

Audit	
6.	<p><b>Within 60 days of this Order, JPMC shall submit to the Reserve Bank an acceptable written plan to enhance the internal audit program with respect to residential mortgage loan servicing, Loss Mitigation, and foreclosure activities and operations. The plan shall be based on an evaluation of the effectiveness of JPMC’s current internal audit program in the areas of residential mortgage loan servicing, Loss Mitigation, and foreclosure activities and operations, and shall include recommendations to strengthen the internal audit program in these areas. The plan shall, at a minimum, be designed to:</b></p>
<b>Response</b>	<p><b>Self-Evaluation</b> Internal Audit performed an in depth evaluation of the effectiveness of the Home Lending Audit program to develop an enhanced audit approach and coverage plan. This assessment, while inclusive of the areas identified in the Consent Orders, was completed for the overall Home Lending business to ensure that the audit program was comprehensive and responsive to learnings from control weaknesses identified through the Consent Orders and other regulatory reports. Relevant conclusions from the assessment included:</p> <ul style="list-style-type: none"> <li>• Significant audit work was completed that specifically focused on areas identified in the Consent Orders; however, past coverage did not always keep pace with the increasing risk in some areas (e.g., core servicing) and the scope of coverage was not consistently inclusive of certain risks (e.g., state law compliance).</li> <li>• 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 and issues reappeared as the environment changed.</li> <li>• 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.</li> </ul> <p><b>Process to Fix</b> The Home Lending Audit program has been modified to address these issues as outlined below:</p> <ul style="list-style-type: none"> <li>• Management responsibilities have been streamlined to ensure adequate oversight of the Home Lending Audit Plan and Consent Orders. [REDACTED] Senior Vice President, has overall responsibility for the Home Lending Audit Program. [REDACTED] Managing</li> </ul>

	<p>Director, has been added to the team and will have audit responsibility for Originations and Portfolio Management. He also has responsibility for executing Audit’s response to the Consent Orders. ██████ Managing Director, retains responsibility for residential loan servicing and default related activities, including monitoring Management’s compliance with the Consent Orders.</p> <ul style="list-style-type: none"> <li>• Audit Plan hours were significantly increased to accelerate coverage of mortgage loan servicing, loss mitigation, and foreclosure activities and operations over the next 18 months. The Audit Plan includes all relevant audit activities to achieve a new baseline risk assessment of these functions given the elevated risks and changing business operations. Essentially all areas in Default and Servicing will be reviewed in this revised Audit Plan. These areas would typically be covered over a 3-year time horizon. This Audit Plan covers the period April 1, 2011 to September 30, 2012. Audit expects to issue 71 reports with about 139,000 audit hours of coverage. Please see Appendix A for a summary of the Home Lending Audit Plan and Appendix B for the proposed timing of the reviews.</li> <li>• 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. Planning of audits is based on a fresh assessment of the risk and control framework of the area just prior to the start of the review and includes known problem areas, as well as new and emerging risks. Structured audit tollgates to review and approve audit scopes with active engagement by the Home Lending Audit Management Team will facilitate how this comprehensive coverage will be achieved.</li> <li>• Staffing requirements are derived from the number of hours of coverage in the Audit Plan. Aggressive actions were taken to build out the Home Lending Audit Team to meet the requirements of the revised plan. Experienced resources were obtained from other JPMC Audit Teams, a staff augmentation arrangement was entered into with an external firm (Protiviti), and external recruiting efforts were ramped-up. The resources to execute the plan are approximately double the historical levels. As the Internal Audit Plan is re-evaluated for changes in risk dynamics, resource levels will be periodically re-assessed for appropriateness.</li> <li>• The Internal Audit Continuous Auditing program is a key to monitoring the changes in risk dynamics. The Continuous Auditing program involves: analyzing business management reporting; assessing and monitoring of business key risks and performance indicators; participating actively in stakeholder meetings and oversight committees; monitoring of key financial data; reviewing business scorecards; monitoring the Control Self-Assessment process; assessing new business initiatives; reviewing system</li> </ul>
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	<p>capacity, resiliency, and system outages; and evaluating progress against target dates for audit, regulatory, and business identified issues. This level of engagement keeps a pulse on the control environment and influences identifying key control issues, adjusting audit scopes, and updating risk assessments. Internal Audit summarizes the results of these Continuous Auditing activities in quarterly reports.</p> <ul style="list-style-type: none"><li>• Refinements were made to adverse audit follow-up standards and validation of the closure of action plans from regulatory examinations. Management reporting was also improved to provide greater transparency on audit issues, closure rates, and the effectiveness of corrective measures.</li><li>• Regular reporting on results, emerging issues, themes, status of the Audit Plan, and progress of corrective measures will be incorporated into the Home Lending risk and control forums, business reviews, and provided to the Audit Committee. More active dialogue of the state of the overall control environment in these forums and in the regular course of management discussions will be a key area of focus. Starting in April 2011, Internal Audit leveraged the Retail Audit Executive Management Report (EMR) to generate a separate Home Lending Audit EMR. Weekly reporting on the health of the control environment to Home Lending Executive Management began in June 2011. Revised reporting to the Home Lending Risk Management Committee and/or its appropriate subcommittees will begin in July 2011 and at each meeting going forward. Home Lending Audit reporting to the Audit Committee will begin in July. Status materials will be provided at each meeting with a control environment update quarterly. This level of reporting will continue until Consent Order action plans are implemented and a sustainable satisfactory control environment is in place.</li><li>• Monthly meetings will be held with [REDACTED], the General Auditor, and [REDACTED] the Chief Administrative Officer and Head of Professional Practices, to review the status of Audit's compliance with Consent Order requirements.</li><li>• The Audit Reporting Policy was clarified in June 2011 to clearly outline the protocols for resolving any differences of opinion between Internal Audit and management concerning audit issues or recommendations. This policy will be reviewed with the Audit Committee in July 2011.</li></ul>
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**Sustainability**

