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Virginia Bankers Association Internal Audit Seminar

December 1, 2020

Presenters: **Maria Mora, Stacia Schacter, and Sarah Schwartz**



Introductions

A Little About the Class

- Name
- Bank/Company
- Years in Banking/Auditing/Security/Compliance
- Your Objective for Class
- Favorite Food
- Something FUN about YOU



Course Agenda

Course Agenda

- 9:00-10:40: Auditing the Lending Function
- 10:40-10:50: 10 minute break
- 10:50-11:40: Root Cause Analysis
- 11:40-12:40: Lunch
- 12:40-1:30: Remote Delivery of Internal Audit
- 1:30-2:20: Risk Trends at Financial Institutions
- 2:20-2:30: 10 minute break
- 2:30-3:20: Risk Assessments and Value-Add Audits



AUDITING THE LENDING FUNCTION

Lending Audit Objectives

- Disbursement Authorization and Funding and Documentation Exceptions
- Collateral Valuation, Control and Security
- Loan Payment Processing
- System Input and File Maintenance Changes
- Loan Accounting and System Reconciliations
- Loan Income Recognition
- Employee Loan Monitoring
- Financial Statement Disclosures

Polling Question #1

How comfortable are you when it comes to auditing the lending function?

- A. Not at all
- B. Only slightly
- C. Fairly comfortable
- D. Very comfortable

Lending Audit Objectives/Risk Factors

- Disbursement Authorization and Funding and Documentation Exceptions
 - Authorization
 - Loan proceeds are disbursed without proper underwriting, complete documentation and/or approval
 - Loans may be of lower loan quality and/or documentation may not be adequate to secure the bank's rights to repayment
 - Complete loan documentation may not be obtained resulting in no legal rights to collect and/or inadequate collateral support in the event of default

Lending Audit Objectives/Risk Factors

- Disbursement Authorization and Funding and Documentation Exceptions

- Access to Assets

- Proceeds are disbursed on loans that are not properly documented or are disbursed to fictitious loan customers
 - Collateral is released without proper approval or is misappropriated
 - Loan proceeds are disbursed to fictitious borrowers
 - Information may be utilized to submit a fictitious loan
 - Loan history may be misplaced/lost
 - Notes, the bank's legal right to collect, may be misplaced/lost
 - Complete loan documentation may not be obtained resulting in no legal rights to collect and/or inadequate collateral support in the event of default

Lending Audit Objectives/Risk Factors

- Disbursement Authorization and Funding and Documentation Exceptions
 - Completeness and Accuracy
 - Loan proceeds are disbursed for incorrect amounts or to fictitious customers
 - Loan proceeds are disbursed without proper underwriting, complete documentation and/or approval
 - Loans may be of lower loan quality and/or documentation may not be adequate to secure the bank's rights to repayment
 - Complete loan documentation may not be obtained resulting in no legal rights to collect and/or inadequate collateral support in the event of default

Lending Audit Objectives/Risk Factors

- Collateral Valuation and Security

- Authorization

- Collateral securing loans may be inadequate, overvalued or inadequately secured resulting in inability to rely on collateral as a source of repayment in the event of default
 - Collateral may be released or misappropriated before the loan balance is fully paid off, resulting in lack of security for remaining balance

- Access to Assets

- Collateral securing loans may be lost or misappropriated, resulting in inability to rely on collateral as a source of repayment in the event of default

- Completeness and Accuracy

- Collateral securing loans may be lost or misappropriated, resulting in inability to rely on collateral as a source of repayment in the event of default

- Evaluation of Balances

- Collateral securing loans may be overvalued resulting in inability to rely on collateral as a source of repayment in the event of default

Lending Audit Objectives/Risk Factors

- Loan Payment Processing

- Authorization

- Payments are not recorded or are recorded incorrectly resulting in misstatement of loan and/or interest balance

- Completeness and Accuracy

- Payments received are not properly or timely recorded, resulting in misstatement of loan and/or interest balances
 - Payments are not recorded or are recorded incorrectly resulting in misstatement of loan and/or interest balance
 - Loan balances or accrued interest may be misstated due to errors in recording transactions or due to misappropriation of funds

Lending Audit Objectives/Risk Factors

- Loan Payment Processing

- Substantiation of Balances

- Loan balances or accrued interest may be misstated due to errors in recording transactions or due to misappropriation of funds

- Access to Assets

- Payments are not recorded or are recorded incorrectly resulting in misstatement of loan and/or interest balance

Lending Audit Objectives/Risk Factors

- System Input and File Maintenance Changes

- Authorization

- New account information/file maintenance may be recorded incorrectly or not recorded or a fictitious loan may be set up resulting in misstatement of loan and/or interest balance

- Completeness and Accuracy

- New account information/file maintenance is recorded incorrectly or not recorded resulting in misstatement of loan and/or interest balance
 - New account information/file maintenance may be altered or a fictitious loan may be set up resulting in misstatement of loan and/or interest balance
 - Information needed to properly classify and describe loans within the financial statement and monitor loan portfolio risk may be missing

Lending Audit Objectives/Risk Factors

- Loan Accounting and System Reconciliations

- Authorization

- Loan balances or accrued interest may be intentionally or unintentionally misstated due to errors and omissions in processing or defalcations

- Substantiation of Balances

- Loan accounts are not properly or timely reconciled allowing intentional or unintentional misstatements to go undetected
 - Loan commitments and guarantees may be made but not properly reported in the financial statements or properly monitored for credit or interest rate risk

Lending Audit Objectives/Risk Factors

- Loan Income Recognition (Interest & Fees)

- Completeness and Accuracy

- Interest income or accrued interest may be intentionally or unintentionally misstated due to errors and omissions in processing or defalcations
 - Loan balances, interest income or accrued interest may be misstated due to capitalization of interest
 - Loan income may be intentionally or unintentionally misstated due to errors and omissions
 - Loan fees are not amortized in accordance with accounting principals

Lending Audit Objectives/Risk Factors

- Loan Income Recognition (Interest & Fees)

- Authorization

- Loan income is not properly recognized and recorded
 - Loans are made with terms that are not in accordance with management's intent, resulting in the bank not being compensated adequately for lending-related risks
 - Interest income or accrued interest may be intentionally or unintentionally misstated due to errors and omissions in processing or defalcations

- Substantiation of Balances

- Interest income or accrued interest may be intentionally or unintentionally misstated due to errors and omissions in processing

Lending Audit Objectives/Risk Factors

- Employee Loan Monitoring
 - Authorization/Completeness and Accuracy
 - Loans are originated in an environment that results in poor quality loans, loans to fictitious borrowers, or loans that are not properly priced for the corresponding level of associated risk

Lending Audit Objectives/Risk Factors

- Financial Statement Disclosures

- Completeness and Accuracy

- Financial statement disclosures are inaccurate or incomplete
 - Individuals gathering financial disclosure data do not understand the data requirements or intentionally misrepresent the data causing the information gathered to be inaccurate or incomplete
 - Data gathered is inaccurate or incomplete due to errors during the data gathering process

Example Loan Set-up Controls

- Lending policy outlines approval procedures
- Reasonable loan officer lending limits established
- Loan proceeds disbursed by check or direct deposit
- Set-up information independently verified for accuracy
- New loan report prepared/reviewed
- New loans reviewed for proper documentation
- Loan files protected and organized
- Loans from general ledger reconciled to subsidiary ledger

Example Loan Set-up Testing

- Document controls over set-up of new loans
- Test a sample of new loans for proper set-up
- Test adequacy of loan file documentation
- Confirm sample of loans directly with customers
- Test new loan report for completeness
- Test disbursement of proceeds
- Test reconciliation of loan principal account
- Others??

Example Loan File Documentation Controls

- Checklist(s) used to assure documentation is complete
- Follow-up of incomplete items
- Effective tickler system used for insurance, financing statements and financial statements
- Credit analysis performed and documented in loan files
- Controls over lines of credit which require annual review and pay-out
- Controls to prevent draws in excess of line-of-credit

Example Loan File Documentation Testing

- Document controls over loan file documentation, tickler system follow up, and lines of credit
- Test sample of loans for proper documentation
- Review loans for current financial information and other critical documentation
- Review lines-of-credit for annual renewal and annual payout
- Test lines-of-credit for advances over approval limit
- Others??

Example Loan Payment Controls

- Receipt of payments restricted to loan tellers
- Payment tickets indicate person processing transaction
- Allocation of payment to principal and interest verified
- Special controls for extensions and renewals

Example Loan Payment Testing

- Document controls over loan payment receipt and posting
- Recalculate principal and interest for a sample of payments
- Verify payment ticket indicates employee who accepted payment
- Test assessment of late charges
- Others??

Example Master File Change Controls and Testing

- Controls

- Segregation of duties
- Accuracy of changes

- Testing

- Review sample
 - Walkthrough process
 - Documentation of segregation
 - Documented support for changes

Example Interest Income Controls

- Rates are input correctly by % and type (fixed or variable)
- Daily accruals calculated automatically and consistently
- General ledger accrued interest is reconciled to the subsidiary ledger daily
- Accrual discontinued based on established delinquency criteria
- System established to change rates in accordance with variable rate agreement

Example Interest Income Testing

- Document controls over calculation of interest
- Recalculate accrued interest receivable
- Calculate general ledger yields and determine reasonableness
- Verify interest discontinued on loans meeting non-accrual criteria
- Verify rate changes on adjustable rate mortgages
- Recalculate deferred loan fees/costs recognized
- Others??

Example Employee Loan Controls

- Loans approved by senior management and/or Board of Directors
- Segregated on system
- Independent review of employee loan activity performed

Example Employee Loan Testing

- Document the process for approving and reviewing employee loans
- Review loan trial balance to determine that all loans are properly coded
- Trace employee loans to proper approval
- Review activity in employee loan accounts for unusual items
- Others??

Example Construction Loan Controls

- Controls are established to ensure draws do not exceed approved limits
- Disbursements are only made to authorized individuals
- Disbursements are only paid upon review of inspection reports, verbal title policy updates, and partial lien waivers from contractors or suppliers to substantiate collateral values and clear title
- Agreement terms as to refinancing and interest payments are followed
- Policies exist to ensure the exposure to "spec house" construction loans is limited

Example Construction Loan Testing

- Review a sample of construction loans and verify that balance on subsidiary does not exceed approved loan amount
- Confirm a sample of construction loans with borrowers, both disbursed and undisbursed balances
- Review a sample of construction loan files:
 - Vouch fund disbursements to properly signed and endorsed checks
 - Ascertain that prior to disbursements the loan officer obtained:
 - Inspection reports
 - Verbal title policy update
 - Partial lien waivers from contractors or suppliers.
 - Verify that principal and interest payments are being made in accordance with the agreement
 - Ensure for "spec house" construction loans that no more than a set number of "spec houses" will be financed for one builder

Example Credit Card Controls

- All credit card loans are analyzed and underwritten in accordance with bank policies by authorized individuals
- Over line credit card balances are identified and monitored
- Credit card disputes are investigated by an individual independent of the credit card process and are resolved in a timely manner
- Appropriate due diligence is performed before accepting credit card merchant processing accounts

Example Credit Card Testing

- Assess the adequacy and completeness of the credit card department's procedures
- Review the credit card "over line" for any accounts in excess of bank policy
- Select a sample of <X> recent credit card disputes and verify the adequacy and completeness of resolution procedures
- Select a sample of <X> new merchant accounts and perform a review to determine whether the accounts were underwritten in accordance with policy and procedures and whether they were properly approved within the approver's authority

Example Letters of Credit Controls and Testing

- Controls

- Proper Approval
- Collateral Perfection
- Expiration Monitoring

- Testing

- Review sample and test for:
 - Approval within officer limits
 - Collateral documentation in file or on suspense
 - Proper fee assessment and collection
 - Expiration monitoring

Example Indirect Lending Controls

- Dealers are accepted into the indirect lending program according to Bank policies and procedures
- Dealer reserve transactions are executed and approved in accordance with Bank policy and procedures
- Dealer reserve account balances are monitored for sufficiency

Example Indirect Lending Testing

- Select a sample of <X> new Dealers and verify the Dealer Agreement has been properly signed and approved (including signed dealer reserve agreement); and, the Dealer has been appropriately approved by Senior Management and/or the BOD
- Review the process of establishing and monitoring dealer reserve balances
- Test <X> dealer reserve balances to ensure the balances maintained are per the agreement

Example Floorplan Controls

- Management has established a formal, written floorplan loan policy
- Management has established policies and procedures identifying documentation requirements for vehicles covered by floorplan loans
- Floorplan audits are routinely conducted. Employees who conduct the audits are rotated. Discrepancies are resolved in a timely manner.

Example Floorplan Testing

- Obtain and review the loan policy and determine whether criteria has been established for the acceptance and on-going monitoring of floorplan dealers and loan relationships
- Review <X> floorplan loan files for required documentation
- Review documentation of <X> periodic floorplan audits conducted by management. Determine whether discrepancies were resolved, audits were conducted, and responsibility for audits was rotated among employees. Determine whether the floorplan audits met policy requirements

Loan Loss Reserve, Collections and Recovery, and OREO/Reposessed Assets

- Process from the time a loan moves from current pay status to delinquent through the collection process to sale of asset
- Includes:
 - Delinquency
 - Foreclosed and Repossessed Assets
 - Charge-off and Recovery
 - Allowance for Loan Losses

Lending Control Objectives/Risk Factors

- Loan Delinquencies, Collections, ALLL, Charge-offs and Recoveries
 - Authorization
 - Collection efforts are not performed in accordance with management objectives, reducing potential for complete and timely repayments
 - Problem loans are not properly monitored and recorded, increasing the potential for loss and misstatement of the loan and income related accounts
 - An incorrect amount is charged-off or fictitious account is charged-off
 - The established methodology for estimating the allowance for loan losses is flawed, not in accordance with accounting principles
 - Accounting principles and significant assumptions in applying principles are not accurate or in accordance with management objectives

Lending Control Objectives/Risk Factors

- Loan Delinquencies, Collections, ALLL, Charge-offs and Recoveries

- Completeness and Accuracy

- Loan balances or accrued interest may be intentionally or unintentionally misstated due to errors and omissions in processing or defalcation
 - Past-due account information is not provided, reducing potential for complete and timely repayment
 - Problem loans are not properly monitored and recorded, increasing the potential for loss and misstatement of the loan and income related accounts
 - Problem loans are not recorded properly resulting in misstatement of the loan and income related accounts
 - Income is recognized improperly resulting in misstatement of AIP and income
 - Records are not maintained of the actual principal balance owed by the borrower, reducing the potential for partial/complete collection
 - An incorrect amount is charged-off or fictitious account is charged-off
 - The methodology adopted for estimating the allowance for loan losses results in an inaccurate estimate

Lending Control Objectives/Risk Factors

- Loan Delinquencies, Collections, ALLL, Charge-offs and Recoveries
 - Access to Assets
 - Cash/collateral is misappropriated
 - An incorrect amount is charged-off or fictitious account is charged-off
 - Inadequate collection procedures reduce the potential for partial/complete recovery
 - The process for estimating the allowance for loan losses is biased resulting in an inaccurate estimate
 - Substantiation of Balances
 - Loan accounts are not properly or timely reconciled allowing intentional or unintentional misstatements to go undetected

Lending Control Objectives/Risk Factors

- Loan Delinquencies, Collections, ALLL, Charge-offs and Recoveries
 - Evaluation of Balances
 - Problem loans or fictitious loans exist without timely detection, increasing the potential for loss
 - Evaluation of Balances/Completeness and Accuracy
 - The process for estimating the allowance for loan losses does not include all loans
 - Evaluation of Balances/ Authorization
 - The process for estimating the allowance for loan losses is not performed timely and/or in accordance with the authorized methodology

Example Delinquency Controls

- Loans are periodically (and timely) placed on nonaccrual status
- Renewals and extensions are adequately reported
- Policy over renewals and extensions includes limits and processes for approval
- Delinquent loans are adequately reported to management and the Board
- Bank has a watch or problem loan list that is updated periodically
- Delinquent loan report is prepared/ reviewed by someone without lending authority or collection responsibilities

Example Delinquent Loan Controls

- Delinquent loan report reviewed
- Delinquent report independently generated
- Established and consistent criteria for reporting loan as delinquent
- Past due notices mailed independently
- Collection efforts on individual loans reviewed

Example Delinquent Loan Testing

- Document controls over delinquent loans, including collections, past due notices, etc.
- Test delinquent loan report for accuracy and completeness
- Test loans that were 30+ days past due that were brought current before month-end (looking for loan interest capitalization)
- Test for extensions/renewals of delinquent loans (number of extensions, “evergreen loans”)
- Review collection process for independence
- Others??

Example Foreclosed/Reposessed Asset Controls

- Periodically analyzed to determine value of property
- Periodic appraisals/evaluations performed on all real estate owned
- Assets removed from loan trial balance when foreclosed/ reposessed
- Foreclosed/reposessed assets subsidiary is reconciled to general ledger at least monthly
- Subsequent sale - gain/loss is recorded appropriately
- Receipt of sales proceeds or rental income is adequately controlled - ensure return is maximized

Example Foreclosed/Reposessed Asset Tests

- Document controls over foreclosed/reposessed assets
- Test values of foreclosed/reposessed assets to independent valuation
- Reconcile foreclosed/reposessed assets to subsidiary ledger
- Review assets to determine all deficient loan balances have been charged-off
- Vouch sales to supporting documents
- Review income from revenue-generating properties
- Others??

Example Charge-off and Recovery Controls

- The loan policy establishes criteria for when delinquent loans should be charged off (i.e., number of days delinquent)
- Appropriate individuals are assigned the authority and responsibility for determining which loans should be placed on non-accrual status or returned to accrual status, and approving charge-offs of uncollectible loans
- Status of collections are periodically reviewed by management and Board
- Charged off loan subsidiary ledgers are posted and balanced by an individual independent of approval, disbursement functions and the collection of loan payments or recoveries
- Charged off loan subsidiary records are reconciled to the general ledger allowance for loan losses account to ensure that subsidiary records have been updated
- Periodic progress reports are prepared and reviewed by an appropriate individual and the Board of Directors on all loans charged off on which collection efforts are continuing

Example Charge-off Recovery Testing

- Review loan policy to ensure charge off requirements (i.e., number of days delinquent)
- Review a sample of past due loans to ensure appropriate individuals authorized non-accrual status or return to accrual status
- Review a sample of charge-offs of uncollectible loans to ensure appropriate approval
- Review reports to the Board and management of loans in collection status. Ensure:
 - Accuracy and completeness of the report
 - That status of collections are periodically reviewed by management and Board
- Review the charged off loan subsidiary ledgers for:
 - Accurate posting and balancing by an individual independent of approval, disbursement functions and the collection of loan payments or recoveries
 - Reconciliation to the general ledger allowance for loan losses account to ensure that subsidiary records have been updated

Allowance Audit Approach

- Identify and document controls and procedures in place
- Design tests of the loan review system and the allowance system
- Consider trends, ratio analysis, peer comparison, concentrations, economic factors etc.

Example Controls for Allowance for Loan Losses

- Management has formal written procedures to determine the adequacy of the allowance
- Procedures are updated to reflect current economic trends
- Analysis is prepared by all loan officers, senior management or a loan review officer
- Analysis includes a review of problem loans for potential loss exposure
- Analysis includes allocations for loans not specifically evaluated
- Analysis takes into consideration potential losses on unused loan commitments, standby letters of credit, overdrafts and accrued interest

Example Allowance for Loan Losses Testing

- Document the process of completing the allowance calculation
- Test inclusion of potential problem loans in management's analysis
 - Classified loan report
 - Delinquent loan and nonaccrual loan report
 - Watch list, inquiry of management, etc.
- Test accuracy of delinquent loan report used in the preparation of the ALLL
- Review a sample of delinquent loans to determine if they should be charged off or, if still accruing, be placed on nonaccrual status and accrued interest reversed
- Review supporting schedules for ALLL calculations
- Determine whether methodology changed to reflect changing conditions

Mortgage Banking Functions

Polling Question #2

How comfortable are you when it comes to auditing mortgage banking functions?

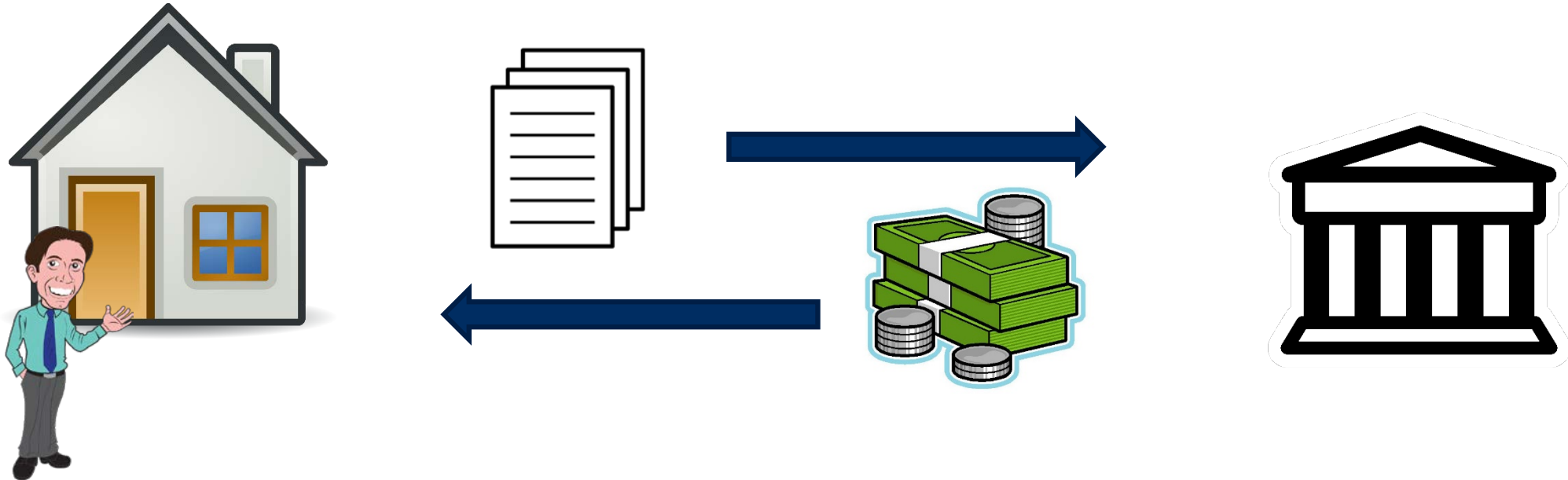
- A. Not at all
- B. Only slightly
- C. Fairly comfortable
- D. Very comfortable

Mortgage Origination

The creation of a new mortgage. Mortgage origination involves the necessary legal papers, the marketing of the mortgage to consumers, the qualifying of the buyer, the processing of the mortgage and the placement of the mortgage.

Mortgage Origination – Business Objectives

- Banks or Lenders originate mortgage loans to create a profit from the interest charge and/or origination fees.



Mortgage Origination – Where did it all go so wrong?

- Subprime Loans
- NINJA Loans
- ‘Not my risk’
- Volume Driven



Mortgage Origination – Application/Sourcing

RISKS

- Improperly sourced loans may lead to lending activities that are outside of the institution's risk tolerance; not aligned with the Bank's strategic direction; or result in credit quality issues.

CONTROL POINTS

- Management maintains a formalized sourcing strategy which is periodically re-evaluated by senior management and the Board of Director's.
- Periodically, an independent person will evaluate loans originated for compliance with stated sourcing parameters. For portfolio intentioned loans, management has established risk limits over loan type and quality.

Mortgage Origination – Application/Sourcing

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the sourcing strategy process, assess whether the control meets the following requirements:
 - a. Management maintains a formalized policy that contains a documented sourcing strategy and risk limits.
 - b. Management has a formalized, annual review process for any policy revisions or to review that the current policy is correct, accurate, and acceptable.
 - c. On a periodic basis, an independent individual will evaluate loans originated for compliance with these stated sourcing parameters and risk limits.
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Mortgage Origination – Application/Sourcing

OPERATING EFFECTIVENESS ASSESSMENT

- Analyze the institution's Secondary Marketing Policy and verify that it meets the following criteria:
 - a. Approved sources of loans
 - b. Defined permissible mortgage banking activities
- Using the policy approval documentation, verify that the policy was approved by the Board of Directors or Board-appointed committee within the last calendar year. The meeting minutes should clearly indicate a unanimous vote to approve the policy. \
- Analyze for evidence that an independent individual evaluated loans originated for compliance with the Bank's stated sourcing parameters.

