



# Internal Audit Plan

Date Prepared: June 27, 2011

Date Revised: December 7, 2011

2<sup>nd</sup> Date Revised: December 15, 2011

3<sup>rd</sup> Date Revised: December 22, 2011

4<sup>th</sup> Date Revised: January 12, 2012

The Order states:

*Within ninety (90) days of this Order, the Holding Company shall submit to the Regional Director an acceptable written plan to evaluate the effectiveness of, and strengthen, the Association's current internal audit program in the areas of residential mortgage loan servicing, Loss Mitigation, and foreclosure activities and operations, as detailed in the Association Order.*

## **Response**

The Board of Directors (Board) of EverBank Financial Corp believes the Internal Audit function, which operates within EverBank, is effective.<sup>1</sup> The Internal Audit Department is committed to providing EverBank an effective, independent resource for the ongoing evaluation of residential loan processing. Internal Audit is enhancing its oversight of mortgage servicing by increasing the frequency of audits, strengthening the standards by which audits are conducted, and adding staff, technology resources, and training. The Audit Committee and Internal Audit identified Default Servicing, which includes Foreclosure and Loss Mitigation, as a key audit area in its 2010 Plan. Internal Audit has begun the process of evaluating the frequency and depth of audit plans in all Mortgage Loan Servicing. Additionally, Internal Audit will adjust its audit schedule/scope accordingly if external or internal events indicate such a need.

## **Audit Plan**

Presently, the 2011 Plan includes the already-completed Foreclosure Audit (*report issued 4/26/11*); other servicing audits in the 2011 Plan, and their scheduled commencement dates, are:

- Default Accounting – 3Q11;
- Asset Management (REO) - 4Q11; and
- Portfolio Development - Loans Serviced by Others (LSBO) – 4Q11.

Loss Mitigation activities were most recently reviewed during the Default Servicing Audit (*report issued 12/9/10*). In 2012 and beyond, Default Servicing will be an annual audit, ensuring that Foreclosure, Loss Mitigation and its other key activities are audited frequently and thoroughly.

Refer also to the 2012/2013 Internal Audit Plan, to be presented to, and approved by, the Audit Committee of the Board of Directors at its December 8, 2011 meeting. This provides additional

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<sup>1</sup> In support of the Board's own assessment, in 2010 the Audit Committee approved an independent third party to conduct an initial Quality Assurance Review. This review served as an independent assessment of Internal Audit's compliance with the International Standards of the Institute of Internal Auditors (IIA). In its final report, the independent third party noted that the Internal Audit Department complied with these Standards.

details regarding the timing of Servicing-related audits over the next two years, and summarizes the 2011 Plan results to date.

The final report for Default Accounting has been issued. Both the Asset Management and LSBO audits were moved into the 2012 Plan, primarily because of the time sensitivity to complete the Loss Share and MERS audits within 2011.

In addition, Internal Audit will be conducting its initial audit of the new Compliance Oversight and Process Support (COPS) unit this year, and is scheduled for 4Q11. Because COPS also has a key role in evaluating Servicing's operational and compliance processes, this will be an annual audit going forward. The Board anticipates this will be a broad, comprehensive audit, and will include a review of the five COPS units: (1) Compliance Program, (2) Lending Compliance, (3) Deposit Compliance, (4) Reporting & Analytics, and (5) Monitoring & Testing. COPS will be regularly conducting compliance and operational testing and reporting in Default Services and other Mortgage Loan Servicing areas, so Internal Audit will evaluate the adequacy and effectiveness of these reviews.

The initial COPS is now underway, to be completed and the final report issued likely in late January 2012. Like Default Services, this is now scheduled as an annual internal audit.

Internal Audit also recognizes the need for ongoing analyses of key performance indicators and other trending data between scheduled audits, and now has an initiative to perform such data analyses relating to Default Servicing. Internal Audit will begin by obtaining an understanding of Default Servicing's regular reporting requirements, and determine how it can augment these reports with its data analyses from an audit perspective. Using the programming and stratification features of Microsoft Excel, it will begin running analytical reports in 3Q11, refining these by trial and error.

However, more robust tools will be needed, so Internal Audit and advisors from our Technology Services Division are presently meeting with vendors to evaluate, and ultimately select, audit software tools for data mining and analysis. Internal Audit anticipates having this software selected and in place by YE11.

