Quality Control Procedures

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Overview

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1. General Information

Change Date

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a. Oversight Department

The Oversight Department within Loan Guaranty Service Central Office (LGYCO) has the responsibility for quality control to ensure that the Regional Loan Centers (RLCs), and program participants are in compliance with applicable laws, regulations, policies, procedures, and contract provisions.
2. Objective

Change Date
January 25, 2016, Change 1
• This entire section has been updated.

a. Purpose
The Oversight Department within LGYCO is comprised of Quality Assurance (QA), Monitoring Unit (MU) and Contract Assurance (CA); whose purpose is to ensure that RLCs, and program participants are in compliance with applicable laws, regulations, policies, procedures, and contract provisions. The Oversight Department conducts high quality audits in accordance with the framework outlined in the Generally Accepted Government Auditing Standards (GAGAS.) These standards provide the foundation for QA and MU to lead by example in the areas of independence, transparency, accountability, and quality through the audit process to support the Loan Guaranty mission.

The following sections within the Oversight Department that fall under the guidance of this manual are:

• Quality Assurance (QA)
• Monitoring Unit (MU)
  ○ Loan Systematic Technical Accuracy Review (LoanSTAR)
• Contract Assurance (CA)

b. Monitoring Unit
In 1989, the MU was created to provide oversight of lenders in VA’s nationwide Home Loan Guaranty (LGY) benefit program. The MU has evolved into an oversight unit for servicers and lenders. They ensure program integrity by conducting quality and compliance reviews of program participants.

c. LoanSTAR
Since its implementation in October 2010, as part of the Monitoring Unit (MU), LoanSTAR conducts monthly accuracy reviews of RLCs and participating stakeholders in VA’s nationwide LGY benefit program. In order to ensure program integrity, compliance with applicable VA manuals, laws, regulations, policies and procedures; LoanSTAR completes a random selection of cases for review for each policy section.

d. Quality Assurance
The QA section conducts a comprehensive risk management review, which includes identifying and assessing potential risks in VA’s nationwide Loan Guaranty Service (LGY) operations, testing of internal controls, and evaluating effectiveness and efficiency of internal controls. The QA team also conducts periodic site visits of RLCs to ensure laws, regulations, policies, and procedures are followed for each LGY business line.
3. Authority and Responsibility

Change Date: January 25, 2016, Change 1
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a. Reference

The United States General Accounting Office (GAO-01-1008G) Internal Control, Management and Evaluation Tool, published by the Government Accountability Office, formerly known as the General Accounting Office, requires that Federal managers strive to achieve their agency’s missions and goals to provide accountability for their operations. Federal managers need to continually assess and evaluate their internal control structure to assure that it is well designed and operated, appropriately updated to meet changing conditions, and provides reasonable assurance that the objectives of the agency are being achieved. Specifically, managers need to examine each internal control to determine how well it is performing, how it may be improved, and the degree to which it helps identify and address major risks for fraud, waste, abuse, and mismanagement.

Office of Management and Budget (OMB) Circular No. A-123 states that “Management is responsible for establishing and maintaining internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. Management shall consistently apply the internal control standards to meet each of the internal control objectives and to assess internal control effectiveness.”
Chapter 2. LoanSTAR Accuracy Reviews

Overview

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1. General Information on LoanSTAR Accuracy Reviews

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a. Overview
Loan Systematic Technical Accuracy Review (LoanSTAR) conducts accuracy reviews of VA’s nationwide Loan Guaranty (LGY) program to ensure program integrity. Loan Guaranty Service management assembled a team led by the Quality Assurance (QA) Chief that included the QA staff, Monitoring Unit (MU) staff, Central Office (CO) Policy staff, and the Regional Loan Center’s (RLC) Loan Guaranty Officers (LGO) to formulate the policies and procedures that would govern this unit.
2. Objective

Change Date  January 25, 2016, Change 1
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a. Overview

To ensure Loan Guaranty personnel and stakeholders are in compliance with applicable VA policies and procedures. In order to achieve this objective, the accuracy review gauges whether RLC’s met the requirements pertaining to:

  • Construction and Valuation
  • Specially Adapted Housing
  • Loan Production (Full File Loan Review – FFLR, Certificates of Eligibility – COE, and Native American Direct Loans – NADL)
  • Loan Administration

Because LoanSTAR is assessing compliance for each RLC as a whole, the methodology used to select and score performance is not conducive to employee-level reviews. Therefore, LoanSTAR findings will not be used for individual employee performance ratings since it is an RLC indicator rather than a gauge of employee-level performance.

LoanSTAR findings that have been upheld by policy and result in a monetary finding where the Veteran is due a refund and/or principal reduction, must be addressed by the RLC so that the Veteran is made whole by VA or the lender. The RLC will have 30-business days to satisfy the finding and must retain evidence of the transaction. Quality Assurance will review monetary findings for compliance during its reviews.
3. Selection of Cases

| Change Date | January 25, 2016, Change 1  
| | • This entire section has been updated. |
| a. Case Selection Procedures | Based on a statistically-valid random sample, the number of cases needed for review is 384 annually (or 32 per month) for each business section. |
| b. Construction and Valuation | Each month, 32 cases are randomly selected via reports from the C&V system of record (currently webLGY) for all appraisal types such as:  
| | • Individual (IND)  
| | • Liquidation (LGI)  
| | • Lender Appraisal Processing Program (LAPP)  
| | • Servicer Appraisal Processing Program (SAPP)  
| | This review also includes, Notice of Values (NOV) issued by RLCs as well as Desk and Field Reviews. |
| c. Specially Adapted Housing | Each month, 32 cases are randomly selected via reports from the SAH system of record (currently Specially Adapted Housing Special Housing Adaptation – SAHSHA) for the following stages:  
| | • 150-day criteria cases, where VA has received both, grant application and rating decision (established grant)  
| | • Conditional Approval (CA)  
| | • Grant Approval (GA)  
| | • Grant Final Accounting (FA)  
| | • Death Case (DC) |

Continued on next page
3. Selection of Cases, Continued

d. Loan Production
Each month, 32 cases are randomly selected via reports from the Loan Production (LP) system of record (currently webLGY) based on full reviews completed by the RLCs during the previous month.

e. Loan Administration
Each month, 32 cases are randomly selected via reports from the Loan Administration (LA) system of record (currently VA Loan Electronic Reporting Interface – VALERI) for adequacy of servicing (AOS) and post audits (PAs), based on AOS reviews and PAs completed the previous month.

f. Sample Size Calculations
The following formula is used to determine the sample size:

\[ N = \frac{Z^2 \cdot p \cdot q}{e^2} \]

Components of the formula for determining sample size are:
- \( Z = \) the standard value chosen with respect to the desired confidence level. The LoanSTAR desired confidence level is 95 percent, so two standard deviations correspond to \( Z = 1.96 \)
- Variance of the estimator
- \( p = \) Proportion of success (accuracy rate)
- \( q = \) Proportion of failure (1-p)
- \( N = \) Desired sample size
- \( e = \) Desired margin of error or the acceptable range for the estimated average accuracy rate, typically five percent

Statistically, when nothing is known about the population being sampled, the proportion of success "p" will equal 0.5 because the probability of achieving the desired outcome is considered 50/50. Generally, 0.5 (50%) is used as the proportion of success (p = 0.5) in this formula.

Therefore, the desired annual sample size for each review type is \( N = 384 \) using the following pre-determined parameters: \( Z = 1.96, p = 0.5, q= 0.5 \) and Margin of Error (\( e \)) = .05.
4. Reviews

Change Date

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a. First Review

Each LoanSTAR reviewer completes their accuracy review in the LoanSTAR system. This system guides the auditor through each step and accuracy question. If LoanSTAR notices an error, the LoanSTAR reviewer selects the finding from a dropdown menu in the LoanSTAR system and the finding is forwarded to a second review. If there is no error, then there is no finding and the auditor moves to the next case.

b. Second Review

A second review of all accuracy findings is completed by the Assistant Chief of the Monitoring unit (second reviewer) for all areas prior to the findings being released to the RLCs. The second reviewer can either concur or non-concur with each finding.

If the second reviewer concurs with the finding, the finding is included in the final report provided for the RLC.

If the second reviewer disagrees with the finding, comments are input in the LoanSTAR system explaining why the finding will not go forward to the final report.
5. Reporting Procedures

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a. Overview  
The Loan Systematic Technical Accuracy Review (LoanSTAR) team generates the current monthly accuracy finding reports. Once all areas are reviewed and finalized, two reports are generated from each review area. This includes a Findings Report and a Data Report. The findings report and data report are validated through a comparison of the data in the reports with the data contained in the accuracy database. The finalized data is then uploaded to the Monitoring SharePoint site by Central Office staff.

b. Findings Reports  
The accuracy finding report notifies the RLC’s of potential deficiencies cited by LoanSTAR. The accuracy finding report consists of details for each finding. The RLC receives a report for each area that has a finding for that review month.

The accuracy findings report will identify the case number, question number, question text, and the finding, and it will include an area for the RLC to request an appeal of each finding. The RLC will include a response explaining its position within the accuracy findings report. This explanation will be used to render a final decision during the reconsideration process which is explained in section 7 of this chapter.

c. Data Reporting  
The RLC will be provided a raw data report containing all of the monthly data from the accuracy review database for the month being reviewed. The data report includes the randomly-selected case numbers for each RLC and identifies how each MU staff member answered the accuracy questions throughout the review process.
6. Accuracy Rate Calculations

Change Date

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a. Overview

RLCs are given an accuracy rating each month for each business section.

b. Accuracy Rate Calculations

(Total Points Available – Deductions)/(Total Points Available)

Example: Out of a possible 3,200 points (32 cases x 100), if a station received one substantive error (20 points) the calculation would be: (3,200-20)/(3200) = 99.38 percent

Note: For an RLC to get a “Yes” response on a question, the RLC has to correctly identify, document, and notify the lender/fee appraiser or SAR, (if appropriate) of the deficiency. If the RLC does not identify and document the deficiency and notify, if applicable, the RLC will receive a “No.” An RLC can also receive a “No” for a question if they gave a lender a deficiency in error.
7. Reconsiderations

Change Date
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a. Overview
The RLCs are given an opportunity to appeal LoanSTAR findings. The appeal becomes part of the LoanSTAR reconsideration process. The RLCs must submit their reconsideration by the 5th business day of the month following the date stamped on the e-mail sent by Central Office notifying RLCs that the accuracy data was posted to the SharePoint site.

b. Process
All finding reports have a reconsideration section for the RLCs to complete and return. The RLC must input “no” if they do not wish to appeal, or “yes” if they wish to appeal. All reports are returned to LoanSTAR via email to the RECONSIDERATIONS.VBACO@va.gov mailbox. LGY policy sections, LoanSTAR, and Oversight work together in reconciling the appeals.