Several efforts are in place to focus on sustainability of the Audit actions:

- Ongoing training is essential to ensure Internal Audit stays abreast of emerging risks in the industry and maximize the effectiveness of our Audit Team. Internal Audit will hold at least quarterly training sessions led by a rotating group of public accounting firms to understand mortgage industry perspective and changes in risk dynamics from a variety of sources.
- Internal Audit actively participates in mortgage Audit peer group forums to promote a dialogue around industry challenges and approaches and benchmark staffing and qualifications.
- Efforts to identify and articulate the root cause of problems will facilitate developing appropriate and sustainable action plans to address problems. Internal Audit will work with management to identify the root cause of all key issues in audit reports. In addition, this root cause analysis will be highlighted in the executive summary of all adversely rated audit reports and trends will be discussed in appropriate governance forums.
- Audit reporting of results, themes, and emerging issues will be regular and frequent. Key reporting forums will include: weekly metrics to Home Lending Executive Management, monthly reporting to Home Lending control forums, monthly reporting in the Audit EMR, and frequent reporting to the Audit Committee. The firm is also adjusting quarterly business review agendas to include significant control environment issues. Internal Audit will provide input to this reporting, which is expected to be in place by the fourth quarter.
- A Business Manager and a Protiviti resource were added to the Home Lending Team to focus on the development and regular generation of the Home Lending weekly and monthly reporting packages described in the response.
- Active engagement by the Audit Management Team in all audit tollgate meetings will provide the constant and consistent level of attention to robust coverage of high-risks. Audit coverage scoping will also leverage the inventory universe mapping developed for management reporting, control self-assessments, Sarbanes-Oxley general ledger accounts, legal entities, and high risk elements of system applications, third-party operators, models, and law and regulations.
- Standard Risk Assessment Matrix (RAMS) will be created as part of baseline audit reviews that will be leveraged going forward for sustainability. These RAMS will be in place by the end of the Audit Plan period (September 30, 2012).