Mortgage Origination – Application/Sourcing

RISKS

- Loans are originated through brokered and third party originated (TPO) channels that are undesirable and lead to higher losses, including possible fraud losses.

CONTROL POINTS

- Due diligence and monitoring are conducted by management of third-party originations.
- Underwriting evaluates these loans to the same standards as internally originated loans or to specific standards defined for the TPO and Brokered channels.

Mortgage Origination – Application/Sourcing

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the sourcing strategy process, assess whether the control meets the following requirements:
 - a. Management performs due diligence and monitoring activities on new and existing third-party originators
 - b. Management underwrites loans sourced through third-party originators to the same standards as internally originated loans or to specific standard defined for the TPO and brokered channels
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Mortgage Origination – Application/Sourcing

OPERATING EFFECTIVENESS ASSESSMENT

- Analyze to verify that due diligence was conducted for new third party originator (TPO) sourced loans and brokered sourced loans. Analyze for monitoring activities of existing TPO and Broker relationships.
- Test for evidence that management underwrites loans sourced through third-party originators to the same standards as internally originated loans or to specific standard defined for the Third Party Originated (TPO) and brokered channels.

Mortgage Origination – Pricing

RISKS

- Interest rates offered are not competitive in the market; thus business volume suffers and interest rates do not leave ample margin to create profitability in a secondary market environment.

CONTROL POINTS

- Management maintains a formalized pricing strategy which is periodically re-evaluated by senior management. The Board reviews the sourcing strategy for alignment with the strategic direction and risk tolerance of the institution. Periodically, an independent person will evaluate loans originated for compliance with these stated parameters.
- Through independently prepared reports of daily pricing metrics and profitability for set periods; management evaluates pricing on a periodic basis to ensure profitability.

Mortgage Origination – Pricing

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the pricing strategy process, assess whether the control meets the following requirements:
 - a. Management maintains a formalized policy that contains a documented pricing strategy
 - b. Management has a formalized, annual review process for any policy revisions or to review that the current policy is correct, accurate, and acceptable
 - c. Management performs a review of profitability analysis on a periodic basis
 - d. The report is compiled and reviewed by individuals independent of the secondary marketing function
 - e. Management reviews for unusual items/trends which are researched and explained
 - f. Management reports the analysis to senior management and/or the Board of Directors
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Mortgage Origination – Pricing

OPERATING EFFECTIVENESS ASSESSMENT

- Analyze the institution's Secondary Marketing Policy and verify that it addresses a pricing strategy and pricing risk.
- Using the policy approval documentation, verify that the policy was approved by the Board of Directors or Board-appointed committee within the last calendar year. The meeting minutes should clearly indicate a unanimous vote to approve the policy.
- Analyze the institution's most recent profitability analysis report as of the audit verify that it meets the following criteria:
 - a. Any unusual items/trends are explained
 - b. The report was compiled by an individual independent of the secondary market function
 - c. The analysis and findings have been reported to senior management and/or the Board of Directors

Mortgage Origination – Pricing

RISKS

- Automated pricing systems fail to work properly; either due to bad inputs or logic, resulting in losses for the institution or missed opportunities.

CONTROL POINTS

- If an automated or system generated pricing is utilized; inputs and assumptions are periodically reviewed to ensure they are consistent with strategy and support profitability goals.

Mortgage Origination – Pricing

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the pricing strategy process, assess whether the control meets the following requirements:
 - a. Management performs a review of model inputs and assumptions on at least a quarterly basis
 - b. Management makes determinations as to the validity of the inputs and assumptions and makes adjustments as necessary
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Mortgage Origination – Pricing

OPERATING EFFECTIVENESS ASSESSMENT

- Analyze the institution's pricing systems and verify that it meets the following criteria:
 - a. Management has reviewed the model input and assumptions for hedging and pipeline management within the quarter
 - b. Model inputs and assumptions are supported.

Mortgage Origination – Underwriting and Approval

RISKS

- Failure to properly underwrite loans in accordance with investors' requirements may result in the inability to sell the mortgage entirely; sell the mortgage at prevailing market rates; or result in the later forced re-purchase of the loan.

CONTROL POINTS

- Independent underwriting is performed to review for adherence to investor requirements. If an automated underwriting system (AUS) is utilized; an independent person reviews the findings from the AUS and checks for compliance with applicable conditions.

Mortgage Origination – Underwriting and Approval

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the underwriting process, assess whether the control meets the following requirements:
 - a. An independent underwriter reviews for compliance with investor requirements
 - b. If an automated underwriting system (AUS) is utilized, an independent individual reviews the findings from the AUS and checks for compliance with applicable conditions
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Mortgage Origination – Underwriting and Approval

OPERATING EFFECTIVENESS ASSESSMENT

- Test a sample of mortgage loans originated during the audit cycle and verify that they meet the following attributes:
 - a. The underwriter reviewed for compliance with investor requirements
 - b. If an automated underwriting system (AUS) is utilized, an independent individual reviewed the findings from the AUS and checked for compliance with applicable conditions

Mortgage Origination – Underwriting and Approval

RISKS

- Assets and Income of the borrower are insufficient for repayment of the loan or closing of the loan and/or do not meet investor requirements; resulting in default and/or inability to sell the loan on the secondary market. A forced re-purchase of a sold loan may also result.

CONTROL POINTS

- An independent underwriter performs a verification of the income and assets listed on the application.

Mortgage Origination – Underwriting and Approval

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the underwriting process, assess whether the control meets the following requirements:
 - a. An independent underwriter performs a verification of the income and assets listed on the loan application
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Mortgage Origination – Underwriting and Approval

OPERATING EFFECTIVENESS ASSESSMENT

- Test a sample of mortgage loans originated during the audit cycle and verify that they meet the following attributes:
 - a. The underwriter performed a verification of the income and assets listed on the loan application

Mortgage Origination – Underwriting and Approval

RISKS

- A credit report is either not pulled or pulled properly or the debts listed on the credit report are not properly reconciled; resulting in a miscalculation of the borrowers debt which could be basis for the investor to reject the loan or lead to poor credit quality for a portfolio loan.

CONTROL POINTS

- An independent underwriter performs a credit verification to evaluate that debts listed on the application are complete. The underwriter also evaluates that debt to income ratios are compliant with internal and investor guidelines.

Mortgage Origination – Underwriting and Approval

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the underwriting process, assess whether the control meets the following requirements:
 - a. An independent underwriter performs a credit verification to evaluate that debts listed on the application are complete.
 - b. An independent underwriter evaluates that debt to income ratios are compliant with internal and investor guidelines.
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Mortgage Origination – Underwriting and Approval

OPERATING EFFECTIVENESS ASSESSMENT

- Test a sample of mortgage loans originated during the audit cycle and verify that they meet the following attributes:
 - a. The underwriter performed a credit verification to evaluate that debts listed on the application were complete
 - b. The underwriter evaluated that debt to income ratios were compliant with internal and investor guidelines.

Mortgage Origination – Underwriting and Approval

RISKS

- The value of the property taken as collateral is understated or contains defects; resulting in greater exposure than underwritten or the loan is not eligible for sale to an investor. A forced re-purchase of a sold loan may also result if the appraisal is found to be deficient.

CONTROL POINTS

- An independent underwriter reviews to ensure a proper appraisal have been obtained of the property to be used as collateral. A review is conducted to ensure that assumptions utilized support the value stated within the appraisal. The reviewer ensures the appraisal is in the correct form and complies with applicable appraisal standards. A review is also conducted to ensure the appraiser is qualified and approved by the Bank and/or appraisal management company.

Mortgage Origination – Underwriting and Approval

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the underwriting process, assess whether the control meets the following requirements:
 - a. An independent underwriter reviews to verify that an appraisal of the property to be used as collateral has been obtained
 - b. An independent underwriter reviews to verify that the appraisal was performed by a qualified appraiser and approved by the Bank and/or appraisal management company.
 - c. An independent underwriter reviews the appraisal to verify that assumptions utilized support the value stated within the appraisal.
 - d. An independent underwriter reviews the appraisal to verify that it is in correct form and complies with applicable appraisal standards.
 - e. A standard appraisal review form is used to document the aforementioned requirements have been performed

Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.

- ***Note:** Perform a walkthrough to better substantiate your understanding of the control design

Mortgage Origination – Underwriting and Approval

OPERATING EFFECTIVENESS ASSESSMENT

- Test a sample of mortgage loans originated during the audit cycle and verify that they meet the following attributes:
 - a. The underwriter performed an independent review of the appraisal.

- Test a sample of appraisals for mortgage loans originated during the audit cycle and verify that they meet the following attributes:
 - a. A timely appraisal (within 12 months) in the correct form has been obtained
 - b. The appraisal was performed by a qualified appraiser and approved by the Bank and/or appraisal management company.

Mortgage Origination – Underwriting and Approval

RISKS

- Failure to properly underwrite loans in accordance with internal credit policies or the election to override credit policies may result in the deterioration of credit quality combined with a greater of defaults and associated financial losses.

CONTROL POINTS

- An underwriter reviews the credit application and file against internal credit policies and/or investor guidelines to ensure agreement. Credit authority is also reviewed if being approved by an officer of the institution. Policy exceptions are documented and approved by a person with sufficient authority.

Mortgage Origination – Underwriting and Approval

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the underwriting process, assess whether the control meets the following requirements:
 - a. An underwriter, with sufficient authority for the loan type, reviews and approves the application.
 - b. The underwriter reviews the credit application and loan files for agreement with policy and/or investor requirements.
 - c. Any policy exceptions are documented and approved by an individual with sufficient authority as determined by the institution's lending policy
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Mortgage Origination – Underwriting and Approval

OPERATING EFFECTIVENESS ASSESSMENT

- Test a sample of mortgage loans originated during the audit cycle and verify that they meet the following attributes:
 - a. The loan was reviewed by a qualified underwriter with sufficient authority
 - b. The underwriter documented that they reviewed the loan for adherence with policy and/or investor requirements (i.e. DTI, Credit Score, LTV, etc.)
 - c. If any policy exceptions existed, they were documented and approved by an individual with sufficient authority.

Mortgage Origination – Closing and Funding

RISKS

- Loans are not properly closed leading to delays in selling the loan on the secondary market and/or reputational risk within the market from a consumer and/or investor view.

CONTROL POINTS

- A 'Clear to Close' and 'Closing Instructions' are sent to the closing agent and mortgage officer by an independent underwriter in order to allow for proper closing of the loan.

Mortgage Origination – Closing and Funding

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the closing process, assess whether the control meets the following requirements:
 - a. The underwriter will send a "Clear to Close" and "Closing Instructions" to both the Closing Agent and Mortgage Officer to allow for proper closing of the loan
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Mortgage Origination – Closing and Funding

OPERATING EFFECTIVENESS ASSESSMENT

- Test a sample of mortgage loans originated during the audit cycle and verify that they meet the following attributes:
 - a. A "Clear to Close" and "Closing Instructions" was sent to both the Closing Agent and Mortgage Officer to allow for proper closing of the loan.

Mortgage Origination – Closing and Funding

RISKS

- Fraudulent loans are originated, approved, and funded due to the lack of segregation of duties within the funding process.

CONTROL POINTS

- Utilizing the loan origination system, user access controls establish segregation of duties with respect to the origination, underwriting, and disbursement functions.
- Loans are disbursed, generally via wire transfer, by independent individuals after receiving proper confirmation from a closing attorney, title company, or other closing agent (process varied by state).

Mortgage Origination – Closing and Funding

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the user access and process controls within the loan origination system(s), assess whether the control meets the following requirements:
 - a. Individual responsible for the origination, underwriting, and closing/disbursement duties are segregated within the system utilizing user access levels.
 - b. Disbursements are not made until receiving proper confirmation from a closing attorney, title company, or other closing agent (process varies by state)
 - c. The individual responsible for disbursement of funds is independent from the loan approval and boarding/set-up processes
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Mortgage Origination – Closing and Funding

OPERATING EFFECTIVENESS ASSESSMENT

- Test the loan origination system process controls and user access level reports to verify that it meets the following criteria:
 - a. Roles are defined within the system, by use of access levels, to segregate origination, underwriting, and closing/disbursement functions.
 - b. Evaluate if management periodically reviews user access level reports to verify proper job responsibility alignment.
 - c. The loan disbursement was not made until receiving proper confirmation from a closing attorney, title company, or other closing agent (process varies by state)
 - d. The individual responsible for the disbursement of funds was independent from the loan approval and boarding/set-up processes

Mortgage Origination – Closing and Funding

RISKS

- Insurance is not obtained prior to closing; resulting in the inability to sell the loan or creating risk in the event of default as collateral may not be properly protected.

CONTROL POINTS

- Prior to disbursement, management verifies that any necessary property insurance, flood insurance, title insurance, and/or mortgage insurance is obtained. This process may be performed by an underwriter during initial review or prior to granting a 'clear to close.'

Mortgage Origination – Closing and Funding

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the disbursement process, assess whether the control meets the following requirements:
 - a. Management verifies that any necessary property insurance, flood insurance, title insurance, and/or mortgage insurance is obtained prior to disbursement
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Mortgage Origination – Closing and Funding

OPERATING EFFECTIVENESS ASSESSMENT

- Test a sample of mortgage loans originated during the audit cycle and verify that they meet the following attributes:
 - a. Management verified that any necessary property insurance, flood insurance, title insurance, and/or mortgage insurance was obtained prior to disbursement
 - b. Hazard Insurance Coverage documented in file for proper amount and type;
 - c. Flood Insurance Certificate documented in file;
 - d. Flood insurance Coverage documented in file (if applicable, see Flood Certificate);
 - e. Title insurance commitment documented in file;
 - f. Mortgage insurance documented in file (applicable to VA, FHA, USDA, and PMI required loans).

Mortgage Origination – Closing and Funding

RISKS

- Notes are not delivered in the investor required timeframe resulting in buy-backs and purchase delays.

CONTROL POINTS

- If an investor purchased loan; management monitor to ensure the Note is sent timely to avoid any unnecessary purchase delays.

Mortgage Origination – Closing and Funding

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the post-closing documentation process, assess whether the control meets the following requirements:
 - a. Management adequately reviews, monitors, and tracks the outstanding note reports to verify timely receipt
 - b. Management verifies the completeness and accuracy of the outstanding note exception reports
 - c. If any items are outstanding greater than 7 days they are escalated to management and action plans are formed.
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Mortgage Origination – Closing and Funding

OPERATING EFFECTIVENESS ASSESSMENT

- Analyze the outstanding note exception report as of the audit date and verify that they meet the following criteria:
 - a. Evidence that management monitors the Notes outstanding to investors.
 - b. Evidence management verified the completeness of the tracking report by tracing to internal LOS reports and external Investor reports.
 - c. If there have been documents that missed their delivery deadline date, verify the exceptions have been identified and corrective action implemented.

Mortgage Origination – Closing and Funding

RISKS

- Loans are closed with quality issues that result in delays in selling the loan on the secondary market and/or reputational risk within the market from a consumer and/or investor view.

CONTROL POINTS

- A post-closing function reviews closed loans for quality and to ensure proper completion of the Note and Security Instrument(s). The review will also be conducted to identify other quality issues; including a review to ensure that closing instructions were followed.

Mortgage Origination – Closing and Funding

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the post-closing documentation process, assess whether the control meets the following requirements:
 - a. A post-closing checklist is completed to verify for quality control and to review for proper completion of the Note and security instruments.
 - b. The review is performed by an individual from the loan approval or boarding/set-up process
 - c. The reviewer will escalate any issues noted as part of their review process
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Mortgage Origination – Closing and Funding

OPERATING EFFECTIVENESS ASSESSMENT

- Test a sample of mortgage loans originated during the audit cycle and verify that they meet the following attributes:
 - a. A post-closing checklist was completed to verify for quality control and to Test for proper completion of the Note and security instruments.
 - b. The post-closing review was performed by an individual from the loan approval or boarding/set-up process
 - c. If any issues were noted, evidence that reviewer escalated the issue to management is retained.
 - d. The note and security instruments were accurately executed

Mortgage Origination – Closing and Funding

RISKS

- Collateral for the loan is not properly perfected and/or the legal obligations for the debt are not secured; resulting in the inability to sell the loan or creating risk in the event of default as collateral may not be properly protected. The legal right to collect the debt may also be compromised.

CONTROL POINTS

- A monitoring process is in place to track receipt of both the recorded mortgage or deed of trust and a final title policy. Items outstanding are aged and those over 90 days outstanding are reported with a corrective action plan developed. Management also tracks which documents are sent to investors.

Mortgage Origination – Closing and Funding

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the post-closing documentation process, assess whether the control meets the following requirements:
 - a. Management adequately reviews, monitors, and tracks the outstanding collateral loan documentation exception reports to verify timely receipt
 - b. Management verifies the completeness and accuracy of the outstanding loan documentation reports
 - c. If any items are outstanding greater than 90 days they are escalated to management and action plans are formed.
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Mortgage Origination – Closing and Funding

OPERATING EFFECTIVENESS ASSESSMENT

- Analyze the outstanding collateral loan documentation exception report as of the audit date and verify that they meet the following criteria:
 - a. No documents have been outstanding greater than 90 days
 - b. If there have been documents have been outstanding greater than 90 days, perform a breakdown of items outstanding between 0-90 days, 91-180 days, and 180+ days as both a percentage of items outstanding and total number of items outstanding
- Auditor Note: This test can be performed in conjunction with RESMOR-C17-TS01 and RESMOR-C25-TS01

Mortgage Origination – Post- Closing

RISKS

- Quality issues with closed loans are not tracked and cleared resulting in increased credit, legal, or compliance risks.

CONTROL POINTS

- Management monitors to track non-collateral exceptions; these exceptions are monitored to ensure reasonable aging of items (typically 60-90 days).

Mortgage Origination – Post- Closing

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the post-closing documentation process, assess whether the control meets the following requirements:
 - a. Management adequately reviews, monitors, and tracks the outstanding non-collateral loan documentation exception reports to verify timely receipt
 - b. Management verifies the completeness and accuracy of the outstanding loan documentation reports
 - c. If any items are outstanding greater than 90 days they are escalated to management and action plans are formed.
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Mortgage Origination – Post- Closing

OPERATING EFFECTIVENESS ASSESSMENT

- Analyze the outstanding non-collateral loan documentation exception report as of the audit date and verify that they meet the following criteria:
 - a. No documents have been outstanding greater than 90 days
 - b. If there have been documents have been outstanding greater than 90 days, perform a breakdown of items outstanding between 0-90 days, 91-180 days, and 180+ days as both a percentage of items outstanding and total number of items outstanding
- Auditor Note: This test can be performed in conjunction with RESMOR-C16-TS01 and RESMOR-C25-TS01

Mortgage Origination – Quality Control

RISKS

- Systemic quality issues with mortgage loans originated are not identified in a timely or complete manner.

CONTROL POINTS

- An independent quality control review is performed to verify for compliance with investor requirements. A report of the results is distributed to management; management response is required and corrective action plans are formed.

Mortgage Origination – Quality Control

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the quality control review process, assess whether the control meets the following requirements:
 - a. Management independently (or through a third-party) performs a quality control review on at least a monthly basis
 - b. The quality control sampling methodology consists of both a random and discretionary sample
 - c. The results of the quality control reviews are discussed at senior management and/or Board of Directors meetings
 - d. The quality control reports highlight unusual items and trends
 - e. Management has a process in place to take any corrective action necessary as recommended by the quality control reports
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Mortgage Origination – Quality Control

OPERATING EFFECTIVENESS ASSESSMENT

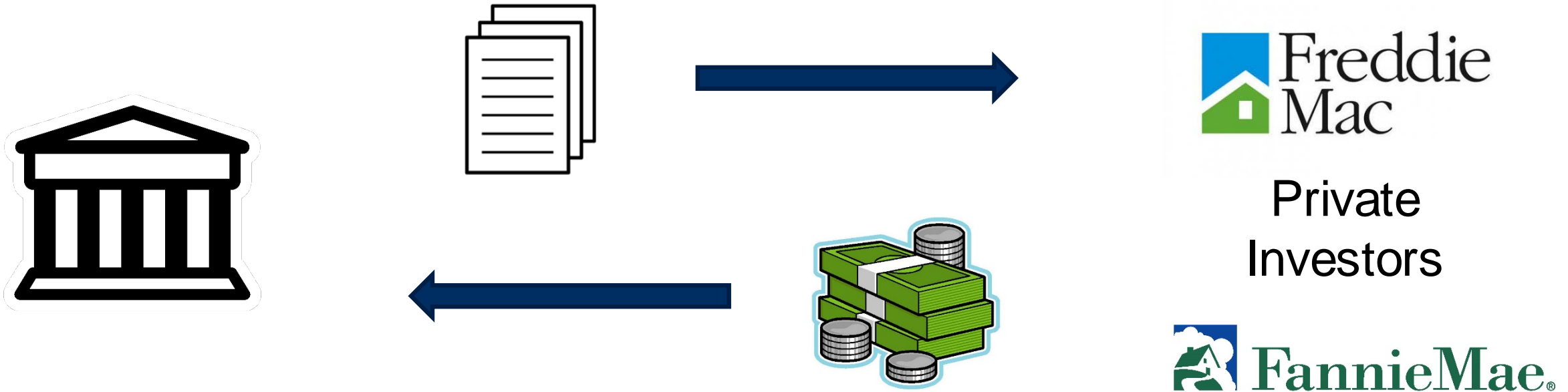
- Analyze the most recent quality control reviews performed as of the audit date to verify it meets the following criteria:
 - a. The quality control review highlights any unusual items or trends
 - b. If any exceptions were noted/corrected action recommended, management has since taken the necessary action
 - c. The results of the quality control reviews are discussed at senior management and/or Board of Directors meetings

Secondary Marketing

Buying and selling existing mortgage loans, which are often pooled and traded as mortgage-backed securities.

Secondary Marketing – Business Objectives

- Banks or Lenders sell mortgages to capture a profit and to release funds in order to lend further.



- The profit is created via the interest rate difference between the originated loan

Secondary Marketing – Mortgage Crisis

- Mortgage Backed Securities
- 'Tranches'
- Credit Default Swap, Credit Default Obligation



Secondary Marketing- Investor Management

RISKS

- Institution lacks the appropriate outlets to sell originated mortgage loans resulting in losses; this is due to the lack of investors or appropriate investors for the business originated.

CONTROL POINTS

- The Board of Director's and Management has established policies and procedures to ensure that the appropriate number and type of investors are utilized to support originations and strategic direction.

Secondary Marketing- Investor Management

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the product offering investor agreement approval, assess whether the control meets the following requirements:
 - a. Management maintains a formalized policy that contains a list of approved investors
 - b. Management maintains a formalized policy that establishes guidelines and authority to approve new investors
 - c. Management has a formalized, annual review process for any policy revisions or to review that the current policy is correct, accurate, and acceptable
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Secondary Marketing- Investor Management

OPERATING EFFECTIVENESS ASSESSMENT

- Analyze the institution's Secondary Marketing Policy and verify that it meets the following criteria:
 - a. List of approved investors
 - b. Guidelines for the approval of new investors
- Using the policy approval documentation, verify that the policy was approved by the Board of Directors or Board-appointed committee within the last calendar year. The meeting minutes should clearly indicate a unanimous vote to approve the policy.

Secondary Marketing- Investor Management

RISKS

- Institution fails to understand and comply with all investors requirements and/or the contractual obligation is outside the risk tolerance desired. Legal fees and related losses may also be incurred in the event of a dispute.

CONTROL POINTS

- Management maintains all investor agreements which outline roles, responsibilities, and investor requirements.