Once an appeal is decided and communicated to the RLCs, it is final. There are no reconsiderations of appeals.
Chapter 3. Performance Analysis & Integrity (PA&I) Reporting

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1. General Information on PA&I Reporting

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a. Overview
In 2014, Loan Guaranty revised performance measures for Regional Loan Centers (RLCs). Currently, the Director’s Performance Dashboard provides managers with a report on the performance of certain aspects of the Loan Guaranty business line against established performance targets. To ensure that program updates are relevant and timely, a Loan Guaranty RLC Dashboard was created. The Loan Guaranty RLC Dashboard has some of the key performance indicators for the home loan program. The measures on the RLC dashboard do not influence the RLC director’s performance standards; rather, they provide Loan Guaranty Central Office (LGYCO) and stakeholders with a broader picture of program performance. Performance measures on the Director’s and RLC’s Dashboards may be changed if necessary, based on program needs.

Accuracy data is defined as findings cited by LoanSTAR during its review of specific cases worked by the Regional Loan Centers in the business lines of Construction and Valuation (CV), Specially Adapted Housing (SAH), Loan Production (LP), and Loan Administration (LA). Non-Accuracy data is defined as all dashboard performance data other than the accuracy data described above.

LGYCO submits the results of the Loan Guaranty Statistical Accuracy Review (LoanSTAR) to Performance Analysis and Integrity (PA&I) for posting to both performance measures dashboards. The accuracy and non-accuracy data is submitted to PA&I prior to the deadline on the 7th business day each month. Data reported after the 7th business day will cause a delay in the posting of the data, therefore, reducing the time allotted for RLCs to request appeals of the findings. Late reporting must be avoided.
2. Objective

Change Date

January 25, 2016, Change 1
• This entire section has been updated.

a. Objective
The main objectives of performance measures reporting are:
• Provide transparency for stakeholders
• Provide timely and accurate reporting of Loan Guaranty program performance data
3. Accuracy Data Reporting to PA&I

Change Date
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• This entire section has been updated.

a. Populate PA&I Submission Spreadsheet
Follow the steps below to populate the PA&I submission spreadsheet:
• Open a copy of the LGY Accuracy Data master spreadsheet on the LGY Central Office Quality Assurance SharePoint site.
• Enter updated LGY Accuracy Data for previous month reflecting overturned errors into PA&I submission spreadsheet
• Enter LGY Accuracy Data for current month into PA&I submission spreadsheet

b. Validate Accuracy of Data Populated in PA&I Spreadsheet
Follow the steps below to validate the data in the PA&I submission spreadsheet:
• Compare data populated in PA&I spreadsheet with LGY accuracy data spreadsheet and validate that data matches
• Ensure that the spreadsheet submitted to PA&I reflects the required PA&I reporting order:
  o Cleveland
  o Atlanta
  o Roanoke
  o St. Petersburg
  o Houston
  o St. Paul
  o Denver
  o Honolulu
  o Phoenix

For specific definition and calculation information, please refer to the respective Definitions tabs on the Director’s Performance Dashboard.

c. Submit Accuracy Data to PA&I
Follow the steps below to submit the accuracy data to PA&I:
• Submit PA&I data no later than 7th business day of each month
• Upload the accuracy data to PA&I Accuracy Data SharePoint site

Continued on next page
3. Accuracy Data Reporting to PA&I, continued

d. Verify that LGY Accuracy Data was Correctly Posted to Director’s Dashboard

After PA&I posts the data, LoanSTAR will validate by a manual data comparison that the information posted by PA&I matches the information that was sent by LoanSTAR. Data is located on the PA&I website under the Director’s Performance Dashboard.
4. Non-Accuracy Data Reporting to PA&I

Change Date

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• This entire section has been updated.

General Information

Non-accuracy key measures including production and timeliness are reported monthly to Veteran Benefits Administration’s (VBA) PA&I staff by the 7th business day following the end of each month. These measures are reported on a fiscal year-to-date (FYTD) basis.

a. Loan Production

Loan Production’s (LP) non-accuracy performance is determined by the following metrics on the Director or Loan Guaranty RLC dashboard:

• Native American Direct Loan (NADL) timeliness Composite Score
• NADL Outreach
• Full Review of Loan Files as a Percentage of expected review

For specific definition and calculation information, please refer to the respective Definitions tabs on the Director and Loan Guaranty RLC dashboards.

b. Construction & Valuation

C&V’s non-accuracy performance is determined by the following metrics on the Director and Loan Guaranty dashboard:

• Percentage of timely Specially Adapted Housing (SAH) Initial Interviews
• Percentage of Lender Appraisal Processing Program (LAPP) Reviews
• Percentage of Servicer Appraisal Processing Program (SAPP) Reviews
• Percentage of Field Reviews
• Percentage of NOV Timeliness – VA Issued NOVs only

For specific definition and calculation information, please refer to the respective Definitions tabs on the Director and Loan Guaranty RLC dashboards.

Continued on next page
4. Non-Accuracy Data Reporting to PA&I continued

c. Loan Administration

Loan Administration non-accuracy performance is determined by the following metrics on the Director or Loan Guaranty RLC dashboard:

- Station Default Resolution Rate (DRR)
- Percentage for Adequacy of Servicing (AOS) Timely
- Percentage for Non-Routine Acquisition (NRA) Timely
- Percentage for Pre-Foreclosure Review Timely
- Percentage for Post Audit Timely
- Combined Timeliness Element for Loan Administration

The data is provided monthly by Loan Management within LGYCO.

For specific definition and calculation information, please refer to the respective Definitions tabs on the Director and Loan Guaranty RLC dashboards.
Chapter 4. Accuracy Data Trend Analysis

Overview

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</table>
1. General Information on Accuracy Data Trend Analysis

Change Date
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a. Overview
Loan Guaranty Service Central Office (LGYCO) must analyze the results of Loan Guaranty Statistical Accuracy Review (LoanSTAR) to determine trends and identify actionable challenges and opportunities. The accuracy data trend analysis is completed by LoanSTAR by the 10th business day each month and to the field by the 15th business day each month.
2. Objective

Change Date: January 25, 2016, Change 1
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a. Objective
The main objectives of the accuracy data trend analysis are:
- Determine existing and emerging trends in errors identified by LoanSTAR.
- Identify challenges such as the need for policy guidance.
- Identify opportunities such as training needs.
3. Accuracy Data Trend Analysis

Change Date

January 25, 2016, Change 1

- This entire section has been updated.

a. Complete Monthly Accuracy Data Reporting

Follow steps contained in Chapter 3 to complete the Monthly Accuracy Data Reporting. Check data contained in updated Loan Guaranty Service (LGY) master accuracy data file with the Results Query and the Regional Loan Center (RLC) Finding Report to ensure it was properly validated.

b. Enter Finding and Overturned Finding Data into Master Trend Analysis File

The master trend analysis identifies errors made by LoanSTAR staff and evaluates training needs for the identified areas. More detailed information and instruction can be found in the Standard Operating Procedures (SOP) guide. To populate the master trend analysis file enter all finding data and overturned finding data into master trend analysis file.

c. Assign Impact Statement for Each Finding

Follow the steps below to assign finding impact statements to each finding noted in the master trend analysis file.

- Review each individual finding and select the appropriate impact statement from the drop down in the master trend analysis file.
- Consult with LGYCO policy and Monitoring Unit/LoanSTAR supervisory staff as needed to obtain clarity on the accuracy of, and impact of each finding.

d. Assign Reason Statement for Each Overturned Finding

Follow the steps below to assign overturn reason statements to each finding noted in the master trend analysis file.

- Review each individual overturned finding and select the appropriate reason statement from the drop down in the master trend analysis file.
- Consult with LGYCO policy and LoanSTAR supervisory staff as needed to obtain clarity on reasons for overturned findings.

Continued on next page
3. Accuracy Data Trend Analysis, Continued

e. Update and Validate Roll-Up Finding and Overturned Finding Data
   Follow the steps below to update and validate data in master trend analysis file. All validation is compared to the Accuracy Database for accuracy.
   - Update all finding roll-up sections in master trend analysis file.
   - Update all overturned finding roll-up sections in master trend analysis file.
   - Validate that all finding and overturned finding data was correctly populated.
   - Validate that all formulas in master trend analysis file are calculating correctly.

f. Identify Three Most Common Errors per Business Section
   Follow the steps below to identify three most common errors per business section.
   - Determine the three most common errors for each LGY business section.
   - Review the finding details for each of the three most common errors for each LGY business section to identify actionable trends.

g. Determine Actionable Trends per Business Section
   Follow the steps below to identify actionable trends per business section. Each section is reviewed for the top two or three recurring LoanSTAR errors in order to assess trends and conduct training.
   - Review details of each individual overturned finding.
   - Identify actionable trends.

h. Perform Analysis for Three Most Common Errors per Business Section
   Follow the steps below to perform an analysis on common errors per business section.
   - Review details of individual findings identified as three most common for each section to determine underlying cause of the errors.
   - Consult with LGYCO policy and LoanSTAR supervisory staff as needed to complete the analysis for most common errors.

Continued on next page
3. Accuracy Data Trend Analysis, Continued

i. Perform Analysis for Overturned Findings per Business Section

Follow the steps below to perform analysis on overturned findings per business section.

- Review details of individual overturned findings to determine underlying cause for the decision to overturn.
- Consult with LGYCO policy and LoanSTAR supervisory staff as needed to complete the analysis for rationale to overturn findings.

j. Prepare Monthly Accuracy Data Trend Analysis Report

Follow the steps below to prepare monthly trend analysis report.

- Complete the template for the monthly accuracy data trend analysis report utilizing conclusions drawn from data contained in the updated master accuracy data trend analysis file.
- Submit report to Oversight Assistant Director (AD) for comment and concurrence by 10th business day each month.
- Provide the report to the field by 15th business day each month.

k. Prepare Quarterly Accuracy Data Trend Analysis Report

Follow the steps below to prepare quarterly trend analysis report.

- Complete the template for the quarterly accuracy data trend analysis report utilizing conclusions drawn from data contained in the monthly accuracy data trend analysis report.
- Submit the report to the AD of Oversight for comment and concurrence by the 15th business day following the completion of each quarter.
- Post the report to the Monitoring Unit Reporting SharePoint site.
Chapter 5. Monitoring Unit

Overview

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1. General Information on Lender and Servicer Audits

Change Date

January 25, 2016, Change 1
- This entire section has been updated.

a. Overview

This chapter describes the evaluation procedures used in conducting lender and servicer audits by the Monitoring Unit (MU). The MU’s overall mission is to ensure program integrity by conducting quality assurance audits of program participants. This is accomplished by conducting audits to ensure that lenders and servicers are in compliance with laws, regulations, and policies governing VA’s Guaranteed Home Loan program.
2. Objective

Change Date
January 25, 2016, Change 1
• This entire section has been updated.

a. Purposes of Conducting Lender and Servicer Audits
The objective of conducting lender and servicer audits is as follows:

• Ensure that lenders and servicers are in compliance with the laws, regulations, and policies governing VA’s Guaranteed Home Loan program.
• Determine whether VA loans closed by a lender meet VA requirements pertaining to: underwriting, property eligibility, and appraisal review guidelines.
• Perform servicer audits to determine whether the VA loan is being properly reported and serviced during the default period and that proper alternatives to foreclosure are being considered. In the case of a foreclosure, determine that the claim submitted by the servicer is correct and no unallowable fees are paid.
• Identify deficiencies and advise lenders and servicers of actions necessary to correct deficiencies.
• Provide feedback to lenders and servicers for improvement in procedures, where necessary.
3. Sampling

Change Date

January 25, 2016, Change 1
- This entire section has been updated.

a. Lender Selection

- Lenders are reviewed based on the following reasons: volume of loans closed in a 2-year period, delinquency ratio (DQ3), non-compliance percentage and referral by VACO Loan Policy (VACO), Regional Loan Centers (RLC), Department of Veterans Affairs Office of Inspector General (OIG), or the Department of Housing and Urban Development (HUD).

