



SELLER/SERVICER RISK SELF-ASSESSMENT

Internal Audit

Having an independent internal audit and management control function validates a seller/servicer's governance, risk management, and control processes to help the seller/servicer achieve its strategic, operational, financial, and compliance objectives. Using a risk-based approach, the internal audit function can evaluate and improve the effectiveness of risk management, control, and governance processes. The internal audit function can provide an unbiased source of independent advice and insight.

IN THIS DOCUMENT

- Self-Assessment Checklist
- Common Findings and Documentation

RESOURCES

- *Selling Guide A1-1-01, Application and Approval of Seller/Servicer*
- *Selling Guide A4-1-01, Maintaining Seller/Servicer Eligibility*

ONE SELLER/SERVICER'S STORY

We don't currently have an independent internal audit function. We want to establish one to have assurance that we are meeting our regulatory requirements and demonstrating good-faith business practices. How can we incorporate a risk-based approach to help drive internal audit decision-making?



Self-Assessment Checklist **REQUIRED**

- Internal audit and management control procedures to evaluate and monitor the overall quality of loan production.
- An internal audit process that is independent of all key functions of the loan manufacturing process and the servicing processes.
- The internal audit function must report directly to the seller/servicer's senior management and/or board of directors. Exceptions are permitted in situations in which the size of the seller/servicer's organization is insufficient to support adequate resources to allow for separation of these functions. In those situations, the seller/servicer's audit plan must include the rationale for the lack of separation, and the controls in place to mitigate those risks associated with the lack of separation of these functions.
- The internal audit lines of reporting must reflect the independence of the audit process at all levels, resulting in activities that are conducted in an unbiased manner and without quality compromises resulting from internal influences or conflicts of interest.
- The internal audit function must not share any reporting lines with the functional areas that it reviews.
- Internal audit procedures must be consultative, so that they help the seller/servicer accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes.
- Internal audit director/manager is free from any responsibility over any business units.

ADDITIONAL CHECKLIST ITEMS **RECOMMENDED**

- Internal audit plan should be risk-based, updated annually, and include a review of all controls and key functions in each origination and servicing department.
- Applying a risk rating for each key process area of the originations and servicing platforms is critical to implementing a continuous internal audit schedule.
- A process should be in place to define the scope and frequency of audits to be performed based upon the specific risk rating for all key functions. This will ensure that the functions that represent the highest risk will be audited on at least an annual basis.
- An internal audit schedule should be in place, reflect current activity, and reviewed on a regular basis to incorporate any emerging risk in operational areas.
- Adverse internal or external audit findings pertaining to key functions or regulatory compliance should be reviewed by the audit committee for remediation.
- An established framework for interaction between internal audit functions, business units, and management exists to ensure open communications regarding risk and control management, including the adoption and implementation of self-assessment methodologies.

Common Findings and Documentation

MORTGAGE ORIGINATION RISK ASSESSMENT (MORA) AND SERVICER TOTAL ACHIEVEMENT AND REWARDS (STAR)

Fannie Mae conducts regular reviews to evaluate compliance with our guidelines and assess operational risks. Reviews are conducted by a team that operates independently of customer account relationship management in Fannie Mae's single-family mortgage business. A Mortgage Origination Risk Assessment (MORA) or Servicer Total Achievement and Rewards™ (STAR™) review is intended to be a joint activity conducted by the review team with active participation of your organization.

The **common findings** and **required documentation** listed below are specific to the topic of this risk self-assessment, Internal Audit.

COMMON FINDINGS

A comparison of the seller's delivery data to file documentation and/or loan decision revealed discrepancies.

- The seller/servicer does not have a comprehensive written plan to direct the internal audit process across all loan manufacturing and servicing business functions.
- The seller/servicer does not have an internal audit function.
- The seller/servicer does not include MBS Trust compliance in their internal audit review plan and testing.
- The seller/servicer has not initiated the internal audit process.
- The seller/servicer does not have an internal audit function that is independent of the business functions it reviews.
- The seller/servicer has not established an internal audit schedule to specify the areas of review and timeframe in which they will be conducted.
- The seller/servicer's internal audit plan does not include all required components.

REQUIRED DOCUMENTATION FOR A REVIEW

Documentation that validates Internal Audit Policy and Procedures, including but not limited to:

- Internal Audit Policies and Procedures
- Current Year's Risk Assessment
- Current Year's Testing Schedule and Internal Audit Plan
- Ability to identify any significant findings over the past 12-month period
- Management and tracking reports used to monitor performance within operational areas
- Corporate Organizational Chart reflecting the Internal Audit department

WHAT'S NEXT?

Use the insights you've gained — especially any gaps identified in your practices and processes — to create a customized action plan.