national security objectives. OFAC is responsible for promulgating, developing, and administering the sanctions for the Treasury under all federal statutes. The OFAC laws and regulations promote national and international security by requiring asset freezing of targeted governments, international terrorists, narcotics traffickers, or other specially designated nationals (SDN) and blocked persons.

OFAC maintains databases and publishes information regarding current restrictions and sanctions, referred to as the SDN list. In most cases, U.S. persons are prohibited from conducting business or engaging in financial transactions with any person or entity identified on OFAC's SDN list. Insurers are among many who must exercise due diligence in checking the SDN list to ensure that the people they insure are not Specially Designated Nationals.

According to the Department of the Treasury, insurance companies are:

- Under an obligation not to issue a policy if the applicant is an SDN
- Required to block payment if the SDN sends a deposit along with the policy application
- Must not pay claims or any other disbursement to an SDN
- Barred from providing services to or otherwise conducting business with an SDN

Within Citizens the Financial Services function is currently responsible for administering compliance with OFAC regulations. OFAC does not specify how regularly insurers must "scrub its databases" for OFAC compliance, but the agency notes that federal law requires assets of Specially Designated Nationals be frozen or blocked immediately. Because the SDN list is updated frequently, it is imperative that insurers scrub their databases frequently.

### Audit Objective and Scope

The objective of the audit was to evaluate current OFAC screening practices and procedures and to assess the effectiveness of the program against a framework for OFAC compliance published by the Department of Treasury. Note the audit procedures focused on design effectiveness of OFAC practices and the program.

### Audit Results

Results from our audit work indicate that Citizens procured and have access to an OFAC compliance software platform which is used to screen third parties against OFAC's most up-to-date and accurate SDN listings. Specifically, we observed that:

- All vendors and employees are being screened prior to onboarding with Citizens, and again periodically on an ongoing basis thereafter
- Disbursements out of BillingCenter, such as returned premiums/premium refunds and commissions, are screened post-payment, and
- Disbursements out of ClaimCenter, claims and claims related disbursements, are screened post-payment.



## Executive Summary

When the processes described above are compared with recorded leading practices, published whitepapers and guidance provided by the framework for OFAC compliance published by the Department of Treasury, we assessed that there is an opportunity to improve and strengthen current screening practices, governance, and control activities to ensure comprehensive OFAC screening is conducted going forward. Specific attention should be given to:

- **Expanding OFAC screening practices at Citizens.** There is an opportunity to expand current pre-screening (screening of 3rd parties before the transaction occurs) and ongoing/periodic screening of 3rd parties in Citizens:
  - Specific pre-screening procedures recommended include third party screening at policy application; when processing policy changes (or endorsements); prior to claim/claim related payments; and before any other payments/disbursements are made
  - We also recommend ongoing/periodic screening of policyholders (including additional named insureds, and additional Interests); banks (as lienholders); banks (to which premiums are incoming from); payers of premiums; agents; and reinsurers
- **Developing an OFAC Sanctions Compliance Program (SCP).** There is an opportunity to provide an enhanced governance structure around OFAC compliance at Citizens by developing and maintaining a written OFAC Sanctions Compliance Program (SCP). Elements of an effectively designed SCP (in accordance with U.S. Department of the Treasury's framework) would include:
  - Appointing a dedicated OFAC sanctions compliance officer
  - Reporting / metrics and periodic meetings with senior management
  - Periodically conducting OFAC related risk assessments
  - Designated written OFAC policies and procedures
  - Independent QA / QC that provides results to senior management, and
  - Formal OFAC related training

OFAC's Framework is direct and clear about expectations and benefits that can be earned. There is no question that companies will receive significant benefits if they suffer apparent violations after implementing an effective sanctions compliance program. In some minor cases, a compliance program may make the difference between a warning letter and a civil penalty.

We would like to thank management and staff for their cooperation and professional courtesy throughout the course of this audit.



## Appendix 3

### Distribution

Addressee(s) Andrew Woodward, Vice President - Controller

Addressee(s) **Business Leaders:**

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Jennifer Montero, Chief Financial Officer  
Kelly Booten, Chief Operating Officer  
Jay Adams, Chief – Claims  
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Mark Kagy, Acting Inspector General  
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**Audit Committee:**

Marc Dunbar, Citizens Audit Committee Chair  
James Holton, Citizens Audit Committee Member  
Bette Brown, Citizens Audit Committee Member

**Following Audit Committee Distribution:**

The Honorable Ron DeSantis, Governor  
The Honorable Jimmy Patronis, Chief Financial Officer  
The Honorable Ashley Moody, Attorney General  
The Honorable Nikki Fried, Commissioner of Agriculture  
The Honorable Wilton Simpson, President of the Senate  
The Honorable Chris Sprowls, Speaker of the House of Representatives

The External Auditor

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Under the Direction of Joe Martins, Chief of Internal Audit*