Secondary Marketing- Investor Management

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the investor agreement process, assess whether the control meets the following requirements:
 - a. Management has a formalized process to execute investor agreements
 - b. Management review investor agreements to verify they outline roles, responsibilities, and investor requirements.
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Secondary Marketing- Investor Management

OPERATING EFFECTIVENESS ASSESSMENT

- Test a sample of new investors added during the audit cycle verify that they meet the following criteria:
 - a. Evidence that they have been approved by an individual with appropriate authority as is outlined by the institution's policies and procedures
 - b. The agreement has been executed by an individual with appropriate authority as is outlined by the institution's policies and procedures
 - c. The agreement outlines roles, responsibilities, and investor requirements
 - d. The agreement has been executed by both a member of the institution and a member from the investor

Secondary Marketing- Investor Management

RISKS

- Institution fails to understand and comply with all investors requirements and/or the contractual obligation is outside the risk tolerance desired. Legal fees and related losses may also be incurred in the event of a dispute.

CONTROL POINTS

- Underwriters review to ensure loans are sold and underwritten to approved investors and in accordance with their established guidelines.

Secondary Marketing- Investor Management

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the investor agreement process, assess whether the control meets the following requirements:
 - a. Underwriters are trained on how to underwrite loans to be sold to new investors
 - b. Underwriters review to verify loans meet the requirements outlined in investor agreements
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Secondary Marketing- Investor Management

OPERATING EFFECTIVENESS ASSESSMENT

- Test a sample of mortgage loans originated during the audit cycle and verify that they meet the following attributes:
 - a. The loan was reviewed by an underwriter qualified for the investor and loan type.
 - b. The underwriter documented that the loan met the conditions set forth in the investor agreement and/or guidelines.

Secondary Marketing- Product Management

RISKS

- Product offerings fail to meet the market needs or do not align with strategic directives leading to loss of business or higher sourcing costs.

CONTROL POINTS

- Management has established policies and procedures, including risk limits, to ensure that the appropriate number and type of products are utilized to support the originations and strategic direction. Adherence to policy and risk limits are periodically reviewed by senior management utilizing reports that are independently prepared.

Secondary Marketing- Product Management

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the product offering approval process, assess whether the control meets the following requirements:
 - a. Management maintains a formalized policy that contains a list of approved products and allocation
 - b. Management has a formalized, annual review process for any policy revisions or to review that the current policy is correct, accurate, and acceptable
 - c. Management maintains a reporting process to senior management and/or the Board of Directors that tracks pull-through (fallout) ratios for compliance with policy
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Secondary Marketing- Product Management

OPERATING EFFECTIVENESS ASSESSMENT

- Analyze the institution's Secondary Marketing Policy and verify that it meets the following criteria:
 - a. Approved products and allocation
 - b. Risk limits
- Using the policy approval documentation, verify that the policy was approved by the Board of Directors or Board-appointed committee within the last calendar year. The meeting minutes should clearly indicate a unanimous vote to approve the policy.

Secondary Marketing- Pricing and Profitability Management

RISKS

- Interest margins and fee income are not sufficient to profitability.

CONTROL POINTS

- Management monitors profitability to ensure appropriate interest margins (between note rate and investor paid rates) and fee income. The profitability review also serves to ensure that a 'best pricing' approach is utilized in the placing of loans with investors.

Secondary Marketing- Pricing and Profitability Management

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the profitability analysis process, assess whether the control meets the following requirements:
 - a. Management performs a review of profitability analysis on a monthly basis
 - b. The report is compiled and reviewed by individuals independent of the secondary marketing function
 - c. Management reviews for unusual items/trends which are researched and explained
 - d. Management reports the analysis to senior management and/or the Board of Directors
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Secondary Marketing- Pricing and Profitability Management

OPERATING EFFECTIVENESS ASSESSMENT

- Analyze the institution's most recent profitability analysis report as of the audit verify that it meets the following criteria:
 - a. Any unusual items/trends are explained
 - b. The report was compiled by an individual independent of the secondary market function
 - c. The analysis and findings have been reported to senior management and/or the Board of Directors

Secondary Marketing-Hedging Activities

RISKS

- Pipeline is not properly hedged leaving the institution exposed to greater than desired interest rate risk.

CONTROL POINTS

- If management relies upon an automated system for hedging, all inputs and assumptions are periodically reviewed. The hedging reports are also reviewed by management to ensure proper oversight of the model and/or vendor. If a vendor, a SSAE-16 or other report is utilized to ensure proper user end controls have been implemented.

Secondary Marketing- Hedging Activities

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the hedge management process, assess whether the control meets the following requirements:
 - a. Management performs a review of model inputs and assumptions on at least a quarterly basis
 - b. Management obtains and reviews an SSAE 16 on an annual basis for the hedge management system to verify that proper user end controls are established
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Secondary Marketing- Hedging Activities

OPERATING EFFECTIVENESS ASSESSMENT

- Analyze the institution's hedge management system and verify that it meets the following criteria:
 - a. Management has reviewed the model input and assumptions for hedging and pipeline management within the quarter
 - b. Management has obtained an SSAE 16 for the system within the past year and reviewed for user-end controls

Secondary Marketing-Hedging Activities

RISKS

- Pipeline is not properly hedged leaving the institution exposed to greater than desired interest rate risk.

CONTROL POINTS

- Management manually reviews the pipeline and hedging reports to calculate and determine proper hedging amounts and strategies. Risk limits are established within respect to the hedging of the portfolio. These are monitored daily by qualified individuals but also reported to senior management to ensure proper oversight and accountability within respect to the established limits.

Secondary Marketing- Hedging Activities

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the pipeline and hedge management process, assess whether the control meets the following requirements:
 - a. Management performs a review of pipeline and hedging reports on a frequent basis to calculate proper hedging amounts and strategies
 - b. Management monitors the pipeline and hedging reports on a daily basis to verify that hedging strategy is within established limits set forth in policy.
 - c. Management reports hedging strategy to senior management and/or the Board of Directors on a monthly basis
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Secondary Marketing- Hedging Activities

OPERATING EFFECTIVENESS ASSESSMENT

- Analyze the institution's hedge management system and verify that it meets the following criteria:
 - a. Management has reviewed the model input and assumptions for proper hedging amounts and strategy within the last month
 - b. Management has monitored the pipeline and hedging reports on a daily basis to verify that hedging strategy is within established limits set forth in policy
 - c. Current hedging strategy is within established limits set forth in policy
 - d. Management has reported hedging strategy to senior management and/or the Board of Directors within the last month

Secondary Marketing- Loan Delivery

RISKS

- Loans are not delivered in the investor required timeframe resulting in buy-backs and purchase delays.

CONTROL POINTS

- Management tracks and monitors to ensure timely delivery of loan file documentation to an investor. Loans over 30 days outstanding are elevated and an action plan is formulated.

Secondary Marketing- Loan Delivery

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the loan delivery process, assess whether the control meets the following requirements:
 - a. Management adequately reviews, monitors, and tracks the outstanding loan documentation reports to verify timely delivery
 - b. Management verifies the completeness and accuracy of the loan delivery reports
 - c. If any items are outstanding greater than 30 days or miss their delivery date, they are escalated to management and action plans are formed.
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Secondary Marketing- Loan Delivery

OPERATING EFFECTIVENESS ASSESSMENT

- Analyze the loan delivery tracking reports as of the audit date and verify that they contain the following information:
 - a. The name of the borrower
 - b. Individual missing documents
 - c. The deadline for delivery;
 - d. The number of days since loan closing; and
 - e. The status of the delivery.
- Analyze the same report and verify the following:
 - a. No documents haven't missed their delivery deadline date
 - b. If there have been documents that missed their delivery deadline date, verify the exceptions have been reported to management
 - c. If there have been documents that missed their delivery deadline date, verify the institution has not incurred any hold-backs from the investor as a result of non-delivery.
- Additionally, review a sample of documents outstanding greater than 30 days to verify that they have been reported to management and that an action plan has been formed

Secondary Marketing- Pipeline Management

RISKS

- Pipeline tracking is not complete and accurate leading to forecasts that are not accurate; which may also result poor hedging.

CONTROL POINTS

- Management reviews pipeline reports for accuracy and completeness on a periodic basis. Aging of items within the pipeline are reviewed with action plans formulated as necessary.

Secondary Marketing- Pipeline Management

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the pipeline monitoring process, assess whether the control meets the following requirements:
 - a. Management adequately reviews, monitors, and tracks the applicable pipeline reports for aging
 - b. All unclosed loans greater than 60 days are escalated to management and an action plan is developed
 - c. All expired rate locks are escalated to management and an action plan is developed
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Secondary Marketing- Pipeline Management

OPERATING EFFECTIVENESS ASSESSMENT

- Analyze the pipeline reports as of the audit date and verify that they meet the following criteria:
 - a. Evidence that management has reviewed the pipeline report
 - b. Loan commitments are identified by product type, interest rate, commitment date, commitment (rate lock) expiration date;
 - c. The data was validated by someone independent of the input/preparation of the report;
 - d. Locked in rates are identified separately from floating rate loans; and
 - e. the report aggregates a net position of all commitments.
 - f. No commitments (unclosed loans) are outstanding greater than 60 days
 - g. If commitments (unclosed loans) are outstanding greater than 60 days, management maintains valid documentation and rationale as to why the loan has not closed

Secondary Marketing- Pipeline Management

RISKS

- Hedging activities and other volume based metrics cannot be properly managed due to poor or nonexistent tracking of mortgage fallout activity; this results in financial losses.

CONTROL POINTS

- Management has defined an acceptable fallout (pull-through) ratio within Policy. Management formally monitors and tracks fallout ratios by product type and/or branch on a periodic basis.

Secondary Marketing- Pipeline Management

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the pull-through (fallout) ratio reporting process, assess whether the control meets the following requirements:
 - a. Management maintains a formalized policy that contains an acceptable pull-through (fallout) ratio
 - b. Management has a formalized, annual review process for any policy revisions or to review that the current policy is correct, accurate, and acceptable
 - c. Management maintains a reporting process to senior management and/or the Board of Directors that tracks pull-through (fallout) ratios for compliance with policy
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Secondary Marketing- Pipeline Management

OPERATING EFFECTIVENESS ASSESSMENT

- Analyze the institution's Secondary Marketing Policy and verify that it meets the following criteria:
 - a. Acceptable pull-through (fallout) ratio; or
 - b. Documentation of a hedging strategy if not solely based on pull-through ratio.
- Review the most recent senior management and/or Board Meeting minutes to determine that pull-through (fallout) ratio is both discussed and meets policy guidelines. If any differences exist, investigate that they were discussed by management
- Using the policy approval documentation, verify that the policy was approved by the Board of Directors or Board-appointed committee within the last calendar year. The meeting minutes should clearly indicate a unanimous vote to approve the policy.

Secondary Marketing- Warehouse Management

RISKS

- Improper warehouse management results in the inability to access liquidity to fund origination activities.

CONTROL POINTS

- Management monitors warehouse inventory reports on a frequent basis for turnover and aging. Warehouse loans exceeding 30 days are elevated to management and an action plan is formulated.

Secondary Marketing- Warehouse Management

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the warehouse inventory monitoring process, assess whether the control meets the following requirements:
 - a. Management adequately reviews, monitors, and tracks the applicable warehouse inventory reports for aging
 - b. All loans held greater than 30 days are escalated to management and an action plan is developed
 - c. Management verifies that no loans are held greater than 90 days without supporting and valid rationale.
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Secondary Marketing- Warehouse Management

OPERATING EFFECTIVENESS ASSESSMENT

- Test a sample of warehouse inventory reports as of the audit date and verify that they meet the following criteria:
 - a. Evidence that they have been monitored and reviewed by management
 - b. Loans held greater than 30 days have been escalated to management and an action plan has been formed
 - c. No loans have been held for greater than 90 days
 - d. If any loans have been held greater than 90 days, management maintains valid documentation and rationale to support the maintaining of the loan for the extended period of time as held-for-sale

Secondary Marketing- Warehouse Management

RISKS

- Warehouse Investor and/or Mortgages Held for Sale GL data is inaccurate leading to inaccuracies in the financial statements and the environment in which fraud can occur and not be detected.

CONTROL POINTS

- A reconciliation is periodically performed to verify warehouse inventory data versus the mortgage held for sale general ledger accounts to ensure accuracy and completeness.

Secondary Marketing- Warehouse Management

DESIGN ASSESSMENT

- Through discussion of the control with management and review of warehouse inventory and mortgage held-for-sale general ledger account reconciliations, assess whether the control meets the following requirements:
 - a. Reconciliations are prepared by individuals independent from the transaction authorization or recording functions
 - b. Reconciliations are reviewed by individuals independent from the transaction authorization or recording functions
 - c. Reconciliations are prepared timely (7 days daily, 30 days monthly)
 - d. Reconciliations are reviewed timely (7 days daily, 30 days monthly)
 - e. Reconciling items are researched and cleared in a timely manner (30 days daily, 90 days monthly)
 - f. Management has an established process to escalate any issues such as unknown reconciling items
 - g. Management has an established process to charge-off reconciling items
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Secondary Marketing- Warehouse Management

OPERATING EFFECTIVENESS ASSESSMENT

- Test a sample of reconciliations as of the audit date and verify that they meet the following criteria:

- a. The reconciliation was prepared by an individual independent from the transaction authorization or recording function
- b. The reconciliation was reviewed by an individual independent from the transaction authorization or recording function
- c. The reconciliation was prepared timely (7 days daily, 30 days monthly)
- d. The reconciliation was reviewed timely (7 days daily, 30 days monthly)
- e. No stale items are present (30 days daily, 90 days monthly)
- f. No unknown items (not dated or explained) are present
- g. No items unrelated to the purpose/nature of the account are present
- h. The general ledger balance per the reconciliation traces to the supporting statement/subsidiary ledger
- i. The reconciliation was footed for accuracy

- Additionally, select a sample of reconciling item and verify that they meet the following criteria:

- a. Documentation exists that supports the origination of the item
- b. Documentation exists that supports the final disposition of the item

Secondary Marketing- Warehouse Management

RISKS

- Financial statements are not accurate as loans are not recorded as at a value that is in accordance with accounting standards.

CONTROL POINTS

- Mortgage loans held for sale are held at cost or at fair market value. The calculation of the value or cost amount is reviewed for accuracy and completeness by someone who did not prepare the calculation. Based upon these adjustments, the general ledger is adjusted to the balance per the calculations. An independent person reviews these recorded entries back to source documentation.

Secondary Marketing- Warehouse Management

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the fair market value calculation and recording process, assess whether the control meets the following requirements:
 - a. An individual independent from the calculation process reviews that the calculation was appropriately supported.
 - b. An individual independent from the recording process reviews that the general ledger entries were appropriately recorded.
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Secondary Marketing- Warehouse Management

OPERATING EFFECTIVENESS ASSESSMENT

- Test a sample of valuation calculations and associated general ledger entries recorded during the audit cycle and verify they meet the following criteria:
 - a. The calculation was reviewed by an independent person; the reviewer evaluated that the valuation was properly supported.
 - b. The fee recorded through the general ledger entry traces to source documentation (i.e. valuation).
 - c. The individual who recorded the general ledger entry is independent of the valuation process.

Secondary Marketing- Warehouse Management

RISKS

- Financial statements are mis-stated due to improper recording of fees associated with mortgages held for sale.

CONTROL POINTS

- Fees associated with mortgages held for sale are reviewed by an independent person, one who did not record entries, periodically for proper recording to ensure they are deferred and realized in accordance with accounting standards.

Secondary Marketing- Warehouse Management

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the mortgage fee held-for-sale recording process, assess whether the control meets the following requirements:
 - a. On at least a monthly basis, an individual independent from the recording process, reviews that fees associated with mortgages held-for-sale are accurately recorded
 - b. The reviewer verifies that fees are deferred and realized in accordance with accounting standards
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Secondary Marketing- Warehouse Management

OPERATING EFFECTIVENESS ASSESSMENT

- Analyze for evidence that an independent individual has periodically reviewed fees associated with mortgages held for sale for proper recording to verify they are deferred and realized in accordance with accounting standards for the month ending as of the audit date.

Secondary Marketing- Settlement

RISKS

- Accounting for loans sold to investors may be inaccurate or result in loss of due funds if settled loans are not properly recorded.

CONTROL POINTS

- An individual independent of the loan sale process verifies that trade executions are properly recorded. If operating in a mandatory sales environment, this include placement of forward commitments to sell loans and execution of hedging activities.

Secondary Marketing- Settlement

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the loan sale process, assess whether the control meets the following requirements:
 - a. An individual independent from the loan sale process verifies that trade executions are properly recorded by tracing to supporting documentation, including verifying the loan was sold to a Board-approved investor
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Secondary Marketing- Settlement

OPERATING EFFECTIVENESS ASSESSMENT

- Test a sample of loan sales during the audit cycle and verify they meet the following criteria:
 - a. The sale was executed by an individual with BOD-approved trading authority.
 - b. The sale was reviewed/approved by a second individual with BOD-approved trading authority.
 - c. The confirmation is received and verified against the trade log by someone independent of the trade execution.
 - d. The data on the trade ticket agrees with the data on the trade log (entered to the system correctly).
 - e. The sale was executed with a BOD-approved investor.

Secondary Marketing- Settlement

RISKS

- Fees for pair-off activity are not properly management; resulting in losses related to the activity that impact overall profitability.

CONTROL POINTS

- Management formally monitors and tracks pair-off activity; the pair-off fees are tracked to ensure sustained profitability within the mandatory commitment environment.

Secondary Marketing- Settlement

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the pair-off fee reporting process, assess whether the control meets the following requirements:
 - a. Management maintains a formalized process to monitor, track, and report all pair-off fees.
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Secondary Marketing- Settlement

OPERATING EFFECTIVENESS ASSESSMENT

- Test for evidence that an independent individual has periodically prepared reports of pair-fees associated with mortgages sold and those reports are monitored by management.

Secondary Marketing- Settlement

RISKS

- Fees for pair-off activity are purposely hidden or mis-recorded; which results in misstated financial statements and the failure to properly realize losses.

CONTROL POINTS

- Pair-off fees are recorded to the general ledger by an individual independent of the loan sales process.

Secondary Marketing- Settlement

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the pair-off fee recording process, assess whether the control meets the following requirements:
 - a. An individual independent of the loan sale process has the responsibility of recording pair-off fees to the general ledger
 - b. The individual recording the entry reviews source documentation (i.e. investor statement) prior to recording the entry.
 - c. An individual independent from the recording process will review pair-off fees on a monthly basis through the reconciliation process
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Secondary Marketing- Settlement

OPERATING EFFECTIVENESS ASSESSMENT

- Test a sample of pair-off fees recorded during the audit cycle and verify they meet the following criteria:
 - a. The fee recorded was reviewed for completeness and accuracy.
 - b. The individual who recorded the general ledger entry is independent of the loan sale process

Secondary Marketing- Settlement

RISKS

- Recourse actions by investors are not monitored; this results in further losses due to inaction to cure systemic issues or further losses due to a poor response or action.

CONTROL POINTS

- Management formally tracks and reports all recourse obligations and repurchases to Senior Management and the Board on a periodic basis. An action plan is developed for each request from an investor.

Secondary Marketing- Settlement

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the recourse obligation and repurchase process, assess whether the control meets the following requirements:
 - a. Management has a process in place to track, monitor, and report the outcome of all recourse obligations and repurchases
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Secondary Marketing- Settlement

OPERATING EFFECTIVENESS ASSESSMENT

- Test a sample of recourse obligations/repurchases during the audit cycle and verify they meet the following criteria:
 - a. Management appropriately tracked, monitored, and reported the results to senior management and/or the Board of Directors

Secondary Marketing- Settlement

RISKS

- The gains or losses on the sale of mortgage loans are not booked accurately; resulting in financial misstatements.

CONTROL POINTS

- To review for proper booking on the gains or losses from the sale of mortgage loans; a report from the loan origination system (or other system utilized to originate and sell loans) is reconciled to the general ledger account utilized to fund the closing of mortgage loans. Discrepancies are identified and researched with Mortgage. Due to the nature of mandatory and bulk sales; management may implement a tolerance level in discrepancies rather than absolute agreement.

Secondary Marketing- Settlement

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the gain/loss on sale recording process, assess whether the control meets the following requirements:
 - a. An individual independent from the recording process, reviews that gains/losses associated with mortgages sold are accurately recorded
 - b. The reviewer verifies that income is realized in accordance with accounting standards
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Secondary Marketing- Settlement

OPERATING EFFECTIVENESS ASSESSMENT

- Test for a sample during the audit cycle and verify the following criteria:
 - a. An independent person (one segregated from recording) reviewed for proper recording of gain/loss on sale entries.
 - b. Evidence that entries were reviewed to source documentation

- Test a sample of gain/loss entries recorded during the audit cycle and verify they meet the following criteria:
 - a. The fee recorded through the general ledger entry traces to source documentation.

Secondary Marketing- Model Management

RISKS

- Models utilized to hedge the pipeline or price loans may not utilize the appropriate inputs, assumptions and/or may utilize improper logic leading to poor financial results.

CONTROL POINTS

- On a periodic basis, management reviews model inputs, assumptions, and the process to help ensure accuracy and appropriateness.

Secondary Marketing- Model Management

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the pipeline management modeling process, assess whether the control meets the following requirements:
 - a. Management performs a review of model inputs and assumptions on at least a quarterly basis
 - b. Management makes determinations as to the validity of the inputs and assumptions and makes adjustments as necessary
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Secondary Marketing- Model Management

OPERATING EFFECTIVENESS ASSESSMENT

- Analyze the institution's pipeline and hedge management systems and verify that it meets the following criteria:
 - a. Management has reviewed the model input and assumptions for hedging and pipeline management within the quarter
 - b. Model input and assumptions have documented support.

Mortgage Servicing

Administering a mortgage. Includes calculating principal and interest, collecting payments from the mortgagor, acting as an escrow agent, and foreclosing in the event of a default.

Mortgage Servicing – Business Objectives

- Mortgage servicing is the process which an entity collects interest, principal, and escrow payments from a borrower.
- The payments collected by the mortgage servicer are remitted to various parties; distributions typically include paying taxes and insurance from escrowed funds, remitting principal and interest payments to investors, and remitting fees to mortgage guarantors, trustees, and other third parties providing services.
- The profit is created via contractually specified servicing fees.



Mortgage Servicing – Mortgage Crisis

- Volume of Serviced Loans in Default
- Modifications
- Foreclosures
- Bankruptcy



Mortgage Loan Servicing- Loan Boarding

RISKS

- Unauthorized, inaccurate, or incomplete account information is entered into the servicing system, resulting in decreased customer satisfaction; inaccurate reporting; and increased fraud risk.

CONTROL POINTS

- An individual, independent from the loan boarding and input process, reviews for accuracy and appropriateness of loan setup. A checklist or other tool is utilized to ensure proper completion of this review.

Mortgage Loan Servicing- Loan Boarding

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the loan boarding and set-up process, assess whether the control meets the following requirements:
 - a. An individual independent from the loan boarding process reviews for accuracy and validity
 - b. Management utilizes a checklist to aid in the completeness assessment of loan boarding and set-up
 - c. Management traces each input to supporting documentation.
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Mortgage Loan Servicing- Loan Boarding

OPERATING EFFECTIVENESS ASSESSMENT

- Test a sample of mortgage loans originated during the audit cycle and verify that they meet the following attributes:
 - a. An individual independent from the loan boarding process reviewed for accurate set-up by utilizing a loan boarding/set-up review checklist
 - b. The following information in the system agrees to the note:
 - 1. Customer name
 - 2. Note date
 - 3. Loan account or note number
 - 4. Original loan amount
 - 5. Interest rate
 - 6. Maturity date
 - 7. Payment Plan – number and amount of payments
 - 8. Interest accrual method
 - 9. Product Code

Mortgage Loan Servicing- File Maintenance

RISKS

- Unauthorized, inaccurate, and/or incomplete changes are made to index rates, products, or other system fields, resulting in systemic errors and inaccuracies. This could lead to decreased customer satisfaction and inaccurate financial and risk reporting.

