AUDIT REPORT

Office of Foreign Assets Control (OFAC)

January 16, 2018

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Executive Summary

Background

The Office of Foreign Assets Control (OFAC) within the Federal Treasury administers and enforces economic sanctions programs primarily against countries and groups of individuals, such as terrorists and narcotics traffickers. OFAC requires that all companies including Citizens, screen names of all parties involved in every transaction against the OFAC provided Specifically Designated National (SDN) list. The SDN list includes individuals and companies owned or controlled by, or acting for or on behalf of, targeted countries that are restricted from business transactions with U.S. companies. It also lists individuals, groups, and entities, designated under programs that are not country-specific.

As a Florida only residual market property insurer, Citizens' risk of having any transactions with entities on the SDN list is minimized, nevertheless Citizens has an OFAC screening process in place that is administered through its Legal Services department. OFAC responsibilities include collecting information from departments across the organization for policyholders, vendors, employees, claimants, reinsurers and any additional interests such as lien-holders or beneficiaries. Legal Services screens this information against SDN using interdiction software Bridger Insight.

Objective and Scope

The objective of this audit was to evaluate the adequacy and effectiveness of the processes and controls in place to ensure compliance with OFAC requirements. The scope of the audit included an assessment of controls and procedures for the following areas:

- OFAC screening process and procedures
- Compliance with regulatory requirements
- Security of confidential information
- Retention of records

Management's Assessment and Reporting on Controls

OIA provided management an opportunity to share known control weaknesses and their plans to remediate them. This process is intended to foster an environment whereby management and staff conduct periodic proactive reviews of controls and are aware of the risks to the business. It also enables OIA to focus its audit efforts on areas where it can add value to the organization.

At the start of the audit, Legal Services management shared the following opportunities with corresponding remediation plans expected to be completed from the fourth quarter of 2017 through the first quarter of 2018. Legal Services has made progress and taken a proactive approach to realize the opportunities:

- To improve OFAC file record retention procedures, records will be expunged after the five year minimum record retention period.
- An electronic calendaring process will be implemented to ensure timely screening against the SDN.
- A Quality Assurance review of the OFAC process will be established.
- Legal Services will designate and train a back-up resource to ensure process continuity.

Executive Summary

Audit Opinion

The overall effectiveness of the processes and controls with regards to the OFAC audit is rated as **Needs Improvement**.

Our work indicated specific areas where opportunities for improvement were noted:

- **Screening of claimant files did not occur.** Daily claimant files were not screened due to a technological system breakdown which made data unavailable for the process owner to screen files from September 2016 to March 2017 and incomplete execution of an alternative process made available March 2017. Screening of daily claimant files was not performed from September 2016 through November 2017. Legal Services has resumed the daily screening of claimant files and will manually screen the files until an automated solution is implemented. Additionally, Legal Services has gone back and screened all outstanding daily claimant files for 2017.

- **The OFAC process is not sufficiently monitored.** OFAC processing is performed by Legal Services staff employees with minimal management oversight. The quality and completeness of the OFAC screening process can be improved through proactive oversight and monitoring to detect processing challenges in a timely manner.

As a result of our work and reviewing industry best practices, OIA identified process improvement opportunities. Management is encouraged to consider the following OIA suggestions to increase the efficiency of the OFAC process:

- **OFAC process should be automated whenever possible.** Automation of the daily claimant files from ClaimCenter has been developed and scheduled to be implemented before the end of 2017. Expanding automation to include the gathering of screening information from the other departments would improve reliability, accuracy, and reduce the manual effort required to maintain Citizens' compliance program.

- **Legal Services should create and maintain a "White List" to save time and effort while maintaining evidence of due diligence activities.** A white list, also known as False Hit List, is a list of individuals who repeatedly trigger false positive or possible matches against the SDN and are subsequently researched and cleared. Maintaining White Lists is an industry best practice and is considered a common and acceptable practice by the US Treasury Department. Each transaction file screened against the SDN list generates possible matches. As a result, recurring matches are repeatedly researched by Legal Services and cleared. The establishment of a White List can evidence Citizens due diligence to clear the occurrence with improved efficiency.

