



Section 5: Audit (FRB Consent Order)

Leadership	Requirement
██████████	Section 2: Board Oversight, Section 5: Audit
██████████	Section 2: Board Oversight, Section 5: Audit
██████████	Section 2: Board Oversight, Section 5 (a) – (f): Audit

FRB Consent Order – Section 2 (Board Oversight), 5 (Audit)

Requirements	2	5
	Within 60 days of this Order, the board of directors of WFC shall submit to the Reserve Bank a written plan to strengthen the board’s oversight of WFC’s enterprise-wide risk management (“ERM”), internal audit, and compliance programs concerning the residential mortgage loan servicing, Loss Mitigation, and foreclosure activities conducted through the Bank.	Within 60 days of this Order, WFC 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 WFC’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.

Milestones

Initial Draft Due	Initial Review Complete	Revised Draft Due	Final Review Complete	Final Document Due	To Board Committee for Review	60 Days Out
5/13/11	5/18/11	5/25/11	5/31/11	6/6/11	6/7/11	6/12/11



Deb Anderson	Section 2: Board Oversight
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2	(c)	<p>The plan shall, at a minimum, address, consider, and include:</p> <p>(c) Steps to ensure that WFC’s ERM, audit, and compliance programs have adequate levels and types of officers and staff dedicated to overseeing the Bank’s residential mortgage loan servicing, Loss Mitigation, and foreclosure activities, and that these programs have officers and staff with the requisite qualifications, skills, and ability to comply with the requirements of this Order.</p>
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Deb Anderson	Section 5 (a) – (f): Audit
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5	(a)	<p>The plan shall, at a minimum, be designed to:</p> <p>(a) Ensure that the internal audit program encompasses residential mortgage loan servicing, Loss Mitigation, and foreclosure activities;</p>
5	(b)	<p>The plan shall, at a minimum, be designed to:</p> <p>(b) periodically review the effectiveness of 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;</p>
5	(c)	<p>The plan shall, at a minimum, be designed to:</p> <p>(c) ensure that adequate qualified staffing of the audit function is provided for residential mortgage loan servicing, Loss Mitigation, and foreclosure activities;</p>
5	(d)	<p>The plan shall, at a minimum, be designed to:</p> <p>(d) ensure timely resolution of audit findings and follow-up reviews to ensure completion and effectiveness of corrective measures;</p>
5	(e)	<p>The plan shall, at a minimum, be designed to:</p> <p>(e) ensure that comprehensive documentation, tracking, and reporting of the status and resolution of audit findings are submitted to the audit committee; and</p>
5	(f)	<p>The plan shall, at a minimum, be designed to:</p> <p>(f) 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.</p>

Business Approach Summary (Provide a few paragraphs as an executive overview of your approach):

Audit is committed to performing a thorough review and evaluation to strengthen our audit coverage of residential mortgage loan servicing, loss mitigation, and foreclosure activities.

We performed an initial review to identify areas for immediate improvement. Specifically, we:

- Reorganized our mortgage audit team to create a group to focus specifically on mortgage loan servicing, loss mitigation, and foreclosure activities;
- Chose a leader to head up this new team who has the expertise and passion to fulfill our role;
- Engaged with the business to monitor action plans related to supervisory letters and the consent orders;
- Enhanced our quarterly reporting to the Audit and Examination Committee of the Board that specifically addresses our progress towards completion of action plans and informs the Board of any concerns we have in the company's progress towards meeting the requirements of the consent orders.

Additionally, we developed action plans to address gaps. These include:

- Conducting an assessment of the **audit staff**, specifically considering mortgage loan servicing, loss mitigation, and foreclosure experience; and enhancing the team where deficiencies are noted. We are prepared to add to staff and/or make changes to meet the consent order requirements.
- Enhancing or developing our current processes for the **business monitoring program** and continuous audit process, respectively.
- Assessing our **audit strategy** including making improvements to our audit documentation, adding/changing auditable units, and ensuring coverage of enterprise risk management and compliance programs include default related risks. This assessment will incorporate coverage related to the current risk environment including (but not limited to) fair treatment of and impacts to customers, compliance with investor and regulatory requirements, oversight of third parties, MIS and quality assurance. Additionally, we will incorporate action plan requirements into new or existing assurance audits or targeted reviews to ensure sustainability of processes and controls.
- Documenting all enhancements to our coverage strategy and **engaging an external consultant** to provide feedback on our coverage.
- Developing **validation test programs** for OCC and FRB consent orders. We are attending key meetings and performing an assessment of action plans for accuracy and completeness. Objectives of audit's involvement are to assess the:
 - Adequacy, completeness, and timeliness of required activities and deliverables
 - Effectiveness of overall project management activities including leadership, communications, issues management, change management and monitoring of all key activities.
 - Design and implementation of the system of internal controls and governance processes.

While the conclusion of our work is contingent upon completion of the Line of Business Action Plans, we will continuously share our progress with the regulators and management, providing transparency on our activities.

