

Independent Compliance Auditor's **First Annual Report**

Independent Compliance Auditor to FCA US LLC,
Fiat Chrysler Automobiles N.V.,
V.M. Motori S.P.A., and
V.M. North America, Inc.

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StoneTurn

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I. Executive Summary

1. Background

The Independent Compliance Auditor (“ICA,” “we,” or “our”) is pleased to submit this First Annual Report to FCA US LLC, Fiat Chrysler Automobiles N.V., V.M. Motori S.P.A., and V.M. North American Inc. (“FCA” or “Company”), the United States Department of Justice, and California.¹ Our report arises from the *In Re: Chrysler-Dodge-Jeep EcoDiesel Marketing, Sales Practices and Products Liability Litigation Consent Decree*, No. 3:17-md-02777-EMC (N.D. Cal.), filed January 10, 2019 (“Consent Decree”), which the Court approved and became effective on May 3, 2019 (“Effective Date”). FCA retained StoneTurn as ICA on September 25, 2019.

Besides a civil monetary penalty of \$305 million and other injunctive measures, the Consent Decree requires FCA to adhere to various Corporate Compliance Requirements and retain an Independent Compliance Auditor to oversee compliance with such requirements.²

The Consent Decree mandates the ICA to: (1) verify the Company’s compliance with the Corporate Compliance Requirements in Section VI.C of the Consent Decree; and (2) conduct three annual audits that “assess the effectiveness of Defendant’s processes and controls in promoting compliance with United States and California environmental law governing vehicle emissions and certification.”³

We begin with sincere appreciation to the Company for its full cooperation. The ICA engaged with numerous FCA personnel, including

demonstrated a commitment to compliance and familiarity with all issues related to our work. The ICA also thanks _____ and her team for their assistance in facilitating scores of interviews and producing many hundreds of documents for our review.

2. FCA’s Improvement Plans

FCA formed Vehicle Environmental Compliance (“VEC”)⁴ within the Vehicle Safety & Regulatory Compliance (“VSRC”) organization in February 2017. Upon its formation, VEC designed and implemented enhancements to FCA’s emissions certification and compliance program. In November 2018, FCA finalized the Improvement Plan that was incorporated into the Consent Decree (“Initial Improvement Plan”).⁵ The Initial Improvement Plan consists of 36 projects to “further [FCA’s] compliance with environmental laws and regulations concerning vehicle emissions and certification.”⁶ Much of our audit focused on assessing the design and validating the operating effectiveness of the processes implemented by the 36 projects.

After the Consent Decree became effective, FCA conducted two risk assessments to

“Second

Improvement Plan”),

¹ Per Consent Decree ¶8(l), “‘California’ means the People of the State of California, acting by and through the California Attorney General and the California Air Resources Board.”

² Consent Decree §§ IV and VI.

³ Consent Decree ¶64(a).

⁴ **Appendix 1** includes a table of acronyms used in this First Annual Report.

⁵ Consent Decree ¶149(f).

⁶ Consent Decree ¶8(zz).

(the “Third Improvement Plan”),

3. ICA’s First Audit

Our report (“First Annual Report”), the first of three required annual reports under the Consent Decree, (1) addresses potential non-compliance with the Consent Decree Section VI.C Corporate Compliance Requirements and makes recommendations for promoting compliance with Consent Decree Section VI.C and “United States and California environmental law concerning vehicle emissions and certification” (the “Relevant Laws”); and (2) assesses the effectiveness of FCA’s measures in promoting compliance with the Relevant Laws.⁷

We divided our First Audit into three phases and reported to FCA preliminary findings at the end of each phase. During the First Audit, we reported **119** preliminary findings. FCA addressed or has plans to address **109**, and provided information to resolve our concerns for the remaining **10**. Because FCA took or plans to take actions to respond to our findings, we do not include as recommendations the actions we understand FCA already has in process (e.g., Second and Third Improvement Plan projects). This First Annual Report does include five recommendations in addition to the actions FCA already has in process. **Appendix 2** lists these five recommendations. **Appendix 3** lists the **109** findings we reported to FCA during the three phases and FCA’s action plans to address them. We will assess FCA’s response to ICA findings and recommendations as appropriate during the Second Audit.

4. Potential Non-Compliance with the Consent Decree Section VI.C

The Consent Decree requires us to report potential non-compliance with the Section VI.C Corporate Compliance Requirements.⁸ We identified the following instances of potential non-compliance with Section VI.C of the Consent Decree:

- **Risk Assessment.** FCA intended for its 2019 risk assessment process to address each of the Consent Decree requirements. The Company, however, did not adequately: (1) “link existing policies, processes, and controls [FCA] rel[ies] on to detect and prevent non-compliance;” and (2) “assess residual risk based on the design and operating effectiveness of [FCA’s] risk response.” And, FCA did not timely “develop a plan and reasonable timeline to implement and improve controls to mitigate any unacceptable levels of residual risk.”⁹ In May 2020, FCA reported our findings to DOJ and California, but noted that the Company does not believe our risk assessment findings to rise to the level of Consent Decree violations.¹⁰

FCA subsequently conducted the second risk assessment in 2020. StoneTurn did not evaluate the 2020 risk assessment as part of our First Audit. We understand FCA:

- Expanded to provide a more comprehensive assessment;
- Included as considerations when assessing risk response effectiveness;

⁷ Consent Decree ¶64(d). We expect FCA to address our recommendations within 60 days of receiving the First Annual Report.

⁸ Consent Decree ¶64(d).

⁹ Consent Decree ¶53.

¹⁰

- Developed before the August 3, 2020 Consent Decree deadline improvement plans to address unacceptable levels of residual risk; and
- Beginning in September 2020, VEC started to serve as a basis for future risk assessments and allow FCA to have a more accurate view of its risk profile between assessment cycles.

Our Second Audit will assess the design and test operating effectiveness of the enhanced process. We do not include as recommendations the risk assessment enhancements described above, which FCA already implemented and are necessary to promote compliance with Consent Decree Section VI.C.

- **Clarifications to Initial Improvement Plan Projects.** The Consent Decree requires FCA to consult DOJ and California before revising its Initial Improvement Plan projects.¹¹ FCA clarified the scope of some Initial Improvement Plan projects without consulting DOJ and California. For example, FCA scoped an Initial Improvement Plan project implementation step to
 - ” It later clarified, without consultation with DOJ and California, that the Company would not

.¹²

FCA regards this change as a clarification, not a revision. The Company explained a later implementation step identified the need to
And, the earlier step could not be completed until the later step involving considerations was completed.

While these clarifications may have reflected FCA's intent, the changes could be considered revisions requiring consultation under ¶57. We understand the Company reported to DOJ and California in October 2020 its clarifications and our identification of FCA's failure to consult.¹³ We do not include a recommendation related to this potential non-compliance with Consent Decree Section VI.C because the Company already remedied the non-compliance through disclosure to DOJ and California.

FCA's Consent Decree ¶61 annual report also fails to clarify the scope of these Initial Improvement Plan projects. For example, the annual report states FCA took certain actions for
rather than all which is consistent with the FCA interpretation, even though it had not yet done so .¹⁴

- **Internal Audit.** The Consent Decree requires FCA to complete an internal audit and evaluate the implementation of internal procedures relating to the Corporate Compliance Requirements by February 3, 2020.¹⁵ FCA finished fieldwork by the deadline, but, for 8 of the 36 Initial Improvement

¹¹ Consent Decree ¶57.

¹² The Consent Decree required FCA to complete this project by December 31, 2019. The Company does not expect to complete the actions for supplier products until December 31, 2020.

¹³ StoneTurn discussions with DOJ and California, October 21, 2020.

¹⁴ Annual Report Pursuant to Paragraph 61 of the Consent Decree, June 3, 2020, page 61.

¹⁵ Consent Decree ¶58(a).

Plan audits, the Company did not complete audit manager reviews and reporting until later in February.

The ICA informed the Company of this potential violation as part of our Phase A findings. After meeting with us, FCA raised the issue with DOJ and California, contending the Company timely completed the audit based on its completion of field work and work papers by February 3, 2020.¹⁶ We did not include a recommendation related to the internal audit deadlines because the Consent Decree does not provide a deadline for any future internal audits.

- **Code of Conduct Certification.** Consent Decree ¶50(b) requires all new bargaining unit employees¹⁷ to certify they reviewed and understand FCA's Code of Conduct, but does not clearly specify the certification deadline.¹⁸ FCA reported to DOJ and California on May 29, 2020, one year after entering the Consent Decree, that it had not yet obtained certain bargaining unit employee certifications.¹⁹

In the Second Stipulation and Agreement Regarding Non-Material Changes to the Consent Decree, dated September 17, 2020, the Court modified the Consent Decree to create a December 31, 2020 deadline to "implement a process to require the Paragraph 50.b required certifications of new bargaining unit employees."²⁰ In the Second Audit, we will verify FCA implemented an effective process by December 31, 2020 to obtain the new bargaining unit employee certifications.

5. The Effectiveness of FCA's Emissions Certification and Compliance Program

The Initial Improvement Plan made important strides towards an effective compliance program. But, to reduce emissions certification and compliance risks effectively: (1) FCA's program must mature further; (2) the Company must consistently follow Initial Improvement Plan processes; and (3) FCA must implement effectively the Second and Third Improvement Plans. Below are our summary observations regarding the effectiveness of FCA's measures in promoting compliance with the Relevant Laws.