- **Process owners should attest that all OFAC files have been screened on a monthly basis.** The current OFAC process does not include a notification or alert to management if the screening process is not performed. An attestation that all files have been screened on a monthly basis by the process owner will enhance assurance and detection if files are not generated or screened.

- **OFAC screening file errors should be resolved.** Files created by IT frequently have formatting or data errors that need to be cleared as part of the validation process. Legal Services repeatedly researches and resolves these errors consuming resources unnecessarily. Legal Services can improve the efficiency of the OFAC review process by communicating the file errors and ensure that IT corrects the cause of the errors.

Executive Summary

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

Appendix 1

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

Issue Classifications

Control Category	High	Medium	Low
Financial Controls (Reliability of financial reporting)	• Actual or potential financial statement misstatements > $10 million • Control issue that could have a pervasive impact on control effectiveness in business or financial processes at the business unit level • A control issue relating to any fraud committed by any member of senior management or any manager who plays a significant role in the financial reporting process	• Actual or potential financial statement misstatements > $5 million • Control issue that could have an important impact on control effectiveness in business or financial processes at the business unit level	• Actual or potential financial statement misstatements < $5 million • Control issue that does not impact on control effectiveness in business or financial processes at the business unit level
Operational Controls (Effectiveness and efficiency of operations)	• Actual or potential losses > $5 million • Achievement of principal business objectives in jeopardy • Customer service failure (e.g., excessive processing backlogs, unit pricing errors, call center non responsiveness for more than a day) impacting 10,000 policyholders or more or negatively impacting a number of key corporate accounts • Actual or potential prolonged IT service failure impacts one or more applications and/or one or more business units • Actual or potential negative publicity related to an operational control issue • An operational control issue relating to any fraud committed by any member of senior management or any manager who plays a significant role in operations • Any operational issue leading to death of an employee or customer	• Actual or potential losses > $2.5 million • Achievement of principal business objectives may be affected • Customer service failure (e.g., processing backlogs, unit pricing errors, call center non responsiveness) impacting 1,000 policyholders to 10,000 or negatively impacting a key corporate account • Actual or potential IT service failure impacts more than one application for a short period of time • Any operational issue leading to injury of an employee or customer	• Actual or potential losses < $2.5 million • Achievement of principal business objectives not in doubt • Customer service failure (e.g., processing backlogs, unit pricing errors, call center non responsiveness) impacting less than 1,000 policyholders • Actual or potential IT service failure impacts one application for a short period of time
Compliance Controls (Compliance with applicable laws and regulations)	• Actual or potential for public censure, fines or enforcement action (including requirement to take corrective actions) by	• Actual or potential for public censure, fines or enforcement action (including requirement to	• Actual or potential for non-public action (including routine fines) by any regulatory body

Appendix 2

Control Category	High	Medium	Low
	any regulatory body which could have a significant financial and/or reputational impact on the Group • Any risk of loss of license or regulatory approval to do business • Areas of non-compliance identified which could ultimately lead to the above outcomes • A control issue relating to any fraud committed by any member of senior management which could have an important compliance or regulatory impact	take corrective action) by any regulatory body • Areas of non- compliance identified which could ultimately lead to the above outcomes	• Areas of noncompliance identified which could ultimately lead the above outcome
Remediation timeline	• Such an issue would be expected to receive immediate attention from senior management, but must not exceed 60 days to remedy	• Such an issue would be expected to receive corrective action from senior management within 1 month, but must be completed within 90 days of final Audit Report date	• Such an issue does not warrant immediate attention but there should be an agreed program for resolution. This would be expected to complete within 3 months, but in every case must not exceed 120 days

Appendix 3

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