CONTROL POINTS

- An independent individual reviews a report of Master File changes on a daily basis back to source documentation and/or approval. Master File Changes may involve index rate, product, or other configuration changes with a wide impact.

Mortgage Loan Servicing- File Maintenance

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the master file change process, assess whether the control meets the following requirements:
 - a. An individual independent from the maintenance process, reviews master file changes on a daily basis for accuracy and validity
 - b. In the event an independent individual could not review master file changes, they are reviewed under dual control
 - c. Management traces each change to independent supporting documentation (i.e. Wall Street Journal)
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Mortgage Loan Servicing- File Maintenance

OPERATING EFFECTIVENESS ASSESSMENT

- Test a sample of days during the audit cycle and verify for the following criteria:
 - a. An individual independent from the maintenance process has reviewed the master file change report and changes in a timely manner
 - b. In the event an independent individual could not review the report, the report was reviewed under dual control
 - c. The change is supported by proper documentation
 - d. The change was entered into the system correctly

Mortgage Loan Servicing- File Maintenance

RISKS

- Unauthorized, inaccurate, and/or incomplete changes are made to accounts, resulting in errors and inaccuracies with specific accounts. This could lead to decreased customer satisfaction and inaccurate financial and risk reporting.

CONTROL POINTS

- An individual independent of the file maintenance process reviews a report of critical file maintenance changes to source documentation on a daily basis or reasonable periodic basis. A sampling process may be utilized for a large population of changes.

Mortgage Loan Servicing- File Maintenance

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the file maintenance process, assess whether the control meets the following requirements:
 - a. An individual independent from the maintenance process, reviews file maintenance changes on a daily basis for accuracy and validity
 - b. In the event an independent individual could not review file maintenance changes, they are reviewed under dual control
 - c. Management reviews to verify that all changes can be tied to proper approval and supporting documentation
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Mortgage Loan Servicing- File Maintenance

OPERATING EFFECTIVENESS ASSESSMENT

- Test a sample of file maintenance reports during the audit cycle and verify they meet the following criteria:
 - a. An individual independent from the maintenance process has reviewed the file maintenance report and changes in a timely manner
 - b. In the event an independent individual could not review the report, the report was reviewed under dual control

Mortgage Loan Servicing- Payments and Payoffs

RISKS

- Funds are not properly posted, resulting in accurate accounting and decreased customer satisfaction. Regulatory scrutiny may also occur if issues are systemic.

CONTROL POINTS

- A Loan Accounting / Servicing system is utilized that is configured to automatically post payments to accounts. Management evaluates the SSAE-16 for the application and ensure that proper user end controls are established.

Mortgage Loan Servicing- Payments and Payoffs

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the loan payment process, assess whether the control meets the following requirements:
 - a. The loan accounting system automatically assesses payments between interest and principal
 - b. Management obtains and reviews an SSAE 16 on an annual basis for the loan accounting system to verify that proper user end controls are established
- Perform a walkthrough to better substantiate your understanding of the control design.

Mortgage Loan Servicing- Payments and Payoffs

OPERATING EFFECTIVENESS ASSESSMENT

- Analyze for evidence that management has obtained and reviewed an SSAE 16 within the past year for the loan accounting system to verify that proper user end controls are established

Mortgage Loan Servicing- Payments and Payoffs

RISKS

- Accrued interest, fees, and collateral are not properly cleared after the payoff for a loan; resulting in inaccurate financial statements and possibly legal risk related to collateral.

CONTROL POINTS

- On a daily basis, management reviews a report of loans paid-off to verify for accuracy and proper reversal of all accrued interest and fees and maintains a log to ensure release of collateral.

Mortgage Loan Servicing- Payments and Payoffs

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the loan payoff process, assess whether the control meets the following requirements:
 - a. Management actively monitors a report of all loan payoffs to verify for accuracy and that all accrued interest, fees, and costs are cleared prior to closing the principal balance
 - b. Management has a process (log or similar) in place to verify timely release of collateral following payoff
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Mortgage Loan Servicing- Payments and Payoffs

OPERATING EFFECTIVENESS ASSESSMENT

- Test a sample days during the audit cycle and verify they meet the following criteria:
 - a. Management reviews a report of paid-off loans and monitors for proper accounting of interest and fees.
 - b. Management has maintained/updated the collateral release log.

Mortgage Loan Servicing- Escrow and Documentation Monitoring

RISKS

- Escrow accounts are not accounted for accurately and completely, resulting in decreased customer satisfaction and inaccurate reporting. Regulatory scrutiny may also occur if issues are systemic.

CONTROL POINTS

- Management monitors escrow accounts for proper preparation of escrow analysis (both initial and annual); escrow account shortages and notifications; and escrow overages and refunds.

Mortgage Loan Servicing- Escrow and Documentation Monitoring

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the escrow process, assess whether the control meets the following requirements:
 - a. Management monitors that an initial and annual escrow analysis is prepared.
 - b. Management monitors for escrow overages and has a formalized process to verify that overages are refunded.
 - c. Management monitors for escrow shortages and has a formalized process to verify that overages are collected.
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Mortgage Loan Servicing- Escrow and Documentation Monitoring

OPERATING EFFECTIVENESS ASSESSMENT

- Analyze the audit period for evidence that management has performed the following:
 - a. Management monitored that an initial and annual escrow analysis was prepared.
 - b. Management monitored for escrow overages and had a formalized process to document that overages were refunded.
 - c. Management monitored for escrow shortages and had a formalized process to document that overages were collected.
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Mortgage Loan Servicing- Escrow and Documentation Monitoring

RISKS

- Escrow disbursements are not paid accurately and timely, resulting in decreased customer satisfaction and inaccurate reporting. Regulatory scrutiny may also occur if issues are systemic.

CONTROL POINTS

- Management monitors a report of all upcoming insurance and tax payments due; then monitors to verify proper payment of those items. An independent person reviews escrow payments by tracing back to system generated reports to verify accurate and complete payments. An independent person also review for escrow payments not remitted within the established timeframe.

Mortgage Loan Servicing- Escrow and Documentation Monitoring

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the escrow process, assess whether the control meets the following requirements:
 - a. Management actively monitors upcoming payments due for insurance and taxes
 - b. An independent person reviews escrow payments processed by tracing back to system generated reports.
 - c. An independent person reviews a system generated report of escrow payments not remitted within established timeframes.
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Mortgage Loan Servicing- Escrow and Documentation Monitoring

OPERATING EFFECTIVENESS ASSESSMENT

- Test a sample of weeks during the audit period for the following:
 - a. Management monitored for upcoming payments due for insurance and taxes
 - b. An independent person reviewed escrow payments processed by tracing back to system generated reports.
 - c. An independent person reviewed a system generated report of escrow payments not remitted within established timeframes.

Mortgage Loan Servicing- Lines of Credit

RISKS

- Unauthorized disbursements are processed, resulting in financial loss.

CONTROL POINTS

- Proper approval, either manual or automated, is obtained prior to disbursement (advances) of funds on line of credits. For automated; the system configuration cannot be overridden by the user and restricts to the approved limit. For manual; a teller or other person with access to move funds cannot physically approve, record, and disburse the transactions.

Mortgage Loan Servicing- Lines of Credit

DESIGN ASSESSMENT

- Through discussion of the controls with management and review of the line of credit advance process, assess whether the control meets the following requirements:
 - a. Management obtains a written draw request from the customer prior to proceeding with any disbursements.
 - b. Management performs a collateral margin analysis prior to approving any disbursements.
 - c. Management approves each advance request and the approving party is segregated from disbursement.
 - d. Funds are disbursed by an individual, independent from the approval process.
- If approval for advances is automated; refer to the process over boarding of the loan to ensure proper set-up of limits.
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Mortgage Loan Servicing- Lines of Credit

OPERATING EFFECTIVENESS ASSESSMENT

- For disbursements processed manually; observe processes to advance on lines of credit through the institution. Review the roles and responsibilities of each person to verify proper segregation of duties. For disbursements processed via a system; also review the application controls for proper restrictions with respect to segregation and system overrides.
- Test a sample of advances within the audit period for the following:
 - a. Request documentation was retained.
 - b. Analysis of collateral margin was retained.
 - c. Evidence that the approval for the advance was documented by a person other than who disbursed the funds.

Mortgage Loan Servicing- Quality Control

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the quality control review process, assess whether the control meets the following requirements:
 - a. Management independently (or through a third-party) performs a quality control review on at least a monthly basis
 - b. The quality control sampling methodology consists of both a random and discretionary sample
 - c. The results of the quality control reviews are discussed at senior management and/or Board of Directors meetings
 - d. The quality control reports highlight unusual items and trends
 - e. Management has a process in place to take any corrective action necessary as recommended by the quality control reports
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Mortgage Loan Servicing- Quality Control

OPERATING EFFECTIVENESS ASSESSMENT

- Analyze the most recent quality control reviews performed as of the audit date to verify it meets the following criteria:
 - a. The quality control review highlights any unusual items or trends
 - b. If any exceptions were noted/corrected action recommended, management has since taken the necessary action
 - c. The results of the quality control reviews are discussed at senior management and/or Board of Directors meetings

Mortgage Loan Servicing- Mortgage Servicing Rights

RISKS

- Mortgage Servicing Assets are not accurately valued.

CONTROL POINTS

- Valuation of Mortgage Servicing Assets is periodically conducted. The valuation is well-supported and reviewed for accuracy and completeness by an independent person. General ledger entries are recorded and reviewed by an independent person.

Mortgage Loan Servicing- Mortgage Servicing Rights

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the mortgage servicing rights valuation process, assess whether the control meets the following requirements:
 - a. Management periodically re-values mortgage servicing rights
 - b. Management retains supporting documentation to validate their calculation
 - c. An independent, individual reviews the calculation
 - d. An independent, individual will make the necessary general ledger entry
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Mortgage Loan Servicing- Mortgage Servicing Rights

OPERATING EFFECTIVENESS ASSESSMENT

- Analyze the most recent mortgage servicing rights valuation as of the audit date to verify it meets the following criteria:
 - a. Supporting documentation is retained to validate management's calculation
 - b. The valuation results tie to the general ledger entry made
 - c. The valuation calculation and general ledger entry are independently reviewed

Mortgage Loan Servicing- Construction/Rehabilitation Lending

RISKS

- Collateral value may not support total disbursements, resulting in the loan value being diminished and increasing the likelihood of credit loss.

CONTROL POINTS

- Construction site inspections and analysis are performed prior to each draw disbursement. Prior to final disbursement; lien waivers and other documentation to verify free and clear title are obtained.

Mortgage Loan Servicing-Construction/Rehabilitation Lending

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the construction draw process, assess whether the control meets the following requirements:
 - a. Management obtains a written draw request from the customer prior to proceeding with any disbursements
 - b. Management obtains and reviews a site inspection report (prior to disbursement) completed by an independent individual to verify the progress of the project
 - c. Management approves each draw based upon the results of the inspection report
 - d. Funds are not disbursed without proper approval
 - e. Funds are disbursed by an individual, independent from the approval process
 - f. Disbursement checks are made payable to both the borrower and the contractor.
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Mortgage Loan Servicing-Construction/Rehabilitation Lending

OPERATING EFFECTIVENESS ASSESSMENT

- Test a sample of construction loan draws (other than initial draw) during the audit cycle and verify they meet the following criteria:
 - a. Evidence that construction draws were evaluated by institution personnel to confirm that they don't exceed development and construction costs and are consistent with construction to date.
 - b. The draw request was documented and was from a person authorized under the loan agreement;
 - c. A documented inspection was performed by an authorized, independent person to evaluate progress of the project and compliance with the loan agreement;
 - d. The draw and related disbursement was approved according to the institution's requirements;
 - e. The disbursement was dated after the inspection and approval.

Mortgage Loan Servicing- Construction/Rehabilitation Lending RISKS

- The construction loan is over disbursed for the percentage completed; resulting in losses through an over extension of credit for the collateral value.

CONTROL POINTS

- During underwriting, management verifies that the construction project meets both Bank policy and investor requirements. A draw schedule is documented and approved by the underwriter (or officer) to ensure proper disbursement and completion percentage alignment.

Mortgage Loan Servicing-Construction/Rehabilitation Lending

DESIGN ASSESSMENT

- Through discussion of the control with management and through review of the construction loan underwriting process, assess whether the control meets the following requirements:
 - a. Management has an established underwriting process designed to meet both institution policy and investor requirements
 - b. An independent review is conducted prior to initial disbursement for proper underwriting and approval.
 - c. Management utilizes a draw schedule to establish a projected construction and disbursement schedule
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Mortgage Loan Servicing-Construction/Rehabilitation Lending

OPERATING EFFECTIVENESS ASSESSMENT

- Test a sample of construction loans originated during the audit cycle and verify that they meeting the following criteria:
 - a. Evidence loans were reviewed for proper underwriting and approval prior to initial disbursement.
 - b. Draw schedule was documented within the file.
 - c. The loans were underwritten according to institution policy requirements
 - d. The loans were underwritten according to investor requirements
 - e. Management maintains a projected construction and disbursement schedule
 - f. The loan was properly approved

Mortgage Loan Servicing- Construction/Rehabilitation Lending

RISKS

- Construction loans are misclassified as they are not longer in the construction period and have not been converted to a permanent loan or appropriate loan type. In addition, principal is not appropriately and the holding period of the interest only or similar loan is extended beyond a reasonable period.

CONTROL POINTS

- Construction loans are not retained beyond reasonable periods after construction is completed; loans are converted to permanent loans in the loan system upon project completion. Management has a monitoring process to ensure loans are closed out and converted in a period appropriate for the type of construction.

Mortgage Loan Servicing-Construction/Rehabilitation Lending

DESIGN ASSESSMENT

- Through discussion of the control with management and through review of the construction loan management process, assess whether the control meets the following requirements:
 - a. Management actively monitors the status of outstanding construction loans
 - b. Management verifies that construction loans are converted to permanent status upon completion of the construction project
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Mortgage Loan Servicing-Construction/Rehabilitation Lending

OPERATING EFFECTIVENESS ASSESSMENT

- Analyze a report of construction loans that have been outstanding greater than 9 months and select a sample of construction projects and inquire as to the status of the projects and management's tracking.

Investor Accounting- Investor Remittances

RISKS

- Funds may leave the company without adequate support or monitoring due to poor record keeping and accounting, resulting in financial loss.

CONTROL POINTS

- Investor remittances are prepared and submitted by an individual independent from the investor custodial account reconciliation process. Remittances are reviewed to system generated reports prior to disbursement by someone an individual of preparation.

Investor Accounting- Investor Remittances

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the investor remittance process, assess whether the control meets the following requirements:
 - a. The investor remittance process is performed by individuals independent from the reconciliation process
 - b. Management calculates the remittances in accordance with investor requirements
 - c. Management has a formalized process to verify that remittances are calculated and submitted in a timely manner
 - d. A review process is established to verify that investor remittances are calculated accurately
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Investor Accounting- Investor Remittances

OPERATING EFFECTIVENESS ASSESSMENT

- Test a sample of investor remittances as of the audit date and verify that they meet the following criteria:
 - a. The remittance calculation and submission were performed and in a timely manner
 - b. The remittance was calculated in accordance with investor requirements (i.e. amount agrees to investor reports)
 - c. The remittance was prepared and submitted by an individual who does not reconcile the investor custodial account
 - d. The remittance was independently reviewed prior to submission and the review is documented
 - e. The remittance is supported by relevant documentation
 - f. Trace the remittance amount from the calculation to the custodial account posting, to the remittance documentation (i.e. ACH advice), and to the investor report.

Investor Accounting- Investor Remittances

RISKS

- Disbursements fail to occur resulting in breach of investor servicing agreements or fraudulent disbursements accounts leading to reputational and financial losses.

CONTROL POINTS

- Disbursements from investor custodial accounts are reviewed and approved prior to disbursement by an individual independent of posting payments or reconciling the custodial accounts. The disbursement by one individual is physically or electronically prevented through proper segregation of duties.

Investor Accounting- Investor Remittances

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the investor custodial account disbursement process, assess whether the control meets the following requirements:
 - a. Disbursements from investor custodial accounts are reviewed and approved prior to disbursement
 - b. Disbursements are made by an individual independent of posting payments or the reconciliation process
 - c. A segregation of duties prevents one individual from disbursement funds on their own
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Investor Accounting- Investor Remittances

OPERATING EFFECTIVENESS ASSESSMENT

- Test a sample of investor custodial account disbursements during the audit cycle and verify that they meet the following criteria:
 - a. The disbursement was approved by management prior to the date of disbursement
 - b. The disbursement was made by an individual independent of posting payments or the reconciliation process

Investor Accounting- Custodial Account Reconciliations

RISKS

- Assets held for others may be misstated or misplaced; resulting in reputational and financial losses.

CONTROL POINTS

- Custodial Account Reconciliations are prepared and reviewed on a timely basis by individuals independent from the transaction authorization or recording functions. Reconciling items are identified, dated, and followed through to clearing.

Investor Accounting- Custodial Account Reconciliations

DESIGN ASSESSMENT

- Through discussion of the control with management and review of servicing/custodial account reconciliations, assess whether the control meets the following requirements:
 - a. Reconciliations are prepared by individuals independent from the transaction authorization or recording functions
 - b. Reconciliations are reviewed by individuals independent from the transaction authorization or recording functions
 - c. Reconciliations are prepared timely (7 days daily, 30 days monthly)
 - d. Reconciliations are reviewed timely (7 days daily, 30 days monthly)
 - e. Reconciling items are researched and cleared in a timely manner (30 days daily, 90 days monthly)
 - f. Management has an established process to escalate any issues such as unknown reconciling items
 - g. Management has an established process to charge-off reconciling items
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Investor Accounting- Custodial Account Reconciliations

OPERATING EFFECTIVENESS ASSESSMENT

- Test a sample of servicing/custodial account reconciliations prepared by management as of the audit date and verify that they meet the following criteria:
 - a. The reconciliation was prepared by an individual independent from the transaction authorization or recording function
 - b. The reconciliation was reviewed by an individual independent from the transaction authorization or recording function
 - c. The reconciliation was prepared timely (7 days daily, 30 days monthly)
 - d. The reconciliation was reviewed timely (7 days daily, 30 days monthly)
 - e. No stale items are present (30 days daily, 90 days monthly)
 - f. No unknown items (not dated or explained) are present
 - g. No items unrelated to the purpose/nature of the account are present
 - h. The general ledger balance per the reconciliation traces to the supporting statement/subsidiary ledger
 - i. The reconciliation was footed for accuracy

- Additionally, select a sample of reconciling item and verify that they meet the following criteria:
 - a. Documentation exists that supports the origination of the item

Investor Accounting- Reconciliations to Investor Records

RISKS

- Accounting for loans serviced may be inaccurate; resulting in reputational and financial losses.

CONTROL POINTS

- The institution's records for loans serviced for others are reconciled to investor reports on a periodic basis by an individual independent from the authorization or recording functions. Differences are identified, dated, and researched.

Investor Accounting- Reconciliations to Investor Records

DESIGN ASSESSMENT

- Through discussion of the control with management and review of investor account reconciliations, assess whether the control meets the following requirements:
 - a. Reconciliations are prepared by individuals independent from the transaction authorization or recording functions
 - b. Reconciliations are reviewed by individuals independent from the transaction authorization or recording functions
 - c. Reconciliations are prepared timely (7 days daily, 30 days monthly)
 - d. Reconciliations are reviewed timely (7 days daily, 30 days monthly)
 - e. Reconciling items are researched and cleared in a timely manner (30 days daily, 90 days monthly)
 - f. Management has an established process to escalate any issues such as unknown reconciling items
 - g. Management has an established process to charge-off reconciling items
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Investor Accounting- Reconciliations to Investor Records

OPERATING EFFECTIVENESS ASSESSMENT

- Test a sample of investor account reconciliations prepared by management as of the audit date and verify that they meet the following criteria:
 - a. The reconciliation was prepared by an individual independent from the transaction authorization or recording function
 - b. The reconciliation was reviewed by an individual independent from the transaction authorization or recording function
 - c. The reconciliation was prepared timely (7 days daily, 30 days monthly)
 - d. The reconciliation was reviewed timely (7 days daily, 30 days monthly)
 - e. No stale items are present (30 days daily, 90 days monthly)
 - f. No unknown items (not dated or explained) are present
 - g. No items unrelated to the purpose/nature of the account are present
 - h. The general ledger balance per the reconciliation traces to the supporting statement/subsidiary ledger
 - i. The reconciliation was footed for accuracy

- Additionally, select a sample of reconciling item and verify that they meet the following criteria:
 - a. Documentation exists that supports the origination of the item

Accounting & Reporting- Reporting

RISKS

- Risk metrics have not been established and/or are not periodically monitored in the area, resulting in inability to achieve strategic and business objectives.

CONTROL POINTS

- Management maintains a formally documented strategic plan that incorporate risk metrics. Those risk metrics are periodically reviewed and corrective action is taken as needed. Note that critical risk limits may have already been addressed in other controls.

Accounting & Reporting- Reporting

DESIGN ASSESSMENT

- Through discussion of the control with management and review of the Strategic Plan, assess whether the control meets the following requirements:
 - a. Management has a formalized process to draft, edit, and review the Strategic Plan on at least on annual basis
 - b. Management has a method to incorporate risk metrics and corrective action plan into the Strategic Plan
- Perform a walkthrough to better substantiate your understanding of the control design.

OPERATING EFFECTIVENESS ASSESSMENT

- Analyze the Bank's Strategic Plan and verify that it meets the following criteria:
 - a. The Strategic Plan incorporates risk metrics with a method to measure impact
 - b. The Strategic Plan addresses how corrective action is to be taken in the event of adverse effects
 - c. The Strategic Plan has been reviewed and approved by the Board of Directors within the past year

Accounting & Reporting- Reconciliations

RISKS

- Financial statements are not complete and accurate due to the failure to properly perform and complete a reconciliation of accounts.

CONTROL POINTS

- Reconciliations are prepared and reviewed on a timely basis by individuals independent from the transaction authorization or recording functions. Reconciling items are identified, dated, and followed through to clearing.

Accounting & Reporting- Reconciliations

DESIGN ASSESSMENT

- Through discussion of the control with management and review of reconciliations, assess whether the control meets the following requirements:
 - a. Reconciliations are prepared by individuals independent from the transaction authorization or recording functions
 - b. Reconciliations are reviewed by individuals independent from the transaction authorization or recording functions
 - c. Reconciliations are prepared timely (7 days daily, 30 days monthly)
 - d. Reconciliations are reviewed timely (7 days daily, 30 days monthly)
 - e. Reconciling items are researched and cleared in a timely manner (30 days daily, 90 days monthly)
 - f. Management has an established process to escalate any issues such as unknown reconciling items
 - g. Management has an established process to charge-off reconciling items
- Document the client's control details with respect to the items listed above. Attach all relevant documentation used to support the control design.
- Perform a walkthrough to better substantiate your understanding of the control design.

