



Name of Insurance Company to which application is made

INTERNAL CONTROL AND LOSS PREVENTION SUPPLEMENTAL APPLICATION FOR INVESTMENT FIRMS

NAME OF INSTITUTION: _____
PRINCIPAL ADDRESS: _____
DATE: _____

A. AUDITS

1. Are your books and accounts audited at least every 12 months by an independent CPA? Yes No
If No, what is the frequency of the audits? _____
 - a) Are written reports made? Yes No
 - b) To whom? _____
 - c) Is the opinion? Unqualified Qualified Disclaimed Adverse
 - d) Are the audits? Announced Unannounced
2. Does the auditor review internal controls and make recommendations? If Yes, Yes No
a) Are the changes made to comply with the recommendations? Yes No
3. Is there a continuous internal audit by an Internal Audit Department or Internal Auditor? If Yes,
a) Who is in charge? _____

b) Number of employees under this person's direction? _____
4. Does the internal audit include periodic surprise examination of cash, securities, all departments and accounts? Yes No
a) How often? _____
5. Does the internal audit include periodic surprise review of operating procedures and accounting methods? Yes No

B. INTERNAL CONTROLS

1. Who is responsible for internal procedures and controls? _____
 - a) To whom does this person report? _____
2. Do all partners, officers, and employees take at least a one week vacation that extends over two consecutive weekends? Exceptions: _____ Yes No
3. Are the persons in Accounting, Dividend and Margin Departments denied access to cash or custody of assets? Yes No
4. Are records of receipts and disbursements fully detailed and are all journal entries and correcting vouchers approved? If Yes, by whom? _____ Yes No
5. Are important records physically safeguarded? If Yes, how? _____ Yes No
6. Is the general ledger current and balanced, and are control accounts in agreement with related detail ledgers? Yes No
7. Are periodic checks made of desks and cabinets for possible misplaced papers, files, certificates, etc.? Yes No
8. Is the mail opened by a responsible person whose normal duties do not involve accounting or sales? If yes, who supervises? _____ Yes No
9. Are computer programmers permitted to operate machines on which their programs are being used? Yes No
10. Are the computerized check-writing operations segregated from the departments that authorize checks? Yes No
11. Are computer programmers and operators frequently rotated to different machines and different programs? Yes No
12. Are precautionary measures taken against damage or destruction of records on tapes, cards, or other media? Yes No
13. Are all checks printed on safety paper, pre-numbered, and are all numbers accounted for, including voided checks? Yes No
14. Who signs checks? _____
15. Is countersignature required? Yes No
16. At the time of signing, are checks completed, except for signatures, and accompanied by supporting documents on which the check number and payment date appear in ink?
a) Are the supporting documents adequately cancelled by the check signer to prevent subsequent processing? Yes No
17. Are signed checks returned to persons who have requested them? Yes No

18. If check-signing machines are used, describe controls over signature plates. _____
19. Are totals of check-signing machines compared with cash disbursement records daily? Yes No
20. Do you use a check and deposit register in connection with checks issued and deposits made by you? Yes No
21. Do signing partners and persons with power-of-attorney rotate their duties in handling expense checks, payroll checks, brokers' checks and other check disbursements? Yes No
22. Have you adopted voucher checks in connection with "street", customer and expense payments? Yes No
23. Is the purpose of payment permanently recorded on the voucher-check? Yes No
24. Are supplies of blank checks kept in a locked compartment to avoid loss or misplacement? Yes No
25. What is the aggregate amount of the petty cash fund:
a) At the main office _____
b) At the branches: _____
26. Does someone other than the custodian make frequent unannounced inspections of petty cash funds? Yes No
27. Are checks by registered representatives or other employees accepted for credit to any account except their own only upon approval by a general partner, officer, stockholder, or designated responsible employee? Yes No
28. Are all incoming checks and drafts immediately endorsed "for deposit only"? Yes No
29. Is an independent record kept of all mail receipts so that their prompt entry in the records may be readily verified? Yes No
30. Are receipts for cash numbered and issued in triplicate? Yes No
31. How frequently are the cash receipts blotters audited? _____
32. Are bank statements sent directly to
a) Independent auditor? Yes No
b) Internal auditor? Yes No
33. Are all bank balances reconciled monthly? Yes No
34. Are dates of reconciliation ever varied for purposes of surprise verification? Yes No
35. Are monthly bank statements and cancelled checks examined and reconciled to general records by persons other than those who keep the cash records or make disbursements? Yes No
36. Are cancelled checks compared to cash disbursement records? Yes No
37. Are employees who customarily handle funds on deposit or issue checks authorized to obtain bank statements? Yes No