- The MU will review the most recent Ginnie Mae Portfolio Analysis Database System (GPADS) data for DQ3 ratios for each lender with an emphasis placed on the worst 100 lenders. GPADS identify lenders based on their most recent 2-year volume. Lenders appearing on the GPADS DQ3 lists with higher than normal default rates that have not been audited within the past 2 fiscal years are considered for selection. A DQ3 ratio is the proportion of loans delinquent for 3 or more months.

- MU will review lenders’ non-compliance with RLC deficiencies and submission of loan files for Full File Loan Review (FFLR). Lenders with high rates of non-compliance that have not been audited within the past 2 fiscal years are considered for selection.

For all lender audits, the following documents may be requested:

- Marketing materials used to solicit Veteran borrowers.
- A copy of the results of loans reviewed in the last 2 reviews under the lender’s Quality Control plan, along with the 10 most recent VA loans reviewed internally.
- Evidence of random field reviews of VA fee panel appraisers as required by the Lender’s Handbook 26-7 15.02. (If reviews are done monthly, 2 months will be required. If reviews are done quarterly, 1 month will be required.)
- Non-supervised lenders will need to provide the most recent application to close loans on an automatic basis per VA Pamphlet 26-7, Chapter I, Section 16a, Application Checklist for Authority to Close Loans on an Automatic Basis.
- The 10 most recent applications that were denied credit for a VA home loan.

Continued on next page
3. **Sampling, Continued**

**a. Lender Selection, Continued**

- A list of all non-compliance loans.
- The lender’s Organizational Chart.
- A list of branch offices where VA origination and servicing activities are conducted. A list of binding authorities for the organization.
- A list of approved automatic underwriters and their signatures.

Monitoring Unit (MU) Chief will access lender reports as follows:

- The MU Chief will access Loan Guaranty Reports/MU Reports from the [Veteran’s Information Portal (VIP)](https://www.va.gov), and run a current listing on all lenders most recent 24-month volume in excess of 200 loans. Lenders are categorized by the MU as mega, large, medium, and small. After considering lenders for audit from GPADS, the balance of lenders selected will come from the Loan Guaranty Reports/MU Reports list of the most recent 24-month volume by lender.

The MU will audit lenders based on the following:

- Mega lenders are generally audited every other year because of VA’s increased risk exposure based solely on their high volume of loans originated.
- Large lenders are generally audited every 3 years.
- Medium lenders are audited every 4-5 years based on volume and performance on past audits.
- Large numbers of egregious loans or major deficiencies by any lender on a previous audit may warrant a lender to undergo annual audits until a marked improvement in underwriting is shown.
- Audits are conducted on-site (at the lender’s office) and the number of loans audited is based on the number of reviewers conducting the audit.
3. Sampling, Continued

b. Servicer Selection

The MU Chief selects servicers for audits as follows:

- Selection of servicer audits is made by the Chief, Monitoring Unit and/or Loan Administration Policy. Generally, servicers with a large number of defaults are selected for audit. Servicers referred by the RLC(s), OIG, or other governmental agencies and nongovernmental agencies identifying specific problems are also selected for audit. Additionally, servicers are selected if a previous audit disclosed serious deficiencies that justify a follow-up visit.

- Loans identified as delinquent 30-business days or more will be selected for audit. Loans are randomly selected from VA Loan Electronic Reporting Interface (VALERI). There are three categories of cases that are audited:
  - Loss Mitigation Retention
  - Loss Mitigation Foreclosure Alternative
  - Foreclosure
4. Application of Quality Criteria

Change Date
January 25, 2016, Change 1
• This entire section has been updated.

a. Lender Audits

The application of the quality criteria for a lender audit is as follows:

• The evaluation of the quality of lender or servicer audit reviews is based on compliance with existing laws, regulations, directives, and the MU Standard Operating Procedures (SOP).
• Reviewers will refer to all reference material that enables them to determine whether the lender is in compliance with VA regulations.
• This reference material may include, but is not limited to:
  o Part of any regulation applicable to VA
  o VA Pamphlet 26-7, VA Lenders Handbook
  o Copies of all active Circulars that are not currently incorporated in the Lenders Handbook

Each loan file is reviewed for the following, including other indications that the loan or property does not conform to the law, regulation, procedure or policy:

• Income used is properly documented, accurately calculated, and sufficient for the loan
• 2-year employment history documented
• Veteran and spouse reflect acceptable credit risks
• Stability and reliability of the income established
• All significant debts properly considered
• Proper occupancy certifications
• VA Form 26-1820, Report and Certification of Loan Disbursement, complete and signed on the date of closing
• Veteran not charged unallowable fees or overcharged fees at closing
• Funding fee is correct with evidence of VA receipt in file, or file contains proper evidence of exemption
• Evidence documenting discount points paid by the Veteran disclosed before loan closing
• Lender did not charge Veteran excess daily interest at closing

Continued on next page
4. Application of Quality Criteria, Continued

a. Lender Audits, Continued

- Terms of the sale in basic agreement with the sales contract and addendum
- All credit reports showing each report met credit report standards
- Loan amount did not exceed the maximum allowed
- Veteran, on a purchase loan, did not receive excess cash proceeds
- A non-supervised lender reflects a VA-approved underwriter
- Appropriate lender official properly executed the loan quality certification
- Lender’s agent met program requirements
- Sufficient assets to close the loan properly verified
- Verifications of employment and deposit properly handled (not hand-carried by the Veteran)
- Lender retained copies of all required documentation for the required time period
- Documents complete and signed (including Deed of Trust Note or Mortgage)
- Data throughout the file consistent with no potential fraud indicators
- If Automated Underwriting System (AUS) used, data correctly entered
- No indications that the Veteran’s loan eligibility is questionable
- Property verified as eligible
- All Notice of Value (NOV) conditions were met and NOV was properly and timely issued to the Veteran
- If Lender Appraisal Processing Program (LAPP) processing:
  - The SAR is VA-approved
  - SAR met limitations on value adjustments and written justification documented
  - SAR met limitations on repair waivers and written justification documented
  - SAR’s review diligent and any questionable URAR items clarified with the fee appraiser and documented in writing

Additional areas of quality reviews are as follows:

- The lender’s Quality Control plan will be reviewed to assure the lender’s quality review process is identifying primary issues. The MU examination will also assure the lender has a corrective action plan to manage, educate, and resolve loan origination issues.
4. Application of Quality Criteria, Continued

a. Lender Audits, Continued

- The lender’s Staff Appraiser Reviewer (SAR) Quality Control plan will be reviewed to assure the lender’s quality review process is identifying primary issues. The MU examination will also assure the lender has a corrective action plan to manage, educate, and resolve Field Appraiser findings.
- Non-compliance loans will be reviewed to assure the lender is managing all issues effectively and efficiently and resolving all non-compliant issues with the appropriate RLC.
- MU will review the lender’s declined loan portfolio for loans declined within 3 months of the audit date. MU’s review will be performed to assure the lender is conforming to VA laws, regulations, procedures, and policies when making the final determination to decline approval of a Veteran’s loan.
- The lender’s marketing material will be examined to assure the material being distributed to Veterans by the lenders does not misrepresent or suggest the material is from VA.

Special Note Regarding All Audits: Cases of suspected fraud on the part of the lender, servicer, real-estate broker, or Veteran must never be discussed with the lender on-site. Such items are referred to the OIG via fraud memorandum through the MU Chief.

b. Servicer Audits

The following should be reviewed in reference to servicer audits and servicer compliance:

- Electronic Default Notifications
- Delinquent Servicing
- Property Inspection Requirements
- Partial Payment Processing
- Loss Mitigation Options
- Loss Mitigation Foreclosure Alternatives
- Foreclosure Notification Procedures
- Bankruptcy Notification Procedures
- Maintenance of Escrow Account Procedures
- Assumption and Release of Liability Procedures
- Paid in Full Procedures
- Claim Under Loan Guaranty Procedures
- Conveyance
5. Reporting

Change Date
January 25, 2016, Change 1
• This entire section has been updated.

a. Finding Types
Findings reported will be classified into one of these categories:

• Closed action item – The deficiency is not a repeat finding based on any review during and since the last lender or servicer audit. The lender or servicer has fully remedied all deficiencies when appropriate, during the on-site visit by complying with policy.

• Open (non-repeat) action item – The deficiency is not a repeat finding based on any review during and since the last lender or servicer audit. The lender or servicer cannot remedy all deficiencies during the on-site visit.

• Open (repeat) action item – The deficiency is a repeat finding based on any review during and since the last lender or servicer audit, and therefore, it will remain open until the next audit. However, the lender or servicer will strive to remedy all deficiencies during the on-site visit when appropriate, or provide milestones and projected completion dates, requesting an extension from the audit team leader if justifiable.

b. Reporting Strategy
The lender or servicer will have 7-calendar days from the date of MU’s exit briefing to respond to any action items, and provide any necessary supporting documents, if applicable. LGY Monitoring Unit will review all lender responses and monitor the lender or servicer progress on any findings to determine if any open action items can be closed. The lender or servicer will be notified by memorandum when any action item has been closed. The final audit report will be issued approximately 60-calendar days after the completion of the lender or servicer audit, and will include an overview of open and closed action items, observations, and/or recommendations, along with a discussion of commendable best practices.

The lender or servicer should strive to cure any open action items while the audit team is on-site. If there are deficiency responses that the lender or servicer is unable to provide during the on-site visit, an extension request should be made to MU management through the audit team leader. Pending approval by MU management, an extension of up to 30-calendar days may be granted when warranted by the circumstance of the deficiency.