Accounting & Reporting- Reconciliations

OPERATING EFFECTIVENESS ASSESSMENT

- Test a sample of reconciliations prepared by management as of the audit date and verify that they meet the following criteria:
 - a. The reconciliation was prepared by an individual independent from the transaction authorization or recording function
 - b. The reconciliation was reviewed by an individual independent from the transaction authorization or recording function
 - c. The reconciliation was prepared timely (7 days daily, 30 days monthly)
 - d. The reconciliation was reviewed timely (7 days daily, 30 days monthly)
 - e. No stale items are present (30 days daily, 90 days monthly)
 - f. No unknown items (not dated or explained) are present
 - g. No items unrelated to the purpose/nature of the account are present
 - h. The general ledger balance per the reconciliation traces to the supporting statement/subsidiary ledger
 - i. The reconciliation was footed for accuracy

- Additionally, select a sample of reconciling item and verify that they meet the following criteria:
 - a. Documentation exists that supports the origination of the item

Mortgage Fraud

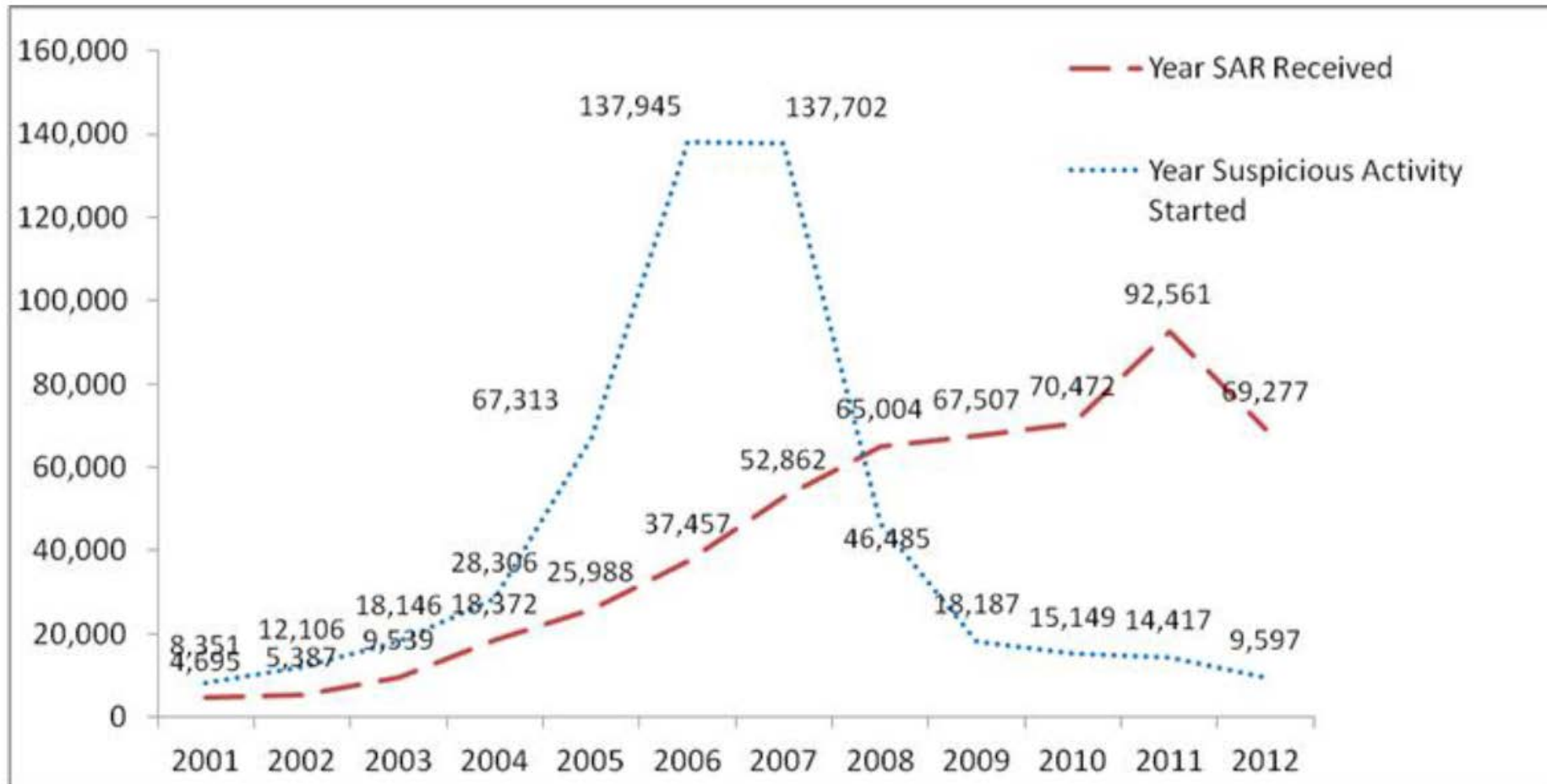
Mortgage Fraud- Defined

- Mortgage fraud is defined as the intentional misstatement, misrepresentation, or omission by an applicant or other interested parties, relied on by a lender or underwriter to provide funding for, to purchase, or to insure a mortgage loan.
- Mortgage fraud is a relatively low-risk, high-yield criminal activity that is accessible to many.
- Finance-related occupations, including accountants, mortgage brokers, and lenders were the most common suspect occupations associated with reported mortgage fraud.
- Perpetrators in mortgage industry occupations are familiar with the mortgage loan process and therefore know how to exploit vulnerabilities in the system.

Mortgage Fraud- Two Categories

- Mortgage loan fraud is divided into two categories: fraud for property and fraud for profit.
- Fraud for property/housing entails misrepresentations by the applicant for the purpose of purchasing a property for a primary residence. This scheme usually involves a single loan. Although applicants may embellish income and conceal debt, their intent is to repay the loan.
- Fraud for profit, however, often involves multiple loans and elaborate schemes perpetrated to gain illicit proceeds from property sales. It is this second category that is of most concern to law enforcement and the mortgage industry. Gross misrepresentations concerning appraisals and loan documents are common in fraud for profit schemes and participants are frequently paid for their participation.

Mortgage Fraud Trends- SAR Filings

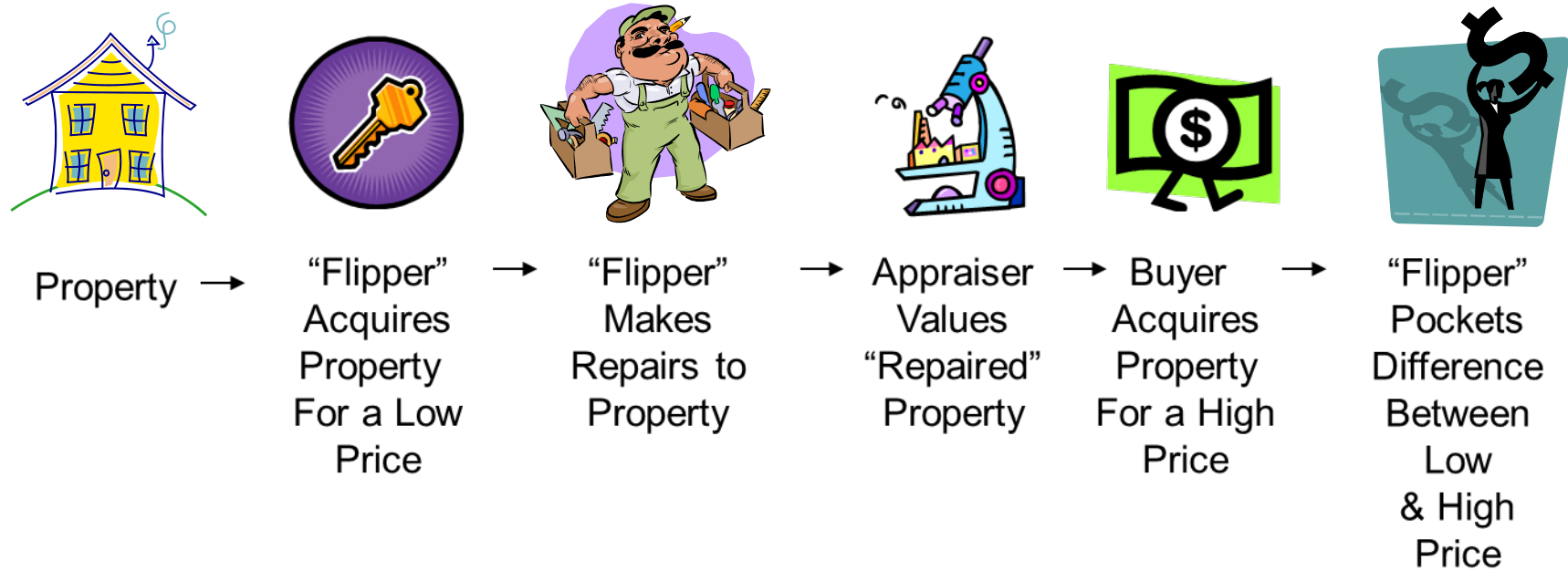


Source: Financial Crimes Enforcement Network (FinCen)

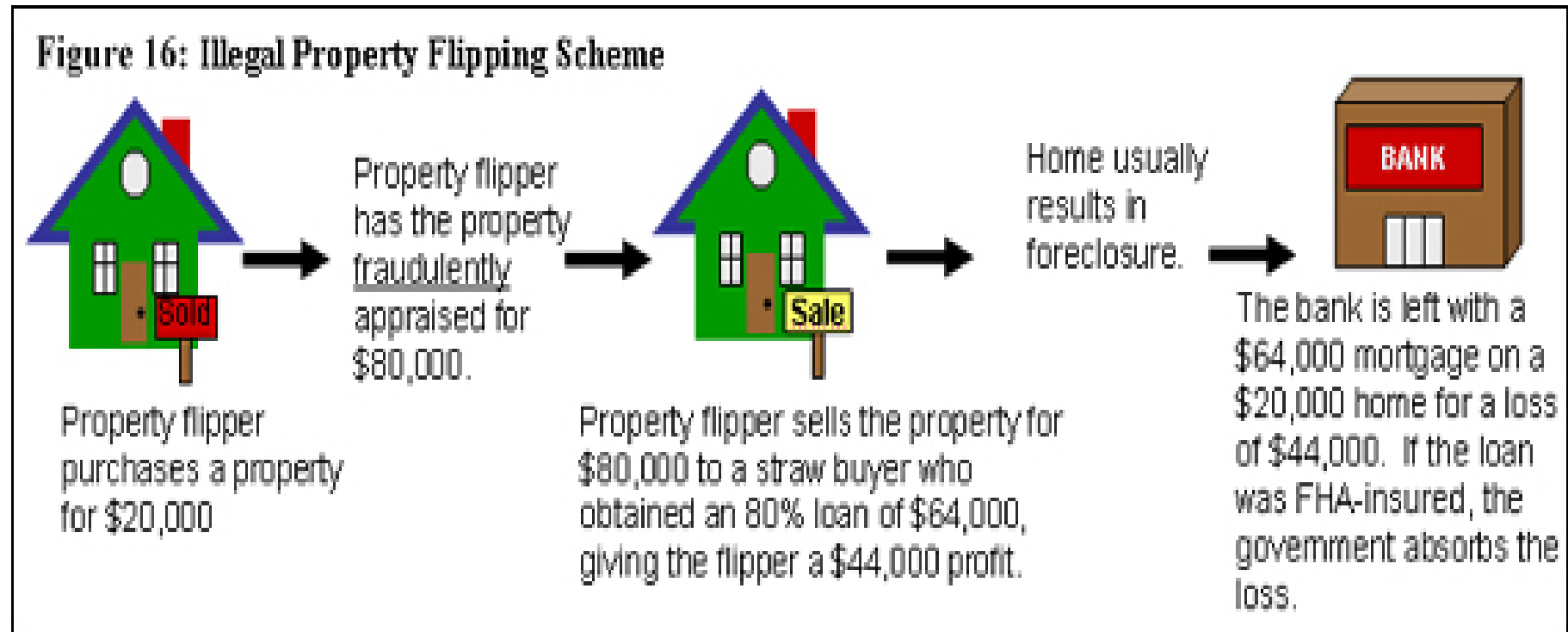
Property or Land Flipping

- Property is purchased, falsely appraised at a higher value, and then quickly sold.
- The schemes typically involve one or more of the following: fraudulent appraisals, doctored loan documentation, inflating buyer income, etc..
- Kickbacks to buyers, property/loan brokers, appraisers, and title company employees are common in this scheme.

Legal Property Flip



Illegal Property Flip



Nominee Loans/Straw Borrowers

- A nominee allows the borrower to use the nominee's name and credit history to apply for a loan, concealing the true borrower's identity.
- The nominee applies for credit in his own name and immediately remits the proceeds to the true beneficiary.
- The straw borrower may feel there is nothing wrong with this and fully believes that he is helping the third party.
- He expects the recipient of the loan proceeds to make the loan payments, either directly or indirectly.

Nominee Loans/ Straw Borrowers



Nominee agrees to borrow funds for another and is paid \$500



The nominee applies for and receives credit for property purchase



Funds are used to buy property and nominee assumes fraudster will pay



The nominee must pay the debt when the fraudster defaults

Phantom Sale

- The fraud perpetrator identifies an apparently abandoned property and records a fictitious quitclaim deed to transfer the property into his name.
- The perpetrator then applies for and executes a loan.
- He pockets the loan proceeds and disappears.
- The financial institution is left with a mortgage loan that has no cash flow support and is collateralized by fraudulently obtained property.

Chunking

- Chunking is a variation of a land flip.
- The scheme begins with an unsophisticated borrower attending a seminar where a third party “teaches” a class on real estate investing.
- The third party cons the borrower and simultaneously submits loan applications on the borrower’s behalf.
- The scheme will usually involve a dishonest appraiser, broker, and/or a representative of a title company
- The third party acts as an agent for the borrower during closing and, unbeknown to the borrower, pockets the loan proceeds, as the true seller of the property.
- The unsophisticated borrower is left with the debt.

Chunking- News Article

USA Today, 9/26/2006

INDIANAPOLIS — The nation's largest home lender, Countrywide Financial, is suing an Indianapolis man for allegedly orchestrating a mortgage fraud scheme in which dozens of Virginia residents were tricked into buying homes in Indiana at inflated prices.

The company alleges that Robert Penn worked with relatives in Virginia and associates that included appraisers and mortgage companies to defraud the victims in a case that could total about \$80 million in loans.

In a lawsuit filed in Marion County, where most of the Indianapolis-area properties are located, Countrywide claims the defendants duped their victims by inviting them to take part in either an "investment opportunity" or a "real estate investment club."

The lawsuit alleges the defendants obtained the properties for an average price of \$50,000 but "sold" them to the unknowing victims for an average inflated price of \$120,000 each, then pocketed the difference.

Multiple Selling

- Multiple selling is a scheme wherein a mortgage loan broker accepts a legitimate application, obtains legitimate documents from a buyer, and induces two or more financial institutions to each fully fund the loan.
- Since there is only one set of documents, one of the funding financial institutions is led to believe that the proper documentation will arrive any day.
- This scheme can be self-perpetuating with different loans being substituted for the ones with which documents cannot be provided. Essentially, the broker uses a “lapping scheme” to avoid detection.

Builder Bailout

- Builder bailout usually occurs when a builder has sold the majority of homes in a tract or subdivision, but is left with some unsold homes.
- To dispose of the remaining properties, the builder may utilize a variety of schemes that can include, but are not limited to, the use of a hidden seller with assisted financing as a front or the use of inflated property values.

Builder Bailout- Example

In a common scenario, the builder has difficulty selling property and offers an incentive of a mortgage with no down payment.

- A builder wishes to sell a property for \$200,000. He inflates the value of the property to \$240,000 and finds a buyer.
- The lender funds a mortgage loan of \$200,000 believing that \$40,000 was paid to the builder, thus creating home equity. However, the lender is actually funding 100 percent of the home's value.
- The builder acquires \$200,000 from the sale of the home, pays off his building costs, forgives the buyer's \$40,000 down payment, and keeps any profits.
- If the home forecloses, the lender has no equity in the home and must pay foreclosure expenses.

Equity Skimming

- An investor, using various documentation misrepresentations, receives a mortgage on a property.
- The investor rents the property to unsuspecting individuals, usually for a year at a discounted rate.
- The investor takes the proceeds and skips town.
- The investor makes no mortgage payments.
- The property is foreclosed on by the bank leaving the renters homeless and the lender with undervalued collateral.

Mortgage Warehousing

- Mortgage warehousing lines are used to temporarily “warehouse” individual mortgages until sold to an investor.
- A dishonest mortgage banker will attempt to warehouse the same mortgage loan on one or more credit lines.
- Similar to multiple selling, this scheme can be self-perpetuating with different loans being substituted for the ones with which documents cannot be provided.

Foreclosure Schemes

- The fraud perpetrator identifies a homeowner in or at risk of foreclosure.
- The fraud perpetrator misleads the homeowner into believing he can save his home in exchange for a transfer of the deed and upfront fees.
- The perpetrator profits from this scheme by re-mortgaging the property and/or pocketing the upfront fees.

Silent Second

- The buyer borrows the down payment from the seller through the issuances of a non-disclosed second mortgage.
- The primary lender is misled thinking the buyer is using his own money.
- The second mortgage may not be timely recorded to further conceal its status from the primary lender.
- This will affect the loan-to-value ratio and the debt level of the borrower.

Fraud Scheme Red Flags

- A much greater than normal increase in year-to-year income or an occupational income far higher than those of others in the same line of work.
- Applicant's reported Social Security and Medicare withholdings exceed the limits established by law.
- Borrowers purchasing property described as a "primary residence," but outside of their home states, or located an unreasonable commuting distance from their stated employer.
- Mortgage brokers or borrowers that always use the same appraiser.

Fraud Scheme Red Flags

- Borrower's signature does not match on all documents (identity theft).
- Multiple problematic loan applications containing the same parties working in conjunction with one another (i.e., numerous transactions involving the same mortgage broker, seller, appraiser, and settlement agency).

Fraud Scheme Prevention/ Detection Techniques

- Apply simple reasonability tests to detect fraudulent documents.
- Re-verify the information provided in the loan application.
- Close scrutiny by lenders of the loan settlement statement (frequently the Form HUD-1) where the loan funds are going could identify potential fraud prior to loan disbursement.

Fraud Scheme Prevention/ Detection Resources

- Pre-Employment Background Screening
- National Registry of Appraisers
- Building Cost Calculator
- Report Instances of Mortgage Fraud

Emerging Mortgage Fraud Trends

- There are four emerging scenarios to which the industry should be currently paying attention include:
 - Foreclosure prevention schemes
 - Elderly and immigrant identity fraud
 - Builder bail-out scams
 - Short sale fraud (“flopping”)

Foreclosure Prevention Schemes

- These generally involve fraudsters posing as professional, knowledgeable foreclosure specialists.
- Homeowners facing the threat of foreclosure and nearing eviction are contacted by these “foreclosure specialists” who promise to work out their loan problems or buy their home and offer the homeowners tenancy.
- Unfortunately for the homeowner, the fraudster has no intention of following through with these promises and instead will manipulate the homeowner into deeding the property to him.

Foreclosure Prevention Schemes

- Once the fraudster obtains the signed documents, a false lien release is generally filed or leveraged to secure funds from a fabricated sale or refinance on the property.
- In many cases, the homeowner is under the belief that he will rent the property for a period of time until he is in a better position to regain ownership rights.
- The fraudster continues to accept payments made by the homeowner while selling the property, absconding with the funds, and eventually evicting the homeowners.

Foreclosure Prevention Schemes

Case Study

- A dishonest “foreclosure prevention specialist” contacted troubled homeowners in the Washington, DC, area and convinced them to sign over their homes to “straw buyers” working for her company, supposedly so she could stabilize their mortgage and repair their credit.
- Instead, the fraudster used the straw buyers to take out loans against the homes’ existing equity, which she pocketed before returning the deeds to her victims.

Foreclosure Prevention Schemes

Case Study

- Prosecutors estimate that the fraudsters and her associates bilked more than \$35 million from her victims before she was caught.
- She used some of the money to finance her \$800,000 wedding party, complete with a Porsche for one of her attendants.
- The fraudster plead guilty and faces 30 years in prison.

Foreclosure Prevention Schemes

Case Study 2

- Three men have been found guilty by a federal jury for their roles in a nationwide foreclosure-rescue scheme - Charles Head, Benjamin Budoff and Dominic McCarns .
- Head was the founder of several California companies, including Head Financial Services and Creative Loans, that allegedly defrauded homeowners of more than **\$5.7 million** in equity between 2005 and 2006. Budoff and McCarns were employees of Head's companies.
- The companies allegedly promised distressed homeowners that they could stay in their homes and repair damaged credit by enrolling in a foreclosure-rescue program. The companies then paid straw buyers to replace the troubled homeowners on the titles and apply for mortgages to extract as much equity as possible from the homes.

Foreclosure Prevention Schemes

Case Study 2

- Meanwhile, troubled homeowners made monthly payments to the companies, mistakenly believing that the funds would go toward improving their credit scores.
- **The homeowners suffered at least \$15 million in losses, according to the release.**
- The defendants preyed on the victims' fear of losing their homes and then took advantage of those victims' predicament to steal from them their last remaining equity in those homes. **Many homeowners were eventually "evicted and left destitute."**
- Head, Budoff and McCarns are scheduled for sentencing on March 19, 2014, and face up to **20 years in prison and a \$250,000 fine for each count of mail fraud.**

Elderly and Immigrant Identity Fraud

- While not new, elderly and immigrant fraud is regaining popularity.
- In this predatory practice, elderly and non-English-speaking consumers are taken advantage of by fraudsters who steal their identities and use them in “straw buying” or other property transactions.
- This is currently happening in some reverse mortgage situations.
- Similarly, some immigrants who rent properties are discovering that their identities have been used on fabricated loan transactions.

Builder Bail-Out Scams

- This involves securing funds for condominium conversion or planned community development properties that, unbeknownst to the investor, will not be completed.
- The scams entail multiple purchases from would-be investors or false identities on fabricated loan transactions.
- Investors are lured by photos or inspections of a few converted units, used as models, with promises of further rehabilitation of remaining units.
- Once the contracts are in place, the fraud continues as the perpetrator secures funding for the contracts; however, no additional work is done and the investors and lenders are left with incomplete and, in some cases, uninhabitable dilapidated buildings.

Land Flipping vs. Land Flopping

Land Flipping

- Property is purchased, falsely appraised at a higher value, and then quickly sold.
- The schemes typically involve one or more of the following: fraudulent appraisals, doctored loan documentation, inflating buyer income, etc..
- Kickbacks to buyers, property/loan brokers, appraisers, and title company employees are common in this scheme.

Land Flipping vs. Land Flopping

Land Flopping (Short Sale Fraud)

- Mortgage loan is in default (this is intentional).
- Property is falsely appraised at a lower value.
- Borrower represents that someone is willing to assume the mortgage if the lender offers a concession.
- The original borrower “buys” the loan at a lessor value using straw borrowers or identity theft schemes.

Short Sale Fraud Example

- An Atlanta man was indicted by a federal grand jury on charges of aggravated identity theft and false statements to the FDIC.
- The man allegedly obtained several million dollars in loans in his name and the names of his family and friends from a bank before it was seized by the FDIC.
- After remaining delinquent on loan repayments and facing foreclosure, the man asked the FDIC to forgive \$2.2 million dollars in loan payoffs on the properties and allow him to “short sale” them to new purchasers at reduced amounts.

Short Sale Fraud Example

- An investigation revealed the sales contracts and loan commitment letters provided by the man to the FDIC were fraudulent and the “new purchasers” were the victims of alleged identity theft.
- These cases are being investigated by the Special Agents of a Mortgage Fraud Task Force, comprised of representatives from the FBI and other investigative offices.

Future Consideration and Prevention

Borrowers:

- Verify their identity.
- Use “knowledge-based” authentication.
- Check OFAC Watch Lists.
- If a business, perform business credentialing and license credentialing.
- Perform appropriate due diligence.

Future Consideration and Prevention

Employees:

- Verify previous employment.
- Verify education references.
- Perform criminal background checks.
- Perform credit checks.
- Verify against Financial and Law Enforcement Sanctions databases.

Future Consideration and Prevention

Vendors:

- Perform business credentialing and license credentialing.
- Verify principal owner identification.
- Perform owner background check.
- Perform/review vendor employee screening.
- Verify references.
- Perform appropriate due diligence.

Polling Question #3

Following this session, do you have a better understanding of how to audit the lending function?

- A. Yes
- B. Somewhat
- C. Not really

Q&A



10 minute break



ROOT CAUSE ANALYSIS

Agenda

- Background and Context
- Writing Internal Audit Findings
- Identifying the Root Cause of the Finding
- Effective Writing Techniques

Polling Question #4

How comfortable are you when it comes to identifying the root cause of audit findings?

