

Office of the
Internal Auditor

AUDIT REPORT November 2021

Compliance Program



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Compliance Program Audit



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Background

Citizens, doing business as a property insurance company, has the responsibility to have a compliance program in place to ensure the organization is following applicable state and federal regulatory requirements. Compliance programs are designed to integrate ethical standards into the daily business activities of an organization through communication, education and training, monitoring, investigation, detection, and reporting.

Citizens is committed to conducting business ethically, with integrity and in compliance with applicable Florida Statutes, federal laws and regulations, and internal policies and procedures. Citizens' Compliance Program should foster full compliance with all relevant laws, rules and regulations (LRRs) through an annual compliance certification process. Citizens' Ethics and Compliance Officer, who reports to the Chief Legal Officer, was previously responsible for overseeing the Compliance Program. Following a role description change during 2019, it would appear the position is currently responsible for overseeing the annual compliance certification of the LRRs program as opposed to the compliance program. As of December 2020, 373 LRRs were reviewed, updated, documented, and certified for compliance by the business unit Compliance Champions.

Objectives and Scope

The objective of this audit was to assess the effectiveness of Citizens' Compliance Program, which includes the annual compliance certification process. This assessment utilized leading industry practices and the relevant principles articulated in the Federal Sentencing Guidelines (§8B2.1), Department of Justice, Evaluation of Corporate Programs, the International Organization for Standardization 37301:2021-Compliance Management System. The following seven requirements of an effective compliance program were used in the assessment:

- Standards and Procedures
- Governance and Oversight
- Due Diligence and Care
- Communication and Training
- Monitoring, Auditing and Reporting
- Incentives, Enforcement and Discipline
- Response and Prevention

Audit Results

Internal Audit has completed an assessment of Citizens' Compliance Program and noted that the following good practices are in place:

- Citizens has a complaint hotline and website in place, branded TellCitizens, where employees, policyholders and vendors can file a complaint for suspected employee misconduct or illegal activity.



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- A triage process is in place to review and assign complaints reported through TellCitizens hotline or website for appropriate handling. The triage team is comprised of the following: Inspector General, Chief of Internal Audit, Ethics and Compliance Officer and Director of HR and Strategic Services.
- There are corporate policies including a code of ethics in place that address employees' responsibilities and expectations with regards to performance and conduct in human resources, finance and accounting, privacy and information security, ethics, and records management. These policies are readily accessible on the Citizens Intranet Portal.
- The Citizens Compliance Champion Network was established in 2017 and is comprised of representatives from business divisions within Citizens to form a cross-functional team. These individuals are responsible for ensuring that all relevant laws, rules, and regulations are current, staff are trained on the new regulatory requirements, and the requirements are incorporated into the business processes and policies and procedures.

Following our assessment of the Compliance Program we noted the following component/element of Citizens' Compliance Program that needs review and enhancements:

- **The Governance and Oversight of the Compliance Program does not have clear assigned roles with accountability and authority within the organization.** Governance and Oversight is one of the elements of an effective Compliance Program, requiring the compliance function to have appropriate authority and resources to handle the requirements and needs of the program. The current job description for the Ethics and Compliance Officer (dated July 1, 2019) is more limiting than a previous version (dated September 3, 2015), with the primary focus presently centered around the maintenance of the Operational Compliance Governance Framework and the facilitation of the annual compliance certification of the LRRs. Responsibilities related to other compliance matters such as governance and oversight are not clearly defined. The leading practices of roles, responsibilities and authority for a corporate compliance function need to be assigned and codified in the job descriptions, and policies and procedures. We suggest that consideration be given to formally assigning responsibility and accountability to all aspects of the compliance program.

Additional results noted some improvement opportunities to increase the efficiencies and effectiveness of the Compliance Program once the governance and oversight accountability and authority is reviewed and updated. Management is encouraged to consider the following Internal Audit suggestions to increase the effectiveness and efficiencies of the Compliance Program.

- Review and enhance Citizens' Compliance Program and its operational framework utilizing the guidance provided by United States Sentencing Commission, Guidelines Manual, §8B2.1 (Nov. 2018); the United States Department of Justice, Evaluation of Compliance Programs (Jun. 2020) and Standard 37301:2021 from the International Organization for Standardization (2021), Compliance Management Systems (ISO 37301:2021) and include the seven elements of an effective compliance program. Due diligence should be observed



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for all elements and in all steps taken to cover the basic regulatory and leading practices requirements. The framework should:

- Detail corporate and departmental policies and procedures currently in force, with the Ethics and Compliance Officer serving as the gatekeeper for all corporate policies and procedures.
- Define job responsibilities for all relevant compliance roles. These responsibilities should be discussed and acknowledged with all relevant parties.
- Include formal monitoring and review processes designed to obtain evidence to validate compliance with applicable laws, rules, and regulations (LRRs) and to detect any potential areas of non-compliance for timely remediation.
- Include a training and education program to include periodic training of the Compliance Champion Network on the identification, escalation, and follow-up on any compliance concerns. The training sessions or meetings should be held on a regular basis to share compliance leading practices to drive continuous improvements to the compliance program.
- Include a periodic review process to ensure the compliance program is current, relevant and in alignment with regulatory requirements. The program should be updated to include improvements based on changes to guidance sources, leading practices, as well as emerging and/or handled situations throughout the organization.
- Revise the compliance certification process to align the LRR inventory and annual attestation to the current calendar year by including any LRRs implemented from the previous reporting period through December 31, with reporting in Q1 of following year. Currently, the annual compliance certification process is performed retroactively and does not include attestations of compliance with new or revised LRRs that are required to be implemented by effective dates within the certification period. Excluding current legislation from the LRR inventory and certification process may impact the ability to detect compliance concerns in a timely manner.
- Consider promoting the compliance program to bring awareness to Citizens staff about the importance of compliance and ethics. Promotions could include participating in the annual Corporate Compliance and Ethics Week and developing compliance related activities such as articles, trivia questions, and Lunch and Learns. In addition, compliance related rewards and recognitions, such as Kudos Cards or a Compliance Award Program could also be implemented to recognize Citizens staff for contributions with regards to compliance.
- Consider automating the LRR monitoring through a compliance management system. This would help compliance management to proactively monitor and assess the impact of LRR's in business processes, policies, risks and controls. In addition, automation would allow the Compliance Champions to review and update the LRR inventory and submit supporting documentation to validate the annual compliance certification attestation process. Currently, the LRR review and annual compliance certification process is performed manually by the Compliance Champions. The LRR inventory and annual certifications are maintained in an Access Database.



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



Distribution

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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

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