Action Plan Strategy (Milestones and Target Dates):

2(c) The plan shall, at a minimum, address, consider, and include steps to ensure that WFC's ERM, audit, and compliance programs have adequate levels and types of officers and staff dedicated to overseeing the Bank's residential mortgage loan servicing, Loss Mitigation, and foreclosure activities, and that these programs have officers and staff with the requisite qualifications, skills, and ability to comply with the requirements of this Order.

Action Plan Strategy and Milestones.

- In 2011, the Mortgage audit team was re-organized to create a group to focus specifically on residential mortgage loan servicing, loss mitigation, and foreclosure activities. This team will be responsible for monitoring actions related to the consent order/supervisory letters and managing the business monitoring program and leading audit coverage related to these activities. We are also enhancing staff to incorporate business line knowledge. We will assess the current qualifications and skills for the management and staff including education, certifications, and years of audit and mortgage experience for each team member. Any gaps identified will be remediated through training, ongoing development, hiring of staff, or augmenting reviews with industry experts. *July 29, 2011.*

5(a) The plan shall, at a minimum, be designed to ensure that the internal audit program encompasses residential mortgage loan servicing, Loss Mitigation, and foreclosure activities;

Action Plan Strategy and Milestones

Experienced leadership has been assigned responsibility for audit coverage of residential mortgage loan servicing, loss mitigation, and foreclosure activities. The leadership along with dedicated staff will:

- Be accountable for audit validation work for the Supervisory Letter MRA corrective action plan and Consent Order Action plans implementation. Through this work, audit will enhance and improve current and future audit coverage of residential mortgage loan servicing, loss mitigation, and foreclosure activities (taking into consideration changes the business is making in response to supervisory and consent order action plans). MERS and Document Custody have been identified to be added as go forward Auditable Units. We are also developing horizontal residential coverage of consumer default across all consumer portfolios. Additional changes to the audit universe will be made by *October 11, 2011.*
- In coordination with the above, audit will review the current Auditable Unit documents for audit entities related to residential mortgage loan servicing, loss mitigation, and foreclosure activities. This review will incorporate an assessment of documentation related to the current risk environment including (but not limited to) fair treatment of and impacts to consumers, compliance with investor and regulatory requirements, oversight of 3rd parties, MIS, and quality assurance. *October 11, 2011*
- Continue to report Mortgage Servicing updates to Audit Management Committee and Audit and Examination Committee as one of the top ten most relevant audit activities for 2011 and throughout the consent order period.
- Update the residential mortgage Business Monitoring Program (BMP) to provide for increased out of cycle monitoring by audit of residential mortgage loan servicing, loss mitigation, and foreclosure activities. The program will include performing continuous monitoring activities for the areas within residential mortgage loan servicing, loss mitigation, and foreclosure activities. As part of our continuous monitoring we will develop key performance indicators to assist in identifying emerging risks. The first version will be completed *October 11, 2011*, with continual enhancements as the business refines and implements additional processes. This will include:
 - Meetings with business leaders, audit management, legal and risk partners; review of key management reports/trends; review of industry trends/news.
 - An assessment of the current risk environment to identify areas of emerging risk. We will enhance audit coverage as needed based on the assessment. The BMP is formally documented quarterly and submitted to senior audit management (including the Chief Auditor.) Going forward, we will also share our report with business line management.
- We have developed and are making improvements to implement procedures that specifically define the minimum requirements for scoping and subsequent testing for audits performed for residential mortgage loan servicing, loss mitigation, and foreclosure activities. *August 12, 2011*

- Engage an external consultant to provide feedback on coverage strategy. *October 11, 2011 (Note, we believe our coverage strategy will continue to be enhanced as the business completes actions committed in the consent order response. As a result, we will be engaging a consultant after we are able to incorporate both completed and anticipated process changes.)*
- WFAS' Quality Assurance group will increase their review of audits related to residential mortgage loan servicing, loss mitigation, and foreclosure activities. The reviews will include an assessment of audit coverage, exception identification, and reporting. *October 11, 2011*

5(b) The plan shall, at a minimum, be designed to periodically review the effectiveness of 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;

Action Plan Strategy and Milestones

- Audit has developed and is implementing procedures to assess the effectiveness of Enterprise Risk Management for all of Wells Fargo business lines. We will enhance the program to ensure coverage of residential mortgage loan servicing, loss mitigation and foreclosure activities for 2011. WFAS performed a high level assessment for Enterprise Risk Management for Wells Fargo for the first time in 2010. The WFAS opinion is reported annually to the Board.
- Audit conducts annual reviews of the Group Compliance Operational Risk group that supports residential mortgage lending business lines. We will enhance the program to ensure coverage of residential mortgage loan servicing, loss mitigation and foreclosure. *August 31, 2011*

5(c) The plan shall, at a minimum, be designed to ensure that adequate qualified staffing of the audit function is provided for residential mortgage loan servicing, Loss Mitigation, and foreclosure activities;