C. CUSTOMERS ACCOUNTS

1. What investigations are made prior to opening an account for a new customer and prior to approval of the account by a partner or officer? _____
2. Are registered owners of stocks or bonds required to sign such instruments in the presence of a partner, officer or employee, or notary before the instruments are accepted for transfer? Yes No
3. How often are statements showing transactions, money balances and security and commodity positions mailed to customers? _____
4. Are verification requests kept under strict control before mailing and after replies are received? Yes No
5. If customers do not acknowledge the original requests for verification, are second requests sent? Yes No
6. Does an officer or partner reconcile differences reported by customers? If No, who does? _____ Yes No
7. Is there a separate general ledger account for inactive accounts?
a) Are the individual ledger sheets for inactive accounts segregated from active accounts? Yes No
b) Are inactive accounts checked periodically by someone other than the customer's registered representative? If Yes, Yes No
1. By whom? _____
2. How frequently? _____
8. Are customers required to pay their accounts directly to the cashier or someone other than employees directly involved with the customers in the purchase or sale of securities? Yes No
9. Do verification requests and statements of account contain instructions to report discrepancies to a named person other than the customer's representative? Yes No
10. Are customers advised to submit requests for change of address in writing to the Home Office of your firm? Yes No
11. Are customers' address changes confirmed by correspondence to the previous known address? Yes No
12. Are transactions of a customer buying on margin registered in the account books independently of the handling of the order by a margin clerk?
a) Is this system so designed that there is no sole dependence on the margin clerks' reports to discover cases of non-payment by customers? Yes No
13. How frequently are accounts rotated among margin clerks? _____
14. Are margin department records reconciled to customer accounts? If Yes, Yes No
a) How frequently? _____
b) Does an officer or partner approve in writing any extensions because of late payments? Yes No
15. Are discretionary accounts carried? If Yes Yes No
a) Who services the accounts? _____
b) Is prior approval required from an officer or partner before such an account is serviced by an employee? Yes No
c) Are all orders on such accounts initialed by a partner or officer prior to being given to the order room? Yes No
16. How frequently is the "street name" account checked? _____
17. Does a partner, officer, or other designated responsible employee who has no other duties in connection with the account review each account frequently, checking for excessive or improper activity? If Yes, Yes No
a) How frequently? _____

18. Are daily reports of under-margined and deficit accounts given to an officer, partner or designated responsible employee and followed to a conclusion by that individual? Yes No

D. SECURITIES

1. What is the total dollar value of securities kept in the vault on your premises? _____
 a) Of the dollar value, how much is in negotiable form? Stocks \$ _____
 Bonds \$ _____
2. Are stock certificates in "street" name held in your vault in non-negotiable form until delivery is made? Yes No
3. Are any stock certificates in a customer's name held in your vault in negotiable form? Yes No
4. Are executed stock powers of customers stored separately from securities and controlled by Persons who do not have access to securities? Yes No
 a) If No, are the powers restrictively endorsed? Yes No
5. How many employees have access to the securities in the vault? _____
6. Does any one employee have sole authority to withdraw or deposit securities in the vault on your premises? Yes No
7. Is access to the cage area limited strictly to persons regularly employed in the cage? Yes No
8. Do employee identification badges used in the cashier's department include the employee's picture for positive identification? Yes No
9. Are visitors admitted to the cashier's department required to wear an identification badge and To be escorted by a supervisor? Yes No
10. Is an outside private security agency employed to provide guard service at all entrances and Exits of your cashier's department? Yes No
11. Does your security guard service distribute employees; security badges to the personnel of the Cashier's department each day and take them back each time the employee leave the security Area? Yes No
12. How many employees have power to endorse stock certificates? _____
13. How often are securities in safekeeping and in segregation physically counted and verified with your stock record? _____
 a) Are such verifications made by personnel other than those who customarily handle securities? Yes No
14. How often do you confirm all open commitments and follow up on "street" items over 30 days old with:
 a) Street brokers (fails, etc)? _____
 b) Banks (collateral loans)? _____
 c) Carrying brokers (both stock and commodity accounts)? _____
 d) Transfer agents and brokers from who securities are due? _____
15. How often is your stock record checked against all underlying records, inclusive of Customer's accounts, to establish the full accountability for all securities in your Possession or control? _____
16. Are securities for shipment, delivery, substitution, transfer, etc., requisitioned from your cashier? Yes No
17. Are securities received checked for negotiability? Yes No
18. Where are bearer bonds (U.S. Government bonds, treasury bills, municipals, corporates, etc.) held during the business hours? _____
 a) If held in a vault on your premises, are they within a locked metal container under dual control? Yes No
 b) If held in a bank, are they under a custody account or in a safe deposit box? Yes No
 c) If in a safe deposit box, are they under dual control? Yes No
19. Are all negotiable securities locked in your vault each night? Yes No
20. Does your firm use a facsimile signature to sign securities and/or stock powers? If Yes, Yes No
 a) Who has custody of the facsimile signature plate? _____
 b) How many employees are authorized to use the facsimile signature? _____
 c) Is such facsimile plate physically guarded, so it is accessible only to employees authorized to use it? Yes No
 d) Where is it kept each night? _____
21. Is the transfer section split into two units; one for placing outgoing securities into transfer and the other unit for receiving and processing securities returned from transfer? If No, explain: _____ Yes No
22. Are certificate numbers recorded or are certificates microfilmed for all securities received or delivered? Yes No
23. Is a log maintained showing the department having custody and responsibility for each certificate held? Yes No
24. When certificates of stock are delivered to you by foreign banks and brokerage houses, do you check with the appropriate transfer agent for assurance the "stops" are not in effect? Yes No
25. Do you check street name certificates to be sure that they contain all proper stamps and guarantees? Yes No
26. How frequently are "fails" checked by a partner or officer? _____
27. How frequently is the stock record balanced? _____
 a) Is such balancing performed by persons who have no other duties in connection with the custody of securities? Yes No
 b) Are all security-out-of-balances resolved promptly? Yes No