- ***FCA demonstrated commitment to continuous improvement of its emissions certification and compliance program.***

The Initial Improvement Plan projects, including management's dedication of considerable time and resources, demonstrate FCA's commitment to compliance. And, the Company indicated it will continue to identify and remediate emissions certification and compliance control gaps and weaknesses, including through the annual risk assessment process required by the Consent Decree.

While FCA made meaningful progress since it created the Initial Improvement Plan, work remains to ensure processes and controls are effective in promoting compliance with US and California vehicle emissions and certification laws and regulations. The Second and Third Improvement Plans, if implemented effectively, will improve the compliance program's effectiveness. And, continuous improvement through identifying, assessing, and mitigating risks should ensure the program is sustainable.

The VEC team, responsible for much of the Improvement Plans and ensuring FCA's compliance with the Relevant Laws, spent significant time and effort to provide information necessary to complete our audit. Besides document production, FCA identified and made available personnel for interviews. It was apparent FCA

¹⁶

¹⁷ Bargaining unit employees are represented by a labor union.

¹⁸ Consent Decree ¶50(b).

¹⁹

²⁰ Second Stipulation and Agreement Regarding Non-Material Changes to the Consent Decree, filed September 17, 2020, page 5.

encourages its employees to be open and forthright about program strengths and weaknesses. Further, FCA deserves credit for acting immediately and proactively to address preliminary findings we shared during the First Audit.

- ***Because FCA's emissions certification and compliance risk assessment process is still maturing, the Company may not have a full understanding of the residual risks and consequently an inadequate risk response.***

Regulators, prosecutors, and risks and controls experts regard risk assessment as the cornerstone of an effective compliance program. Failure to recognize risk and overreliance on ineffective controls are the primary causes of major compliance failures. Effective risk assessment eliminates inefficient or unnecessary controls. And, even if misconduct occurs, a quality risk assessment helps demonstrate the compliance program met government expectations.

Consent Decree ¶53 enumerates key elements of an effective risk assessment: “(1) identify compliance risks relating to emissions and certification processes; (2) assign a risk rating based on probability and significance; (3) link existing policies, processes and controls Defendants rely on to detect and prevent noncompliance (“risk response”); (4) assess residual risk based on the design and operating effectiveness of Defendants’ risk response; and (5) develop a plan and reasonable timeline to implement and improve controls to mitigate any unacceptable levels of residual risk.”

FCA's 2019 risk assessment represents a good, first start – large companies like FCA often require several annual cycles to implement an effective process. Through the 2019 assessment, FCA introduced the risk assessment process to _____ from across the Company and _____ FCA developed _____ new improvement plans to address residual risks rated higher than medium. The risk assessment improved the Company's understanding of emissions certification and compliance risks and controls.

As expected with a new risk assessment process, there were shortcomings. The Company did not yet have a complete and accurate understanding of its emissions certification and compliance risk profile during the audit period. For example, the 2019 risk assessment process did not identify and assess the effectiveness of the individual policies, processes, and controls it relies on to promote compliance with the Relevant Laws. Without fully understanding risk response effectiveness, FCA cannot reliably determine and respond to its residual risk profile.

We understand (and will evaluate) FCA's 2020 improved process. For example, the Company identified and assessed _____ risks, a _____ % increase from the 2019 assessment. The improvement in the number of identified risks indicates FCA's progress in understanding risk exposure. The ICA will evaluate and make recommendations based on the 2020 risk assessment, which FCA should implement before conducting the 2021 assessment.

- ***The Initial Improvement Plan, although an important first step, did not mitigate completely emissions certification and compliance risks. FCA remains at heightened risk of non-compliance until the Second and Third Improvement Plans are completed.***

Design, Not Implementation. The Initial Improvement Plan primarily focused on design, not implementation. For example, the purpose of one Initial Improvement Plan project

_____ . Other projects were intended to implement processes, but failed to do so. For example,

Recommendation 1: FCA should develop implementation timelines for not yet implemented Initial Improvement Plan processes.²³

Outstanding Risks. The Initial Improvement Plan did not address completely FCA's emissions certification and compliance risks. For example, the Initial Improvement Plan

- .²⁴ But, the Initial Improvement Plan only partially addressed risks related to
- . FCA is developing these processes as part of the Second Improvement Plan.

Processes Outside the Initial Improvement Plans. FCA has not identified and assessed the effectiveness of some processes and controls outside of the Initial Improvement Plans that affect compliance with the Relevant Laws. The Company, for example, developed a process to

Recommendation 2: FCA should identify and assess the effectiveness of processes that occur outside of the Improvement Plan projects but impact FCA's ability to comply with the Relevant Laws.

- ***FCA does not consistently follow enhanced processes.***

The Company does not consistently comply with new processes, e.g.:

- do not consistently follow or document valid deviations from the standard AECD review processes;
- do not consistently document rationale for internal approval of running changes and field fixes, or document information in support of its conclusions regarding the emissions impact of such changes;
- The product development teams are not yet utilizing some of the Company's processes for assessing emissions performance as part of product development; and
- Due to staffing shortfalls, VSRC did not review warranty defect claims at the level it deemed appropriate for requiring investigation.

Processes that do not operate as designed can be as, or even more risky than poorly designed processes. Even if process adherence improves over time, risk mitigation is diminished in the interim. And, if a similar pattern recurs with the Second and Third Improvement Plans, FCA will face similar risks after project completion.²⁶

²² We understand, but have not yet confirmed, FCA implemented this process in Q4 2020.

²³ We understand FCA already developed some of these timelines as part of the Second and Third Improvement Plans.

²⁴ An AECD is any element of design which senses temperature, vehicle speed, engine RPM, transmission gear, manifold vacuum, or any other parameter for the purpose of activating, modulating, delaying, or deactivating the operation of any part of the emission control system. 40 CFR § 86.1803-01.

²⁶ We understand FCA is addressing the individual instances we identified and therefore we do not believe a formal ICA recommendation is necessary at this time.

Recommendation 3: FCA should review existing processes to identify and implement enhancements (e.g., awareness training, quality assurance reviews) that will help ensure employees follow defined processes and build and culture of compliance.

- *The Company is still learning how to document control execution, which negatively affects FCA's ability to demonstrate compliance with controls and the ICA's ability to audit compliance.*

Many FCA employees involved in executing the enhanced processes and controls are not accustomed to documenting their performance of a process or control. Without evidence of control execution, FCA cannot demonstrate its processes and controls operated effectively. Poor documentation also limits the ICA's ability to test effectiveness. For example,

- *Many Initial Improvement Plan enhanced processes did not adequately address risks.*

FCA relies on . However, many of the Initial Improvement Plan projects did not adequately address risks. For example, the Initial Improvement Plan created

The Second and Third Improvement Plans will address some of these risks. For example, there are new projects related to

Until FCA implements these projects, compliance risks remain elevated.

Recommendation 4: FCA should identify and develop action plans that reasonably address control activity gaps regarding -related risks that affect directly or indirectly compliance with the Relevant Laws.

- *FCA's non-technical compliance program is evolving.*

Although our First Audit focused on FCA's technical compliance program, we noted some components of FCA's non-technical compliance program (e.g., Code of Conduct, Ethics Helpline and related investigations processes, training, and governance) are new or recently revised. For example, FCA first appointed a Chief Compliance Officer in December 2018, and its Code of Conduct and related content and training are still evolving. These are important components of the overall control environment, and any shortcoming negatively impacts the effectiveness of FCA's processes and controls for promoting compliance with the Relevant Laws. Our Second Audit, besides assessing remediation of our First Audit findings and evaluating the effectiveness of the Second and Third Improvement Plans, will include further examination of FCA's non-technical compliance program.

II. Report Structure

The First Audit Report consists of four sections:

- ***Audit Planning and Methodology (Section III)***, which summarizes the ICA's Audit Plan, including its scope, approach, and limitations;
- ***Potential Non-Compliance with the Consent Decree (Section IV)***, which describes potential Consent Decree violations;
- ***FCA's Processes and Controls for Promoting Compliance with the Relevant Laws (Section V)***, which assesses FCA's processes and controls for promoting compliance with the Relevant Laws, and is organized around the Consent Decree requirements including: Culture of Integrity; Corporate Governance & Organizational Structure; Training/Technical Competence; Risk Assessment; New Product Development and Third-Party Projects; Certification Process; Post-Certification Processes; Auditing & Checking; and Portable Emissions Measurement System ("PEMS") Testing; and
- ***Next Steps (Section VI)***, which discusses our future audits.

III. Audit Planning and Methodology

1. Audit Plan

1. The Consent Decree required the ICA to submit a draft audit plan ("Audit Plan"), including a checklist of compliance requirements, procedures for exchanging information and documents, and any other terms the ICA deems necessary to perform its duties.²⁷ The ICA submitted a Draft Audit Plan to DOJ and California, and, after receiving comments from DOJ and California, submitted a final version.