Action Plan Strategy and Milestones

- In 2011, the Mortgage audit team was re-organized to create a group to focus specifically on residential mortgage loan servicing, loss mitigation, and foreclosure activities. This team will be responsible for monitoring actions related to the consent order/supervisory letters and managing the business monitoring program and leading audit coverage related to these activities. We are also enhancing staff to incorporate business line knowledge. We will assess the current qualifications and skills for the management and staff including education, certifications, and years of audit and mortgage experience for each team member. Any gaps identified will be remediated through immediate training, ongoing development, hiring of staff, or augmenting reviews with industry experts. *July 29, 2011*
- To supplement the skill sets of our mortgage team, will we establish development plans that may include internal and external training, line of business training, and job rotations. *October 11, 2011 (we should be able to start the rotation program Jan. 1. 2012)*

5(d) The plan shall, at a minimum, be designed to ensure timely resolution of audit findings and follow-up reviews to ensure completion and effectiveness of corrective measures;

Action Plan Strategy and Milestones

- As required by WFAS Policy, we will perform validation of corrective action for all high and very high reportable issues identified in our regularly cycled audits within 30 days of closure by business line management. We will ensure issues not completed appropriately or timely are properly escalated to management and board reporting.
- We have implemented additional enhancements during the Consent Order that require all moderate reportable issues identified in regularly cycled audits of WFHM and HE residential mortgage loan servicing, loss mitigation, and foreclosure activities to be validated within 45 days of closure by business line management. This will be effective for all issues reported on or after *January 1, 2011*.
- In addition to the validation work performed after issue closure, we will evaluate and retest the controls relating to these issues during the next audit to ensure sustainability.
- All issues which management chooses to assume the risk rather than taking corrective action require appropriate business unit management approval (2 levels above the business unit manager). In addition, these issues require approval by the Audit Director, in consultation with the Senior Audit Director and Deputy Chief Auditor, and are reported to the Audit and



Examination Committee quarterly.

- Quarterly, Audit meets with the Head of Home and Consumer Finance and the Co-Heads of Home Mortgage. During these meetings, or more immediate if necessary, Audit will provide specific updates on resolution of audit findings and follow up reviews performed. We will also escalate concerns we have with the effectiveness of corrective measures taken by the business. *Effective Q211*

5(e) The plan shall, at a minimum, be designed to ensure that comprehensive documentation, tracking, and reporting of the status and resolution of audit findings are submitted to the audit committee;

Action Plan Strategy and Milestones

- Devote a specific section of the quarterly Audit and Examination Committee report to provide updates to the board on the state of mortgage servicing specifically related to residential mortgage loan servicing, loss mitigation and foreclosure activities and actions being taken to address regulatory concerns (including the supervisory letter and consent order) and to provide an ongoing assessment of overall program management related to the consent order. *Effective Q211 and quarterly thereafter while under the Consent Order*
 - WFAS reports to the Audit and Examination Committee quarterly on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Described in the report are: key control issues and breakdowns and management's corrective actions, key risks and how they are mitigated, brief description of all audits rated less than acceptable in the period, report on the distribution of audit ratings, principal projects completed and major results, snapshot of regulatory compliance environment during the period, summary of investigation and security activities, financial results and staffing data for the period reported, and any other items of interest to the audit committee. Issues that are not closed within 30 days of the initial remediation date set by management are escalated to the Audit and Examination Committee and included in the report.

5(f) The plan shall, at a minimum, be designed to 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.

Action Plan Strategy and Milestones

- Weekly meetings with executive leaders in audit and the business have been established since *January 2011*. Monthly reporting is being developed and will be presented to executive residential mortgage leaders which will include if the business is on track to complete the corrective action or action plans required by the Supervisory letter and Consent Order. It will also include any issues raised by audit including disagreements with the business. If resolution cannot be appropriately made, escalation to the Chief Auditor and Deputy Chief Auditor will happen in established weekly meetings. Additionally, the Chief Auditor and Deputy Chief Auditor will also escalate issues to the Enterprise Risk Management Committee, Operating Committee, Audit and Examination Committee or, CEO as necessary. *Effective Q211*
- Quarterly, Audit meets with the Head of Home and Consumer Finance and the Co-Heads of Mortgage. During these meetings, or more immediate if necessary, Audit will discuss differences of opinion between audit staff and management concerning audit exceptions and recommendations. We will also discuss specific updates on our audit coverage of residential mortgage loan servicing, loss mitigation, and foreclosure activities. If differences of opinion cannot be resolved, we will escalate to the Chief Auditor and Deputy Chief Auditor who will also escalate issues to the Enterprise Risk Management Committee, Operating Committee, Audit and Examination Committee or, CEO as necessary. *Effective Q211*
- We will share our enhanced coverage strategy with regulators, audit management and business partners to demonstrate audit's commitment to supporting a strong control environment, our willingness and ability to escalate issues as needed and provide transparency. *October 11, 2011*