

Internal Audit Department Audit Program

AUDIT: Annual NASD

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<u>Section</u>	<u>Audit Step</u>	<u>Date Complete</u>	<u>Sign Off</u>
	<p><u>PURPOSE</u> The purpose of this review is validating all relevant NASD information to insure internal information meets all related requirements. Make sure that all documentation you review that has issues is maintained in the audit workpaper files.</p>		
	<p><u>SCOPE – Initial Analysis</u> Review the workpapers from the prior years to familiarize yourself with the work performed. Review this program in conjunction with this workpaper review.</p>		
	<p><u>SCOPE – Registration Analysis</u> Currently there are 4 separate sources of information that need to be compared: (1) NASD CRD which is maintained by the Legal Department, and is the “bible” of registrations; (2) The HR staff roster of all “registered” personnel; (3) A similar list of registered personnel maintained by the Legal department; and (4) The IBIS system database.</p> <p>Ideally, these 4 lists should match perfectly. Your objective is to uncover all exceptions, and supply explanations for them.</p>		
1.	The decision needs to be made as of what date the testing is going to begin. The testing period will include the day after the previous year’s audit to the date determined.		
2.	<p>Once defined obtain all relevant lists, generated as of the date noted above:</p> <ul style="list-style-type: none"> a) HR should produce a pre-defined roster (ask for the Internal Audit Roster for the NASD audit, which includes Executive Directors, Assistant Executive Directors, Acting Executive Directors, Registered Representatives and Executives). This roster will list all those who should be registered with the NASD, together with all the field rep trainees. You should also request a full Human Resources roster for the same date. Make sure HR’s list includes residential addresses. In addition to the roster, obtain the lists of temps, and consultants for every month of the relevant audit period. b) Legal’s roster can be obtained from Robin Forester. c) The CRD list is custom made for us, so the request should be made at least two weeks prior to starting the fieldwork. It should have the associates’ names, residential addresses, exam information, and registrations. d) The IBIS information needs to be reviewed and updated in 2002 since this will be the first year for this review. 		

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3.	<ul style="list-style-type: none"> ○ Compare Legal list to HR roster. ○ Make sure each associate from Legal appears on HR. ○ Check that their office affiliation is the same. ○ Consultants may not appear on the HR roster. (See step XX for what you should do with the consultants) 		
4.	<p>Compare Legal list to NASD CRD.</p> <ul style="list-style-type: none"> ○ Make sure each associate from Legal appears on CRD. ○ Check that their residential address is the same. 		
5.	<p>Compare HR roster to NASD CRD.</p> <ul style="list-style-type: none"> ○ Make sure each associate from HR roster appears on CRD. ○ For each field rep trainee on HR, check on the CRD online that he/she has a scheduled time slot to take the S62 and S63 exams. ○ Compare residential addresses. 		
6.	<p>Compare HR roster to Legal list.</p> <ul style="list-style-type: none"> ○ Make sure each associate from HR roster appears on Legal list. ○ Confirm that each associate is NASD registered at the same state where his/her office is located. ○ Compare residential addresses. 		
7.	<p>Compare NASD CRD to Human Resources Roster.</p> <ul style="list-style-type: none"> ○ Make sure each associate from NASD CRD appears on Human Resources roster. ○ Note: the NASD CRD listing doesn't distinguish between consultants, temps, and/or full time employees. A person on the NASD CRD and not on the HR staff roster might be a consultant etc. Check the temps/consultants HR lists obtained if that person appears there. ○ Go to AP records and determine when the consultant was paid last, and note those dates. The purpose is that if a consultant isn't working on a regular basis his NASD license cannot be "parked" (open for more than 30 days). ○ An associate can appear on NASD CRD but not on the HR staff roster generated for the NASD audit. In that case you should look at the global HR list and determine their position. 		
8.	<p>Compare NASD CRD to Legal list.</p> <ul style="list-style-type: none"> ○ Make sure each associate from NASD CRD appears on Legal list. ○ For each associate on the NASD CRD, check if he/she had passed the S62 <u>and</u> S63. If not, determine why? What exam had they taken instead? 		

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9.	Review the temps and consultants lists received from HR. <ul style="list-style-type: none"> ○ If a consultant appears on the NASD CRD list and the Human Resources list indicates a period of time where a consultant/temp wasn't working for DCI. He/she would have to be U5'd since DCI can't "park" his/her license. 		
<u>SCOPE – U4 – U5 Review</u>			
Insures that proper documentation was filed timely with the NASD when changes occur.			
1.	Get all the U4 and U5 issued since the last audit from Robin Forester. Get a New Hire Report and Termination list from HR to the period since the last audit.		
2.	Make sure that each new sales/registered associate hired had a U4 issued. If the person had previously been employed by another brokerage company you must obtain the appropriate U-5 from that broker before you can U-4 them onto DCI's roles.		
3.	Make sure that registered associates terminated had a U5 issued within 30 days of their termination date.		
4.	Make sure that each sales/registered associate on the New Hire report also appears on the CRD, and on the HR & Legal staff rosters.		
5.	Make sure that each associate on the termination list appears neither on the CRD, nor on the HR & Legal staff rosters.		
<u>SCOPE – Anti-Money Laundering</u>			
Focuses on the controls in place to ensure adherence to regulatory policies and procedures. As our exposure to this issue is limited, because we do not accept cash payments, we will focus our analysis to high dollar transactions (i.e., over \$1,000,000)			
1.	Using the IBIS system, extract all transactions occurring in the audit cycle that are over \$1,000,000.		
2.	Pull all related support for these transactions and analyze for the following: <ul style="list-style-type: none"> ○ Determine if payment via multiple transactions (multiple checks, wires, and money orders). ○ If multiple payment types determine if from multiple banks. 		
3.	Throughout the year, all such transactions received through Central Processing should have been forwarded to Internal Audit for review, verify that all transactions are accounted for.		
<u>SCOPE – Supervisory Procedures Manual (SPM)</u>			
Insuring that all employees have read and understand the contents of the Supervisory Procedures Manual.			
1.	Obtain the most recent Human Resources staff roster.		
2.	Obtain all SPM sign off documents received.		