2. Audit Scope

2. The ICA's First Audit, assessed FCA's compliance programs, processes, controls, and initiatives (together, the "Program Components") designed to promote compliance with the Relevant Laws implemented at the time of the audit. We will modify the nature and extent of our testing in the Second and Third Audits based on First Audit results.
3. For Program Components found to be robust and effective during the First Audit, we will reduce the extent of our testing of those Program Components in the Second and Third Audits. For Program Components not yet implemented during the First Audit, we performed limited testing procedures to monitor implementation and will conduct additional procedures to assess effectiveness in future audits.
4. Further, during the First Audit, FCA developed numerous new projects and Improvement Plans to implement and remediate additional Program Components in response to our interim findings and to promote compliance with the Relevant Laws. Our Second and Third Audits will assess design and test operating effectiveness of new processes, projects, and Improvement Plans.

a. Initial Improvement Plan

5. FCA's Initial Improvement Plan consists of projects designed to develop and implement emissions certification and compliance processes and controls to promote compliance with Relevant Laws. FCA organized the projects into eight categories: (1) (2) (3) (4) (5)), (6)
6. The Initial Improvement Plan describes each project, implementation activities, and a project completion date. The Consent Decree generally requires FCA to implement the enhancements by the completion dates in the Initial Improvement Plan.

b. Other Processes & Controls to Promote Compliance

7. FCA designed and implemented through the Initial Improvement Plan processes and controls to promote compliance with the Relevant Laws. Other processes exist outside the Initial Improvement Plan. These include processes required under the Consent Decree (e.g., risk assessment, Code of Conduct), or otherwise significant to FCA's compliance with the Relevant Laws (e.g., Advanced

²⁷ Consent Decree ¶64(b).

Training). The ICA assessed these processes and controls as it did for those implemented through the Initial Improvement Plan.

c. Time Period

8. The First Audit covers information received through October 15, 2020, unless otherwise noted. We assessed the design and operating effectiveness of Program Components implemented at the time of our procedures. For Program Components, designed but not yet implemented, we will assess operating effectiveness in a future audit.
9. We conducted our fieldwork primarily from January through September 2020, although we worked remotely since March due to the pandemic. We organized our work into three phases after which we reported interim findings and observations to FCA.

3. Audit Approach

10. Consistent with Consent Decree ¶64(a), the ICA's procedures included: (1) document review; (2) on-site observation of selected systems and procedures; (3) meetings and interviews; and (4) analyses, studies, and testing of FCA's compliance program and associated processes.
11. In conducting our work, we considered guidance from: (1) the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") regarding the establishment and maintenance of an internal control framework; and (2) the American Institute of Certified Public Accountants ("AICPA") and the Public Company Accounting Oversight Board ("PCAOB") regarding auditing standards.
12. Many of our procedures involved assessing the design, implementation, and operating effectiveness of compliance processes and controls. As the COSO Framework explains, control design is assessed by reviewing documentation describing "the who, what, when, where, and why of internal control execution" to determine if the control is designed effectively to achieve its objective.²⁹ Further, the PCAOB notes auditors should assess design effectiveness "by determining whether the company's controls, if they are operated as prescribed by persons possessing the necessary authority and competence to perform the control effectively, satisfy the company's control objectives and can effectively prevent or detect error or fraud."³⁰ As part of our design testing, we inspected Company documents and conducted walkthroughs to confirm the control design and implementation.³¹
13. Auditors assess operating effectiveness "by determining whether the control is operating as designed and whether the person performing the control possess the necessary authority and competence to perform the control effectively."³² Our operating effectiveness testing included inquiries of personnel, observation of FCA processes, inspection of relevant documents, and control reperformance.

4. Limitations

14. The Consent Decree requires the ICA to provide three annual audit reports. Our First Audit included a review of the processes and controls implemented at the time of the audit.³³ The ICA will perform additional procedures in the Second and Third Audits to verify that select processes and controls

²⁹ COSO Internal Control Framework, Chapter 4.

³⁰ PCAOB Auditing Standard No. 13.

³¹ The ICA did not consider a control that was designed, but had not yet operated, as "implemented."

³² PCAOB Auditing Standard No. 13.

³³ Consent Decree ¶64(d).

assessed in the First Audit remain effective, and remedial actions sufficiently address any gaps identified in FCA's emissions certification and compliance program.

15. The comments and conclusions in this First Annual Report are based on the procedures we performed as part of the First Audit. We planned and performed the First Audit to form a reasonable basis for our conclusions, and we believe our audit provides a reasonable basis for our conclusions. Our findings and observations are subject to change in that we have completed only the first year of our three-year term and plan to continue to review these areas in future audits. Therefore, we reserve the right to revise our conclusions as part of future audit reports based on the results of those audits.

IV. Potential Non-Compliance with Section VI.C

16. As of September 30, 2020, the ICA identified four potential instances of non-compliance with the Consent Decree Corporate Compliance Requirements.

1. Risk Assessment

17. Although FCA intended for its 2019 process to address each of the components of a risk assessment set forth in the Consent Decree ¶53, the Company failed to adequately meet the Consent Decree requirements to: (1) link existing policies, processes, and controls [FCA] rel[ies] on to detect and prevent non-compliance; and (2) assess residual risk based on the design and operating effectiveness of [FCA's] risk response. Further, FCA did not, prior to the deadline, "develop a plan and reasonable timeline to implement and improve controls to mitigate any unacceptable levels of residual risk." FCA reported to DOJ and California on May 29, 2020 that it "does not believe that any of these observations rise to the level of Consent Decree violations."³⁴
18. Section VI.4 of this report provides further details on the shortcomings with the 2019 VSCR risk assessment and FCA's remedial actions instituted for the 2020 risk assessment process, which the Company completed in August. The ICA will assess the effectiveness of those remedial actions in the Second Audit.

2. Initial Improvement Plan Clarifications

19. Consent Decree ¶57 requires FCA to consult with DOJ and California if the Company revises the "Improvement Plan projects set forth in Paragraphs 54-56." After the November 2018 version of the Initial Improvement Plan was incorporated by reference in the Consent Decree, FCA clarified the scope of certain Initial Improvement Plan projects without consulting DOJ and California. For example,
- One project in the November 2018 version of the Initial Improvement Plan required FCA to
 - Another project in the November 2018 Initial Improvement Plan required FCA to perform a gap analysis to
20. FCA regards these changes as clarifications to reflect the project's original intent. They could be considered revisions, and under ¶57, require consultation.

³⁴

³⁵ The original implementation step in the November 2018 version of the Initial Improvement Plan required FCA to "document emission control system boundary for all current products." Later versions of the Initial Improvement Plan noted that this implementation step applied to "internal software controllers." Another implementation step stated, "develop a migration plan." FCA explained that this step required the Company to develop a plan for documenting the emission control system boundary for products provided by suppliers.

21. FCA's Consent Decree ¶61 Annual Report fails to note these changes, which FCA had already made when it prepared the report.
22. We understand FCA reported the scope clarifications to DOJ and California in October 2020.

3. Internal Audit

23. Consent Decree ¶58 required FCA by February 3, 2020 (i.e., within nine months of the Effective Date) to "complete an internal audit to assess the implementation of internal procedures relating to the corporate compliance requirements of Paragraphs 50-56 [and] assess the effectiveness of the internal procedures that have been implemented as of the time of the audit" ("Consent Decree Audit").
24. In late January 2020, the ICA inquired of FCA Internal Audit & Compliance ("IA&C") about the status of certain audits. We concluded IA&C was not aware it needed to review these eight areas.
25. In late January, IA&C started reviews of these eight areas and issued reports dated between February 14, 2020 and February 17, 2020. We understand FCA completed fieldwork before the February 3, 2020 deadline. However, IA&C management completed its review after the February 3, 2020 deadline.
26. Under auditing standards, FCA could not date the report until after the work paper review. AICPA standards provide an audit is not considered "complete" until the underlying work papers have been reviewed. Regarding dating the report, AICPA standards provide it should not be dated earlier than the audit documentation has been reviewed.³⁶
27. On May 29, 2020, FCA reported this issue to DOJ and California, stating the Company "believes it timely completed these eight underlying audits by completing all the field work and work papers by February 3, 2020."³⁷

4. Code of Conduct

28. Consent Decree ¶50(b) requires "all salaried employees and all new bargaining unit employees to certify they reviewed and understand the Code of Conduct" but does not provide a specific deadline. As of September 2020, FCA had not yet obtained certifications for certain bargaining unit employees. The Second Stipulation and Agreement Regarding Non-Material Changes to the Consent Decree, filed September 17, 2020 provides FCA a December 31, 2020 deadline to "implement a process to require the Paragraph 50.b required certifications of new bargaining unit employees."³⁸ Therefore, the ICA determined this non-compliance with Section VI.C did not violate the Consent Decree.
29. In the Second Audit, we will verify FCA implemented an effective process by December 31, 2020 to obtain the new bargaining unit employee certifications.

³⁶ AICPA AU Section 339.23, *Audit Documentation*, states, "The auditor's report should not be dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence to support the opinion. Amount other things, sufficient appropriate audit evidence includes evidence that the audit documentation has been reviewed..."

³⁷

³⁸ Second Stipulation and Agreement Regarding Non-Material Changes to the Consent Decree, filed September 17, 2020, page 5.

V. Assessment of FCA's Processes and Controls for Promoting Compliance with Relevant Laws

30. FCA implemented many processes and controls for promoting compliance with the Relevant Laws through the Initial Improvement Plan's projects.
31. This section addresses the Initial Improvement Plan projects and other processes required by the Consent Decree (e.g., risk assessment, Code of Conduct) or otherwise significant to FCA's compliance with the Relevant Laws.³⁹ We include our assessment and recommendations and note where FCA already addressed or started to address the ICA's findings.⁴⁰ Our Second Audit will evaluate FCA's remediation.
32. We organize this section around the Consent Decree Corporate Compliance Requirements. The ICA will assess in future audits the effectiveness of the Company's remedial actions.