- A. Not at all
- B. Only slightly
- C. Fairly comfortable
- D. Very comfortable

Audit Committee Feedback

- *“The report tells us what we already know.”*
- *“The report makes it sound worse than it is.”*
- *“There is no recognition of good work in the report; only negative by exception commentary.”*
- *“The report is too long and too wordy.”*

Audit Report Basics – An Overview

- **Audit Report**

- The final deliverable where work is summarized to communicate the results of detailed work that was performed
- Often issued following the completion of fieldwork
- Can take many forms

- **Audit reports typically communicate the following:**

- Summary of audit objectives
- Review of scope and procedures performed
- Key findings and recommendations
- Views of auditee or their action plans (i.e., management responses)

Importance of Effective Reporting

- This is often the **key deliverable**
 - What Internal Audit leaves behind
- Reflective on the quality of the work overall
 - Can leave a lasting impression
 - People remember the written word
 - High-quality audit reports must be supported by high-quality fieldwork, BUT high-quality fieldwork can be NULLIFIED by poorly written or ineffective reports

Consider the Audience

- More often this phase involves members of senior management, including key executives:
 - Board Members, such as Audit Committee
 - Executive Level: CFO, CAO, CAE, COO, etc.
 - Senior Management: VPs, Controllers, etc.

Consider the Audience

- The Board or Audit Committee members need to know:
 - Is everything OK?
 - What should I be concerned about?
 - What needs to be done?

Writing Internal Audit Findings

Writing Internal Audit Findings

- Audit Finding
 - A conclusion concerning a matter related to an examination of an organization's program, activity, or function, which identifies problems and their causes, and provides recommendations for corrective action in order to prevent their future recurrence
- Audit Findings make up the majority of the Traditional Internal Audit Report format

Writing Internal Audit Findings

- Validating findings with process owners to:
 - Confirm understanding
 - Focus on the facts!
 - Review Audit Findings details
 - Ensure the details support conclusion
 - Determine impact and significance
 - Identify underlying root cause of the condition
 - Assist with recommendations and remediation
 - What can be done to fix the condition?
 - Maintain credibility and respect with process owners
 - Gain buy-in with process owners / management (for findings and fixes)

Writing Internal Audit Findings

Five Components of an Effective Audit Finding (“the 5 C’s”):

1. Criteria: What should be
2. Condition: The current state
3. Cause: The reason for the difference
4. Consequence: Effect or implication
5. Corrective Action: Summarizes the key steps that must be implemented to fix the current condition and prevent it from occurring again

Source: Writing High-Impact Reports

Polling Question #5

Which of the following is not one of the five components of an effective audit finding?

- A. Criteria
- B. Consideration
- C. Cause
- D. Corrective Action

Writing Internal Audit Findings

Criteria

- Should clearly state to the reader what is expected or how something is being measured
 - Helps the reader determine what and why something is important
- Example:
 - “Finance policy required continuous monitoring by the project manager and officer approval of capital expenditures over \$1 million.”

Writing Internal Audit Findings

Condition

- Specific evidence should exist to support the finding
- Where applicable, quantification is important
 - How many, how much, etc.
- Conciseness is critical for understanding
 - Should be limited to one sentence whenever possible
- Example:
 - “Capital expenditures of \$5.8 million for the renovation project were not monitored, and time and budget overruns were not monitored, or approved.”

Writing Internal Audit Findings

Cause

- All findings should be traced to their root cause (*to be discussed later*)
- May help to identify problems in other areas
- Often requires discussion with the process owner and/or management
- Needs to be as specific as possible
 - Helps management address the source of the problem and implement a corresponding action plan
- Example:
 - “A project owner had not been appointed to manage the renovation project.”

Writing Internal Audit Findings

Consequence

- Must indicate the impact of the audit finding (i.e., significance) to the organization
 - Helps persuade the reader; gains buy-in
 - Helps management with prioritization should multiple audit findings exist
- Example:
 - “The renovation project was over budget by 25 percent and \$3.7 million, and the contractors paid no penalties.”

Writing Internal Audit Findings

Corrective Action

- Should be as specific as possible
- Should address the cause
- There is usually more than one solution
 - Consideration of cost-benefit is important
 - Consideration of organization's culture
- Include who should be involved in the solution and when the solution needs to occur
- Include management in identifying solutions
- Example:
 - “The Controller should require written VP approval of all capital expenditure project plans, monthly status reports, and cost overruns. In addition, a project leader should be appointed for all future capital projects.”

Writing Internal Audit Findings

- Recommended order of Audit Finding components:
 1. Criteria
 2. Condition
 3. Cause
 4. Consequence
 5. Corrective Action
- Management Response section should always directly follow the Findings and Recommendations when using a Traditional Internal Audit Report format

Writing Internal Audit Findings

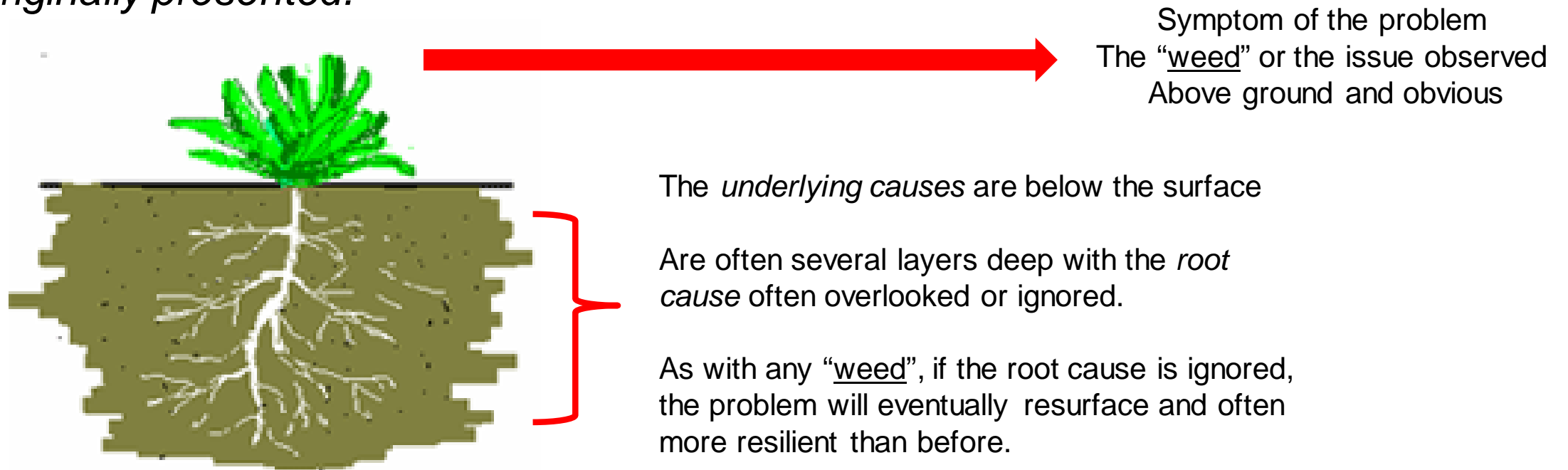
Management Responses

- Should be as specific as possible
- Should address the root cause of the audit finding
- Should include a specific implementation date
- Should be provided in a timely nature
- Should only be edited by the internal audit engagement team to ensure the flow of the report is consistent. If changes are recommended, this must be confirmed and agreed to with the auditee.

Identify the Root Cause of the Finding

Identifying the Root Cause

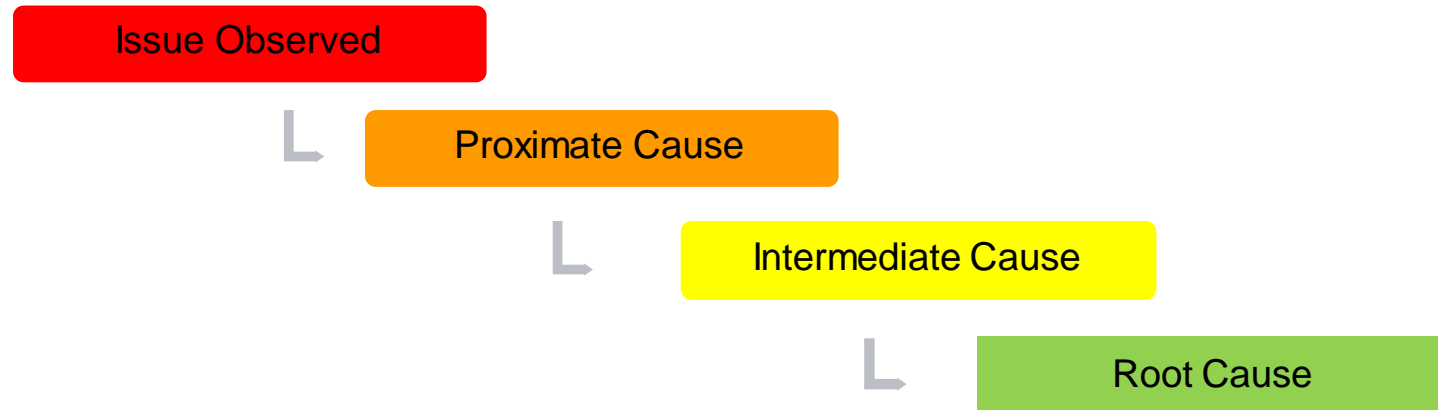
- What caused the issue to occur?
 - The root cause describes why (or reasons) the issue occurred
 - To understand the root cause, we need to determine all actions (or lack thereof) that resulted in the issues being observed. *This is often several layers below the cause originally presented.*



Root Cause Analysis

- Root Cause Analysis - Breaking Down the Cause

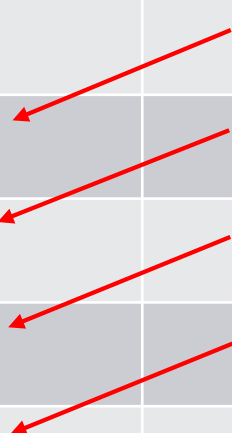
- A process to breakdown the cause of an issue by asking and answering a series of questions to determine the chain of events leading to the observed result
- By asking and understanding the answer to each question, you will drive closer to the root cause of the issue
 - Proximate Cause – an event or action which is closest to, or immediately responsible for causing, some observed result (our audit finding)
 - Intermediate Cause – an event or series of events that led up to the observed result (our audit finding)
 - Root Cause – the initiating event is a series of events that led up to the observed result (our audit finding)



Root Cause Analysis

- Breaking Down the Cause – The “WHY’s” Exercise:
 - Drills down and through the proximate and intermediate causes to the root cause by asking a series of “Why?” questions
 - Includes any number of “Why?” questions; though will typically be 4-6 questions down the ladder, if asked effectively

Issue Observed	Reasons	Cause Level
What was observed?	Why did that happen?	Proximate
Reason #1	Why did reason #1 happen?	Intermediate
Reason #2	Why did reason #2 happen?	Intermediate
Reason #3	Why did reason #3 happen?	Intermediate
Reason #4	Why did reason #4 happen?	Intermediate
Reason #5	Why did reason #5 happen?	Root



Root Cause Analysis - Example

Breaking Down the Cause – The “WHY’s” Exercise:

Example:

Issue Observed	Reasons	Cause Level
I was late to work	Why was I late to work?	Proximate
My car wouldn't start	Why wouldn't my car start?	Intermediate
My battery was dead.	Why was my battery dead?	Intermediate
The dome light was left on all night.	Why was the light left on all night?	Intermediate
I turned on the light to look for the keys I dropped between the seats.	No further questions needed. The root was uncovered	Root

Internal Audit Findings – 5 Components

- **Breaking Down the Cause – The “WHY’s” Exercise:**

- Know when you have reached the root cause
 - It is the fundamental reason for the issue at hand
 - Addressing the root cause will prevent recurrence
 - It is the last cause in the chain of events

- **How to tell when you have reached the root cause:**

- The cause is actionable. If you take action, the issue is resolved and will not reappear.
- The solution seems to jump off of the page
- Probing any deeper starts to make no sense
 - Example – In the prior example, the next question in the series would be:
 - “Why did I drop my keys?” with a response of “I am clumsy” or “I had too many things in my hand”
 - With each additional question following the root, the solutions are less actionable and harder to pin down

Polling Question #6

The Root Cause describes which of the following elements of an audit finding?

A. Why the issue occurred

B. The issue itself

C. What is expected

D. The associated risk

Effective Writing Techniques

Basic Principles and Best Practices

- Reports should convey a message that will efficiently and effectively address the readers questions
- Reports should clearly communicate the findings in a language that can be easily understood by the reader
- Reports should be suitable to the amount of risk related to the area under review
- Timely documentation of the finding is critical
- Confront objections upfront with management

Report Style – Top 10 Tips and Techniques

1. **Keep reports short and always include an Executive Summary, where applicable**
2. Be consistent with terminology
3. Use headings and subheadings to make documents more accessible
4. Spell out acronyms when first used in the document
5. Spell out numbers one through nine
6. **Make subjects like “auditors” plural to avoid gender exclusiveness**
7. **Avoid using complex words when natural, direct words are available**
8. Follow standard rules of punctuation
9. Follow standard rules of grammar
10. **Use tables and graphs to communicate complex data sets**

Polling Question #7

Following this session, do you have a better understanding of how to analyze and identify root causes?

A. Yes

B. Somewhat

C. Not really

Q&A



Lunch Break



REMOTE DELIVERY OF INTERNAL AUDIT

Agenda

- 1) Objectives
- 2) An Auditors Approach to a Virtual Internal Audit
- 3) The Impact of Digital Workers on Internal Audit
- 4) Q&A

Objectives

Upon completing this webinar, attendees should be able to:

- Identify opportunities to enable easy collaboration amongst your internal audit team
- Properly communicate and address risks with Audit Committees while working remote
- Apply new techniques to preparing, executing, and reporting high caliber results while still maintaining audit quality
- Identify opportunities for the use of RPA as part of your internal audit plan
- Define the impact and role of bots on the existing control environment, including new risks, and control automation

An Auditor's Approach to a Virtual Internal Audit

What Does Today Look Like?

- Virtual Workforce
- Travel Limitations
- Economic Uncertainty
- Enhanced Regulatory Scrutiny over Liquidity and Credit Quality

What Else Does Today Look Like?

- Home Schooling
- Grocery deliveries during calls
- Internet bandwidth
- Barking dogs
- Juggling schedules

Polling Question #8

What percentage of your audits have been delayed to later in the year due to the current environment?

- A. 0-10%
- B. 10-30%
- C. 30-50%
- D. 50-80%
- E. 80-100%

Polling Question #9

What percentage of your audits have been postponed to a different year due to the current environment?

- A. 0-10%
- B. 10-30%
- C. 30-50%
- D. 50-80%
- E. 80-100%

Key Elements for a Successful Remote Audit



Plan



Plan

The most critical part of every audit is planning and it is even more important when performing virtual audits.

Challenges	Opportunities
<ul style="list-style-type: none">• Limited time and resources• Control Changes	<ul style="list-style-type: none">• Reassess risks and the institution's priorities• Revisit availability of Auditees
<ul style="list-style-type: none">• Restrictions on data accessibility – remote vs onsite	<ul style="list-style-type: none">• Be flexible when necessary• Identify audit timelines that can be adjusted – increase prep time

Value Add – with new risks come new opportunities to assist your audit clients.

Execute



Use technology to enable the efficient execution of audit procedures.

Challenges	Opportunities
<ul style="list-style-type: none">• Training new employees	<ul style="list-style-type: none">• Daily working sessions• Online walkthroughs
<ul style="list-style-type: none">• Lack of personal contact with auditees	<ul style="list-style-type: none">• Optimal use of technology• Anticipate technical issues• Document Sharing – technology that allows for easy monitoring• Video Conferencing• Use alternative tools such as whiteboards
<ul style="list-style-type: none">• Difficulty to coordinate schedules and answer questions	<ul style="list-style-type: none">• Daily open item/questions list

While working remotely, it is key to keep in close contact with the auditee to remain aligned.

Results



Reporting protocols might be different as we go through virtual auditing.

Challenges	Opportunities
<ul style="list-style-type: none">• Requests from stakeholders for information	<ul style="list-style-type: none">• Revisit reporting timelines/schedules• Provide updated schedule of communication to supervisory Committees
<ul style="list-style-type: none">• Uncertainty experienced by auditees from lack of human interaction	<ul style="list-style-type: none">• More frequent updates• Focus on key risks - do not overload auditees with low risk findings• Validation through multiple channels can help reduce miscommunication

Overall, increase Communication!

Polling Question #10

Have you changed your monitoring approach or moved to a more data driven monitoring to supplement the flexibility which audit plans and auditees are requiring during this time?

A. Yes

B. No

Risk Analysis



Risk Analysis

Key is to understand how risk is changing and how effectively it is being managed in the various areas of the organization

- Analyzing results for thematic issues
- Adopting data driven monitoring to reassess risk and reduce time required with audit clients
- Communicating trends on risk changes throughout the organization to the Audit Committee

Polling Question #11

Are you using BOTS as part of your internal audit team?

A. Yes

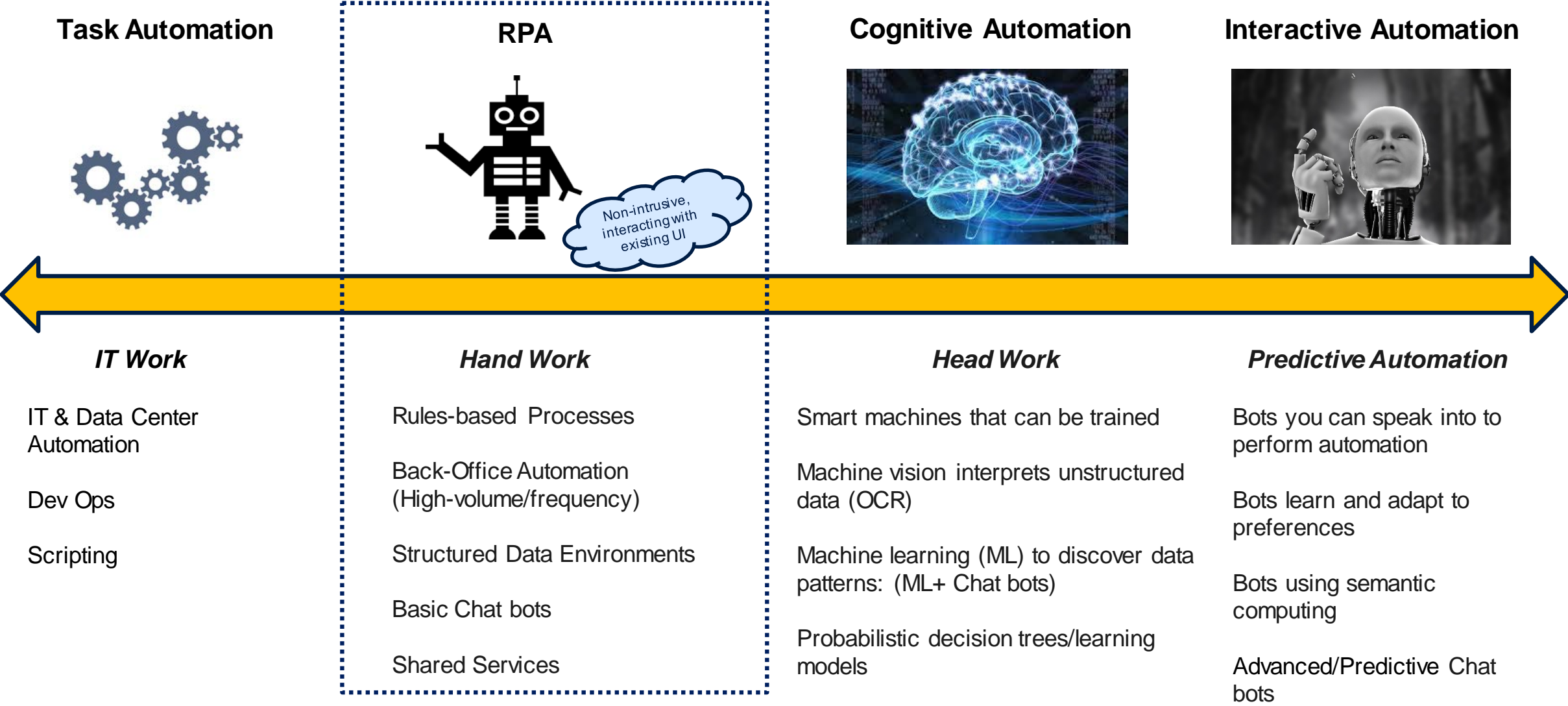
B. No

The Impact of Digital Workers on Internal Audit

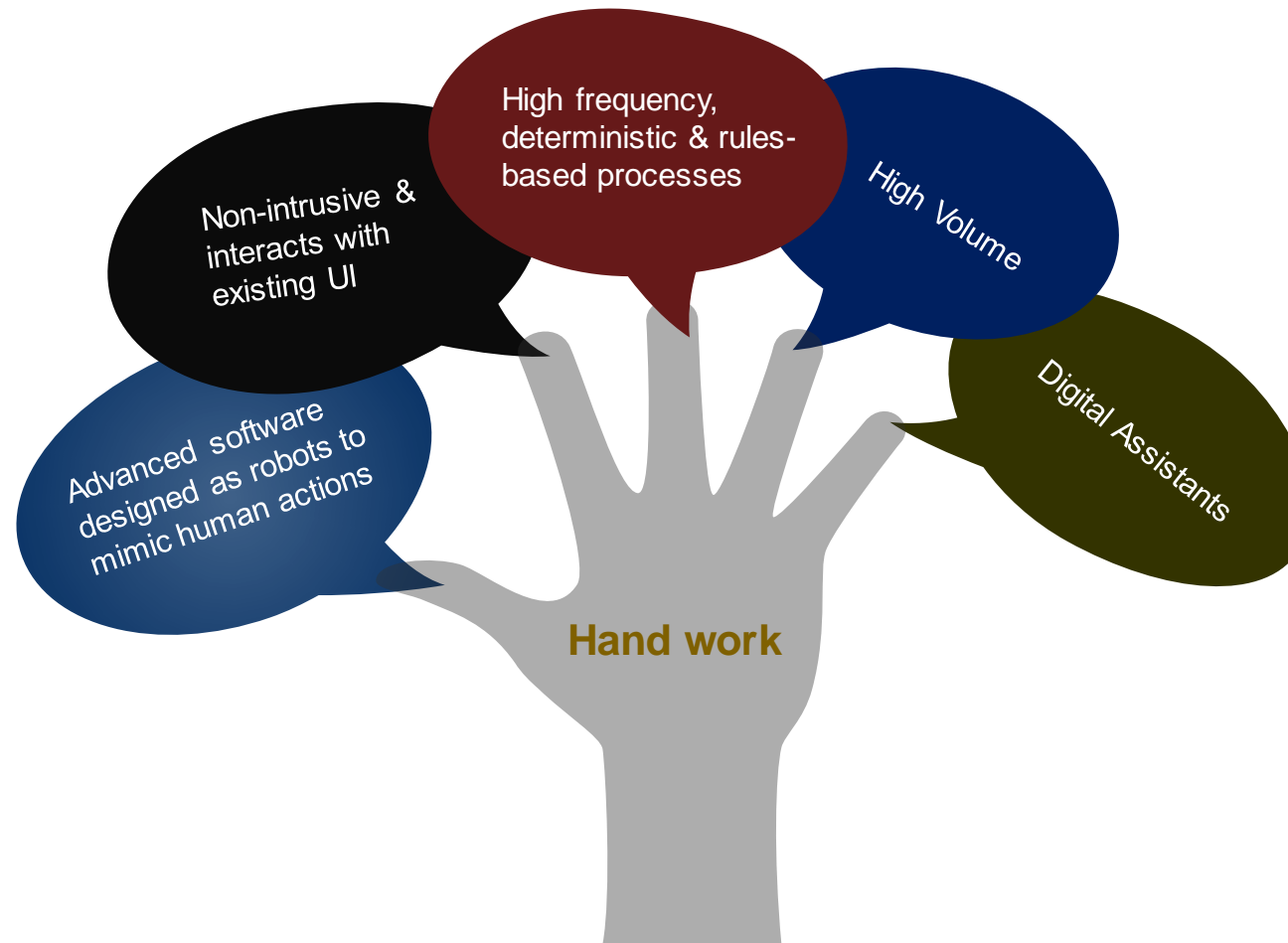
Topics of Interest

- Spectrum of Automation
- What is RPA and where is it applicable?
- How are RPA applied and what impacts for IA?
- Demo & Case Studies
- Open Discussion