	<ul style="list-style-type: none"> <li>• Our risk assessment tool and related guidance will continue to be re-evaluated and assessments will be refreshed at least on a semi-annual basis. The auditable entities and the level at which the risk assessments are completed, may also be adjusted as management redesigns the Home Lending organization.</li> <li>• Resource level flexibility is provided by the staff augmentation arrangement with Protiviti. Internal Audit has the ability to expand and renew this contract as needed. In addition, resource levels can vary from month to month based on needs.</li> <li>• Overall, Internal Audit will operate with increased resource levels until Home Lending is operating in a sustained satisfactory control environment.</li> </ul> <p>These efforts are outlined in greater detail in the following pages. In total, they represent a significant commitment to providing robust audit coverage of Home Lending.</p>
<p>6. (a)</p>	<p><b>Ensure that the internal audit program encompasses residential mortgage loan servicing, Loss Mitigation, and foreclosure activities;</b></p>
<p><b>Response</b></p>	<p><b>Audit Planning Process</b> Internal Audit utilizes an Annual Planning Process that designs and implements an appropriate mix of audit coverage focused on key risks. Planned audit coverage:</p> <ul style="list-style-type: none"> <li>• Focuses on highest risks;</li> <li>• Includes required regulatory audits and coverage of key regulations;</li> <li>• Incorporates critical cross-firm risks;</li> <li>• Ensures adequate coverage of high-risk legal entities and locations; and</li> <li>• Includes continuous auditing activities and change activities.</li> </ul> <p>Audit planning includes:</p> <ul style="list-style-type: none"> <li>• Confirming the inventory of auditable entities;</li> <li>• Performing risk assessments of auditable entities; and</li> <li>• Determining planned audit activities.</li> </ul> <p><b>Home Lending Audit Plan</b> In developing the revised plan, Internal Audit: (1) took steps to ensure the overall Home Lending plan is comprehensive, reflective of the current risk environment, and inclusive of all relevant auditable activities; (2) assessed prior audit coverage and control weaknesses in Home Lending to ensure learnings were appropriately included in the revised plan; and (3) considered the need for</p>

flexibility to adapt the plan as the business and operating models change to meet the requirements of the Consent Order.

Internal Audit conducted a series of audit universe checks, which were more comprehensive than conducted during Annual Planning, to ensure auditable entities and audit activities were complete. These checks included mapping the following:

- Weekly management information systems and organization reporting;
- Control Self-Assessments;
- Sarbanes-Oxley general ledger accounts; and
- Legal entities.

Additionally, Internal Audit leveraged existing Bank risk assessments or conducted their own assessments to map to the highest risk elements of the following:

- System applications;
- Third-party service providers;
- Models; and
- Laws and regulations.

Internal Audit assessed our prior audit coverage and the control weaknesses that occurred in Home Lending and determined that additional emphasis should be placed in our individual audit planning and risk assessment process to establish the audit scope related to the following areas: 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. Internal Audit will report any significant changes to the plan to Home Lending Senior Management and the Audit Committee and will capture these changes as part of the continuous auditing memorandum. A formal reforecast of the plan will occur at least quarterly.

As a result of this assessment, Internal Audit developed a comprehensive Home Lending Audit Plan that includes loan servicing, loss mitigation, and foreclosure activities. The Audit Plan highlights are outlined below:

- We expect to issue 71 audit reports utilizing about 139,000 hours of coverage. The Audit Plan covers the period April 1, 2011 to September 30, 2012 and Internal Audit expects to execute this Audit Plan over this 18-month time horizon. Please see Appendix B for the proposed schedule of audits to occur and those that have already been completed.

- Resources are approximately double the historical levels. As the Internal Audit Plan is re-evaluated for changes in risk dynamics, resource levels will also be re-assessed for appropriateness.
- Internal Audit utilized our risk assessment tools to develop this plan. Based on the Consent Orders, the coverage in loan servicing, loss mitigation, and foreclosure activities was accelerated over the next 18 months and includes all relevant audit activities to achieve a new baseline risk assessment for these functions given the elevated risks and changing business operations. We essentially will review all areas in Servicing and Default in this Audit Plan. These areas would typically be covered over a 3-year time horizon. Please see Appendix A for the complete list of entities that have been selected for review.