Continued on next page
5. Reporting, Continued

b. Reporting Strategy, Continued

VA may cite process deficiencies that are not material in nature, and are provided primarily as a training notice for the lender to correct on future loans. However, some deficiencies are such that they compromise the integrity of the origination and/or servicing process and must be addressed immediately. A lender or servicer failure, either one-time or on a repetitive basis, to satisfactorily correct outstanding action items could result in any of the following:

- VA may suspend random sampling reviews and require that all loans closed by a lender be submitted to VA for full review.
- VA may suspend a lender’s automatic authority and require that all loans be submitted on prior approval basis.
- VA may require the lender to indemnify VA against loss on a loan.
- VA may determine that a loan is ineligible for guaranty.
- VA may impose other administrative sanctions.
Chapter 6. Systematic Analysis of Operations

Overview

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1. General Information

Change Date  January 25, 2016, Change 1
- This entire section has been updated.

a. Overview  A Systematic Analysis of Operations (SAO) is a formal analysis of an organizational element and an operational function of the Regional Loan Center (RLC). A researched and well-written SAO containing a full analysis of findings is a valuable management tool. It provides an organized means for reviewing operations to identify existing or potential problems and proposing corrective actions. This self-audit technique, when applied consistently is a positive guide for operational improvement.
2. Objective

Change Date

January 25, 2016, Change 1
- This entire section has been updated.

a. Primary Objectives of SAO

SAOs are an effective management tool intended to apprise management of early identification of significant trends, developments in program operations, challenges within the RLCs, and potential risks to the program and our Veterans. The primary objectives of an SAO are to:

- Monitor progress toward established goals and objectives pertinent to the subject area
- Identify problems and recommend corrective actions
- Assess areas of vulnerability
- Determine effectiveness in achieving program directives
- Identify opportunities for improvement in conducting internal operations and in providing service to Veterans, Servicemembers, and other stakeholders
- Verify that records and reports accurately reflect actual operations and results
- Evaluate compliance with manuals, regulations, and other directive material
- Refer for consideration those opportunities for improvement, which require change in policy or procedure
- Historically document operational performance
3. Responsibility

Change Date

January 25, 2016, Change 1

- This entire section has been updated.

a. Management Responsibility

The Loan Guaranty Officer (LGO) is responsible for the ongoing analysis of the RLC operations to include SAOs required by this chapter, as well as those required by Regional Office (RO) policy. To be successful, the analysis must be approached positively. Present critical comments in a balanced perspective, recognizing any unusual difficulties or circumstances. Encourage all division personnel to work closely with the analyst during the course of evaluation.

Participation in the SAO process does not have to be limited to supervisory personnel. LGOs may delegate responsibility to other division personnel who are experienced in RLC operations. Sharing or rotating the responsibility for SAOs may also be useful in providing a fresh look at operational functions.

RLC management shall ensure that a systematic analysis is made annually of each of the following Loan Guaranty functional areas:

- Management
- Construction and Valuation (C&V)
- Specially Adapted Housing (SAH)
- Loan Production (LP)
- Loan Administration (LA)
4. Scope

Change Date

January 25, 2016, Change 1

- This entire section has been updated.

a. SAO Area Coverage

Systematic analyses will encompass all elements of the RLC activities. The time allotted to the review will depend on the size, scope, and complexity of the activity under study. SAOs must be performed at least annually and must cover all areas described in M26-9, Chapter 6.

All components of a functional area must be examined together as part of a single working system. Accuracy, compliance, management, potential risks, and significant program indicators must be examined together as they apply to the functional area under review. RLCs will use a format similar to the SAO format found in M26-9, Appendix A.
5. Analysis

Change Date
January 25, 2016, Change 1
- This entire section has been updated.

a. Key Assessments

The goal of the analysis is to systematically analyze and review an activity and look for potential areas of improvement. When problems are identified, the RLC’s job is to determine why they exist.

SAOs must ensure effective and efficient benefit delivery. Each analysis must address, at a minimum, these two key assessments:

- Identification of any problem and/or potential problem areas, and
- Recommendations/suggestions for corrective action.

The depth of analysis must be sufficient so that problems or potential problem areas are clearly explained.

Policy, procedure, and requirements contained in all VA directives should be utilized as evaluation criteria. Documentation must be detailed and factual, clearly describing and quantifying items reviewed; types and numbers of discrepancies found; where opportunities for improvement exist; action(s) recommended or taken to effect improvement; and timeframe for completing the actions. Tables and charts should be used, where possible, to illustrate trends, comparison, or other situations which would otherwise require lengthy narratives. Findings and analysis must be presented in sufficient detail to readily support any conclusion drawn.

If it is concluded that there are no problem areas, the report must state so. However, a report which consistently finds no problems may be an indication that the analysis is not sufficiently thorough, or is no longer providing value.
6. Recommended Improvement Action

Change Date

January 25, 2016, Change 1
• This entire section has been updated.

a. Recommended Corrective Action

When problems or significant opportunities for improvement are identified by an SAO, the report must include recommended actions to remedy the problem or to implement processing improvements. The recommended actions will be specific in terms of the corrective steps required and expected completion date. When specific recommendations are made, the proposed plans for corrective action as well as the time frame necessary for completion must be included in the SAO file. See Chapter 11, Corrective Action Plan for a sample template. Documentation of the actual corrections should also become part of the SAO file.
7. SAO Schedule

Change Date
January 25, 2016, Change 1
• This entire section has been updated.

a. Annual Schedule

The LGO is responsible for preparing the SAO schedule annually. The schedule must be approved by the RLC’s Director’s Office before October 1 of the fiscal year in which the SAOs are to be completed. The schedule must show the position title of the person responsible for the report and the month due.

SAOs will be conducted on a schedule that, at a minimum, meets the requirements established in this chapter. However, analysis may be prepared more frequently than scheduled to determine trends, obtain facts for special reports, and/or determine quality in specified areas. It may be necessary to analyze only a segment of an area of review more frequently than scheduled until the situation is resolved. Retain the findings on such interim studies in the division administrative files and reference these studies in the next regularly scheduled SAO on the topic.
8. Reports

Change Date: January 25, 2016, Change 1
- This entire section has been updated.

a. Overview
SAOs should be concise, but thorough, and approved by the LGO. The RLC will maintain copies of each SAO and related working papers, including periodic follow-ups made to ensure that actions taken to bring about improvements were implemented. This file of reports and working papers is subject to review by Loan Guaranty Service Central Office (LGYCO). SAOs must be maintained according to the Records Control Schedule, VB-1, Part I, Section XII Loan Guaranty.

b. Prioritization of Deficiencies
Deficiencies which constitute failure to comply with requirements of the laws, regulations, or mandatory procedures should be prioritized. If all requirements are being met, the next priority should be given to timely performance and workload management. Then, efforts should be devoted to opportunities for improvement which would result in performance that exceeds standards and requirements. Resources to improve an operation should be balanced against the benefit to Veterans, size of the activity, and potential for savings.
9. Areas for Review

Change Date: January 25, 2016, Change 1

- This entire section has been updated.

a. Management  The areas to be analyzed and reviewed for the management portion of Loan Guaranty Service (LGY) operations include, but are not necessarily limited to:

- Planning and Organization
  o Workload projections and full time equivalent (FTE) capacity
  o Effectiveness of staff (production and timeliness)
  o Efficiency of workflow and processes
  o Implementation of Workload Management Plan effectiveness
  o Implementation of Standard Operating Procedures (SOPs) effectiveness
  o Delays minimized and overlaps eliminated
  o Staffing patterns, projections, and functional charts
  o Division and FTEs on duty organizational charts
  o Staff tenure, retirement eligibility, and succession planning
  o Registers, lists records, follow-up devices, etc., associated with processes are efficient and effective
  o Adequate equipment, operational, and appropriately supported
  o Employee, Union and Veterans Service Organizations relations
  o Out-based and Telework staff
  o Annual training requirements met
  o Budget allocation and ability to meet the LGY mission
  o Prompt payment compliance

- Implementing and Controlling
  o Workload projection and production capacity
  o Any backlogs
  o Delegations of Authority status
  o Control of sensitive files
  o Local external releases (information bulletins)
  o Travel budget management
  o Interview area
  o Written communication

Continued on next page
9. Areas for Review, Continued

a. Management, Continued

- Local policy deviations
- Accuracy and quality
- Sample size of local quality reviews
- Monthly internal quality review findings/trending
- Management review of Loan Systematic Technical Accuracy Review (LoanSTAR) findings
- Access to the National Control Listing of Suspended Program Participants and Fee Personnel
- Public Relations and Outreach
- Potential and/or Identified Risks
- Records Control Schedule, VB-1, Part I
- Staff meetings
- Personnel Management and Utilization
- Borrowed and loaned time
- Contract personnel training
- Employee leadership, suggestions and training
- Chief/Assistant Chief training and development
- Performance evaluations
- Incentive awards program
- Employee development
- Position descriptions
- Performance Standards – current, understandable, challenging, realistic attainable, and sufficient to permit accurate measurement of the employee’s performance
- Administrative sanction procedures for fee personnel

- Quality of Correspondence
  - Locally prepared letters and electronic responses, including, but not limited to Congressional and IRIS inquiries
  - Form letters

- Personable Identifiable Information (PII) compliance per VA Handbook 6500, Information Security Program, September 18, 2007 to include, but not limited to the following:
  - Security training, Education, and Awareness compliance per VA Handbook 6500, Paragraph 6b.(11)
  - Remote Access compliance per VA Handbook 6500, Paragraph 6c.(3)
9. Areas for Review, Continued

a. Management, Continued

- Mobile, Portable, Wireless and Removable Storage Media and Device Security per VA Handbook 6500, Paragraph 6c.(4)
- Electronic Mail per VA Handbook 6500, Paragraph 6c.(7)
- Facsimile (Fax) Machines per VA Handbook 6500, Paragraph 6c.(8)

- Miscellaneous
  - Oversight Requirements
  - Public Relations
  - Significant Trends
  - Efficiency of Operations

b. Construction & Valuation

The areas to be analyzed and reviewed for the Construction and Valuation section of LGY operations include, but are not limited to:

- Efficiency of C&V operations
  - Production
  - Quality
  - Timeliness
- C&V performance measures in relation to established targets
- Program Management
- Automation initiatives
- Geographical breakdown
- Coordination with other VA entities
- Special cases, projects and initiatives
- Stakeholder outreach
- Management oversight
- Program changes
- C&V training, staffing and significant trends

Continued on next page
9. **Areas for Review**, Continued

### c. Specially Adapted Housing

The areas to be analyzed and reviewed for the Specially Adapted Housing (SAH) section of LGY operations include, but are not limited to:

- Efficiency of SAH operations
  - Production
  - Quality
  - Timeliness
- SAH performance measures in relation to established targets
- Program Management
- Automation initiatives
- Geographical breakdown
- Coordination with other VA entities
- Special cases, projects and initiatives
- Stakeholder outreach
- Management oversight
- Program changes
- SAH training, staffing and significant trends

### d. Loan Production

The areas to be analyzed and reviewed for the Loan Production portion of LGY operations include, but are not limited to:

- Efficiency of LP operations
  - Quality
  - Timeliness
- LP performance measures in relation to established targets
- Program Management
- Automation initiatives
- Geographical breakdown
- Coordination with other VA entities
- Special cases, projects and initiatives
- Stakeholder outreach
- Management oversight
- Program changes
- LP training, staffing and significant trends

*Continued on next page*
9. Areas for Review, Continued

e. Loan Administration

The areas to be analyzed and reviewed for the Loan Administration portion of LGY operations include, but are not limited to:

- Efficiency of LA operations
  - Quality
  - Timeliness
- LA performance measures in relation to established targets
- Program Management
- Automation initiatives
- Geographical breakdown
- Coordination with other VA entities
- Special cases projects and initiatives
- Stakeholder outreach
- Management oversight
- Program changes
- LA training, staffing and significant trends
Chapter 7. Regional Loan Center (RLC) Site Visit

Overview

In this Chapter

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1. Definition and Objective of Site Visits

Change Date: January 25, 2016, Change 1
- This entire section has been updated.

a. Definition of Site Visit
Quality Assurance (QA) section in Loan Guaranty Service Central Office (LGYCO) conducts periodic Regional Loan Center (RLC) site-visits to evaluate program performance towards measurable targets. QA ensures compliance with all applicable LGY program policies and procedures. The site visits are clearly structured and address all of the required elements found in the Site Visit Protocol. Site visit audits are conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). GAGAS provides a framework for conducting high quality government audits with competence, integrity, objectivity, and independence. The site visit is designed to provide insight into the operation of LGY business lines, including management, as it relates to the goals and objectives of the VA Home Loan Guaranty program and the program’s progress towards achieving those goals and objectives at each RLC. The QA team collects data, performs testing, and completes analysis across all LGY business lines to measure performance, helping to identify risks and opportunities to include recommending internal controls to maximize the effectiveness and efficiency of the program. Communicating the results of the site visit assists LGY management in making data-driven policy decisions.

b. Objective of Site Visits
The main objectives of the site visits are to:

- Apply uniform and objective standards
- Determine the effectiveness of policies, procedures, standards, and control systems in relation to operating needs and changing conditions
- Monitor program efficiency and effectiveness, and progress towards achieving policy goals within acceptable risk thresholds
- Inform the Under Secretary for Benefits, District Director, Regional Office (RO) Director, and Loan Guaranty Officer about the accuracy, timeliness, effectiveness, and efficiency of RLC operations
- Provide information for improving activities within the RLC
- Identify actual or potential areas of operational weakness
- Formulate and recommend instructions, directives, guidelines, policies, plans or procedures to administer or carry out functions identified as inefficient
- Encourage and give recognition to effective and creative management
2. Components of a Site Visit

Change Date

January 25, 2016, Change 1
• This entire section has been updated

a. RLC Selection and Notification

In the third quarter of the fiscal year, QA provides the Office of Field Operations (OFO) a tentative site visit schedule for the upcoming fiscal year. QA will conduct either a physical or virtual site visit for each RLC every fiscal year. Exceptions are made based on RLC performance and/or previous site visit findings.

b. Site Visit Protocol

The Site Visit Protocol is a clearly structured tool that addresses required elements to evaluate RLC operations; the protocol is not all inclusive. Items in this document can be edited, deleted, and added on an ongoing basis to accommodate emergent issues identified by LGYCO to include changes in programs, systems and legislation, even if they are not explicitly spelled out in this protocol. The Site Visit Protocol is actively published in the LGY intranet home page as updates are completed.

The protocol consists of the following:
• QA actions before, during, and after the site visit
• Definitions
• Areas of review
• Citation reference hyperlinks

c. Pre-Site Visit Analysis

The following review is conducted prior to the site visit:

• Review and analyze appropriate reports and data including the previous site visit report(s)
• Review accuracy (LoanSTAR), and non-accuracy (timeliness) results
• Review of third party performance audits such as Department of Veterans Affairs Office of Inspector General (OIG), U.S. Government Accountability Office (GAO), and any other available audit reports
• Review of RLC-provided documents such as the Systematic Analysis of Operations (SAO), Statement of Written Assurance (SWA), Standard Operating Procedures (SOPs), and Workload Management Plan
• Review of RLC annual training requirements
• Status of current budget allocation and use per business line
• Conduct discussion with LGYCO policy management to identify any RLC-specific issues

Continued on next page
2. Components of a Site Visit, Continued

**d. Evaluation and Briefings for On-Site Visits**

On-site functions include, but are not limited to:

- Participation in entrance and exit briefings with RLC, RO, and District Office management
- Execution of the Site Visit Protocol
- Engage in discussions with management and staff
- Conduct briefings with RLC management to discuss any action items (open or closed), appropriate corrective action plans, follow-up plans, commendable findings, and best practices, if applicable
- Observe workflows and processes
- Ensure work performed and the results obtained have been adequately documented to support findings
- Summarize findings and gather RLC feedback regarding specific issues and challenges
- Provide QA recommendations for remediation of any findings
- Obtain management’s response to all findings and QA recommendations for remediation
- Advise RLC to develop a remediation strategy and/or corrective action plan for specific finding(s)

**e. Evaluation and Briefings for Virtual Site Visits**

Virtual site visit functions include, but are not limited to:

- Participation in entrance and exit briefings with RLC, RO, and District Office management
- Execution of the Site Visit Protocol
- Discussions with management and staff via telephone, email, and online meetings
- Conduct briefings with RLC management to discuss any action items (open or closed), appropriate corrective action plans, follow-up plans, commendable findings, and best practices, if applicable
- Virtually observe workflows and processes using online meetings
- Ensure work performed and the results obtained have been adequately documented to support findings
- Summarize findings and gather RLC feedback regarding specific issues and challenges
- Provide QA recommendation for remediation of any findings
- Obtain management’s response to all findings and QA recommendations for remediation
- Advise RLC to develop a remediation strategy and/or corrective action plan for specific finding(s)
2. Components of a Site Visit, Continued

f. Post-Site Visit Reporting

After completing the site visit, QA will summarize the results of all the reviews, the findings and any recommendations. If applicable, QA will identify commendable findings and best practices. QA will work with each policy section to complete the reporting process described below:

- Follow-up discussions with policy management to address site visit issues and/or concerns
- Make recommendations for improved planning, control, and management
- Documentation of action items and supporting evidence
- Site Visit briefing points and other “situational awareness” items of note
- Submission of the final report for concurrence by the Director of Loan Guaranty Service
- Final reports posted on the LGY site visit intranet website

---

g. Follow-Up

As part of QA’s routine follow-up on action items, a minimum of one follow-up will be performed within the first 60-calendar days from the conclusion of the site visit. Additional follow-up will be performed until QA determines that there is reasonable assurance the RLC will remain compliant with the requirements.
Chapter 8. Indemnification Agreement

Overview

In this Chapter

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</table>
Chapter 8: Indemnification Agreement

1. Objective of Indemnification Agreements

Change Date

January 25, 2016, Change 1
• This entire section has been updated.

a. Important Information About the Indemnification Agreement

When a loan is determined to be egregious, an Indemnification Agreement (IA) is executed by the lender and VA, whereby VA can recover all losses from the original lender. Should an egregious loan go into default within 5 years from the date of guaranty, and the property securing the loan is subsequently foreclosed, sold as a compromised sale, or obtained by voluntary conveyance (deed in lieu), VA can reject a lender’s claim request. Paragraphs (2) and (3) of 38 U.S.C. 3710(g), require VA to establish credit-underwriting standards by regulation. These standards contained in 38 C.F.R. § 36.4340, paragraph (4) (B), of section 3710(g) requires the lender to certify compliance with the underwriting standards. Paragraph (4) (B) states that any lender who knowingly and willfully makes a false certification shall be liable for civil penalty equal to twice the Government’s loss on the loan or another appropriate amount not to exceed $10,000, whichever is greater. While this is always an option, the IA process is the preferred method to address issues of this nature.
2. Egregious Loans

Change Date: January 25, 2016, Change 1

- This entire section has been updated.

a. Egregious Loans

Loans that clearly indicate that the lender failed to apply proper due diligence and demonstrated flagrant disregard for VA credit standards are considered to be egregious. Potentially egregious loans are referred to Loan Guaranty Service Central Office (LGYCO) Quality Assurance (QA) by the Regional Loan Center (RLC). These can also be forwarded by the Monitoring Unit (MU) after their preliminary loan review. LGYCO Loan Policy conducts a secondary review and renders a final decision. Loan Policy sends two unexecuted IAs to the RLC to forward to the lender. On lender audited cases, MU will send the IA included in their final report to the lender. All IAs with lender signatures are either received in or routed to LGYCO.
3. Egregious Loans Processing Procedures

Change Date  
January 25, 2016, Change 1  
• This entire section has been updated.

a. Create Folder and Letters on RLC Cases  
Since RLC cases do not have a report or audit number, follow the steps below to create a folder and letters on RLC cases:  
• Create a folder and assign a report number.  
• Prepare the letter from the LGY Director to the Regional Office (RO) Director on RLC cases.

b. Create Letters on MU Cases  
QA uses the same audit report numbers for MU cases.  
• Prepare the letter from the LGY Director to the lender and also to the RO director.

c. Tracking IA’s  
Follow the steps below to manually track IAs:  
• Enter the loan origination, loan servicing, and IA data in the appropriate tracking spreadsheets.  
• Enter the same data in the current system of record (currently webLGY). Indemnification information automatically carries over to the LGY loan servicing system (currently VA Loan Electronic Reporting Interface) indicating that the loan is indemnified.

d. Concurrence Tracking  
The LGY Director must review the case and execute the IAs.  
• Submit the folder with the required letter(s) and the lender signed IAs for the LGY Director’s concurrence.  
• Document the appropriate tracking logs.

e. Maintenance  
Follow the steps below to maintain tracking of IAs:  
• After concurrence is complete, send the letter and one fully executed IA to the lender.  
• Upload the second executed IA in the current LGY system of record (currently webLGY).
Chapter 9. Bill of Collection

Overview

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<tr>
<td>5</td>
<td>Writing Off a Bill of Collection</td>
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1. Objective

Change Date

January 25, 2016, Change 1
• This entire section has been updated.

a. Primary Objectives of BOC

The Bill of Collection (BOC) is the method used to recover the Department of Veterans Affairs’ (VA) losses incurred on egregious loans. Should an egregious loan go in default within 5 years from the date of guaranty, resulting in VA rendering monies to the servicer, VA will issue a BOC to recover such losses.
2. Payment

Change Date

January 25, 2016, Change 1
• This entire section has been updated.

a. Collection in Installments

Per C.F.R Title 38 § 1.914, Collection in Installments, VA shall collect the total amount of the debt in one lump sum. However, in certain cases, VA may work out a compromise with the lender as outlined in C.F.R Title 38 § 1.931.
3. Administrative Loan and Accounting Center

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<tr>
<td></td>
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</table>

| a. Administrative Loan and Accounting Center | Loan Guaranty Service (LGY) - Quality Assurance (QA) works with the Administrative Loan and Accounting Center (ALAC) in Austin, Texas to issue the BOC letter. The lenders will submit payment to ALAC, not directly to Loan Guaranty Central Office (LGYCO). |
4. Issuing Bill of Collection

Change Date: January 25, 2016, Change 1
- This entire section has been updated.

a. Identify BOC Needed Cases

Follow the steps below to identify cases in need of a BOC:

- Locate the active indemnified cases in the indemnification tracking log.
- Search and review each loan status and VA payment history in the LGY servicing current system of record (currently Centralized Property Tracking System [CPTS]).
- Search and review any foreclosed loans in the LGY property current system of record (currently VA Loan Electronic Reporting Interface [VALERI]).
- Properties resold or sold as a compromised sale require a BOC.
- If paid in full, then verify in the current system of record (currently webLGY) that there is no new loan or there is an Interest Rate Reduction Refinance Loan (IRRRL).
- If there is an IRRRL, look up the new loan in the current system of record (currently VALERI).
- Document the loan status and all loan info (including VA payment history in VALERI) on the Active Indemnification Agreements tracking spreadsheet.
- Go to CPTS from the Veteran Information Portal. Enter the loan number in the “Main Module.”
- Properties resold in CPTS (Case Stage 9), or sold as a compromise sale in VALERI, require a BOC.
- Print out the HUD-1 settlement statement for applications taken prior to October 3, 2015 or “Know Before You Owe” mortgage disclosures for loans originated on or after aforementioned date.
- Print out the Finance Summary from CPTS.