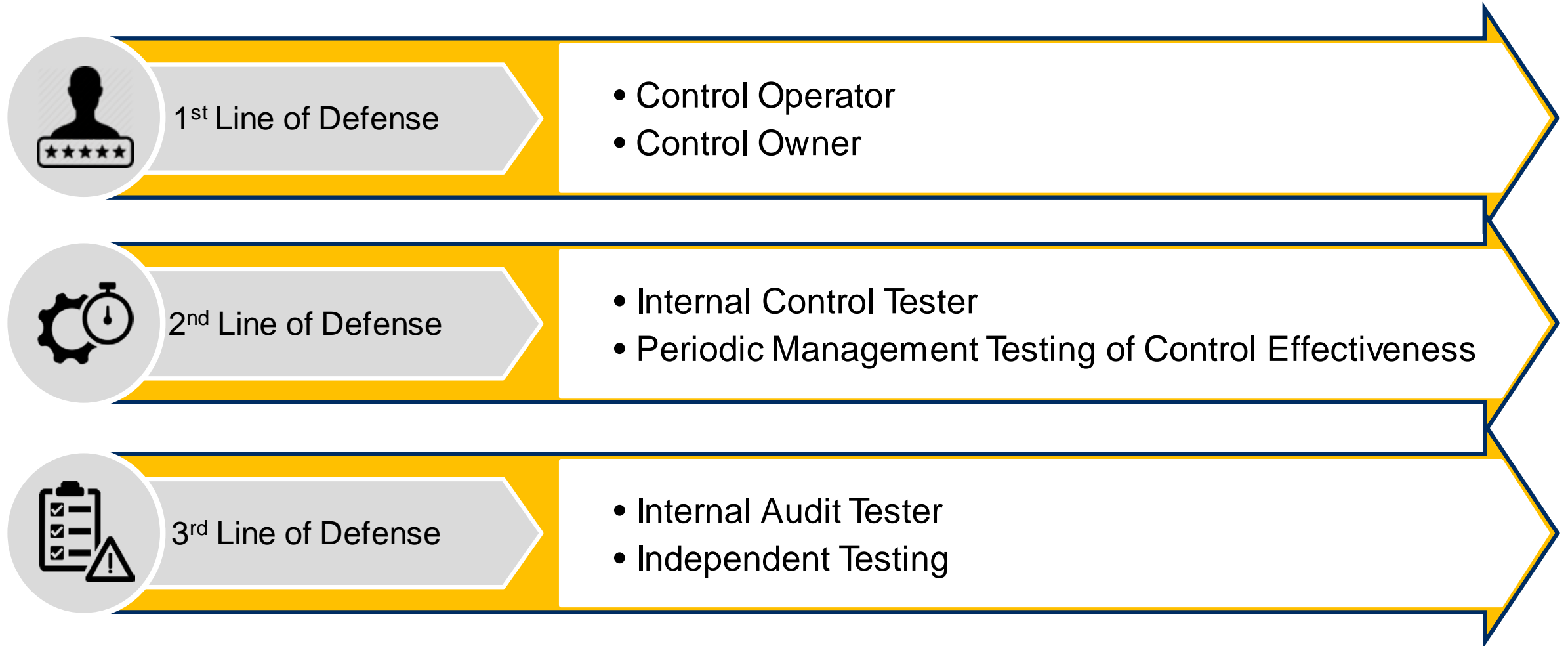
Automation – The Spectrum



What is Robotic Process Automation (RPA) and Where is it Applicable?



How Can RPA Be Applied to Internal Control?



What Are the Impacts to Internal Audit?



- 1 Need to understand the technology
- 2 Opportunity to influence control design & governance
- 3 Potential to increase audit efficiency
- 4 Free up capacity to focus on higher priorities
- 5 Need to develop new testing approaches
- 6 Consider need for changes to IA staffing model

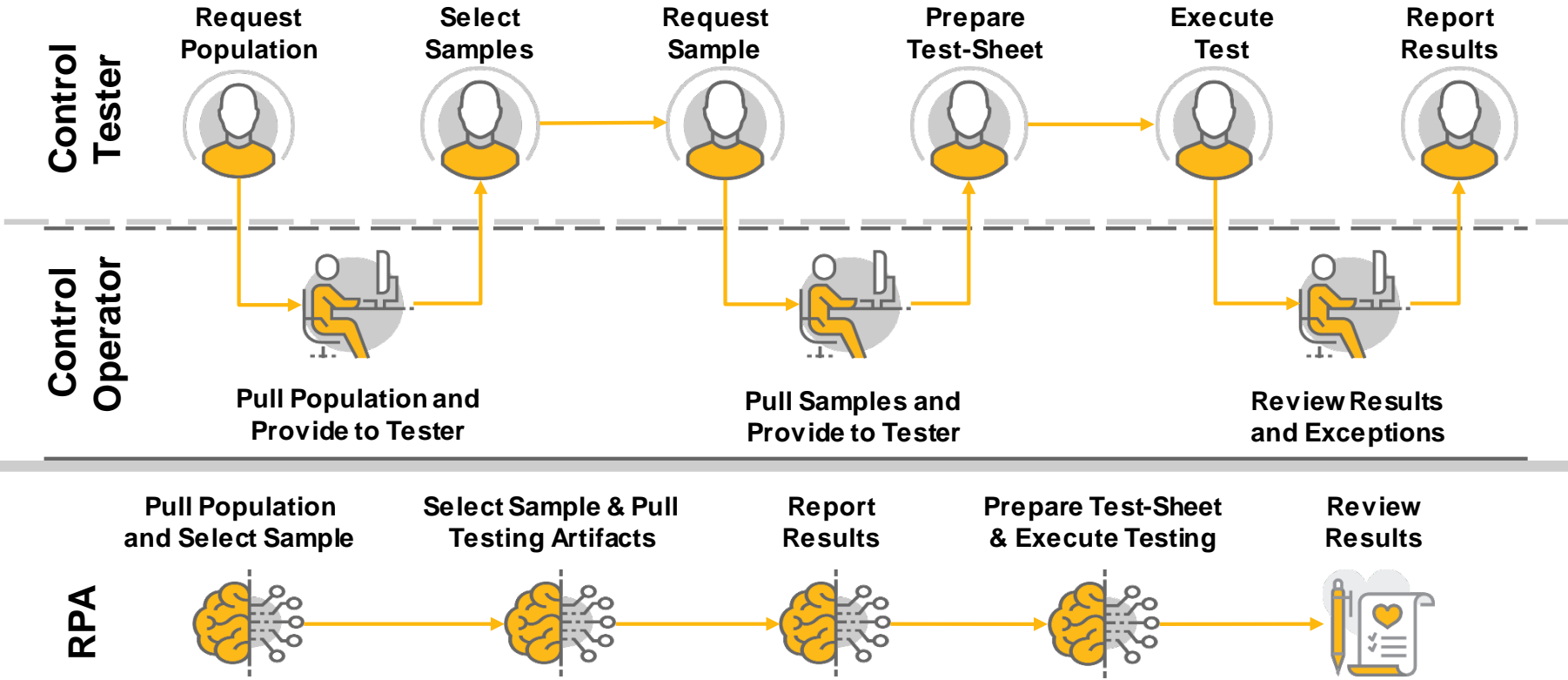
Sample Use Case for Internal Audit

Sample RPA Use Cases

- Internal Control/Repetitive Operational Audits
 - Request lists
 - Sample selection
 - Status trackers
 - Deficiency logs
 - Exit Meeting Agenda
- Areas Digital Assistant can support Testing:
 - Logical Access/Change Management/Computer Operations
 - Repetitive areas in Business Controls, including but not limited to
 - Account Reconciliation
 - Three-way matching
 - Re-calculation
- Corporate Governance (framework, process and policy review)
- Continuous Monitoring (transaction monitoring/breach of privileges)
- Information Technology/Application Controls (SOD/Least Privileged Access)

How Does the User Access Review (UAR) “BOT” Work?

A High-level View of How a “BOT” Typically Operates



UAR BOT Video Demo

The screenshot displays the UiPath Studio Pro Community interface for a bot named "Periodic User Access Review Bot". The interface is divided into several panes:

- Top Bar:** Contains tabs for HOME, DESIGN, and DEBUG. The DEBUG tab is active, showing a toolbar with icons for Break, Step Into, Step Over, Step Out, Ignore, Retry, Focus, Breakpoints, Slow Step, Execution Trail, Highlight Elements, Log Activities, Continue on Exception, Picture in Picture (Experimental), and Open Logs.
- Left Pane:** Contains a Project Explorer, a Locals table (empty), and an Output window showing a list of log messages, all of which are "False".
- Center Pane:** Displays the workflow diagram for the "Periodic_User_Access_Review_Bot". The workflow starts with a "Start" icon, followed by four sequential activities: "Invoke send review request", "Invoke compile responses", "Invoke compile responses", and "Invoke create workpaper". Each activity has a "Double-click to view" tooltip.
- Right Pane:** Contains a Properties window, a UI Objects Browser (Experimental), Activity Coverage, and an Outline.
- Bottom Bar:** Shows the status "Orchestrator Not Connected" and a button to "Add To Source Control".

A video feed of a person named "Tiffany Chin" is visible in the top right corner of the interface. At the bottom of the screen, a Windows taskbar is visible with various application icons and a system clock showing 5:27 PM on 8/17/2020.

Q&A



RECENT TRENDS AT FINANCIAL INSTITUTIONS

FRAUD

Spotting Unethical Behaviors

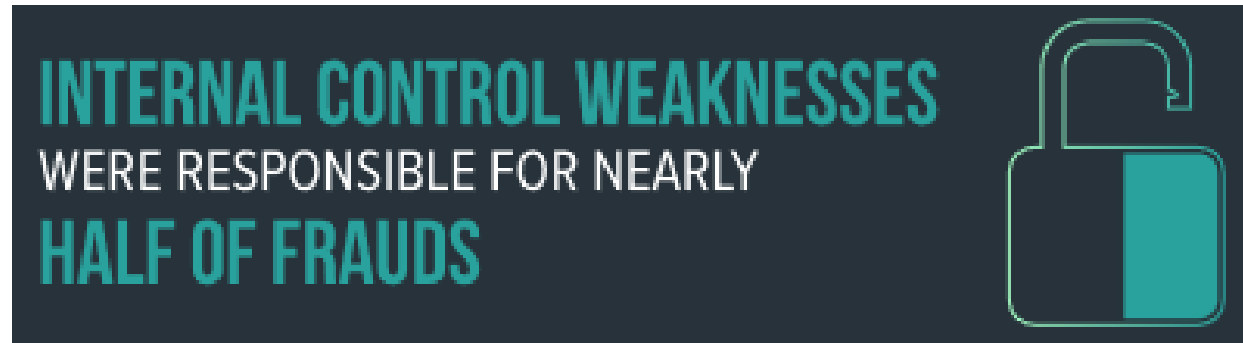
RED FLAGS OF UNETHICAL BEHAVIOR

Numerous factors may lead someone to behave unethically in the workplace. Here are just a few, and some associated indicators.

REASONS FOR UNETHICAL BEHAVIOR*	RED FLAGS	POSSIBLE OUTCOME
Unquestioning obedience to authority – Facilitates justifying bad behavior: “I was just doing what I was told.”	<ul style="list-style-type: none"> » The boss supports an environment in which he or she is always right. » Employees parrot the philosophy that “what the boss says, goes.” 	The boss coerces the accountant to make fraudulent journal entries to cover the boss’s theft or to improve organizational performance.
Tunnel vision – A single-minded focus on achieving goals to the exclusion of ethical concerns that may interfere with that achievement.	<ul style="list-style-type: none"> » Employees express feeling excessively pressured to achieve goals. » Human resources has established compensation policies that are tied to completing projects, regardless of their usefulness or profitability. 	The company may set a goal of being the top producer in its industry and encourage doing “whatever it takes” to reach it.
Power of names – The use of nicknames for questionable practices to make them seem more acceptable.	<ul style="list-style-type: none"> » High-pressure, questionable campaigns are given clever, but nondescriptive, names to obfuscate their goals or means of achieving the goal. Generic placeholder names are used for criminal activities. 	Employees become inured to fraud because it is described in terms like <i>greasing the wheels</i> instead of <i>bribery</i> or <i>financial engineering</i> instead of <i>accounting fraud</i> . Other red-flag terms include <i>smoothing earnings</i> and <i>deseasonalizing the data</i> .
Broken window – Physical and social disorder that is taken as a sign that everything is permitted and authority is absent. A single transgression encourages further transgressions.	<ul style="list-style-type: none"> » Employees demonstrate a follow-the-leader mentality that considers “everyone is doing it” as a viable excuse for poor behavior. 	A single fraudulent act spirals into several others, committed by a wider group of people, because the first one was not caught or was not treated as criminal.
The Galatea effect – Employees who see themselves as controlled by their environment or having their choices made for them are more likely to bend the rules.	<ul style="list-style-type: none"> » Executives demonstrate a “victim mentality,” conveying that seeking revenge on anyone (or any organization) perceived to have wronged them is appropriate. » Employees display a low level of engagement in the business. 	Employees commit fraud because they think the company has treated them badly.

Building an Anti-Fraud Framework

Did You Know...



*Source: 2018 Global Study on Occupational Fraud and Abuse

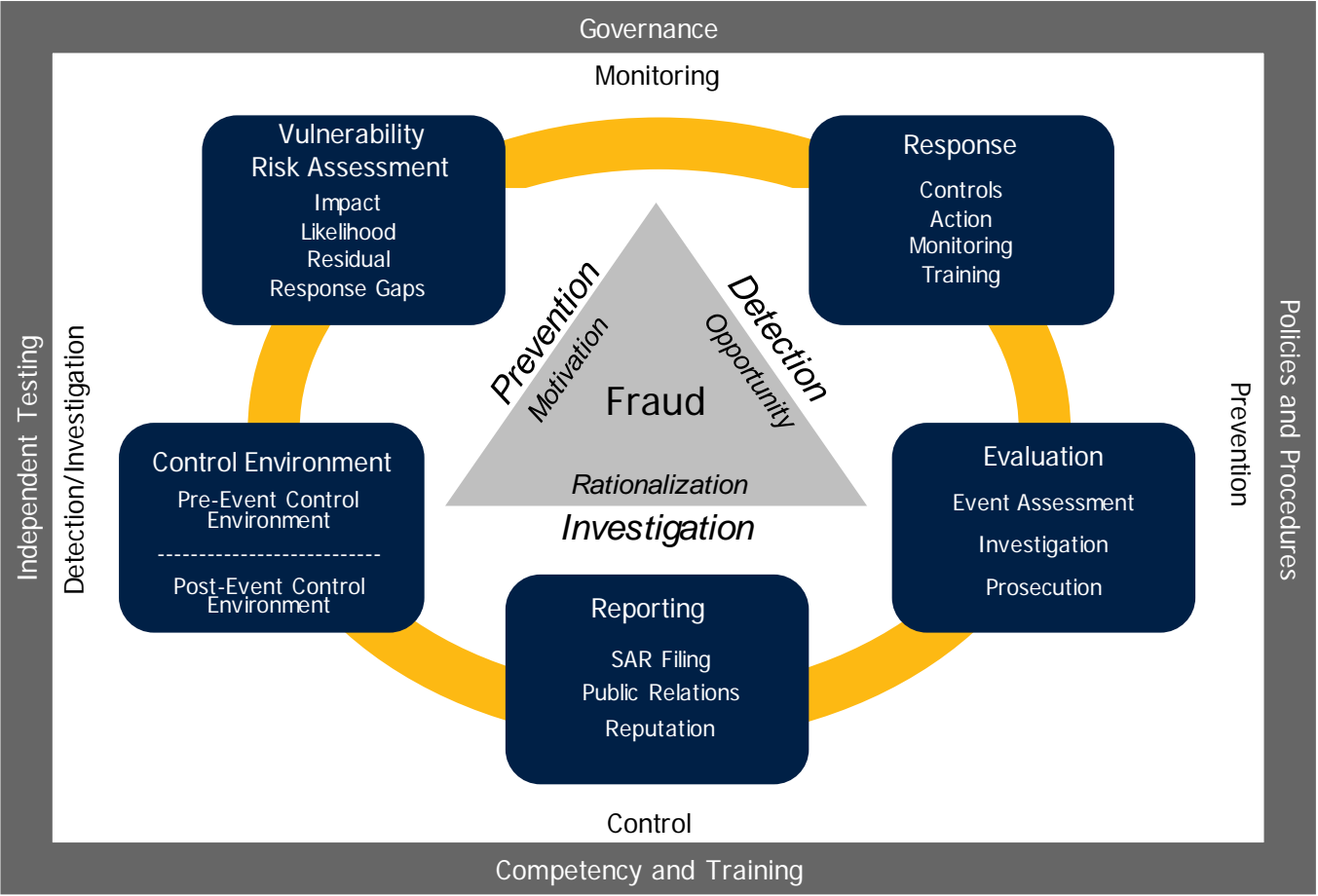
Why Develop an Anti-fraud Framework

- Per the ACFE's 2018 Report to the Nations, an estimated 5% of any one organization's revenue is lost to fraud each year. Investing in fraud prevention programs today will save your company revenues lost to fraud in the future
- External auditors and industry regulators are evaluating your programs
- Protect your company, your Board of directors, your employees and your shareholders
- Reduce fraud losses. Good fraud programs help deter and discourage fraud.

Benefits of an Anti-fraud Framework

- Minimize long-term impact of costs of fraud to your company
- Stave off regulatory investigations
- Protect shareholder value
- Maintain high investor confidence
- Keep a positive profile in the press
- Protect yourself and employees
- Protect employee retirement and pensions
- Keep audit fees down

Anti-fraud Framework



Four Cornerstones of an Anti-fraud Framework

- Governance – The effective top down oversight and direction establishing the proper “tone at the top”
- Policies and Procedures – The Board approved policies related to fraud prevention and detection
- Competency/Training – Fraud awareness training throughout the organization
- Independent Testing/Validation – Periodic testing and validation of fraud systems and capabilities

Governance

- Strong corporate culture and ethics based on integrity
- Code of Conduct/Ethics
- Conflict of Interest
- Fraud Policy
- Board and audit committee oversight
- Effective and educated board and audit committee

Governance

- No deviations from legal or ethical standards accepted
- Good leadership
- Participative top management
- Open lines of communication
- Audit reporting to highest level
- Environment in which employees believe that dishonest acts will be detected, are not tolerated, and are punished

Policies and Procedures

- Requirement to comply with all laws and regulations
- Explicit guidance regarding making payments to obtain contracts, holding pricing discussions with competitors
- Environmental discharges
- Relationships with vendors
- Maintenance of accurate books and records

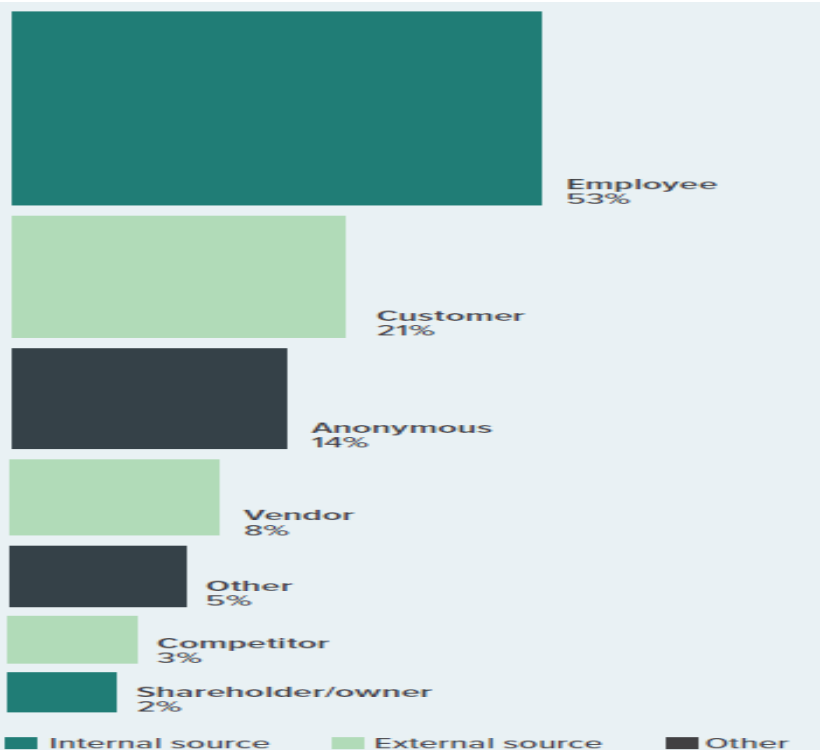
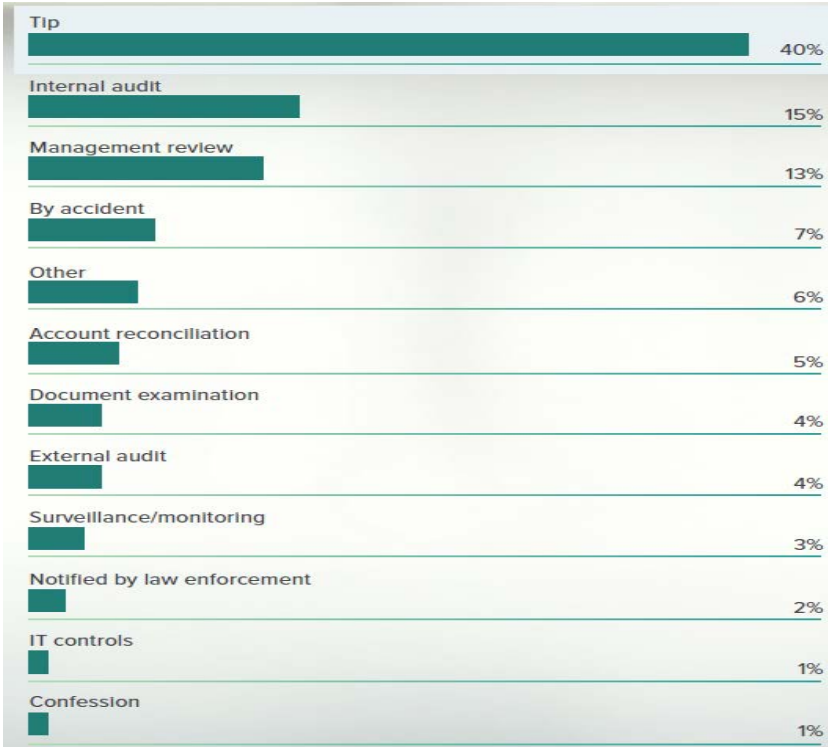
Policies and Procedures

- Specific measures implemented to deter fraud
- Establish and maintain procedures to detect fraud
- Encourage employees to report any suspicion of fraud
- Investigate all suspected fraud
- Report all suspected fraud to appropriate authorities
- Assist authorities in the prosecution of fraudsters
- Recover all assets illegally obtained