1. Culture of Integrity, Business Ethics, and Compliance

a. Code of Conduct

1) Background

33. FCA's Code of Conduct (the "Code") applies to FCA N.V. and all its subsidiaries and is applicable to all employees and third parties (e.g.,).⁴¹ Third-party contracts include standard clauses relating to adherence to certain principles within the Code.⁴²
34. FCA organizes the Code around four groups of high-level "Principles" with underlying "Practices and Procedures."⁴³
35. The Code:
- Requires adherence to and reporting violations of the Code, laws, regulations, or Company policies including but not limited to issues involving vehicle safety, financial reporting, or reports to governmental authorities;
 - Instructs supervisors to "model ethical behavior to [their] team members" and to "consistently hold ethical standards and integrity above business needs and results;" and

³⁹ Consent Decree ¶64(a) requires the ICA to: (1) "monitor implementation to verify [FCA's] compliance" with the Corporate Compliance Requirements; and (2) "assess the effectiveness of [FCA's] processes and controls in promoting compliance with United States and California environmental law concerning vehicle emissions and certification."

⁴⁰ Consent Decree ¶64(d).

⁴¹ FCA Code of Conduct, February 2019, page 5 [FCA-ICA-0000002922].

⁴² Indirect Materials and Logistics Services Purchasing General Terms and Conditions ¶22(a-b).

- Recognizes the importance of “transparency and honesty” in communications and instructs supervisors to “provide an environment where people feel comfortable and supported in discussing their concerns.”⁴⁴

2) Consent Decree Requirements

37. Consent Decree ¶50(b) requires FCA to “continue to implement and maintain [its] Code of Conduct; require all salaried employees and all new bargaining unit employees to certify they reviewed and understand the Code of Conduct; require all employees covered by project TC1 of the Initial Improvement Plan also to certify they are in compliance with the Code of Conduct; and, at least annually, conduct training related to the Code of Conduct for all salaried employees.”⁴⁶

3) ICA Evaluation

38. To assess the Code and related processes, we: (1) reviewed the Code and associated trainings; (2) developed an understanding of the Code’s development, history, and training and certification processes through inquiry of individuals from the Office of the General Counsel (“OGC”); and (3) reviewed Code training and certification records to verify adherence to the Consent Decree requirements.

FCA continues to implement and maintain its Code of Conduct and related processes.

39.

40. The latest biennial standalone Code training included

We will review the effectiveness of the updated Code and other Code related trainings in the Second Audit.

41. FCA notified DOJ and California it has not yet obtained certifications from new bargaining unit employees certifying that they have reviewed and understand the Code. Based on a September 17, 2020 Court-approved stipulation with DOJ and California, FCA has until December 31, 2020 to “implement a process to require” the certifications.⁵² While the agreement requires FCA to implement a process to obtain the certifications, a process alone is not meaningful, and the certifications must be obtained for it to be an effective part of the compliance program. We will assess the effectiveness of FCA’s process in the Second Audit, including confirming the Company obtained the certifications.
42. As of April 30, 2020, FCA obtained certifications from 92% of salaried North America employees. The Company cannot confirm that all required and foreign employees certified.⁵³ The certification requires employees to acknowledge they understand and comply with the Code, including the obligation to report any violations.⁵⁴ The Company is seeking certifications from the remaining population and we will review this completion rate again in the Second Audit.

b. Ethics Helpline / Vehicle Safety, Emissions, and Regulatory Hotline

1) Background

43. FCA enhanced the Ethics Helpline in 2017. The Ethics Helpline allows to report anonymously concerns about possible legal, regulatory, or Company policy violations. The Ethics Helpline also allows for reporting technical compliance concerns about safety and emissions-related issues.

.55

44.

⁵² Second Stipulation and Agreement Regarding Non-Material Changes to the Consent Decree, filed September 17, 2020, page 5.

2) Consent Decree Requirements

45. Consent Decree ¶50(c) requires FCA to “continue to implement and maintain the Ethics Helpline and its associated procedures.”

3) ICA Evaluation

46. To assess the Ethics Helpline and related processes, the ICA: (1) reviewed Ethics Helpline process flow, procedures and investigator training materials; (2) discussed case intake, investigation, and reporting processes with BPO and VSRC investigators to assess process design; and (3) verified adherence to defined processes for a selection of reports related to ethics and emissions and regulatory compliance concerns.
47. FCA established specific processes and a group within VSRC responsible for conducting Vehicle Safety, Emissions and Regulatory Hotline investigations through Initial Improvement Plan Project Auditing and Checking 1 (“ ”).⁵⁷ But for the items described below, our audit indicates FCA effectively designed these processes and controls and the cases we tested followed those processes as required.

Ethics Helpline Reports Related to Ethics and Technical Compliance Issues Are Investigated Separately

The North America ECC Did Not Meet in 2019

52. Our Second Audit will evaluate the ECCs.

FCA is Enhancing the Ethics Helpline Based on the Company's Annual Assessment Findings

53. As part of its Annual Assessment, FCA identified “opportunities for improvement” of its Ethics Helpline processes which the Company plans to address:

54. The Company is planning to address these “opportunities for improvement” through

We will assess whether FCA addressed the opportunities for improvement in the Second Audit.

c. Leave No Doubt Campaign

1) Background

55. FCA implemented a communications campaign called “Leave No Doubt” in 2017 to promote reporting of vehicle safety, emissions, and regulatory compliance issues. VSRC administers the campaign, which includes visual (e.g., videos, posters at FCA facilities) and written (e.g., emails, website) content.⁶⁸

2) Consent Decree Requirements

56. Consent Decree ¶50(d) requires FCA to “continue to implement and maintain, or refresh annually” the Leave No Doubt campaign “or a similar initiative to encourage employees, contractors, suppliers, and dealers to report issues concerning vehicle, safety, emissions, or regulatory compliance through the Ethics Helpline.”

3) ICA Evaluation

57. The ICA: (1) reviewed Leave No Doubt campaign design documents; (2) discussed with campaign leaders the program’s objectives, communication strategies, and methods for measuring success; (3) verified that campaign materials were posted in FCA headquarters and communicated to suppliers and dealers; and (4) reviewed FCA’s Annual Assessment related to Leave No Doubt.

FCA is Enhancing the Leave No Doubt Campaign Based on the Company’s Annual Assessment Findings

58. Through its Annual Assessment, FCA identified the following “opportunities for improvement” in the Leave No Doubt campaign and related processes:
- FCA did not display the Leave No Doubt campaign on the supplier portal, although the Company did, during annual training, communicate to suppliers the requirements to report suspected violations;
 - FCA failed to communicate clearly to dealers the Leave No Doubt campaign; and
 - FCA has not refreshed VSRC communications regarding the Leave No Doubt campaign since the initial rollout in 2017.⁶⁹
59. FCA plans to enhance communications to supplier and dealers and update communication materials annually going forward.⁷⁰ The ICA will assess whether FCA implemented these enhancements during the Second Audit.

d. Annual Assessment

⁶⁸ Consent Decree ¶50(d).

1) Background

60. The Consent Decree required FCA to assess the effectiveness of its Code, Ethics Helpline, Leave No Doubt campaign, and associated trainings.⁷¹

FCA's internal audit group, Internal Audit & Compliance ("IA&C"), assessed the Ethics Helpline and Leave No Doubt Campaign. To conduct the assessments,

2) Consent Decree Requirements

62. Consent Decree ¶50(e) requires FCA to "annually assess the effectiveness of the Code of Conduct, Ethics Helpline, Leave No Doubt Campaign, associated training, and [its] other efforts to instill a culture of integrity and compliance." FCA is also required to "develop and implement an action plan to implement improvements or additional measures [it] determine[s] necessary to improve the culture of integrity and compliance."

3) ICA Evaluation

63. The ICA's audit procedures examined whether FCA's assessments met the Consent Decree requirements and the Company addressed identified opportunities for improvement with reasonable action plans.
65. As our First Audit focused primarily on the Initial Improvement Plan, our Second Audit will look more generally at FCA's control environment and efforts to instill a culture of integrity including, for example:

FCA Identified, But Has Not Yet Implemented Annual Assessment "Areas of Opportunity" Initiatives

⁷¹ Consent Decree ¶50(e)

66.

67. In September 2020, the ICA asked for an updated status on the “areas of opportunity” identified after the 2019 survey. FCA responded that there were no progress updates since the document dated April 2020 FCA provided to the ICA in June.⁷⁵

Recommendation 5: FCA should develop a formal action plan with milestones and timelines to address the results of the 2019 and 2020 surveys.

68. The Ethics Helpline and Leave No Doubt assessments were effective and met the Consent Decree requirements for an annual assessment. The criteria FCA used to conduct the assessments were generally complete, and FCA used an effective methodology for assessing these programs. Further, the exceptions noted in the assessments followed the ICA’s audit observations, and FCA had plans to address identified issues, as required by the Consent Decree.
69. The ICA will assess the effectiveness of improvements implemented because of the Annual Assessment in the Second Audit.

2. Corporate Governance & Organizational Structure

1) Background

70.