28. Are duties segregated so that no individual acting alone can prepare both sides of an entry to the securities records other than an adjusting entry, which is approved by supervisory personnel? Yes No
29. What is the maximum dollar exposure per messenger delivery? _____
30. Does each messenger use a UL approved carrying satchel? Yes No
31. Is each messenger shipment logged out and delivery verified by examination of receipt? Yes No

E. PERSONNEL

1. Does the background and reputation check of each prospective employee include personal conversations with all previous employers with whom he was employed during the last three years prior to his employment with your firm? Yes No
2. Do you verify the business history of prospective employees for the last ten years preceding their employment with your firm either before or promptly after their employment? Yes No
3. Do you obtain from each person at the time of employment and keep on file a complete consecutive statement of all business connections for at least ten years preceding employment with your firm? Yes No
3. Does the statement include:
- a) The employee/s reason for leaving each prior employment? Yes No
- b) Whether each employment was part-time or full-time? Yes No
- c) Period of unemployment (if any) and residence while unemployed? Yes No
5. Do you also obtain from each employee at time of employment and keep on file a record, where applicable, of the following information: arrests, indictments or convictions for any felony or any misdemeanor, except minor traffic offences?
- a) Other name or names by which they have been known or which they have used? Yes No
- b) Names of previous or current surety companies, which may have furnished bonds? Yes No
- c) Denial or revocation of bond or payment by a surety company due to the employee's acts? Yes No
6. If any employees have been employed previously in some capacity in the securities industry, do you obtain at the time of employment and keep on file a record, where applicable, of the following:
- a) The employee's reason for leaving each prior employment? Yes No
7. Who verifies and investigates the information received on each perspective employee?
- a) Officer? Yes No
- b) Other? Yes No
8. Are periodic investigations made of present employees in sensitive areas (back office, including cage and vault)? Yes No
9. Before any employees are transferred from a non-sensitive to a sensitive area in your office, is their employment record re-appraised for any indication they should not be assigned to a position of trust? Yes No
10. If related persons are employed, are they given disconnected duties to minimize collusion? Yes No
11. Do you have registered representatives working part-time in the cashier's and/or margin departments?
- a) Do they handle the financial accounts of their own customers? Yes No
- b) Are "back office" personnel permitted to function also as registered representatives? If Yes, describe your control procedures over their accounts and activities: Yes No
- _____
- _____
- _____
12. Are employee's accounts allowed? Yes No
- a) Are ledger cards of such accounts segregated and frequently reviewed by an officer? Yes No

FRAUD WARNING STATEMENTS

ARKANSAS APPLICANTS: ANY PERSON WHO KNOWINGLY PRESENTS A FALSE OR FRAUDULENT CLAIM FOR PAYMENT OF A LOSS OR BENEFIT OR KNOWINGLY PRESENTS FALSE INFORMATION IN AN APPLICATION FOR INSURANCE IS GUILTY OF A CRIME AND MAY BE SUBJECT TO FINES AND CONFINEMENT IN PRISON.

