



## Office of the Internal Auditor



Confidentiality  
Integrity  
Ethics  
Objectivity  
Competency

# AUDIT REPORT

## Compliance Governance

August 23, 2016

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## Executive Summary

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### Background

An effective organization-wide ethics and compliance management system will result in an organization being able to demonstrate its commitment to compliance with relevant laws, statutes, regulations, and industry codes and standards as well as corporate policies, best practices, and stakeholder expectations.

A study conducted by Citizens in 2010, identified over 600 Federal and State laws, regulations and statutes which may apply to Citizens. Several hundred additional citations were also identified which provide definitions, standards, and other informational references relative to Citizens' business. In addition, Citizens currently has thirty-seven corporate level policies which either support compliance with one or more of the statutes or laws mentioned above, or that support Citizens overall business objectives.

There are several compliance management frameworks available that provide guidance on the components that should be incorporated in a compliance management system. Of these, the most prominent are Chapter 8 of the *Guidelines Manual* from the United States Sentencing Commission (USSC) and the International Organization of Standards (ISO) *19600 – Compliance Management System Guidelines*. All sources stress that the size and scope of a compliance management function will vary depending on the size and make-up of an organization.

Citizens Ethics and Compliance Officer recently retired and a replacement was appointed in January 2016. The Ethics and Compliance Officer reports directly to the Chief Legal Officer & General Counsel. Specific duties of the position include oversight of the ethics and compliance program, identification of compliance requirements, facilitation and coordination of compliance and ethics training and communication and providing strategic and technical legal counsel on corporate ethics and compliance issues as well as responsibility for all corporate policy development. Day-to day compliance management is the responsibility of the individual operating units.

### Audit Objectives and Scope

OIA completed an audit of Citizens operational compliance governance framework by comparing current practices to widely recognized compliance governance frameworks and other leading practices.

The objective of this audit was to compare the current organization, structure and objectives of the Citizens compliance function with the components common in other widely used compliance management frameworks, and to provide guidance in the development of any additional processes and procedures.

Through interviews with senior management and others, reviews of corporate policies and examination of internal documentation, OIA identified compliance practices currently employed by Citizens. Based on this information, including an evaluation of common market practices, OIA completed a gap analysis to determine where there may be opportunities to grow. This gap analysis was shared with management who is currently evaluating the suggestions and formulating relevant corrective action.

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### Audit Opinion

Based upon our audit work, the overall operational compliance governance framework is rated as Needs Improvement.

Our work confirmed that Company-wide training, communications, and monitoring processes to manage ethics and conflicts of interest are fairly mature and functioning well. In addition, there is a general awareness of compliance requirements throughout many business units and some operating procedures specifically address compliance. There are also Company-wide Corporate Policies which address traditional enterprise compliance concerns in the area of human resources, finance and accounting, privacy and information security, and records management. Finally, while not part of the operational compliance governance framework or responsible for control functions, Citizens has a statutorily created Office of Inspector General and Office of Internal Audit who carry out functions that contribute to an overall compliance management system as they are authorized to conduct independent audits, reviews and investigations of any matter, including compliance issues.

Following the completion of an assessment of Citizens approach to compliance management and monitoring against common practices applied in other compliance frameworks we noted that the following practices are either not well defined or applied.

- **Organization** - Current compliance efforts are decentralized with each business unit determining the level and focus of compliance communication, training, monitoring, and reporting within their respective units. As a result, the level of responsibility and how compliance duties are executed varies widely throughout the organization. Establishing a framework would establish compliance responsibilities and accountability as well as provide guidance related to communication, training, monitoring and reporting on compliance and would provide consistency and facilitate accurate enterprise level reporting.
- **Compliance Obligations** - Identification and assessment of laws, regulations, statutes and rules applicable to the operation of the organization is key to managing our obligations. We noted that there is no up-to-date listing of all laws, statutes, rules and regulations with which Citizens is required to comply. This may also inhibit the organization's ability to adequately assess its compliance risk on a business unit or enterprise-wide level.
- **Operational Monitoring and mentoring** - The Ethics and Compliance Officer is charged with overseeing the compliance program while day-to-day compliance responsibilities are held by the business units. Some business units have identified specific individuals assigned to oversee compliance for their unit, while for other units the compliance responsibilities are delegated to all management as part of their daily operational responsibilities. As a result, the level of responsibility and how compliance duties are executed varies widely throughout the organization. Developing a compliance champion network, with communication and reporting processes coordinated by the Ethics and Compliance Officer, could assist in establishing accountability and consistency and facilitate the roll out and management of a compliance framework.

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Management has been provided a copy of the GAP Analysis and is in the process of reviewing OIA's suggestions and defining the most appropriate solution. A follow-up audit will be scheduled for 2017 to evaluate progress.

We would like to thank the Ethics and Compliance Officer, Legal Services, and Citizens' management for their cooperation and professional courtesy throughout the course of this audit.

# Appendix 1

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## Definitions

### Audit Ratings

#### Satisfactory:

The control environment is considered appropriate and maintaining risks within acceptable parameters. There may be no or very few minor issues, but their number and severity relative to the size and scope of the operation, entity, or process audited indicate minimal concern.

#### Needs Minor Improvement:

The number and severity of issues relative to the size and scope of the operation, entity, or process being audited indicate some minor areas of weakness in the control environment that need to be addressed. Once the identified weaknesses are addressed, the control environment will be considered satisfactory.

#### Needs Improvement:

The audit raises questions regarding the appropriateness of the control environment and its ability to maintain risks within acceptable parameters. The control environment will require meaningful enhancement before it can be considered as fully satisfactory. The number and severity of issues relative to the size and scope of the operation, entity, or process being audited indicate some noteworthy areas of weakness.

#### Unsatisfactory:

The control environment is not considered appropriate, or the management of risks reviewed falls outside acceptable parameters, or both. The number and severity of issues relative to the size and scope of the operation, entity, or process being audited indicate pervasive, systemic, or individually serious weaknesses.

## Appendix 2

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### Distribution

Addressee(s) Dan Sumner, Chief Legal Officer and General Counsel

Copies **Business Leaders**  
Barry Gilway, President/CEO/Executive Director  
John Rollins, Chief Risk Officer  
Christine Turner Ashburn, VP-Communications, Legislative & External Affairs  
Bruce Meeks, Inspector General  
Nancy Staff, Director – Ethics and Compliance Officer

**Audit Committee**  
Juan Cocuy, Citizens Audit Committee Chairman  
Bette Brown, Citizens Audit Committee Member  
Jim Henderson, Citizens Audit Committee Member

**Following Audit Committee Distribution**  
The Honorable Rick Scott, Governor  
The Honorable Jeff Atwater, Chief Financial Officer  
The Honorable Pam Bondi, Attorney General  
The Honorable Adam Putnam, Commissioner of Agriculture  
The Honorable Andy Gardiner, President of the Senate  
The Honorable Steve Crisafulli, Speaker of the House of Representatives  
  
The External Auditor

### Audit Performed By

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Auditor in Charge Bill Atwood, Senior Internal Auditor

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

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