The Consent Decree and Initial Improvement Plan projects relate to VEC and other organizations within FCA.⁷⁷

71. FCA’s Initial Improvement Plan included two projects related to Corporate Governance. The Company designed these

The Initial Improvement Plan also included three projects related to Organizational Structure. These projects address:

2) Consent Decree Requirements

73. Consent Decree ¶51(b) requires FCA to “implement and maintain the revised governance structure, including providing personnel performing the certification, testing, and monitoring functions access to technical expertise independent from product development personnel.” FCA implemented two Initial Improvement Plan projects to meet these requirements.

a. Emissions Compliance Governance Structures

1) Background

74. FCA designed Initial Improvement Plan Project Corporate Governance 1 (“CG1”) to

77. The emissions compliance governance structure includes these committees and working groups:⁸⁶

2) ICA Evaluation

78. As part of our procedures, we: (1) reviewed organizational charts, governance charters, and meeting minutes; (2) discussed with FCA the emissions compliance governance structure; (3) observed a sample of committee, subcommittee, and working group meetings in 2020; and (4) reviewed FCA's communications regarding the emissions compliance governance structure.

FCA Could Improve Documentation Regarding Emissions Compliance Governance Processes

79. Based on our review of the charters for all committees and working groups and observation of a sample of meetings, we found:

80. In response to these findings, FCA
- We will review and assess these processes in future audits.

81. Meeting minutes were often sparsely documented and did not explain the nature of meeting discussions or the basis for conclusions reached. To assess operating effectiveness, the ICA reviewed meeting minutes for a selection of 2019 governance and working group meetings. The meeting minutes were rarely detailed enough to understand the meeting discussion, the basis for conclusions, and action items.¹⁰³ FCA cannot: (1) evidence that certain discussions required by its procedures occurred; or (2)

reference the record of its decision-making in future meetings. We understand FCA plans to provide training to the working groups on meeting minute best practices before the end of 2020.¹⁰⁴

82. There is a healthy level of challenge at the Steering Committee and Subcommittee level, and employees seem comfortable raising issues to senior management. We observed 20 meetings covering all committees, subcommittees, and working groups. It was evident employees are comfortable speaking up to senior management regarding emissions compliance concerns and senior management is engaged and holds employees accountable.¹⁰⁵

Committees and Working Groups Do Not Consistently Comply with Their Charters

83. Committees and working groups did not always operate in accordance with their charters. Some

86. In the Second Audit, we will assess the awareness of the emissions compliance governance structures when we meet with individuals across FCA and review the effectiveness of the new Improvement Plan project.

b. Segregation of Duties

¹⁰⁵ Observation of FCA meetings, VSRC.

¹⁰⁶ Correspondence with FCA personnel. VSRC.

¹⁰⁸ Observation of FCA meetings. VSRC.

¹¹⁰ Discussions with FCA personnel. VSRC.

¹¹² Discussions with FCA personnel. VSRC.

1) Background

FCA implemented project Organizational Structure 1 () to

2) ICA Evaluation

91. The ICA confirmed Regulatory Compliance and Product Development were organizationally separate by reviewing organizational charts, interviewing employees in both groups, and observing activities.

FCA Lacks a Formal Process to Ensure Organizational Structure Changes Maintain Segregation of Duties

c. *Vehicle Environmental Compliance Supporting Resources*

1) Background

93. Through Initial Improvement Plan Project VEC added the three resources to assist in implementing the processes and enhanced controls as part of the Initial Improvement Plan:
-

2) ICA Evaluation

Additional Resources Reflect FCA's Commitment to a Culture of Compliance

- 95. The resources added to support the emissions certification and compliance program demonstrate a commitment to a culture of compliance.
- 96. The ICA frequently interacts with the individuals assigned to the roles created by this project. All are effective in their roles and demonstrated a commitment to improving FCA's emissions certification and compliance control structure.

d. Vehicle Environmental Compliance Organizational Capabilities

1) Background

- 98. FCA created Initial Improvement Plan Project to

2) ICA Evaluation

Insufficient Succession Planning May Have Contributed to a Critical Role Vacancy

3. Training/Technical Competence

1) Background

102. FCA's Initial Improvement Plan includes three projects related to training and technical competence.

2) Consent Decree Requirements

103. The Consent Decree requires FCA to develop an annual AECD and Defeat Device Training for the population of employees and suppliers defined in Initial Improvement Plan P

128

104. Separately, the Consent Decree requires FCA to develop an annual Emissions Certification and Compliance Training (“ ”) for applicable Product Development and VSRC employees “to improve and test their knowledge of emissions certification regulations and processes.”

a. AECD and Defeat Device Training

1) Background

2) ICA Evaluation

“ ” stands for Europe, Middle East, and Africa.

“LATAM” stands for Latin America. “APAC” stands for Asia-Pacific.

¹³² 32 of 35 suppliers were identified during the global workshop, and 3 additional suppliers were added to the list afterwards.

¹³⁴ Discussions with FCA personnel, OCG and VSRC.

109. We determined that the Advanced Training, in addition to the Awareness Training, is necessary to promote compliance with the Relevant Laws and we therefore designed our procedures to assess the effectiveness of both trainings.

AECD and Defeat Device Awareness Training is Effective

Some Suppliers Did Not Certify to Training Completion

b. Emissions Certification and Compliance Training

1) Background

2) ICA Evaluation

Emissions Certification and Compliance Training is Effective

118. The ICA found the training to be thorough and well designed to meet the course objectives. Further, the training sufficiently covered all relevant regulatory requirements and topics.¹⁴⁶

FCA Does Not Have a Formal Process for Defining Certain Training Audiences

¹⁴⁹ Our assessment will also cover the other trainings related to the Consent Decree (e.g., Code of Conduct, AECD and Defeat Device trainings).

c. *VSRC Roles and Responsibilities*

1) Background

122. FCA designed Initial Improvement Plan Project

2) ICA Evaluation

VEC's Skills Assessment Process is Effective

4. Risk Assessment

a. 2019 Risk Assessment

1) Background

2) Consent Decree Requirements

130. Consent Decree ¶53 requires FCA to “establish and maintain a Risk Assessment Process, which is led by VSRC, that, at least annually, shall: (1) identify compliance risks relating to emissions and certification processes; (2) assign a risk rating based on probability and significance; (3) link existing policies, processes, and controls [FCA] rel[ies] on to detect and prevent non-compliance (“risk response”); (4) assess residual risk based on the design and operating effectiveness of [FCA’s] risk response; and (5) develop a plan and reasonable timeline to implement and improve controls to mitigate any unacceptable levels of residual risk” within 180 days of the Effective Date (i.e., October 30, 2019).
-

3) ICA Evaluation

131. Our procedures included: (1) reviewing documentation related to the 2019 risk assessment; (2) interviewing the Risk Assessment Administrators to understand process design; (3) interviewing a sample of risk assessors to assess process effectiveness; and (4) validating the completeness of the assessment by comparing the list of identified risks to our own risk assessment.
132. As FCA's first VEC risk assessment, the process was successful. The assessment identified risks not considered in the Initial Improvement Plan and control gaps that the Company is now remediating.

Inherent Risk Assessment Process Requires Improvement

133. FCA's 2019 processes for risk identification and assessment represented a good first start but required improvement.

Control Linkage, Residual Risk Assessment, and Risk Response Did Not Meet Minimum Consent Decree Requirements

136. Although FCA intended for its 2019 process to address the Consent Decree's risk assessment components, the Company failed to meet Consent Decree requirements relating to controls linkage, residual risk assessment, and risk response.

¹⁶² Discussions with FCA personnel. Propulsion Systems.

VSRC's Risk Assessment Process Lacked Adequate Documentation

b. 2020 Risk Assessment

139. The Consent Decree required FCA to conduct its second risk assessment “within 90 days of the next anniversary of the Effective Date” (i.e., August 3, 2020). While we have not yet audited the 2020 assessment process, we discussed with FCA the process enhancements implemented to address our findings on the 2019 assessment. These enhancements included:

¹⁶⁸ Discussions with FCA personnel, VSRC.

140. The ICA will review and assess the 2020 risk assessment process in further detail in the Second Audit. And, risk assessment experts from the ICA team will meet with FCA in advance of the 2021 Risk Assessment to provide additional recommendations.

5. New Product Development and Vendor/Third-Party Projects

1) Background

141. The Initial Improvement Plan includes ten projects related to New Product Development and two related to Third Parties. FCA designed these projects to enhance policies, processes, and controls to improve regulatory compliance. The projects relate to



2) Consent Decree Requirements

142. Consent Decree ¶54(b) requires FCA to implement these Initial Improvement Plan projects no later than August 31, 2019.

a. *Disclose Algorithms with Potential AECDs*

1) Background

FCA created Initial Improvement Plan Project

¹⁷⁰ Consent Decree ¶54(a).

144. As part of the project, FCA designed

2) ICA Evaluation

149. The ICA assessed the effectiveness of the controls and reviews in the AECD process flow. Our procedures included: (1) walkthroughs; (2) meeting observations; and (3) operating effectiveness testing on a sample basis.

Initial Improvement Plan Processes Do Not Address

FCA Does Not Document the

AECD Process Documentation Does No

AECD Training Does Not

b. Implement AECD Emissions Data Review Process

1) Background

162. FCA created Initial Improvement Plan Project

to

2) ICA Evaluation

164. We performed procedures to: (1) assess the design and effectiveness of the AECD emissions test process; and (2) verify Alfa Romeo integration into the emissions testing and review processes.

FCA Did Not

Product Development Presented Inconsisten

166.

which we will review and assess during the Second Audit.