Areas of focus for the Home Lending plan include:

- Significant attention is directed to Consent Order commitments, including validation of action plans and remediation efforts shortly after completion with reporting on inappropriately closed action plans.
- Audit coverage will be accelerated for loan servicing, loss mitigation, and foreclosure operations areas and will provide an opinion on the overall control environment at the time of the audit.
- The scope and depth of these reviews will be expanded to include consideration of audit testing related to business practices/customer experience, third-party vendors, legal documents, and state law compliance.
- Reviews in accordance with Internal Audit's change activity methodology will be conducted with expected deliverables for high-risk system development, Consent Order system initiatives, and data management enhancements to ensure effective project governance and execution.
- Attendance at the newly implemented weekly Home Lending Metrics Meetings and evaluation of reporting will provide an update on each business in terms of key metrics and results as well as discussions on strategy and approach to inform our ongoing risk assessment process which will be documented in the quarterly continuous auditing memorandums. Metrics on the health of the control environment will be included in these weekly updates.

	<ul style="list-style-type: none"> <li>• Audit tollgate meetings will be enhanced to improve the appropriateness, consistency, and depth of coverage. These planning, fieldwork, and reporting tollgates are held at key checkpoints during the course of an audit and include Home Lending Audit Management and now include active participation from key subject matter experts from the Consumer Finance, Risk, and Compliance Audit teams. These tollgate meetings will also leverage the universe mappings prepared to develop the audit plan.</li> </ul> <p>Open Action Plans:</p> <ul style="list-style-type: none"> <li>• Review the revised Home Lending Audit plan with the Audit Committee (July 31, 2011).</li> <li>• Leverage Compliance tools developed as part of the Consent Order to map applicable regulatory guidance and federal and state laws to audit activities in the plan to ensure appropriate consideration of coverage (September 30, 2011).</li> <li>• Hold monthly Audit Consent Order status meetings with [REDACTED] General Auditor, and [REDACTED] CAO and Head of Professional Services (July, 31, 2011).</li> <li>• Provide reporting on the health of the control environment to the Home Lending Risk Management Committee and/or the appropriate subcommittee (July, 31, 2011).</li> <li>• Develop standard RAMS for baseline audits (September 30, 2012).</li> <li>• Provide control environment updates to the quarterly business reviews (December 31, 2011).</li> </ul>
<p>6. (b)</p>	<p><b>Periodically review the effectiveness of the ECP and ERM with respect to residential mortgage loan servicing, Loss Mitigation, and foreclosure activities, and compliance with the Legal Requirements and supervisory guidance of the Board of Governors.</b></p>
<p><b>Response</b></p>	<p>There are three key components of the audit coverage of the Home Lending Enterprise Compliance Program (ECP) and Enterprise Risk Management.</p> <ul style="list-style-type: none"> <li>• The effectiveness of the Compliance and Risk Management programs will continue to be considered for review within the scope of applicable audits of the mortgage loan servicing, loss mitigation and foreclosure operations areas. This approach allows for ongoing assessment of the components of the ECP and ERM through the audit plan period. Appropriate coverage of these activities will be monitored through the audit tollgate process. Compliance related issues will be integrated into these audit reports.</li> </ul>