Continued on the next page
### 4. Issuing Bill of Collection, continued

| b. Verify Lender/Vendor Status | Prior to issuing the BOC, verify the lender’s status as follows:  
- Verify the lender’s status (as active) and current address.  
- ALAC must have vendor information in order to collect payment.  
- Verify with ALAC that the lender is vendorized. **Note:** Major lenders are vendorized, but some small lenders may not be vendorized.  
- If the lender is not vendorized,  
  - Contact the RLC of jurisdiction.  
  - Email the RLC a copy of the SF 3881, Automated Clearing House (ACH) Vendor/Miscellaneous Enrollment form.  
  - Request they forward it to the lender immediately. |
|---|---|
| c. Calculate Loan Amount | Using information in LGY servicing and property management systems of record, complete the indemnification tracking log. The formula in the indemnification tracking log will calculate the loss amount. The BOC amount should include the following:  
Acquisition + Claim + Incentive + Property Management Losses After Resale. |
| d. Obtain BOC Number | Complete a Billing Document Request (BDR-1) form and email the form to ALAC (see [Standard Operating Procedures (SOP) for current contact](#)) to obtain a BOC number. |
| e. Prepare BOC Letter | In order to issue a BOC letter:  
- Prepare the BOC letter on VA letterhead to the lender.  
- Make a copy and attach the corresponding indemnification agreement (see Appendix C). |
| f. Final steps | The final steps of issuing a BOC includes:  
- BOC information is recorded in appropriate logs as instructed in the [BOC SOP](#).  
- Send a letter with the attached indemnification agreement (IA) to the lender.  
- Update the active IA tracking logs with the BOC number.  
- Email a copy of the letter to ALAC (see [SOP for current contact](#)). |
| g. Follow-Up | QA conducts regular follow-ups with ALAC to update the status of each active BOC. |
# 5. Writing Off a Bill of Collection

## a. Determine if Debt is Collectible
Complete the following steps to determine if the lender is operating:
- Conduct thorough research to determine if the lender is still in business and originating VA loans.
- Document research findings.
- Determine if debt collection is necessary.

## b. Memo to LGY Director
Quality Assurance (QA) Chief notifies LGYCO Director of BOC by completing the following steps.
- Prepare a memo from QA Chief (264A) to the LGYCO Director (26) through Administrative (26A1) and LGY Deputy Director (26A).
- Memo must include:
  - Loan information
  - BOC information
  - Current status of the loan
  - Current status of the property
  - Current lender status

## c. Memo to ALAC
ALAC memo regarding the BOC is prepared per the following steps:
- Prepare a memo from the LGY Director to the division Chief of ALAC.
- Body of the memo is identical to the memo to the LGY Director.

## d. Concurrence
Follow these steps to obtain LGY concurrence of the BOC:
- Submit both memos to the LGY Director for concurrence.
- The LGY front office staff returns memos to the QA chief.

## e. Final Steps
To complete the final steps for delivery and recording of BOC memos,
- Forward the LGY Director approved memo to ALAC.
Chapter 10. Risk Management

Overview

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<td>4</td>
<td>Risk Management Process</td>
<td>10-5</td>
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1. General Information

Change Date

January 25, 2016, Change 1
• This entire section has been updated.

a. Overview

Per OMB Circular A-123, Agencies and Federal Managers are responsible for improving the accountability and effectiveness of its program and operations by establishing, assessing, correcting, and reporting on internal controls on an annual basis.

In order to determine if Loan Guaranty’s (LGY) mission in assisting Veterans is met in obtaining, retaining, and adapting homes, Quality Assurance (QA) reviews risks across all LGY program operations, including, but not limited to, Loan Production, Construction and Valuation, Specially Adapted Housing, Loan Administration, and Loan and Property Management.
2. Objective

Change Date

January 25, 2016, Change 1
• This entire section has been updated.

a. Overview

The objectives of QA’s risk management functions are generally expected to have the following characteristics:

• Identify potential risks to LGY’s objectives.
• Ensure policies and procedures of LGY are working properly and as intended.
• Propose development and implementation of new policies and procedures to mitigate risk, when identified.
• Ensure program and resources are protected from waste, fraud, and mismanagement.
• Report outcomes and make recommendations.
3. Definition of Key Terms

Change Date: January 25, 2016, Change 1
- This entire section has been updated.

The definition of key terms in the risk management program are:

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Corrective Action Plan</td>
<td>A plan to correct and monitor deficiencies.</td>
</tr>
<tr>
<td>Internal Control</td>
<td>A means of managing the risk associated with programs and processes, and an integral component of an organization’s management that provides reasonable assurance that objectives are being achieved.</td>
</tr>
<tr>
<td>Key Controls</td>
<td>Key controls, provide reasonable assurance about the entire internal control system’s ability to achieve the underlying objectives.</td>
</tr>
<tr>
<td>Reasonable Assurance</td>
<td>Assurance that program objectives will be met. Specifically, internal controls provide reasonable, not absolute, assurance of meeting a program objective.</td>
</tr>
<tr>
<td>Risk</td>
<td>The possibility of an event occurring that may have an adverse impact on the program’s strategic objectives.</td>
</tr>
<tr>
<td>Risk Assessment</td>
<td>A phase of the risk management process is to document key controls, the actions required to meet the key control objectives, and impact to LGY’s strategic objectives if key control objectives are not achieved.</td>
</tr>
<tr>
<td>Risk Management</td>
<td>A process to identify, assess, manage, and mitigate potential events or situations, and to provide reasonable assurance, regarding the achievement of the programs objectives.</td>
</tr>
<tr>
<td>Risk Matrix</td>
<td>QA will review the major processes that fall on the risk significance matrix where the likelihood of occurrence is shown to be moderately likely, highly likely, and nearly certain.</td>
</tr>
<tr>
<td>Risk Register</td>
<td>QA will maintain a risk register. Identifying risks is accomplished through the process known as an environmental scan. As risks are identified, they will be documented in the risk register.</td>
</tr>
<tr>
<td>Findings</td>
<td>After analysis is complete, QA will present each Assistant Director (AD) and section Chiefs of the policy departments with the Notice of Findings Report (NFR), and recommendations.</td>
</tr>
</tbody>
</table>
4. Risk Management Process

Change Date
January 25, 2016, Change 1
• This entire section has been updated.

a. Risk Management Process

There are ten major steps in the risk management process outlined in these steps below:

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<td>Risk Management Board</td>
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<td>b.</td>
<td>Planning</td>
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<td>c.</td>
<td>Risk Assessment</td>
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<tr>
<td>d.</td>
<td>Risk Identification</td>
</tr>
<tr>
<td>e.</td>
<td>Identifying Key Controls</td>
</tr>
<tr>
<td>f.</td>
<td>Identifying Control Information</td>
</tr>
<tr>
<td>g.</td>
<td>What controls are designed to accomplish</td>
</tr>
<tr>
<td>h.</td>
<td>Testing of Controls</td>
</tr>
<tr>
<td>i.</td>
<td>Analysis</td>
</tr>
<tr>
<td>j.</td>
<td>Findings</td>
</tr>
<tr>
<td>k.</td>
<td>Corrective Action Plan</td>
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<tr>
<td>l.</td>
<td>Ongoing Monitoring</td>
</tr>
<tr>
<td>m.</td>
<td>Reporting</td>
</tr>
</tbody>
</table>

b. Risk Management Board

The purpose of the Risk Management Board (RMB) is to assess identified risks that may prevent Loan Guaranty (LGY) from achieving its objectives and to ensure risks are appropriately addressed.

The RMB functions through a charter developed in accordance with The Institute of Internal Auditors (IIA) International Professional Practiced Framework (IPPF) attribute standard 1000, Purpose, Authority, and Responsibility.

The internal audit charter is a formal document that defines the internal audit activity’s purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity’s position within the organization, including the nature of the audit team’s functional reporting relationship with the board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.

Continued on the next page


4. Risk Management Process

**c. Planning**

At the beginning of each fiscal year (FY), QA reviews LGY functional areas and processes to identify potential risk as follows:

- Prior FY risk management report.
- U.S. Government Accountability Office (GAO) reports.
- Department of Veterans Affairs Office of Inspector General (OIG) reports.
- Prior site visit reports.
- Prior years’ congressional inquiries presented to Loan Guaranty Central Office (LGYCO).
- Formal request from the Regional Loan Centers (RLCs).
- Review of current events.
- Input from LGYCO policy sections.
- Other external reports documenting economic, social, and political trends that may potentially impact LGY business lines.

**d. Risk Assessment**

Risk assessment is conducted on an ongoing basis by interviewing the LGYCO Assistant Directors and each policy section Chief. This interview includes discussion of current, potential, external, and internal risks. Each key concern or potential deficiency, noted during the risk assessment phase, will be thoroughly examined and prioritized. Risk is measured in terms of impact and likelihood of occurrence. There are four categories of risk responses or risk strategies:

<table>
<thead>
<tr>
<th>Response</th>
<th>Definition</th>
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<tr>
<td>Accept</td>
<td>Form of risk response, an informed decision to tolerate or take on a particular risk</td>
</tr>
<tr>
<td>Avoid</td>
<td>Form of risk response, an informed decision not to be involved in, or to withdraw from, an activity, in order not to be exposed to a particular risk</td>
</tr>
<tr>
<td>Reduce (mitigate)</td>
<td>Form of risk response involving actions designed to reduce a risk or its consequences</td>
</tr>
<tr>
<td>Share (transfer)</td>
<td>Form of risk response, involving contractual risk transfer to other parties, including insurance</td>
</tr>
</tbody>
</table>

Once potential risks have been developed, they are presented to the Risk Management Board (RMB), which will determine the risks to be further evaluated.