Process Documentation Does Not

FCA communicated new process requirements to

c. Diagnostic Monitoring of

1) Background

FCA created Initial Improvement Plan Project

172. FCA created two new projects as part of the Third Improvement Plan to create similar processes for
The ICA will assess the effectiveness of these projects in the Second Audit.

2) ICA Evaluation

FCA Did Not Implemen

Although FCA designed

176. FCA is updating the process documentation to reflect
assess during the Second Audit.

which the ICA will

FCA Cannot Confir

d. Identify Emission-Related Parts and Maintain Emission-Related Parts List

1) Background

he Environmental Protection Agency (“EPA”) and California Air Resources Board (“CARB”) require
manufacturers to maintain an Emission-Related Parts list (“ERP List”). FCA uses its ERP List to:

2) ICA Evaluation

187. We reviewed the design and operating effectiveness of the controls implemented as part of PD4, including processes for: (1) identifying, reviewing, and maintaining the ERP List; (2) reconciling to the warranty systems; and (3) training process participants.

ERP Maintenance Processes are Effective

FCA Did Not

193. We will continue to review these processes and assess the effectiveness of the process during the Second Audit.

e. Calibration Process for Emissions Robustness

1) Background

194. Through Initial Improvement Plan Project

FCA developed a process for

2) ICA Evaluation

The ICA assessed the design and operating effectiveness of the two key controls implemented as part of the project. The first control we assessed

The second control we assessed was

PD5 Controls are Effectively Designed, But Not Implemented Until Q4 2020

198. As part of this project, FCA effectively designed but did not implement the controls. The risk of not meeting emissions requirements to Full Useful Life was not fully addressed until FCA implemented these controls.²²³ We understand the controls were implemented for 2023 Model Year programs beginning in Q4 2020. Because of the timing of their implementation, the ICA did not assess these controls in the First Audit, but will assess their effectiveness in the Second Audit.

199. Although FCA did not implement these controls until Q4 2020, the project scope was limited to

f. Enhance In-Use Emissions Robustness

1) Background

FCA created Initial Improvement Plan Project to

2) ICA Evaluation

202. Our procedures assessed whether FCA established and adhered to the processes described in the project.

FCA Did Not Establish

205. FCA plans to continue to

g. Documentation and Communication of OBD Regulatory Interpretations

1) Background

206. FCA designed Initial Improvement Plan Project to

2) ICA Evaluation

208. To assess effectiveness, we reviewed

SRM Meeting Reviews are Effective, But Meeting Minutes Are Insufficient

210.

FCA implemented these enhancements during the Second Audit. The ICA will confirm

h. OBD Monitoring Capability Requirements

1) Background

211. OBD regulations require manufacturers to implement diagnostics to ensure “robust detection of malfunctions” under “normal urban vehicle operation and use.” FCA created Initial Improvement Plan Project to
212. As part of the project, FCA

2) ICA Evaluation

214. The ICA assessed the effectiveness of

FCA is Not Using

215.

ensure
reviews during the Second Audit.

We understand FCA since updated its internal documentation to
We will confirm the effectiveness of the management

i. Emissions Robustness Development Process

1) Background

216. FCA created Initial Improvement Plan Project to

2) ICA Evaluation

218. The ICA performed procedures to

FCA Effectively Designed, But Has Not Yet Been Able to Appl

219. FCA effectively designed the processes and But, due to the timing of product development processes, FCA does not expect to apply these processes and tools until , and therefore, we will assess operating effectiveness in a future audit.²⁴⁴

j. AECD Documentation for Outsourced Modules

1) Background

220. FCA did not historically have formal requirements for suppliers providing AECD information.²⁴⁵ Initial Improvement Plan Project involved

221. As part of the project, FCA created a

2) ICA Evaluation

222. As part of our procedures, we reviewed the design of the template and related requirements.

FCA's Process to Review Supplier

223.

FCA is documenting processes as part of the Second Improvement Plan.²⁴⁹ We will assess the effectiveness of this project in the Second Audit.

k. *Capability Assessment*

1) Background

224. FCA designed and implemented one Initial Improvement Plan project related to third-party processes. The Company created Project

225. FCA designed the assessments to ensure

2) ICA Evaluation

226. The ICA's audit activities included: (1) reviewing process documentation and interviewing personnel to confirm design; (2)

FCA is Addressing Other Shortcomings in the

230. FCA is revising its project is designed to enhance processes relating to:

This

231. We will review and assess this project in a future audit.

6. Certification Processes

1) Background

232. The Initial Improvement Plan includes nine projects related to Certification Processes. FCA designed these projects to develop and implement enhancements to the certification and CARB Executive Order (“EO”) processes to improve compliance with regulatory requirements. The projects implemented or enhanced processes and controls related to

²⁵⁵ Consent Decree ¶55(a).

2) Consent Decree Requirements

234. Consent Decree ¶55(b) requires FCA to implement the Certification Processes Improvement Plan projects “within the timeline set forth in the Improvement Plan, and no later than December 31, 2019.”

a. AECD Documentation & Approval Processes

1) Background

2) ICA Evaluation

237. The ICA assessed the effectiveness of several processes and controls, including:

238. The processes implemented by this project were designed and operating effectively. However, we identified potential control gaps described in further detail below.

239.

We will review and assess the effectiveness of any new controls in a future audit.

FCA Does Not Have a

241.

understand FCA is considering, but has not yet implemented, this as an ongoing process.²⁶⁴ Ne

b. Communicate Certification Status Within FCA

1) Background

242. FCA created Initial Improvement Plan Project to

2) ICA Evaluation

FCA effectively

We will confirm
the Second Audit.

c. Communicating with EPA and CARB

1) Background

251. FCA created Initial Improvement Plan Project

²⁷¹ Correspondence with FCA personnel, VSRC.

2) ICA Evaluation

While Effective, the Communications Log Review Operated Differently than Described in Process Documentation

253.

We will ensure the documentation is updated and assess the new process's effectiveness in the Second Audit.

d. Certification Controls and Automation

1) Background

254. FCA developed project to

2) ICA Evaluation

258. During the First Audit, the ICA's activities focused on understanding

Our procedures included:

- Reviewing materials from
 - Discussing with FCA its
 - Verifying
-
- Discussing with FCA planned enhancements to other processes

FCA Plans to

259.

Further, we plan to continue to verify that
, and that FCA implements

e. *OBD Durability Data Vehicle Testing*

1) Background

2) ICA Evaluation

263. The ICA performed procedures to confirm

f. Management of FCA Submissions Requiring CARB OBD Staff Approval

1) Background

265. OBD regulations require CARB Executive Officer approval for certain items outside of normal certification documentation. FCA designed to

2) ICA Evaluation

268. The ICA assessed the effectiveness of FCA's processes
. Our procedures included observing a

269. FCA effectively designed the processes for
However, the meeting minutes for lacked details
necessary to understand the nature of the discussion and the basis for conclusions reached. We
understand FCA is

We will assess during the Second Audit whether FCA implemented these enhancements.

g. OBD Certification Documentation Review Process

1) Background

270. CARB requires manufacturers to submit information regarding OBD systems as part of OBD certification applications. Before FCA created Initial Improvement Plan Project

271. FCA started the project by

272. As part of the OBD certification documentation, CARB also requires manufacturers to submit a "Summary Table," that provides information regarding the criteria and threshold for setting a Diagnostic Trouble Code ("DTC"), the enable conditions that must be in place for the diagnostic to run, time required to set the DTC, and the MIL illumination strategy. Manufacturers must supplement this information with a diagnostic operation summary and flow chart for each DTC.²⁹⁹

2) ICA Evaluation

275. Because FCA at the time of our audit,
we performed procedures to assess manual reviews conducted as part of the interim process.

Interim Controls are Designed Effectively, an

276.

We will assess the processes implemented for
during the Second Audit.

h. AECD Disclosure Process

1) Background

277. FCA created Initial Improvement Plan Project to

279. Project included processes for:

2) ICA Evaluation

The ICA performed procedures to: (1) confirm that FCA effectively completed the processes described above; and (2) assess the effectiveness of processes related to the

284. In the Second Audit, we will review and assess the processes performed
confirm the effectiveness for

7. Post-Certification Processes

1) Background

The Initial Improvement Plan includes five projects related to Post-Certification Processes. FCA designed these projects to

2) Consent Decree Requirements

286. Consent Decree ¶56(b) requires FCA to implement the enhancements described in the Post-Certifications Processes section of the Initial Improvement Plan, “within the timeline set forth in the Improvement Plan, and no later than July 31, 2019.”

³¹⁰ Consent Decree ¶56(a).

a. *Warranty Defect Reporting*

1) Background

FCA created to

2) ICA Evaluation

291. The ICA assessed the effectiveness of several controls implemented as part of this project:

Designed Effectively, But Did Not Operate in All Instances

292.

We understand FCA is enhancing the process for

Report Reviews are Effective

FCA's Processes fo

Claims Require Improvement

295. FCA cannot demonstrate it accurately identified

Second Audit.

We will review the effectiveness of this process during the

296.

³¹⁹ 40 CFR § 85.1903 requires manufacturers to file an Emissions Defect Information Report ("EDIR") when: (1) the manufacturer determines in accordance with the procedures established by the manufacturer to identify safety related defects that a specific emission-related defect exists; and (2) that the specific emission-related defect exists in twenty-five or more vehicles or engines of the same model year.

in the Second Audit and re-assess if current are appropriate.

b. In-Use Verification Procedures

1) Background

FCA created

The project also established a reporting

2) ICA Evaluation

301. We assessed the effectiveness of

Effectively Oversees In-Use Testing

provides effective oversight of in-use emission tests and the root cause analysis process.