This project will eventually evolve into a broader, enterprise-wide continuous auditing and monitoring approach that will sync with EverBank's enterprise risk management process.

Internal Audit's Investigations/Support Team has been assigned the lead responsibility for the continuous auditing program. The pilot program, a review of Foreclosure KPIs (*Key Performance Indicators*) is underway.

EverBank is meeting with outside vendors to select a possible automated software solution, which will carry into 2012. However, EverBank has an interim plan that may prove of greater benefit. It learned that one of its IT Auditors has extensive programming experience, and is skilled with various query tools internally. She is taking the lead on the queries for the Foreclosure KPI pilot.

### **Board Reporting**

The Director of Internal Audit will present a progress report at each quarterly Audit Committee Meeting, beginning with the July meeting. This report will include the following:

- The results of Mortgage Loan Servicing Audit Reports issued since the last Committee meeting;
- The status of related audits/projects in progress;
- Development and results of the aforementioned data analytics, continuous auditing project; and
- Any other noteworthy developments.

Internal Audit now has a wealth of subject matter expertise, from an audit perspective, for Default, Foreclosure, and Loss Mitigation, and will continue to develop these skills and knowledge base as the Department grows to meet business and risk demands. Three additional positions on the Financial/Operations Team will be filled in 2011.

This reporting process to the Audit Committee continues.

The team members have augmented their SME experience with additional related audits this year (*Loss Share, Default Accounting, MERS, etc.*).

Two of the three open Fin/Ops positions have been filled, and the third will be by early January (*interviews are underway*).

The Board of EverBank Financial Corp is committed to full compliance with the Consent Order. Additional details on Internal Audit can be found within Section 11(o) of EverBank's Compliance Program on the enclosed CD.

### Additional Comments Regarding Federal Reserve Follow-Up, Specific to Audit Plan

1. i. Staffing Levels – Excepting the continuous auditing initiative mentioned above, the Financial/Operations (Fin/Ops) Team has the lead role in the execution of Mortgage Operations, including the bulk of the Consent Order requirements. Included in the 2012/2013 Audit Plan to the Audit Committee are organization charts (on pp, 16-17 & 50-51) that present the proposed staff levels and alignments for the Fin/Ops Team for 2012 and 2013.

ii. How staffing levels will be met – Although Internal Audit does not rule out the use of co-sourcing audits of a more complex nature, its plan is to hire and promote organically. Internal Audit is building out its Staff and Senior levels, and will be looking within this group to begin promotions to the Supervisor level as soon as mid-late 2012.

iii. Expertise of staff – Assignments of mortgage operations audits are shared between the two Fin/Ops teams (██████████ and ██████████ are the Audit Managers of each; refer to aforementioned org charts) and based on which team conducted the audit the prior year, to leverage the knowledge already acquired.

iv. How gaps on expertise will be resolved – Internal Audit is always seeking auditors with financial services experience; ██████████  
██████████ However, occasionally, Internal Audit can still find such experience; for example, it recently hired a Staff Auditor with prior loss recovery/mitigation operations experience. EverBank had a much higher profile locally and regionally in recent years, so it is becoming a company of choice for many job seekers. As mentioned earlier, if Internal Audit feels that its in-house experience is not sufficient for a specific audit, it will look to outside consultants, and have funds earmarked in its fiscal plan should the need arise.

v. How identification of all auditable entities was done – Attached is a document that was a synthesis of the various audit universe matrices developed and updated as part of the 2012/2013 Audit Plan. It continues to be a work in progress. This document has been shared with the Audit Committee, with the acknowledgment that further updates and refinement will be forthcoming next year.

2. Reference to SR 03-5, *Amended Interagency Guidance on the Internal Audit Function and Its Outsourcing*- EverBank's reporting structure ensures that Internal Audit maintains independence. The Director of Internal Audit reports directly to the Audit Committee of the Board of Directors, and does not report to any other committee, officer or employee of EverBank. In addition to overseeing and conducting Audit Committee duties, the Chair of the Audit Committee will perform employee evaluations on the Director of Internal Audit, and determine appropriate salaries, incentive compensation, equity awards, and other compensation, with the support of the Human Resources Department.