*Continued on the next page*
4. Risk Management Process

e. Risk Identification

Risk identification takes a systematic look at the nature of risks and opportunities facing the organization. Risks and opportunities are often grouped as strategic, project management/program/process, or operations. QA will maintain a risk register. Identifying risks is accomplished through the process known as an environmental scan. Risks can be identified through a variety of resources to include site visits, media, legislature, personal observation, recommendations from internal and external resources, as well as hearsay.

f. Controls

Internal control helps an organization mitigate risk and ensure that management strategies and objectives are carried out. However, organizations should not have unrealistic expectations about internal control. Internal control has both distinct benefits and limitations.

Internal control can help:

- Achieve organization performance targets
- Prevent loss of resources
- Support reliable reporting
- Support compliance with laws and regulations, avoid damage to reputation and other consequences

Internal control cannot:

- Ensure organization success
- Ensure the reliability of reporting
- Ensure absolute compliance with laws and regulations

Continued on the next page

g. Identifying Control Information

Key controls analysis can be facilitated by considering factors that may increase the risk that the internal control system will fail to properly control or correct. In order to assess control risk factors, QA will analyze the following:

- Complexity of controls,
- Determine controls that require a high degree of judgment,
- Determine whether controls are manual or automated (as manual controls are more susceptible to human error than automated controls),
- Identify known control failures,
- Determine controls that could be overridden by management, and
- Determine likelihood of control failure detection.

Continued on the next page
4. Risk Management Process, continued

h. What Controls are Designed to Accomplish

Controls help management accomplish business objectives, usually by reducing a risk to an acceptable level. There are a tremendous variety of controls available to management. Which control or combination of controls is best depends entirely on the objective and environment.

Evaluating the design of controls requires a high degree of professional judgment. There are, however, a number of control concepts that help evaluate the design or controls in a given situation.

The most commonly used terms to describe types of controls are based on their function.

- **Preventative**: these are proactive controls that deter undesirable events from occurring.
- **Detective**: Detective controls are reactive and detect undesirable events that have occurred.
- **Directive**: Directive controls are proactive controls that cause or encourage a desirable event to occur. Guidelines, training programs, and incentive plans are examples of directive controls.
- **Mitigating**: Mitigating controls reduce the potential impact should an event occur. Insurance is a prime example of a mitigating control.
- **Compensating**: These are controls that compensate for the lack of an expected control. For example, close supervisory review may compensate for a lack of segregation of duties where a small staff size makes proper segregation impractical.

Controls may also be categorized as active or passive.

- Active control implies a task that prevents or detects a deviation from the approved procedure. We can think of it as a control that works by some type of conscious intervention. An active control is sometimes referred to as a “manual control.” An example is a manager’s review of transactions.
- Passive control operates without human intervention. An example may be controls built into the computer system or a relationship of process that possesses control implications. We can think of it as a control that works by just being there. A passive control is sometimes referred to as an “automated control.” An example is a thermostat you set to maintain the temperature of a room.

Continued on the next page
4. Risk Management Process, continued

i. Testing of Controls
QA will test the key controls throughout the FY. QA and management of each LGYCO section will determine which controls will be tested and the proper methodology. QA will provide reasonable assurance that LGY’s risks have been managed effectively and that the goals and objectives will be achieved efficiently and economically.

j. Analysis
Following controls testing, QA will analyze the test results, compile findings, and formulate recommendations for each section.

k. Findings
Following controls testing, QA will analyze the test results, compile the findings, and formulate recommendations. After analysis is complete, QA will present each Assistant Director (AD) and section Chiefs with the Notice of Findings Report (NFR), and recommendations. The ADs and Chiefs will then provide feedback to QA so that corrective action plans (CAPs) are developed to address and track deficiencies identified.

l. Corrective Action Plan (CAP)
In order to track and follow up on deficiencies, each LGY section will develop a corrective action plan (CAP). Corrective action plans should be developed for all material weaknesses identified, and progress against plans should be periodically assessed and reported to QA and LGYCO senior management. This plan will serve as a roadmap to correct and monitor deficiencies. The CAP will also be used for ongoing status reports to LGYCO senior management.

Continued on the next page
4. Risk Management Process, continued

m. Ongoing Monitoring

Monitoring is a continuous process to assess the quality of internal control performance over time. Two sets of activities constitute monitoring:

- Integrated activities that provide ongoing assurance of controls, and
- Stand-alone assessment activities that provide management with separate and distinct evaluations of control operations.

QA employees will continuously monitor activities to identify and report to management:

- New risks associated with policy/legislative changes,
- Risks associated with contract modifications, and
- Relevant external risks.

QA will provide a periodic CAPs report to LGY senior management detailing completed work and the status of any work in progress. The CAPs report will be a tool used throughout the year to ensure continuous progress and improvement.

n. Reporting

Quality Assurance, at the direction of the Risk Management Board (RMB), will provide periodic reports and a final Risk Management report the month following the end of the fiscal year, or at any other time as directed by the Board.
Chapter 11. Corrective Action Plan

Overview

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<td>Corrective Action Plan Components</td>
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<td>4</td>
<td>Corrective Action Plan Roles and Responsibilities</td>
<td>11-5</td>
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1. General Information on Corrective Action Plans

Change Date

January 25, 2016

• This is a new chapter.

a. Overview

Per OMB Circular A-123, management is responsible for developing and maintaining effective internal control. Effective internal controls provide assurance that significant weaknesses in the design or operation of internal control, that could adversely affect the agency’s ability to meet its objectives, would be prevented or detected in a timely manner. When internal control weaknesses are identified, Quality Assurance (QA), Loan Guaranty Service Management, and/or Regional Loan Center Management work collectively to develop corrective action plans (CAP).
2. Objective of Corrective Action Plans

Change Date

January 25, 2016
- This is a new chapter.

a. Objective

The CAP objective is to provide the framework which identifies the owner of the CAP {i.e., Champion and Primary Process Owner (PPO)}, identifies the weakness (a.k.a. finding/issue), determines the root cause, and contains the steps to correct the weakness. Periodic review and follow-up by QA staff is conducted until there is reasonable assurance that the desired outcome of the CAP has been obtained.

b. Criteria for Success

Assessing the current weaknesses and evaluating the root causes are the key elements in defining the CAP. This includes:

- Identify the weakness
- Perform root cause analysis
- Evaluate the impact of the weakness
- Develop CAP components
- Implement CAP monitoring and follow-up of CAP progress
- Testing and validation of CAP
- Close CAP when steps are complete

Periodic review and follow-up by QA staff is conducted until reasonable assurance of the desired outcome of the CAP is obtained.
3. Corrective Action Plan Components

Change Date

January 25, 2016

- This is a new chapter.

a. CAP Components

The Corrective Action Plan (CAP) components include:

<table>
<thead>
<tr>
<th><strong>Header Information</strong></th>
<th><strong>Description</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Action Item Identification (Item ID)</td>
<td>Identifies the risk by assigning a Risk ID. The Risk ID is listed by station, business line, sequential number beginning with 1, and the fiscal year (FY). For example, 362-LP-01-15 would be Houston, Loan Production, first finding, and FY.</td>
</tr>
<tr>
<td>Champion</td>
<td>Identifies the individual accountable for the remediation and reporting to QA.</td>
</tr>
<tr>
<td>Primary Process Owner (PPO)</td>
<td>Identifies the process owner designated by the Champion who will execute the CAP.</td>
</tr>
<tr>
<td>Finding/Issue</td>
<td>Identifies the deficiency found in the audit. This section should reference the regulation, law, policy, or VA Circular citation in which compliance is deficient.</td>
</tr>
<tr>
<td>Steps</td>
<td>Lists the numerical steps required to complete the action plan.</td>
</tr>
<tr>
<td>Corrective Actions</td>
<td>Identifies the actions required by station to mitigate the deficiency.</td>
</tr>
<tr>
<td>Projected Dates</td>
<td>Projected date the step will be completed.</td>
</tr>
<tr>
<td>Status</td>
<td>Identifies the current state of the step, such as completed, in progress, to be started, or other description unique to the step.</td>
</tr>
<tr>
<td>Percentage Completed</td>
<td>Measures by percentage the extent a step is complete, using only 25%, 50%, 75%, and 100%.</td>
</tr>
<tr>
<td>Completed Dates</td>
<td>Date the step is 100% complete.</td>
</tr>
<tr>
<td>Desired Outcome</td>
<td>Characterizes the desired end result of the CAP.</td>
</tr>
<tr>
<td>How Are We Doing?</td>
<td>Recognizes all steps completed and the progress of the remaining steps toward a successful outcome.</td>
</tr>
</tbody>
</table>
4. Corrective Action Plan Roles and Responsibilities

Change Date
January 25, 2016
• This is a new chapter.

a. CAP Roles and Responsibilities
The CAP roles and responsibilities include:

<table>
<thead>
<tr>
<th>Roles and Responsibilities – CAP Monitoring Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Champion</td>
</tr>
<tr>
<td>• Oversight for remediation of the process</td>
</tr>
<tr>
<td>• Accountable and responsible for remediation</td>
</tr>
<tr>
<td>• Provide guidance and ensure remediation is</td>
</tr>
<tr>
<td>• Report progress to QA</td>
</tr>
<tr>
<td>Primary Process Owner</td>
</tr>
<tr>
<td>• Execute the steps detailed in the CAP, with</td>
</tr>
<tr>
<td>• Assimilate other stakeholders into remediation</td>
</tr>
<tr>
<td>• Measure progress against metrics and</td>
</tr>
<tr>
<td>• Propose any refinement to the CAP required to</td>
</tr>
<tr>
<td>• Achieve resolution</td>
</tr>
<tr>
<td>Process Stakeholders</td>
</tr>
<tr>
<td>• Provide additional support, under guidance</td>
</tr>
<tr>
<td>• PPO, to complete and update the CAP steps</td>
</tr>
<tr>
<td>• Resolve CAP, e.g., undergo training and</td>
</tr>
<tr>
<td>• Using updated processes and procedures</td>
</tr>
<tr>
<td>Quality Assurance Role with Remediation</td>
</tr>
<tr>
<td>• Periodically review CAP status</td>
</tr>
<tr>
<td>• Pre-approval forum for the request to close</td>
</tr>
<tr>
<td>• The open action item(s)</td>
</tr>
</tbody>
</table>
Memo

Department of Veterans Affairs

Date:

From: Loan Guaranty Officer (26)

Subj: (State the SAO title)

To: Director (00)

1. Description of Review

   a. Date of Review:
   b. Reviewer:
   c. Scope:
   d. Period Covered:

2. References

   Cite the Loan Guaranty Central Office and/or local directive(s) requiring the analysis. Also cite any other pertinent documents. Check references to ensure they are current. If the SAO is locally directed, state that in this section.