³²⁵ Manufacturers conduct IUVP testing to collect the in-use emission data required by 40 CFR § 86.1848-01. Manufacturers conduct IUCP testing when any pollutant (except CO₂, CH₄, and N₂O) for a test group or subset of a test group exceeds 1.30 times the applicable in-use standard and failure rate. 40 CFR § 86.1846-01.

Require Enhancement

As part of FCA implemented

304.

We will assess the effectiveness
of in the Second Audit.

305.

The ICA will assess the effectiveness of in a future audit.

FCA Does Not Confirm

306.

nd we will assess the control's effectiveness in the Second
Audit.³³²

c. CALID and CVN Collection and Submission

1) Background

307. CARB requires manufacturers to submit quarterly reports with Calibration Identification Numbers ("CALIDs") and Calibration Verification Numbers ("CVNs") associated with all new vehicles sold in California.³³³ The agencies compare CALID/CVN pairs reported by the manufacturer to those reported by customer vehicles at inspection stations to identify instances where customers may have tampered with powertrain controls. The Company created to

efore this project,

309. Through this project, FCA identified

2) ICA Evaluation

311. We assessed the effectiveness of

313.

he ICA will assess the effectiveness of the in the Second Audit.

d. Running Change/Field Fix Certification Review Process

1) Background

FCA enhanced the running change and field fix certification review process through project . As part of this project, FCA

316. There are several underlying processes and controls within

2) ICA Evaluation

We assessed the effectiveness of and interviewed to understand other related review processes that

319.

We will assess the effectiveness of
in a future audit.

320. During the 2019 risk assessment, FCA found

We understand FCA is addressing this through a Second Improvement Plan project underway.³⁴⁷ We will assess the effectiveness of the new process in the Second Audit.

321.

We understand FCA planned

e. Warranty Parts Retention and Coverage

1) Background

322. CARB and EPA require manufacturers to have emission-related parts (“ERPs”) available within defined warranty coverage periods based on the application type (i.e., light, medium, or heavy duty). CARB also requires manufacturers to warrant ERPs that cost over a set threshold (“California High-Cost Parts,” or “CHCP”) for seven years or 70,000 miles.³⁵⁰

FCA developed

³⁵⁰ Cost is defined as part cost plus labor cost plus diagnostic cost.

326. FCA designed review controls as part of this project relating to:

The Company had not yet implemented the controls at the time of our audit procedures. Therefore, we will assess effectiveness during the Second Audit.³⁵⁸

2) ICA Evaluation

327. The ICA assessed the effectiveness of

to ensure

We also performed procedures

328.

FCA developed a new improvement plan project to ensure
We will review and assess the effectiveness of this project in a future
audit.

330.

. We understand the FCA will review and update
We will review the results of FCA's review in the Second Audit.

8. Auditing & Checking

1) Background

The section of the Initial Improvement Plan included three projects:

2) Consent Decree Requirements

333. Consent Decree ¶58 requires FCA to "complete an internal audit to assess implementation of internal procedures relating to the corporate compliance requirements" described in Section VI.C of the Consent Decree. The audits were required to "assess the effectiveness of the internal procedures that have been implemented as of the time of the audit" and recommend corrective actions to improve effectiveness. The audit was to be completed within nine months of the Effective Date (i.e., February 3, 2020) and the report to be issued within 30 days of the audit's completion (i.e., March 4, 2020).

a. Conduct Internal Audits

1) Background

FCA implemented Initial Improvement Plan Project to

2) ICA Evaluation

338. To verify FCA conducted the Consent Decree Audits, we reviewed

The Majority of FCA's Consent Decree Audits Confirmed Implementation, Not Effectiveness

339. FCA IA&C audited the Initial Improvement Plans and other requirements within the Corporate Compliance Requirements section of the Consent Decree (e.g., risk assessment, Code of Conduct, training). IA&C designed most audits only to confirm FCA completed the Initial Improvement Plan implementation steps. The audits typically did not assess the effectiveness of the processes reviewed. For example, if FCA was supposed to develop a new control as part of an Initial Improvement Plan project, IA&C confirmed only that FCA created the control. IA&C did not evaluate the design or test the operating effectiveness of the control.

340. To address this finding, FCA plans to train VSRC auditors on design and operating effectiveness test procedures. IA&C will maintain attendance records to confirm VSRC auditors complete the training.³⁶⁹ We will confirm FCA provided this training to VSRC auditors during the Second Audit.

FCA Completed Eight Audits After the Consent Decree Deadline

341. IA&C completed eight audits after the February 3, 2020 Consent Decree deadline.³⁷⁰ The Consent Decree required FCA to complete all audits within nine months of the Effective Date, or February 3, 2020. IA&C completed fieldwork for these audits by February 3, 2020, but IA&C management did not review the work papers and issue the reports until after the deadline. Therefore, IA&C did not complete these audits by the Consent Decree deadline.³⁷¹

IA&C Can Improve Emissions Certification and Compliance Audit Quality

342. IA&C can improve the quality of its emissions certification and compliance audits with enhancements to planning, work paper documentation, and independence. We reviewed the work papers related to five Consent Decree Audits and identified shortcomings:

343. We will review and assess the effectiveness of new audits related to the Consent Decree processes during the Second Audit.

9. PEMS Testing

1) Background

344. FCA developed two Initial Improvement Plan projects to establish PEMS testing requirements, standards, processes, and data analysis methods. The Company created Project

2) Consent Decree Requirements

346. Consent Decree ¶59 provides PEMS testing requirements on Model Years 2019, 2020, and 2021 vehicles. FCA had to retain an independent Third-Party Tester to conduct PEMS testing on two vehicles and the Third-Party Tester had to issue a separate report. FCA had to submit a PEMS Test Plan (“Test Plan”) to EPA and CARB describing how the Company and Third-Party Tester would perform its testing.
347. FCA and the Third-Party Tester must conduct additional testing and issue reports for 2020 and 2021 Model Years. “For 2020 Model Year, FCA must conduct ¶59(a) testing by December 31, 2020 and submit its report by March 1, 2021.³⁷⁶ For 2021 Model Year, FCA must conduct ¶59(a) testing “no later than September 30 of the calendar year for which the model year is named,” and submit its report by “no later than November 30 of the calendar year for which the model year is named.” The Third-Party Tester must conduct ¶59(b) testing by “December 31 of the calendar year for which the applicable model year is named” and submit its report by “no later than March 1 of the calendar year immediately after the calendar year for which the model year is named.”

3) ICA Evaluation

348. We designed our audit activities to: (1) ensure FCA and the Third-Party Tester met the ¶59 requirements; and (2) assess the effectiveness of the PEMS testing processes implemented as part of the Initial Improvement Plan. To assess compliance with ¶59, the ICA: (1) confirmed FCA submitted the Test Plan and received EPA and CARB approval; and (2) verified FCA and the Third-Party Tester conducted its testing in accordance with the approved Test Plan.

FCA Met the PEMS Testing Consent Decree Requirements

349. Both FCA and the Third-Party Tester: (1) performed testing on the approved vehicle brands and test groups; (2) covered the full range of emission control system configurations; and (3) reported results on the public website within the required timeframes. The ICA could not observe testing activities to confirm adherence to required test procedures due to 2019 Model Year testing timing. We will observe testing in a future audit.

The Consent Decree requires the Third-Party Tester to perform PEMS testing “under real-world driving conditions over a range of ambient temperatures and pressures, (including conditions not represented on the Federal Test Procedure).”³⁷⁷

354. In a future audit, the ICA will observe FCA’s PEMS testing process to ensure FCA

10. FCA’s Annual Report

1) Background

355. FCA submitted its first annual report to DOJ, California, and the ICA on June 3, 2020. The report covered the period from May 3, 2019 to May 4, 2020 and was divided into two sections: (1) summary of the information required by Consent Decree ¶¶ 50(f), 52(c), and 53(b); and (2) description of the measures FCA implemented to promote compliance with Section VI.C and “an assessment of the effectiveness of measures implemented to promote compliance with United States and California environmental law concerning vehicle emissions and certification.”

³⁷⁷ Consent Decree ¶59(c).

2) Consent Decree Requirements

356. Consent Decree ¶61 requires FCA to submit annual reports to DOJ, California, and the ICA “concerning the corporate compliance requirements of...Section VI.C.” The reports must include:

- A report “regarding case tracking of all concerns relating to violations of United States and California environmental protection laws or regulations raised through the Ethics Helpline and stored in the Case Tracking System” and for concerns raised by other means, “case tracking from the point that the concern is brought to an investigator in the VSRC to be entered into the Case Tracking System;”³⁸²
- The Consent Decree ¶50(e) Annual Assessment;
- A summary of the Code of Conduct training provided under ¶50(b);³⁸³
- A summary of the AECD and Defeat Device and Emissions Certification and Compliance trainings provided under Consent Decree ¶52;³⁸⁴
- A summary of the results of the Consent Decree ¶53 risk assessment;³⁸⁵ and
- A description of the measures FCA implemented to promote compliance with Consent Decree Section VI.C, “together with an assessment of the effectiveness of those measures in promoting compliance...and any corrective actions [FCA] have undertaken to improve their effectiveness.”³⁸⁶

3) ICA Evaluation

357. The ICA reviewed FCA’s annual report to confirm: (1) the Company met the Consent Decree requirements; and (2) FCA’s effectiveness assessment was consistent with our assessment of the same measures implemented to promote compliance with the Relevant Laws.