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3.	Compare the staff roster and the SPM sign off documents and determine who has not certified that they have reviewed the SPM. Send an email with the sign off document to all those employees not yet certified.		
<u>SCOPE – Annual Certification</u>			
Insures that all annual certification letters for Registered Representatives have been received.			
1.	Use the most current information from the NASD CRD		
2.	Obtain all annual certification documents received.		
3.	Compare the CRD and the certification documents and determine who has not signed the certification. Send an email with the sign off document to all those employees not yet certified.		
<u>SCOPE – Registration</u>			
Insures that all employees are registered appropriately			
1.	Compare the Human Resources staff roster to the NASD CRD to insure that registered representatives are registered, at a minimum, in the state in which the office is located. There are exceptions to this rule, review with Audit Director.		
2.	Verify that all sales representatives have passed the required Series 62 and 63 examinations.		
<u>SCOPE – Firm Element Training</u>			
Every NASD member shall, at least annually, evaluate and prioritize its training needs and develop a written training plan. The plan must take into consideration the member’s size, organizational structure, and scope of business activities, as well as regulatory developments and the performance of covered registered persons in the Regulatory Element.			
1.	Obtain the current years plan and review with the Audit Director		
2.	Minimum Standards for Training Programs - Programs used to implement a member’s training plan must be appropriate for the business of the member and, at a minimum must cover the following matters concerning securities products, services and strategies offered by the member: <ul style="list-style-type: none"> ○ General investment features and associated risk factors ○ Suitability and sales practice considerations; and ○ Applicable regulatory requirements. 		
3.	Has the plan been administered as written?		
<u>SCOPE – Regulatory Element Training</u>			
Reviews requirements regarding the continuing education of certain registered persons subsequent to their initial qualification and registration with the NASD.			

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1.	Registered Representatives must complete the Regulatory Element on the occurrence of their second registration anniversary date and every three years thereafter, or as otherwise prescribed by the Association. On each occasion, the Regulatory Element must be completed within 120 days after the person's registration anniversary date. A person's initial registration date shall establish the cycle of anniversary dates for purposes of this Rule. Employees who have been continuously registered for more than 10 years on July 1, 1998, shall be exempt from participation in the Regulatory Element program for registered representatives, provided such persons have not been subject within the last ten years to any disciplinary action.		
2.	Have Legal run a NASD report of all registered representatives and their anniversary and next scheduled Regulatory Element Training. Eliminate those that are exempt.		
3.	Determine those that have current requirements and insure they have scheduled the training session.		
4.	For those that are exempt insure that there are no outstanding disciplinary actions associated with their CRD record.		
<u>SCOPE – Sales Review</u>			
Insures that all representatives are registered in the states in which they are selling.			
1.	As part of the annual NASD Audit we review the sales from the N.Y. Region office only. The sales of the field offices are checked during our field audit of that office (approximately, once a year).		
2.	Run a report off IBIS listing all the sales from the past year in the N.Y. Region sales office.		
3.	Sort the list by registered representative. With NASD CRD list in hand, make sure that each registered representative is registered in the states in which he has made sales. If a reg. rep. made a sale in a state in which he is not registered, highlight that transaction on the IBIS report (as this will be part of your work papers).		
4.	Make a list of all the out of state transactions. For each state, give a list of the number of transactions as well as the dollar amounts of all transactions out of state.		
5.	Calculate the percent of out of state transactions (# of out of state transactions / total transactions for the year) and the percent of out of state sales in dollars (dollar value of out of state transactions / total dollar value of all sales for the year).		

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6.	If either of these percents exceeds 1% then select the biggest transactions that occurred out of state, and the states in which any one representative had multiple out of state transactions in, and recommend to Legal that the representatives get registered in those states in which they most often transacted and/or in which a single large transaction was made. This will help reduce DCI's future exposure against exceeding the allowed percent of out of state sales.		
<u>SCOPE – “Do Not Call” List Review</u>			
Insures that all DCI contacts that have requested to be placed on the “Do Not Call” list have actually been added to the Do Not Call group, as per NASD regulation.			
1.	Run a report on IBIS to get a list of all alerts on customer accounts. Sort out the “Do Not Call” alerts, since only those alerts will be needed for the NASD audit.		
2.	For each customer with a “DNC” alert make sure that they are also in the “DNC” group. Each customer can belong to different groups on IBIS. Enter the customers name on IBIS and when his screen pops up, on the top right hand corner there is a tab that is called “groups.” If you click on “groups” you should see Do Not Call listed as one of the groups that this customer belongs to.		
3.	Make a list of all those customers with DNC alerts on IBIS that are not members of the DNC group. As per NASD regulation everyone who requests to be put on the Do Not Call list, must have an alert attached to his screen and be placed in the DNC group.		
4.	Add those names on the list to the DNC group on IBIS.		