3. Areas of Concern

   a. Present relevant facts and data in a brief, clear, and thorough manner
   b. No analysis, opinion, or explanation should be included in this section
   c. Identify numbers and types of errors found, performance data, staffing numbers, etc.
   d. Include summary of results of the review to include any identified risks
   e. Note criteria used and sampling techniques

Continued on next page
Appendix A. Systematic Analysis Operations (SAO) Report Format, continued

f. List all subtopics for the subject area being discussed and outline specific conclusions for each subtopic per subtopic example below of C&V Field Reviews:
   - Review of each individual appraiser’s work according to VA requirements
   - Review of 20 percent loss liquidation cases
   - Reconsideration of value cases

4. Conclusion

Evaluate the area under review; state the assessment of the condition of the operation and any determined causes; compare findings with established program requirements or guidelines; and specify any deficiency. Include references used in making the determinations. No conclusions should be presented that are not supported by the facts and analysis presented.

5. Previous Reviews/Action

List recommendations made on the prior SAO and describe the actions completed, dates they were completed, and the status of actions not yet completed or ongoing. Also list any actions from Site Visit Surveys or other audits and give the status of each.

6. Recommendations

All recommendations made must have a basis in the substance of the report. Recommendations should flow logically from the Analysis and Conclusion sections. All areas for improvement identified in the report should have at least one proposed countermeasure. Provide substantial actions that will be taken to correct deficiencies, or state that no action is required based on the conclusions. If previous actions have not solved identified issues, your recommendations should include new actions to rectify the situation. All recommendations are to include who is responsible and the date by which each action will be completed.

Continued on next page
Attachment
Appendix B.  Background for Liability Issues

Overview

This chapter contains the following topics.

<table>
<thead>
<tr>
<th>Topic</th>
<th>Topic Name</th>
<th>See Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Loan Topics</td>
<td>B-2</td>
</tr>
<tr>
<td>2</td>
<td>Date of Loan</td>
<td>B-3</td>
</tr>
<tr>
<td>3</td>
<td>Types of Liability Reviews</td>
<td>B-4</td>
</tr>
<tr>
<td>4</td>
<td>General Guidelines</td>
<td>B-5</td>
</tr>
</tbody>
</table>
## 1. Loan Topics

<table>
<thead>
<tr>
<th>Change Date</th>
<th>January 25, 2016</th>
</tr>
</thead>
</table>
| a. Loan Type “2” | • VA-guaranteed loans made *prior* to January 1, 1990.  
• All VA-guaranteed manufactured home loans that are not permanently affixed. |
| b. Loan Type “6” | VA-guaranteed loans made *on or after* January 1, 1990, known as Guaranty and Indemnity Fund (GIF) loans |
2. Date of Loan

Change date

January 25, 2016

- This is a new section.

---

a. VA-Guaranteed Loans Made Prior to March 1, 1988

Per 38 U.S.C. 3713 (a) and (b), these loans do not require VA or servicer approval before the property is transferred. Veterans may sell their home and allow the purchaser to “take over” the payments on the loan even if the purchaser does not specifically assume the mortgage obligation or agree to indemnify VA to the extent of any claim paid under the guaranty. The original Veteran remains liable to VA for any loss to the government caused by the transferee’s default and subsequent termination of the loan. These loans are commonly known as non-qualifying loans.

---

b. VA-Guaranteed Loans Made on or After March 1, 1988

Per 38 U.S.C. 3714, these loans are not freely assumable. All assumptions must be approved in advance. In most cases the prior approval will release the selling Veteran from further liability on the loan. The exception to this rule occurs when the approval is granted only because the seller is unable to make further payments and the assumption is intended to prevent foreclosure.

---

c. VA-Guaranteed Loans Closed on or After January 1, 1990, With the Exception of Manufactured Home Loans

Per 38 U.S.C. 3703(e), these loans are known as Guaranty and Indemnity Fund (GIF) loans. GIF loans generally eliminate the Veteran’s liability to repay VA for claims paid under guaranty. Original Veteran-borrowers remain liable only in cases involving fraud, misrepresentation, or bad faith. In these cases, the burden of proof is on VA. Transferee owners remain liable, unless granted pre-foreclosure debt waivers.
3. Types of Liability Reviews

<table>
<thead>
<tr>
<th>Change date</th>
<th>January 25, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Pre-Foreclosure Debt Waivers</td>
<td>This is an early decision on the collectability of a debt to the Government. The decision to release all or a portion of the estimated debt should depend on the feasibility of collecting the indebtedness and the borrower’s cooperation with VA servicing efforts. Pre-foreclosure debt waivers can be granted to the original Veteran borrowers and all transferee borrowers. These should encompass the majority of terminated loans and compromise sales.</td>
</tr>
<tr>
<td>b. Released Under 38 U.S.C. 3713(a)</td>
<td>VA loans made prior to March 1, 1988, in which a release of liability was approved by VA prior to or after the transfer, but prior to loan termination. The original Veteran is not liable to VA for any loss incurred as a result of the termination or compromise sale.</td>
</tr>
<tr>
<td>c. Released under 38 U.S.C. 3713(b)</td>
<td>VA loans made prior to March 1, 1988, in which the original Veteran did not obtain a release of liability from VA prior to loan termination. This is known as retroactive release of liability review and is conducted after the loan termination if VA suffered a loss. If pre-foreclosure debt waivers are granted, this procedure is not necessary.</td>
</tr>
<tr>
<td>d. Released under 38 U.S.C. 3714</td>
<td>For release of liability completed on VA loans made on or after March 1, 1988, these loans are not freely assumable and all assumptions must be approved prior to transfer.</td>
</tr>
<tr>
<td>e. Guaranty and Indemnity Fund Loans</td>
<td>If there is no finding of fraud, misrepresentation, or bad faith, the original Veteran is released from liability for the loss incurred, but entitlement cannot be used again unless VA loss is repaid.</td>
</tr>
<tr>
<td>f. Bankruptcy Cases</td>
<td>VA loans where the obligors were released as a result of bankruptcy.</td>
</tr>
</tbody>
</table>
### 4. General Guidelines

**Change date**

January 25, 2016
- This is a new section.

#### a. Type “2” Loan Closed Prior to March 1, 1988 - Obligor at Termination / Compromise Sale

<table>
<thead>
<tr>
<th>Original Veteran</th>
<th>The original Veteran remains liable to VA for any loss incurred; therefore, an early decision on the collectability of a debt to the Government should have been made. A pre-foreclosure debt waiver decision to release all or a portion of the estimated debt should depend on the feasibility of collecting the indebtedness and the borrower’s cooperation with VA servicing efforts.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transferee Owner</td>
<td><strong>If a release of liability was approved by VA prior to or after the transfer,</strong> the original Veteran is not liable to VA for any loss incurred as a result of the termination or compromise sale. The transferee borrower is liable to VA. An early decision on the collectability of a debt to the Government should have been made. A pre-foreclosure debt waiver decision to release all or a portion of the estimated debt should depend on the feasibility of collecting the indebtedness and the borrower’s cooperation with VA servicing efforts.</td>
</tr>
<tr>
<td></td>
<td><strong>If a release of liability was not approved by VA prior to or after the transfer,</strong> the original Veteran remains liable to VA for any loss incurred. Assuming that default and subsequent termination was beyond the original Veteran’s control, a pre-foreclosure waiver should be granted. In addition, an early decision of the transferee’s prospects for repaying the indebtedness to the Government should have been made. Again, a pre-foreclosure debt waiver decision to release all or a portion of the estimated debt should depend on the feasibility of collecting the indebtedness and the transferee’s cooperation with VA servicing efforts.</td>
</tr>
</tbody>
</table>

*Continued on next page*
### 4. General Guidelines, Continued

<table>
<thead>
<tr>
<th>Type “6” Loan Closed on or After January 1, 1990, GIF Loans - Obligor at Termination / Compromise Sale</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Original Veteran-Borrower</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Transferee Owner</strong></td>
</tr>
</tbody>
</table>
Appendix C. Example of an Indemnification Agreement

NOW, THEREFORE, the United States Department of Veterans Affairs (VA), pursuant to the authority at 38 U.S.C. 3720(a), and “Lender” (ABC), agrees as follows:

1. “Lender” agrees to indemnify VA for losses, which have or may be incurred on the following loans, if the loans or subsequent VA interest rate reduction refinancing loans go into default, as defined in 38 C.F.R. 36.4301, within five years of the date of guaranty:

Indemnification shall be made in accordance with the following terms:

(a) Where, as of the date of signing of an Indemnification Agreement (Agreement), a claim under guaranty has not been submitted to VA, the property will not be conveyed to VA and no claim under guaranty shall be submitted by (ABC). All VA requirements for servicing and payment of loan fees will be observed in respect to such mortgage. In the event of a claim under guaranty from a transferee of a mortgage covered by this Agreement, indemnification will be in accordance with paragraph (b) or (c), whichever applies.

(b) Where a VA guaranty claim is pending or has been paid in full and the property is owned by VA, conveyance of the property will be accepted by (ABC) and indemnification will be made to VA for its investment. VA's investment includes, but is not limited to: the amount VA paid to the holder when the holder conveyed the property to VA; the full amount of the guaranty claim; all taxes and assessments; all maintenance and operating expenses, including costs of rehabilitation and preservation; and all sales expenses, where applicable. In the event VA does not convey the property to (ABC), VA's loss will be calculated in accordance with paragraph (c).

(c) Where a VA guaranty claim has been paid in full and the property has been sold by VA to a third party, the amount of indemnification is VA's investment as defined in paragraph (b), minus the sales price of the property.

(d) In the event that VA determines that reimbursement is due from (ABC) under the terms of this Agreement, VA shall make a demand upon (ABC) by certified mail, return receipt requested. (ABC) shall then have 30 days from the date such demand was mailed to remit such sum to VA in full. If full payment is not received within such time frame, (ABC) shall also be liable for interest on any unpaid balance from the date of mailing of VA’s demand until the date the payment is received by VA. Interest shall be at the rate determined by the Secretary of the Treasury pursuant to section 11 of the Debt Collection Act of
1982 (31 U.S.C. § 3717) representing the Current Value of Funds Rate used in assessing interest on debts due to the United States.

2. Any material breach of the terms and conditions of the Agreement shall constitute independent grounds for imposing administrative sanctions by VA against (ABC) pursuant to regulations 38 C.F.R Parts 2 and 36.

WHEREFORE, the parties hereto have duly executed this Agreement, effective when signed and dated by the parties set forth below.

“LENDER” UNITED STATES DEPARTMENT OF VETERANS AFFAIRS

BY: ____________________________

BY: ____________________________

Printed Name/Title: ____________________________

Printed Name/Title: ____________________________

DATED: ____________________________

DATED: ____________________________

Audit #: 