



Office of the
Internal Auditor

ENGAGEMENT REPORT

June 2024

Compliance Program



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Executive Summary

Background

As a Florida government entity, Citizens is accountable to its stakeholders and the citizens of Florida for conducting itself with the highest level of ethical behavior and in compliance with applicable laws, rules, regulations, and policies. Fulfilling regulatory and organizational requirements is important to proactively protect the organization and prevent violations that could carry consequences.

The Ethics & Compliance Officer (ECO), a function of the Office of the General Counsel, manages Citizens' corporate compliance. The ECO oversees and administers Citizens' organizational ethics and compliance programs and adopts and maintains corporate policies and procedures. The role provides guidance, education, and strategic direction for the Board of Governors and staff on ethics requirements and enterprise compliance.

Internal Audit published report number 2021-AUD-11, noting elements of the Citizens' compliance program that needed review and improvement to increase efficiency and effectiveness.

Objectives and Scope

This engagement aimed to complete a follow-up review of the compliance program's current state and provide further advice on its alignment with leading practices and industry guidance.

Our assessment applied guidance from §8B2.1 of the US Federal Sentencing Guidelines, the US Department of Justice's (DOJ) framework for evaluating Corporate Compliance Programs, standard 37301:2021 from the International Organization for Standardization (ISO), and material from the Society of Corporate Compliance and Ethics (SCCE). These resources share the common goal of designing, implementing, and monitoring an effective compliance program to meet applicable laws, rules, and regulations (LRRs) and internal policies, codes, and standards.

Engagement Results

Following the review, Internal Audit noted the following favorable or effective practices:

- The job description for the ECO was revised to include responsibilities over the compliance program, which were not assigned in the prior version. Candidates for the role are now required to have Ethics and Compliance experience.
- The compliance program manager position was formally added to the compliance function and filled. The role is responsible for the day-to-day management of the compliance program and ensuring that objectives are successfully met.
- The compliance function is designed and supported by a compliance champion network composed of individuals from different business units appointed by the respective Chiefs. These compliance champions are responsible, among other things, for certifying compliance with applicable laws, rules, and regulations at the business unit level.
- A compliance management system (CrossComply from AuditBoard) was recently implemented to catalog and manage compliance with applicable laws, rules, and regulations. The system facilitates the certification process for compliance champions. The system is currently undergoing enhancements to require champions' validation where appropriate, adding an accountability component to the process. The system has allowed the Compliance Program Manager to update the inventory of laws, rules, and regulations, which has generated positive feedback from some of the champions.



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- Citizens has a mechanism for anonymously receiving, triaging, and investigating complaints. The Office of the Inspector General (OIG) oversees this mechanism and actively publicizes it.
- In 2023, a process for reviewing corporate policies through the ECO was established, outlining the considerations and procedures for reviewing corporate policies regardless of how minor the changes are.

The noted favorable and/or effective practices are part of the foundational elements that should be addressed within the boundaries of compliance management. Internal Audit's research shows that the industry adopts the seven elements of an effective compliance program, which operate throughout different stages to ensure that regulatory and organizational requirements are met. These are described below:

- *Standards and Procedures* - These refer to a) the compliance framework and b) internal policies, procedures, and guidelines established by the organization. They should be accessible, incorporate a culture of compliance, and be designed to detect and prevent violations or misconduct most likely to occur in the entity's line of business. Updated guidance addresses preserving and managing corporate data, mainly when BYOD ("bring your own device") programs are established.
- *Compliance Leadership and Oversight* - This encompasses the program's organizational structure, governing body direction and commitment, support (operational and financial), and regular monitoring, reporting, and improvement activities by the compliance function.
- *Communication, Training, and Education* - Communicate the program's philosophy, expectations, responsibilities, and relevant information to employees and relevant stakeholders. This is an ongoing element.
- *Ongoing Monitoring and Auditing* - Proactively identify risks to evaluate and continuously improve the program. Recent updates to industry guidance have incorporated *data* (availability, accessibility, and use) as a component of this element.
- *Reporting and Investigating* - This element refers to the availability of a mechanism through which employees can report actual or suspected violations or misconduct; the investigation and documentation of such reports; and the collection, analysis, and utilization of data obtained.
- *Consistent Enforcement* - Clear, fair, equitable, and consistent enforcement of outlined processes and disciplinary measures in case of misconduct or violation. This includes incentives for compliance and disincentives for non-compliance.
- *Response and Prevention* - Refers to measures taken to remediate and avoid the recurrence of misconduct. Includes any required updates to policies and procedures to address the root causes.

The above elements were benchmarked against the procedures established by the Citizens Compliance Framework and the activities currently carried out by the function. While Compliance has made notable progress in certain aspects since the previous audit, management is encouraged to review, enhance, implement, and/or enforce the following:

- *Compliance Framework* – The framework should be reviewed and updated periodically, incorporating new regulatory or organizational requirements and lessons learned. It should also be socialized with leadership to obtain commitment and support.



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- *Corporate Policies and Guidelines* – The ECO is responsible for the Corporate Policy Review Process, which outlines a minimum review period of 2 years. Some corporate policies and manuals have yet to be reviewed. The review process should consider new regulatory or organizational requirements and should be documented regardless of any changes made. Where appropriate, outdated or irrelevant policies can be phased out.
- *Monitoring* – Current guidance from the DOJ incorporates data as a component of the monitoring element. While the OIG's reports may satisfy this element for the complaints mechanism, other compliance-related LRRs, policies, requirements or obligations are managed at the business unit level. The ECO should strive to have sufficient direct and indirect access to relevant data sources to monitor and report compliance-relevant information in addition to LRRs and Ethics (policies, codes, education, L&D, etc.)
- *Leadership and Oversight* – The ECO should regularly assess the health and effectiveness of the program and document and report on program performance to ensure leadership is knowledgeable about the content and operation of the program and supportive of the function.
- *Communication, Education, and Training* – The framework and key policies, procedures, and manuals should be socialized throughout the organization from the time of employment and at planned intervals thereafter.
- *Compliance Champions* – The ECO should periodically reinforce roles and responsibilities for the champions. With recent reorganizational changes, there may be some redundancies regarding champions. Management should reevaluate the current distribution and work with ELT to review the selection criteria.
- *Prevention* – Ensure periodic evaluation of the program, root-cause analysis of any misconduct or violations, proper remedial actions, and relevant changes to the program, as needed.

The aforementioned improvement opportunities have been discussed with the Office of Ethics and Compliance and a comprehensive package of reference material was provided for their perusal. Management has developed a thorough prioritization plan to address the noted improvement opportunities. The review, implementation, and enforcement of these items will assist in strengthening the program and in ensuring due diligence in meeting the industry's guidance for the compliance program to be considered adequate.

We thank management and staff for their cooperation and professional courtesy throughout this engagement.



Distribution

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The Honorable Kathleen Passidomo, President of the Senate

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