Competency/Training

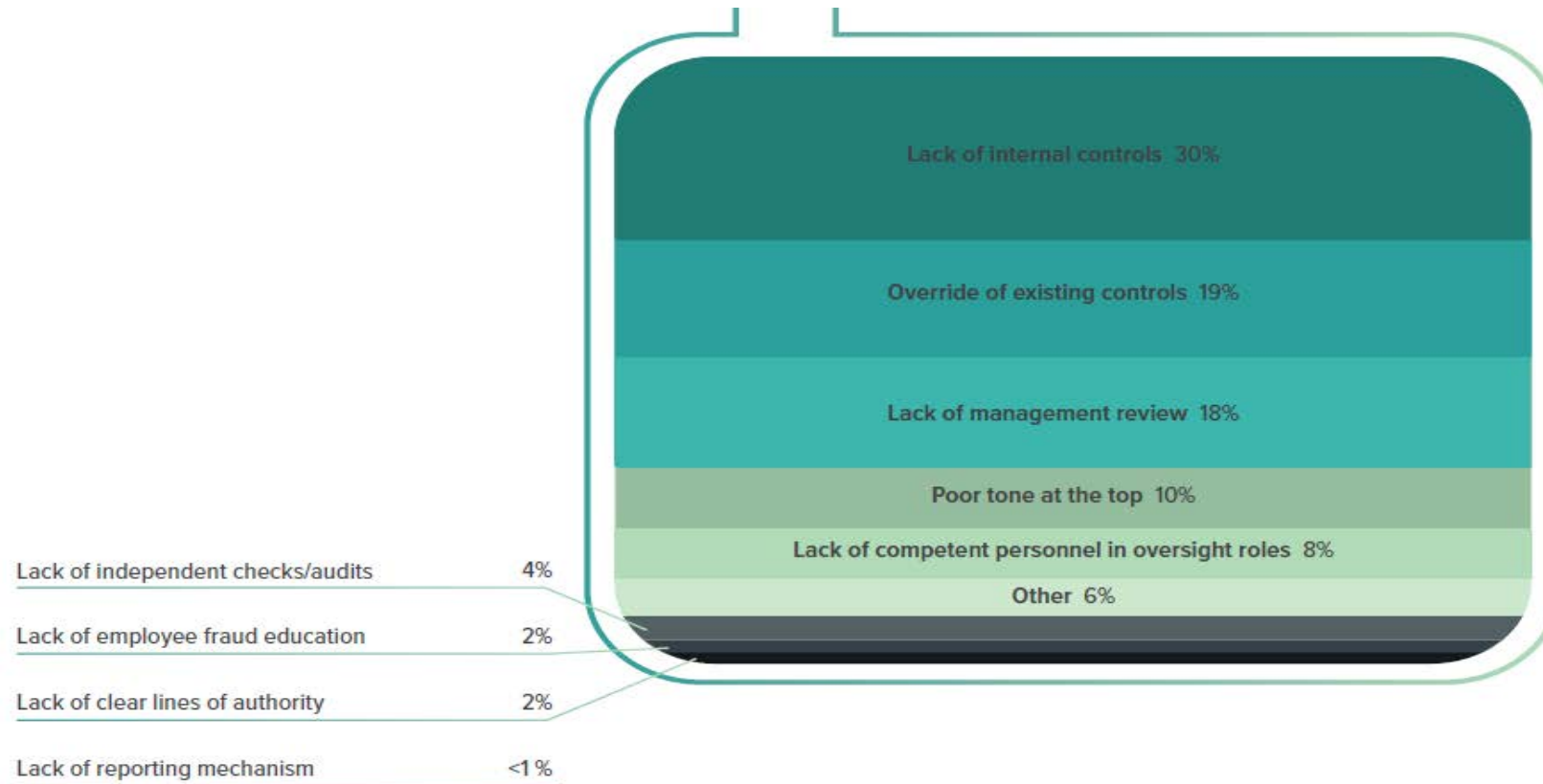
- New employees trained at hiring on institution's values and code of conduct
- Fraud red flags – specific to employees' daily responsibilities
- Duty to communicate certain matters and types of matters to be communicated, including actual or suspected fraud, with examples
- Information on how to communicate those matters – hotline, independent third party, etc.
- Specific to an employee's level with the institution, geographic location, and assigned responsibilities

Training - Initial Detection of Frauds



Source: ACFE 2018 Report to the Nation

Training - Causes Related to How Frauds Occurred



Source: ACFE 2018 *Report to the Nations*

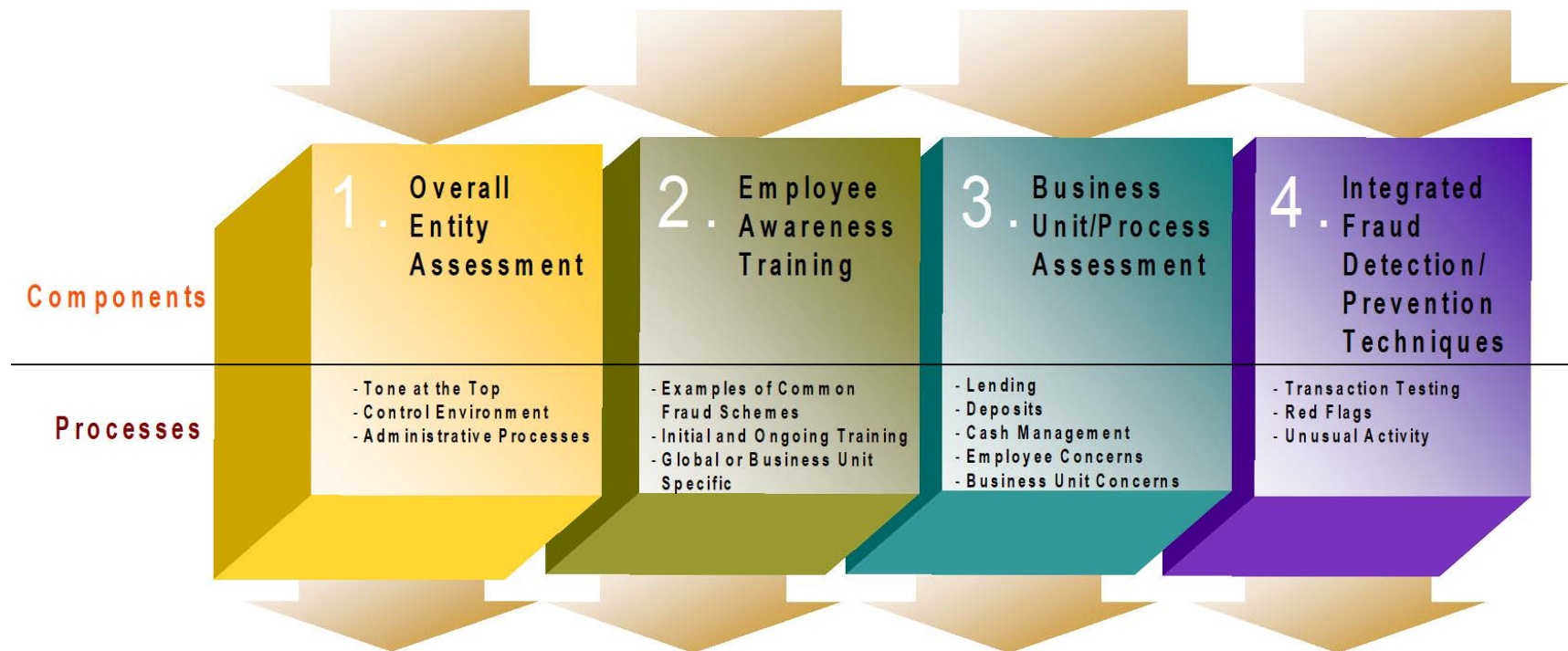
Independent Testing/Validation

- Complete a Fraud Risk Assessment
 - Identify all applicable areas
 - Determine likelihood and impact of fraud losses
 - Identify “gaps” in fraud responses
- Determine appropriate fraud responses (ex. internal controls) have been implemented in areas identified as posing a higher risk of fraudulent activity
- Determine appropriate controls (automated or manual) exist over computer generated information

Independent Testing/Validation

- Determine appropriate internal controls over the financial reporting process have been established
 - Fraudulent financial reporting by upper level management usually involves override of internal controls
 - Higher-level review of financial reporting by lower levels of management and employees
 - Evaluate the financial results reported by individual departments or subsidiaries
 - Unusual fluctuations in results of departments, or lack of expected fluctuations, may indicate potential manipulation
- Implement fraud specific tests/reviews in both the operating units and within the internal audit function

Fraud Vulnerability Assessment



Overall Entity Assessment

- The Overall Entity Assessment is a global view of how the organization is structured/managed to combat fraud
- This assessment takes into consideration a number of elements including the “Tone at the Top”, company-wide policies/procedures, internal factors and external factors.

Fraud Awareness Training

- In preventing and detecting fraud, there is a direct correlation between an organization's effectiveness and the overall awareness of its employees/managers
- Simply put, the more employees and managers know about fraud and fraud schemes, the better equipped they will be to prevent and detect a fraudulent situation
- Fraud training can take on a more global approach and/or be directed specifically to a business unit

Business Unit/Process Assessment

- Similar to the Overall Entity Assessment, the Business Unit/Process Assessment is designed to give a specific view of how the business unit/process is structured/managed to combat fraud
- The assessment would include many of the topics in the Overall Entity Assessment, but only as they apply to a particular business unit/process
- The selection of which Business Units/Processes to review might be identified through the Overall Entity Assessment or through actual fraud loss experience

Integrated Fraud Detection & Prevention Techniques

- Related to both the Overall Entity Assessment and the Business Unit/Process Assessment, the integration of specific fraud prevention and detection techniques will need to be deployed at the global and business unit/process level
- Implementing these techniques might include the establishment of policies/procedures, business re-engineering and software solutions
- The company should establish the right mix of controls and techniques to mitigate the risk of fraud within the organization

Control Environment

- Organizational structure of institution
- Management's philosophy and operating style
- Integrity, ethics, and competence of personnel
- External influences that affect operations and risk management practices
- Attention and direction provided by the Board of directors and its Committees

Fraud Hotlines

- The ACFE 2018 Report to the Nation on Occupational Fraud and Abuse found that anonymous hotlines reduced the impact of fraud losses by 50%
- In fact, researchers noted that organizations without anonymous reporting mechanisms suffered median losses that were more than twice as high as organizations where such mechanisms had been established

Fraud Hotlines

- Determine your institution's needs
- The set up of the hotline is very important for maximum effectiveness
- Service 24 hours days, 365 days a year
- Announcing the hotline
- Initial communication from CEO to provide proper emphasis and importance
- Available to employees, customers, and vendors
- Handling tips completely and anonymously
- Develop a reporting structure with built in checks and balances

Hiring and Promoting Employees

- Conduct background investigations on individuals being considered for employment or for promotion to a position of trust
- Thoroughly checking a candidate's education, employment history, and personal references
- Periodic training of all employees about the institutions values and code of conduct

Hiring and Promoting Employees

- Incorporating into regular performance reviews an evaluation of how the individual has contributed to creating an appropriate workplace environment in line with the institutions values and code of conduct
- Continuous objective evaluation of compliance with the entity's values and code of conduct, with violations being addressed immediately

Evaluation - Fraud Risk Assessment

- Identify business units/processes, including entity level or a global view, to assess
- Identify possible fraud risks/scenarios within each assessed area. Be sure to include internal and external fraud situations
- Identify fraud responses (internal controls, physical protections, detection tools, etc.)

Evaluation - Fraud Risk Assessment

- Identify any “gaps” where a fraud scenario does not have an adequate fraud response
- Measure the individual fraud scenarios based on impact and likelihood
- Value the individual fraud scenarios as a group to arrive at the assessed area’s overall fraud susceptibility

Evaluation - Fraud Red Flags

Organizational

- Weak Corporate Culture and Ethics
 - No Code of Ethics or Code not enforced
 - No policy on Conflict of Interest
- Lack of Board Oversight
- Ineffective and/or uneducated Board or Audit Committee
- Absence of clearly defined authority
- Weak leadership
- Dominant top management
- Crisis management

Evaluation - Fraud Red Flags

- Employees
 - Rapid turnover
 - No rotation of duties/employees (only person who can perform duties)
 - Insufficient staffing
 - Lack of accountability
 - Unusual activity
 - Defensive attitude
 - Living beyond means

Evaluation - Fraud Red Flags

- Employees
 - Lack of vacations/leave
 - Unusual work hours
 - “Holding” work during vacation
 - High debts
 - Never out of balance – balancing perfectly all the time
 - Secretive, territorial

Evaluation - Investigation

- Validate assertions
- Be prepared to face obstacles and risks
- Bring the issue to the attention of the appropriate supervisor, if applicable
- Don't always confront after one finding - many times, there's more

Evaluation - Investigation

Anticipate management's reaction to fraud

- Denial, anger, rationalization, depression, acceptance

Assemble team to investigate – Should have collective knowledge

- Internal Audit
- External Audit
- Legal Counsel
- Human Resources
- Security

Communicate on a “Need to Know” basis

- Discreetly
- With sensitivity
- Keep workpapers secure

Response

Establish effective internal controls

- Segregation of duties
- Mandatory vacations
- Performance reviews
- Prohibition of insider transactions
- Conflict of interest policy – require full disclosure
- Employee expense account reviews
- Surprise audits/inventories/inspections
- Selective hiring practices through background investigations and reference checks
- Effective employee assistance programs

Response

- Appropriate and consistent actions should be taken against violators
- Relevant internal controls should be assessed and improved
- Communication and training should occur to reinforce the entity's values, code of conduct, policies, and expectations

Reporting

- Clearly distinguish between conclusions (fact based) and opinions (supposition)
- Avoid any opinions relating to guilt or innocence
- Ensure evidence follows all legal requirements
- If providing originals, always maintain copies
- Safeguard all evidential matter

Reporting

Presentation of Information

- Chronological
- By Transaction
- Use Exhibits effectively
- Clearly establish chain of custody of all evidential matter

Q&A



10 Minute Break



Risk Assessments and Value-Add Audits

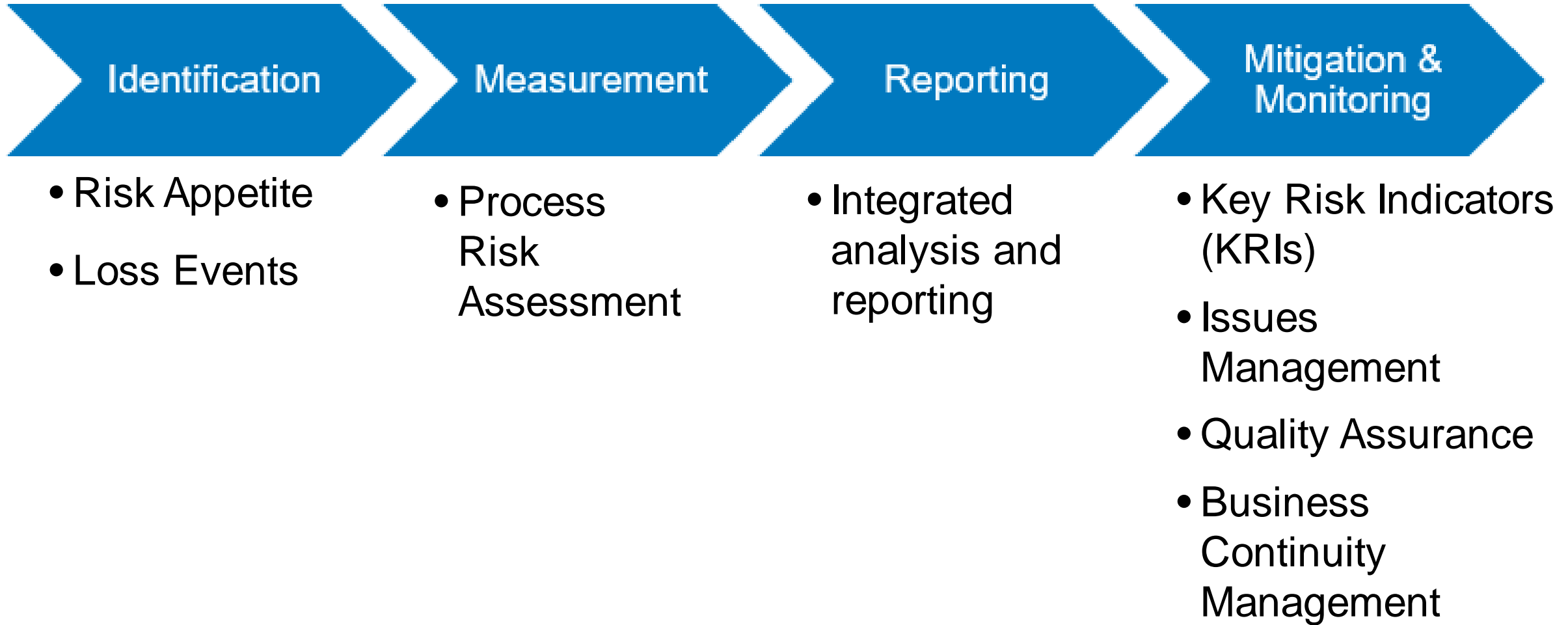
Agenda

- Risk Management Framework
- Risk and Control Relationship
- Conducting the Risk Assessment
- How the Risk Assessment Adds Value



Risk Management Framework

Risk Management Framework



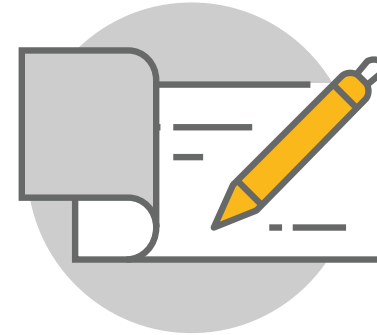
Risk and Control Relationship

Risk and Control Relationship

- Materiality of risks should inform the control design
- Controls are designed to mitigate inherent risks but do not eliminate risk completely
- Inherent Risk is driven by
 - Impact (financial/ non-financial, recovery time, pervasiveness)
 - Likelihood
- Control design and operating effectiveness inform Residual Risk

Key Characteristics of a Good Control

- Purpose and Alignment
- Definition and Measure
- Maturity
- Efficiency
- Ownership and Transparency
- Capability
- Level of automation
- Complexity
- Velocity of detection



Purpose and Alignment

- Is the control used to manage a risk?
 - Mitigate an existing risk
 - Detect a potential risk
- Is there alignment with organization mission, vision, values, and business objectives?
- What is the value proposition and are controls consistent with this?
- Is the control aligned to an existing process?
 - Material processes (volume, value, complexity)
 - Aggregation of non-material processes
 - End-to-end view



Definition and Measure

- Is the control well-defined?
- Is the control well-documented?
 - Policy, guidelines, operating procedure
- Is the control measurable?
 - Reasonableness vs. precision
- Is the control **operating** at a level to detect variances?
 - Dollar thresholds
 - Are all applicable attributes included in the control (existence, completeness, accuracy, etc.)



Maturity

- How long has the control been in place?
- Is it a new control or a change to an existing control?
- How long has the control owner executed or been responsible for the control activity including the reviewer?
- Is the control relevant?
- Is the control maturity in synch with the process maturity?



Efficiency

- How efficiently does the control operate?
- Inputs and outputs – what resources are used to gather/use the inputs
 - Resources – effort, time, and level, (non-) automated potential alternatives for all factors during the analysis
- Outputs – what output is created?
 - Can the output be enhanced/improved? If so and in what way? What impact would it have on the inputs (cost, time, effort)

Ownership and Transparency

- Who is the control owner?
- How many people are involved with the exercise of the control?
- If the control breaks down, what's the escalation process, within and outside control area?
- Is the control activity included in the documented procedures?



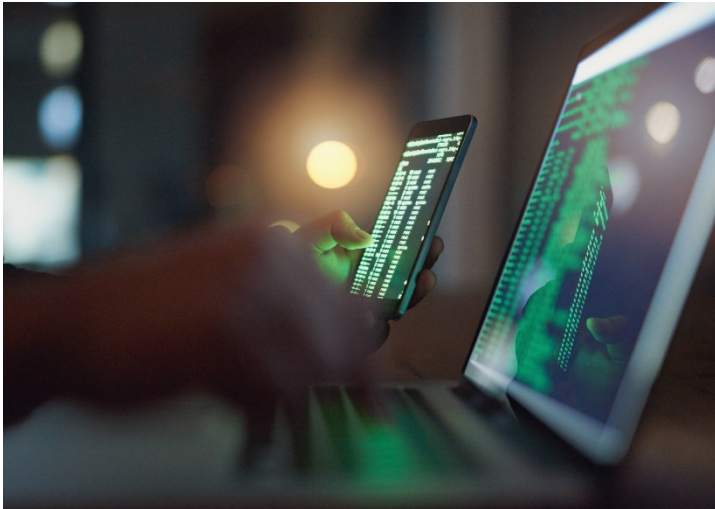
Capability and Velocity of Control Design

- Does the execution of the control require specialized knowledge or skill – by all individuals that are part of the control (preparer and reviewer)?
- Does the output/report generated as part of the control require specialized knowledge to review and understand?
- When the control fails, how long will it take to be detected and by whom?
- If the control is not being executed, who will detect it and how?
- How often does the risk change, who will detect this change and how?

Level of Automation and Complexity

- **Level of Automation**

- Fully manual
- System utilized for some automation
- Control is IT dependent for system sign off
- Control is IT dependent for reports or monitoring
- Control is fully automated



- **Complexity**

- Number of inputs
- Number of hand-offs
- Volume of documentation
- Interdependencies
- Number of steps
- Number of regulatory requirements related to the control
- Level of subjective criteria used
- Number of assumptions used

Conducting the Risk Assessment

Polling Question #12:

How comfortable are you when it comes to conducting risk assessments?

- A. Not at all
- B. Only slightly
- C. Fairly comfortable
- D. Very comfortable

Conducting the Risk Assessment

- **Beginning the Process**

- Leveraging existing knowledge and documentation
- Reviewing prior internal audit and/or compliance findings
- Reviewing and understanding changes in the business which may include key strategic initiatives
- Reviewing external auditor findings
- SEC comment letters and other regulatory findings including enforcement actions

Conducting the Risk Assessment

- **Beginning the Process (cont.)**

- Methods for executing the Process-Level Risk Assessment include the following see:
 - Individual Interviews
 - Facilitated workshops
 - Electronic surveys
- Depending on the auditor's knowledge of the organization and complexity of the process, it may be useful to complete the Risk Assessment via desktop procedures and then review results with key stakeholders.

Conducting the Risk Assessment

- **Individual Interviews**

- time-efficient for the client person being interviewed
- May result in some bias in views obtained about risk
- May stretch the process of information gathering out over time due to scheduling issues, availability of right people, etc.

- **Facilitated sessions:**

- Can be simple or complex
- Can have great value by themselves because of the opportunity for key stakeholders to exchange and compare views on business risks – a rich dialog that can create new insight, perspectives in addition to guiding internal audit plans and activities
- Take a significant investment by audit team to plan and conduct effectively

- **Electronic Surveys**

- Have the ability to gather a large amount of input from varied sources very cost-effectively, and
- Permit anonymous (and therefore candid) input about risk from people
- May take additional time to sort key risks from non-key risks
- May require follow-up conversations with respondents to understand the survey responses

Conducting the Risk Assessment

- **Evaluating Inherent Risk**

- Inherent risk factors should be evaluated for all Auditable Entities.
- Inherent Risk Factors include the following:
 - Significance of Business Risk
 - Changes in System, Processes, Personnel or Budgets
 - Organizational Impact
 - Degree of Automation
 - Complexity of Processes, Systems, or Applications
 - Significance of Regulation/Compliance
 - Size and Volume of Transactions



Conducting the Risk Assessment

- **Evaluating Residual Risk**
- Residual risk is the risk remaining after the consideration of controls.
- Factors to Consider in the evaluation:
 - Past Issues specific to the process/activity, i.e. audit findings, control breakdowns and process failures
 - Existence and quality of policies and procedures
 - Existence and quality of performance monitoring and key performance indicators
 - Is the process operating efficiently and effectively?
 - Are there process-level performance metrics that would help evaluate this?

How the Risk Assessment Adds Value

Adding Value – Internal Audit C.A.R.E.S.!

- Customized Internal Audit Approach
- Approach that accounts for the business environment
- Risk Driven Focus to the Organization
- Event Identification to Enhance the Control Environment
- Specialized Scopes



Polling Question #13:

Following this session, do you have a better understanding of how to perform risk assessments?

- A. Yes
- B. Somewhat
- C. Not Really

Q&A



Questions? Thank You!

Maria Mora, Senior Manager

+1 (646) 356-4439

Maria.Mora@crowe.com

Stacia Schacter, Manager

+1 (202) 552-8051

Stacia.Schacter@crowe.com

Sarah Schwartz, Senior

+1 (954)-202-8543

Sarah.Schwartz@crowe.com

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