	<ul style="list-style-type: none"> <li>• Internal Audit will validate closure of action plans associated with Matters Requiring Attention (MRA) and Matters Requiring Immediate Attention (MRIA) from regulatory examinations and actions plans associated with the Consent Orders for these two Programs and report on instances of inappropriate closure. Coverage will be provided by a combination of audits, follow-up audits, and stand alone validation reviews. This approach affords timely assessment of changes made to ECP and ERM through the Consent Orders.</li> <li>• In order to ensure comprehensiveness and sustainability of ECP and ERM, Internal Audit will perform an overall annual review of the Compliance and Risk Management programs for Home Lending beginning in 2012. The specific focus of the review will be on mortgage loan servicing, loss mitigation, and foreclosure activities following the complete implementation of the Consent Order action plans. The scope of these reviews will include assessing risk identification, measurement, monitoring/control, and reporting. Internal Audit will incorporate conclusions as appropriate from any other audits in the plan where Compliance and Risk policies or practices were included in the scope. The review will be conducted toward the end of the audit plan period to provide a view as to sustainability and impact to the revised programs. Internal Audit will leverage the inventory of applicable legal and supervisory requirements created by outside legal counsel in response to the Consent Orders to facilitate this review and will evaluate management’s change management practices to the inventory as part of this review.</li> </ul> <p>The frequency of compliance and risk management audits will be re-evaluated each year as part of our annual planning exercise.</p> <p>Open Action Plan:</p> <ul style="list-style-type: none"> <li>• Complete audits of the Home Lending Enterprise Compliance Program and Enterprise Risk Management (September 30, 2012).</li> </ul>
6. (c)	<p><b>Ensure that adequate qualified staffing of the audit function is provided for loan servicing, Loss Mitigation, and foreclosure activities;</b></p>
<b>Response</b>	<p>As the revised Home Lending Plan was being developed, we worked to significantly expand the size and experience of the Audit Team. The Plan contemplates approximately 139,000 hours of audit work, which will require on average about 55 auditors to execute the work over the 18-month time horizon from April 1, 2011 through September 30, 2012. The staff to complete this plan will fluctuate in size depending on the audit schedule. Resources aligned to the Home Lending Audit Plan have an average of 12 years of experience and 49 percent have professional certifications. Several steps have been taken to</p>

augment the Home Lending Audit Team as follows:

- The Home Lending Audit Team continues to report to [REDACTED], the Chief Auditor of Retail Banking and Home Lending. [REDACTED], the Consumer Lending and Payments Chief Auditor, has assumed responsibility for Consumer Business Practices, including Home Lending, to provide additional focus and oversight of these key initiatives.
- Seven experienced top performing auditors, primarily Vice Presidents, transferred from other Line of Business Audit Teams. This allowed the Home Lending Team to add Audit Managers and Auditors In-Charge to increase experience and proven leadership across the team, provide a fresh perspective to assessing risk in the Home Lending business, and to assist in the on-boarding and ongoing quality assessment of Protiviti resources. While they do not bring specific mortgage experience, they bring strong audit backgrounds and a solid foundation of JPMC Firm and audit practices to supplement existing mortgage expertise on the team.
- Internal Audit entered into a staff augmentation arrangement with Protiviti, an external firm. Protiviti is a leading firm specializing in internal audit services with significant experience in large scale audit staff augmentation projects in the financial services space. This firm will provide at least 20 experienced consultants that will operate under the direction of JPMC Internal Audit for at least the next 12 months, with an option to extend the contract as necessary. These resources are included in executing the planned 139,000 hours of coverage. These resources provide an immediate staffing solution while Internal Audit continues to recruit for permanent qualified full time hires. They will also provide subject matter experts for certain engagements. Internal Audit provides Protiviti with resources requests including level, skills needed, and assignment duration. Protiviti provides resumes on candidates to meet the requirements. Chase Internal Audit managers review resumes and conduct interview screens to select the consultants to join the engagement. The primary Protiviti consultants were trained and on-boarded in mid-April with additional resources being added as necessary throughout the remainder of the Audit Plan period. After proving their capabilities, selected consultants have been identified to In-Charge various upcoming audits under the direction of a JPMC Internal Audit Manager and Senior Audit Manager. Please see Appendix C for the Protiviti Services Schedule. This contractual arrangement was coordinated through the firm's Procurement Services group and was conducted in accordance with JPMC Procurement standards, including a competitive bidding process. Five firms provided detailed responses and presentations to respond to the request for proposal. Protiviti was selected based on their

