



Item 6 – Audit Enhancement Plan Summary of Response

The Federal Reserve has requested that the Bank develop and implement a plan to enhance the internal audit program with respect to residential mortgage loan servicing, loss mitigation, and foreclosure activities and operations.

Internal Audit performed an evaluation of the effectiveness of the Home Lending audit program to develop an enhanced audit approach and coverage plan. Evaluation conclusions and recommended enhancements include:

Evaluation Conclusions

- Significant audit work has been completed or is included in the 2011 plan; however, coverage has not always kept pace with the increasing risk in some areas and the scope of coverage was not consistently inclusive of certain risks (e.g. state law compliance).
- The previous audit coverage resulted in identification of significant issues with agreed upon action plans. While management addressed many of the actions, the root cause of issues was not clearly called out by Internal Audit or addressed by management on a consistent basis and issues reappeared as the environment changed.
- While the reporting of audit issues and status was in place, due to the rapidly changing environment and the magnitude of issues, increased dialogue in risk and control forums and business reviews might have refocused attention on key outstanding issues for more timely and effective remediation.

Enhanced Audit Coverage Plan

- Audit plan hours were significantly increased to accelerate coverage of mortgage loan servicing, loss mitigations, and foreclosure activities and operations over the next 18 months. These areas would typically be covered over a 3 year time horizon.
- The scope of audits will be enhanced to include focus on areas of previous control weaknesses including business practices/customer experience, third party vendors, legal documents, and state law compliance.
- Additionally, Internal Audit will consider the need to adapt this plan throughout the year as the business and operating models change to meet the requirements of the Consent Order.

Staffing

- Aggressive actions were taken to build out the Home Lending audit team to meet the requirements of the enhanced plan. Experienced resources were obtained from other JPMC Audit teams, a staff augmentation arrangement was entered into with an external firm specializing in large scale audit staff augmentations in financial services organizations, and external recruiting efforts were ramped-up.
- There are currently approximately 65 staff aligned to complete the revised plan, which is approximately double the historical allocation of resources. As the Internal Audit plan is re-evaluated for changes in risk dynamics, resource levels will be periodically re-assessed for appropriateness.



Review of Enterprise Compliance Program and Enterprise Risk Management

There are three key components of coverage of the Home Lending Enterprise Compliance Program and Enterprise Risk Management:

- Internal Audit will perform a comprehensive review of the Compliance and Risk Management programs for Home Lending, with specific focus on mortgage loan servicing, loss mitigation, and foreclosure activities following the complete implementation of the Consent Order action plans.
- The effectiveness of the Compliance and Risk Management programs is considered for review within the scope of applicable audits of the mortgage loan servicing, loss mitigation and foreclosure operations areas.
- Internal Audit will validate closure of action plans associated with the Consent Orders for Compliance and Risk Management.

Audit Finding Resolution and Follow-up

- In 2010 several refinements were made to the Audit Practice to ensure the timely and effective resolution of audit findings as follows:
 - Root Cause – specific identification of root cause of control issues in audit reports and monthly reporting.
 - Control Self Assessment – explicit conclusions on the effectiveness of the self assessment in audit reports and monthly reporting.
 - Follow-up Audits – acceleration of Needs Improvement follow-up audits from 18 to 12 months.
 - Regulatory MRA – validation of appropriate closure of regulatory issues within 60 days of closure by management.
- Regular reporting and active dialogue on the status of the Home Lending Audit plan, results, and status of corrective measures will be incorporated in the Home Lending risk and control forums, and business reviews.

Audit Committee Reporting

- Internal Audit will provide specific Home Lending Audit updates to the Audit Committee in addition to existing reporting on Retail Financial Services. These updates will include the Home Lending Audit plan status, results, and action plans starting with the July Audit Committee meeting.
- Additionally, management will be expected to report on the status of the Home Lending control environment at least semi-annually to the Audit Committee, including the status of open Audit Issues.