FCA Reported the Information Required by Consent Decree ¶¶ 50(f), 52(c), and 53(b)

358. FCA included in its annual report the required information regarding: (1) its case tracking processes; (2) the Annual Assessment; (3) Code of Conduct training; (4) AECD and Defeat Device and Emissions Certification and Compliance trainings; and (5) risk assessment results.

FCA’s Annual Report Does Not Conclude on Effectiveness or Consider All Effectiveness Indicators

359. FCA’s annual report describes the intent of its measures for promoting compliance and identified some corrective actions, but the Company did not conclude on the effectiveness of those measures. And, the assessment did not consider known gaps and findings related to the emissions certification and compliance program. Each report section contained responses to three questions derived from the Consent Decree ¶61(a) reporting requirements:

³⁸² FCA’s Case Tracking System is used to manage information related to concerns reported through the Ethics Helpline, or concerns identified by an investigator in the VSRC office, and the investigation and closure of such concerns. Consent Decree ¶8(p).

³⁸³ Consent Decree ¶50(f).

³⁸⁴ Consent Decree ¶52(c).

³⁸⁵ Consent Decree ¶53(b).

³⁸⁶ Consent Decree ¶61(a).

- “What steps were taken to improve the likelihood of successful completion of this Consent Decree obligation and Improvement Plan project?”
- “What is the effectiveness of this project for promoting compliance with United States and California law concerning vehicle emissions and certification?”
- “With respect to the continual improvement of the effectiveness of these projects for promoting compliance with United States and California law concerning vehicle emissions and certification, what improvements or corrective actions is the project team making or considering making?”³⁸⁷

361. Further, the assessment did not consider

The Company's Annual Report Requires Certain Clarifications

362. The Company's annual report requires certain clarifications. FCA reported certain information that requires clarification or additional detail to avoid leaving the wrong impression. For example, besides the items discussed above, in the project FCA performed a study to assess

Company's annual report states that FCA “established a
However, FCA acknowledged that it could not establish a
between

363. In its second annual report, we understand FCA considering all known gaps and findings related to its emissions certification and compliance processes. We will review and assess the second annual report to confirm these issues are remediated.

VI. Next Steps

364. Under Consent Decree ¶64(b), the ICA submitted its draft plan for the Second Audit to DOJ, California, and FCA on October 26, 2020. We will finalize the audit plan after considering comments, if any, from DOJ, California, and FCA. During the Second Audit, we will continue to assess FCA's ongoing compliance with Consent Decree Section VI.C, the effectiveness of its Improvement Plan measures, and any actions implemented in response to this report's recommendations.

Appendix 1: Table of Acronyms

Acronym	Full Name
AECD	Auxiliary Emission Control Device
BPO	Business Practices Office
CALID	Calibration Identification
CARB	California Air Resources Board
CHCP	California High-Cost Parts
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CVN	Calibration Verification Number
DOJ	Department of Justice
DDV	Durability Data Vehicle
DRE	Design and Release Engineers
DTC	Diagnostic Trouble Code
EBOM	Electronic Bill of Material
ECC	Ethics and Compliance Committee
EDIR	Emissions Defect Information Report
EPA	Environmental Protection Agency
ERP	Emission-Related Parts
ETS	Emissions Test System
FCA	Fiat Chrysler Automobiles
IA&C	Internal Audit & Compliance
ICA	Independent Compliance Auditor
ICT	Information, Communication, and Technology
IUCP	In-Use Confirmatory Program
IUVP	In-Use Verification Program
MIL	Malfunction Indicator Light
OBD	On-Board Diagnostic
OGC	Office of the General Counsel
PCAOB	Public Company Accounting Oversight Board
PEMS	Portable Emissions Measurement System
RCT	Running Change Template
RGE	Reliability Growth Emissions
SME	Subject Matter Expert
SRM	Strategy Review Meeting
TCC	Technical Compliance Committee
VSRC	Vehicle Safety & Regulatory Compliance

Appendix 2: ICA Recommendations

Report Section	No.	Recommendation*
I.5	1	FCA should develop implementation timelines for not yet implemented Initial Improvement Plan processes.
I.5	2	FCA should identify and assess the effectiveness of processes that occur outside of the Improvement Plan projects but impact FCA's ability to comply with the Relevant Laws.
I.5	3	FCA should review existing processes to identify and implement enhancements (e.g., awareness training, quality assurance reviews) that will help ensure employees follow defined processes and build a culture of compliance.
I.5	4	FCA should identify and develop action plans to reasonably address control activity gaps regarding supplier-related risks that affect directly or indirectly compliance with the Relevant Laws.
V.1.d	5	FCA should develop a formal action plan with milestones and timelines to address the results of the 2019 and 2020 surveys.

*We expect FCA to address our recommendations within 60 days of receiving the Final First Annual Report.

Appendix 3: ICA Findings & FCA Preliminary Action Plans

No.	First Annual Report ¶	ICA Finding	FCA Preliminary Action Plan	Second Audit Plan Ref.
A1	40			P6
A2	58			P20
A3	112			P58, P59
A4	304			P159
A5	305			P160
A6	306			P159
A7	306			P159

No.	First Annual Report ¶		FCA Preliminary Action Plan	Second Audit Plan Ref.
A8	312			P162
A9	312			P162
A10	313			P162
A11	318			P166
A12	I.5			P76
A13	320			P177, P180

No.	First Annual Report ¶	ICA Finding	FCA Preliminary Action Plan	Second Audit Plan Ref.
A14	321			P168
A15	48	—		P10, P13
A16	N/A	—		P18
A17	92	—		P38
A18	97	—		P47, P48
A19	99	—		P42
		—		

No.	First Annual Report ¶	ICA Finding	FCA Preliminary Action Plan	Second Audit Plan Ref.
A20	108			P57
A21	I.V		-	P76
A22	135		-	P75
A23	I.5		-	P177, P180
A24	I.4, 28		-	P3
A25	42		-	P3, P6

No.	First Annual Report ¶	ICA Finding	FCA Preliminary Action Plan	Second Audit Plan Ref.
A26	50			P12
A27	N/A			P29
A28	I.4, 17, 136			P69
A29	I.4, 17, 136			P76
A30	I.4, 25, 341			N/A
A31	342			P182
A32	342			P182
A33	342			P182

³⁹⁴ FCA told us the Annual Assessment was ready for our review in Q1 2020. FCA IA&C completed additional assessments after FCA received our Phase A preliminary findings but before the May 2020 deadline.

No.	First Annual Report ¶	ICA Finding	FCA Preliminary Action Plan	Second Audit Plan Ref.
B34	120			P62
B35	1.5			P58
B36	N/A			P62
B37	79			P34, P35
B38	79			P34, P35
B39	79			P34

No.	First Annual Report ¶	ICA Finding	FCA Preliminary Action Plan	Second Audit Plan Ref.
B40	81			P32
B41	85			P64, P65
B42	83			P31
B43	190			P95
B44	191			P95
B45	189			P93
B46	189			P93
B47	192			P97
B48	185			P96

No.	First Annual Report ¶	ICA Finding	Second Audit Plan Ref.
B49	1.5		P94
B50	198		P98
B51	210		P101
B52	248		N/A
B53	250		N/A
B54	N/A		N/A
B55	253		N/A
B56	N/A		P132
B57	269		P132
B58	295		P156
B59	292		P156

No.	First Annual Report ¶	ICA Finding	FCA Preliminary Action Plan	Second Audit Plan Ref.
B60	292			P156, P157
B61	296			P156
B62	N/A			P156
B63	328			P175
B64	330			P170
B65	330			P170
B66	227			P124
B67	229			P122
B68	228			P122

No.	First Annual Report ¶	ICA Finding	FCA Preliminary Action Plan	Second Audit Plan Ref.
B69	230			P122, P123
B70	230			P122, P123
B71	230			P124
B72	230			P122
B73	351			P185
B74	353			P184
B75	350			P183
B76	359			P19, P183
C77	160			P80
C78	145			P81

No.	First Annual Report ¶	ICA Finding	FCA Preliminary Action Plan	Second Audit Plan Ref.
C79	151			P82
C80	150			P86
C81	150			P118
C82	153			P81
C83	155			P87
C84	155			P82, P84
C85	158			P148
C86	157			P148

No.	First Annual Report ¶	ICA Finding	Second Audit Plan Ref.
C87	156		P85
C88	I.5		P32
C89	169		P89
C90	N/A		P88
C91	167		P88, P90
C92	167		P88
C93	165		P88
C94	165		P88
C95	166		P88
C96	I.5		P32

No.	First Annual Report ¶	ICA Finding	FCA Preliminary Action Plan	Second Audit Plan Ref.
C97	171			P119
C98	174			P92
C99	175			P91
C100	177			P92
C101	215			P102
C102	215			P102
C103	219			P103, P104
C104	223			P143
C105	241			P125

No.	First Annual Report ¶	ICA Finding	FCA Preliminary Action Plan	Second Audit Plan Ref.
C106	239			P125
C107	276			P133
C108	281			P134, P135
C109	1.5			P134