	<p>ability to consistently provide the strongest internal audit resources accompanied by mortgage and financial services experience. The contract was approved by ██████████, JPMC General Auditor.</p> <ul style="list-style-type: none"> <li>• While the Home Lending Audit Managers were historically fully dedicated to Home Lending, Internal Audit migrated to a completely dedicated Home Lending staffing model from a pooled staffing concept across the Retail Audit Team to further build mortgage expertise.</li> <li>• Additionally, Internal Audit continues to leverage subject matter expertise resident on other audit teams (e.g., Risk, Compliance, Technology) across the Internal Audit Department as necessary to supplement expertise.</li> </ul> <p>Internal Audit conducted comprehensive mortgage training for the transferred employees and the external consultants to facilitate integration on the Home Lending team. Internal Audit will continue to evaluate ongoing training options as necessary, including those being developed by Home Lending in conjunction with the Consent Order. Ongoing training is essential to maximizing the effectiveness of our Audit Team. We will hold at least quarterly training sessions led by a rotating group of public accounting firms to understand mortgage industry perspective and changes in risk dynamics from a variety of sources.</p> <p>Recruiting efforts have been focused on hiring additional resources for permanent positions on the Home Lending Team, including individuals with specific mortgage servicing and loss mitigation experience to reduce reliance on external resources over time. To date 6 auditors have been hired for the Home Lending Team.</p> <p>As the Internal Audit plan is re-evaluated for changes in risk dynamics, resources levels will also be periodically re-assessed for appropriateness. Please see Appendix D for the Home Lending Audit Team Organization Chart.</p> <p>Open Action Plan</p> <ul style="list-style-type: none"> <li>• Hold quarterly mortgage industry update training sessions (September 30, 2011)</li> </ul>
<p>6. (d)</p>	<p><b>Ensure timely resolution of audit findings and follow-up reviews to ensure completion and effectiveness of corrective measures;</b></p>
<p><b>Response</b></p>	<p>In 2010 Internal Audit made refinements to the Audit Practice to ensure the timely and effective resolution of audit findings. These refinements included highlighting the root cause of audit issues more clearly in audit reporting and management dialogues, explicitly stating whether the Control Self-Assessment</p>

for the area was effective, accelerating follow-up of Needs Improvement audits, and validating the closure of regulatory MRAs as outlined below:

- Root Cause – Internal Audit began specifically identifying the root cause of audit issues in audit reports and other management reporting including the monthly Audit EMR. The root cause analysis provides clarity on the comprehensiveness and appropriateness of management’s actions to resolve the issue and may point to more systemic concerns such as capacity, management oversight, and data architecture.
- Control Self-Assessment – Internal Audit also added a section to audit reports and includes commentary in the monthly Audit EMR to explicitly state whether the Control Self-Assessment for the area under review appropriately identified the control failures reported in the audit.
- Follow-up audits – Internal Audit accelerated the follow-up standard for Needs Improvement-rated reports from 18 to 12 months. The standard for follow-up of Inadequate-rated reports is six months. Management reporting is in place to monitor compliance with these follow-up standards. This reporting tracks when follow-up reviews are required and the status of validation efforts until the follow-up report is issued. Adversely rated audit reports are reported to the Audit Committee. Please see Appendix E for the Audit Reporting Policy which outlines audit rating definitions and guidelines.
- Regulator MRA – Internal Audit now has an audit practice standard in place to conduct validation of the closure of OCC and FRB MRA and MRIA. These action items are tracked on the [REDACTED] system, a tool to track the status of management, Internal Audit, and regulator identified issues. Coverage will be provided by a combination of audits, follow-up audits, and stand alone validation reviews. This approach affords timely assessment of changes. We are in the process of mapping Consent Order responses and expected target dates to determine whether the validation work will be performed as part of an audit or whether the work will be a stand alone validation exercise. Senior management will receive a memorandum outlining key issues identified in the validation work, including any applicable new action items, owners, and target dates. If the deliverable is an audit report, we will highlight the Consent Order action plans included in the scope of the review and our validation conclusion. We will report results in our weekly Home Lending Metrics Executive Summary report to Home Lending executive management, Audit EMRs, and Control Committee and Business Review reports. Management reporting is in place to monitor compliance with this MRA/MRIA validation standard. Results of MRA/MRIA validations will be summarized for the Audit Committee.

	<p>These practices are all currently being followed by Home Lending Audit team and follow-up audits to validate the effective closure of open audit issues have been incorporated into the revised Audit Plan submitted as part of the Consent Order response. Beginning in 2011, Internal Audit also began reporting emerging key results and issues to the Head of Home Lending on a weekly basis. Monthly, Internal Audit reports the status of action items from adverse rated reports, key control issues, and regulatory examinations in the Home Lending EMR. Revised target dates and the rationale for the revisions will be highlighted in the EMR for management. Additionally, Internal Audit is creating a standard reporting format for risk and control forums which will include providing an aggregate view of the control environment quarterly, and providing current and trended information on root causes, the effectiveness of the control self-assessments, and timely closure of audit issues and regulatory MRAs. Starting in July 2011, the executive summary of adverse rated reports will include a section on the root cause analysis of the key issues identified.</p> <p>In response to the target exam of JPMorgan Chase Internal Audit – Federal Reserve Bank of New York Supervisory Letter Dated March 21, 2011, Internal Audit agreed to develop and implement procedures to validate issues in satisfactory rated reports. To address the recommendation related to approval of revisions to action plan target dates associated with audit-identified issues, Internal Audit is pursuing enhancements to the [REDACTED] system to require audit notification of extended target dates. The preliminary estimate for deployment of this enhancement is the first quarter of 2012. In the interim until such automation is available, we will implement tracking and reporting to formally document our review of the appropriateness of revised target dates associated with audit-identified issues.</p> <p>Open Action Plan:</p> <ul style="list-style-type: none"> <li>• Implementation of procedures to validate issues in satisfactory rated reports (August, 31, 2011).</li> <li>• Implementation of Audit-developed tracking and reporting of target date revisions to audit identified-issues (August 31, 2011).</li> <li>• Enhancement to the [REDACTED] system (March 31, 2012).</li> </ul>
<p>6. (e)</p>	<p><b>Ensure that comprehensive documentation, tracking, and reporting of the status and resolution of audit findings are submitted to the audit committee; and</b></p>
<p><b>Response</b></p>	<p>Status materials will be provided at each Audit Committee meeting with a control environment update provided quarterly. This level of reporting will continue until Consent Order action plans are implemented and a sustainable satisfactory control environment is in place.</p>

	<p>Open Action Plan:</p> <p>Enhance Audit Committee reporting for Home Lending including past due action plans and closure rates (July 31, 2011).</p>
<p>6. (f)</p>	<p><b>Establish escalation procedures for resolving any differences of opinion between audit staff and management concerning audit exceptions and recommendations, with any disputes to be resolved by the audit committee.</b></p>
<p><b>Response</b></p>	<p>Internal Audit revised the Audit Practice Policy on Audit Reporting to further clarify our escalation policy as follows:</p> <ul style="list-style-type: none"> <li>• Differences of opinion regarding audit issues or recommendations that cannot be resolved with the Line of Business Chief Auditor and the Line of Business Chief Executive Officer will be escalated to the General Auditor for discussion with the Line of Business Chief Executive Officer. If agreement cannot be achieved, the issues will be escalated to the JPMC Chairman/Chief Executive Officer for resolution. If such discussions do not result in agreement, the issues will be escalated to the Audit Committee of the Board of Directors for resolution. The policy was revised in June 2011 and was approved by [REDACTED] and the Audit Management Team. To-date, there have been no issues requiring Audit Committee escalation for resolution. Please see Appendix E – Audit Reporting Policy. The escalation protocol will be reviewed with the Audit Committee in July.</li> </ul> <p>Open Action Plan:</p> <ul style="list-style-type: none"> <li>• Review the escalation protocol with the Audit Committee (July, 31, 2011).</li> </ul>