COLORADO APPLICANTS: IT IS UNLAWFUL TO KNOWINGLY PROVIDE FALSE, INCOMPLETE, OR MISLEADING FACTS OR INFORMATION TO AN INSURANCE COMPANY FOR THE PURPOSE OF DEFRAUDING OR ATTEMPTING TO DEFRAUD THE COMPANY. PENALTIES MAY INCLUDE IMPRISONMENT, FINES, DENIAL OF INSURANCE, AND CIVIL DAMAGES. ANY INSURANCE COMPANY OR AGENT OF AN INSURANCE COMPANY WHO KNOWINGLY PROVIDES FALSE, INCOMPLETE, OR MISLEADING FACTS OR INFORMATION TO A POLICY HOLDER OR CLAIMANT FOR THE PURPOSE OF DEFRAUDING OR ATTEMPTING TO DEFRAUD THE POLICY HOLDER OR CLAIMANT WITH REGARD TO A SETTLEMENT OR AWARD PAYABLE FROM INSURANCE PROCEEDS SHALL BE REPORTED TO THE COLORADO DIVISION OF INSURANCE WITHIN THE DEPARTMENT OF REGULATORY AGENCIES.

DISTRICT OF COLUMBIA APPLICANTS: IT IS A CRIME TO PROVIDE FALSE OR MISLEADING INFORMATION TO AN INSURER FOR THE PURPOSE OF DEFRAUDING THE INSURER OR ANY OTHER PERSON. PENALTIES INCLUDE IMPRISONMENT AND/OR FINES.

IN ADDITION, AN INSURER MAY DENY INSURANCE BENEFITS IF FALSE INFORMATION MATERIALLY RELATED TO A CLAIM WAS PROVIDED BY THE APPLICANT."

FLORIDA APPLICANTS: ANY PERSON WHO KNOWINGLY AND WITH INTENT TO INJURE, DEFRAUD OR DECEIVE ANY INSURER FILES A STATEMENT OF CLAIM OR AN APPLICATION CONTAINING ANY FALSE, INCOMPLETE, OR MISLEADING INFORMATION IS GUILTY OF A FELONY OF THE THIRD DEGREE.

HAWAII APPLICANTS: FOR YOUR PROTECTION, HAWAII LAW REQUIRES YOU TO BE INFORMED THAT PRESENTING A FRAUDULENT CLAIM FOR PAYMENT OF A LOSS OR BENEFIT IS A CRIME PUNISHABLE BY FINES OR IMPRISONMENT, OR BOTH.

KENTUCKY APPLICANTS: ANY PERSON WHO KNOWINGLY AND WITH INTENT TO DEFRAUD ANY INSURANCE COMPANY OR OTHER PERSON FILES AN APPLICATION FOR INSURANCE CONTAINING ANY MATERIALLY FALSE INFORMATION OR CONCEALS FOR THE PURPOSE OF MISLEADING, INFORMATION CONCERNING ANY FACT MATERIAL THERETO COMMITS A FRAUDULENT INSURANCE ACT, WHICH IS A CRIME.

LOUISIANA APPLICANTS: ANY PERSON WHO KNOWINGLY PRESENTS A FALSE OR FRAUDULENT CLAIM FOR PAYMENT OF A LOSS OR BENEFIT OR KNOWINGLY PRESENTS FALSE INFORMATION IN AN APPLICATION FOR INSURANCE IS GUILTY OF A CRIME AND MAY BE SUBJECT TO FINES AND CONFINEMENT IN PRISON.

MAINE APPLICANTS: IT IS A CRIME TO KNOWINGLY PROVIDE FALSE, INCOMPLETE OR MISLEADING INFORMATION TO AN INSURANCE COMPANY FOR THE PURPOSE OF DEFRAUDING THE COMPANY. PENALTIES MAY INCLUDE IMPRISONMENT, FINES OR A DENIAL OF INSURANCE BENEFITS.

NEW JERSEY APPLICANTS: ANY PERSON WHO INCLUDES ANY FALSE OR MISLEADING INFORMATION ON AN APPLICATION FOR AN INSURANCE POLICY IS SUBJECT TO CRIMINAL AND CIVIL PENALTIES.

NEW MEXICO APPLICANTS: ANY PERSON WHO KNOWINGLY PRESENTS A FALSE OR FRAUDULENT CLAIM FOR PAYMENT OF A LOSS OR BENEFIT OR KNOWINGLY PRESENTS FALSE INFORMATION IN AN APPLICATION FOR INSURANCE IS GUILTY OF A CRIME AND MAY BE SUBJECT TO CIVIL FINES AND CRIMINAL PENALTIES.

NEW YORK APPLICANTS: ANY PERSON WHO KNOWINGLY AND WITH INTENT TO DEFRAUD ANY INSURANCE COMPANY OR OTHER PERSON FILES AN APPLICATION FOR INSURANCE CONTAINING ANY MATERIALLY FALSE INFORMATION OR CONCEALS FOR THE PURPOSE OF MISLEADING, INFORMATION CONCERNING ANY MATERIAL FACT THERETO COMMITS A FRAUDULENT INSURANCE ACT, WHICH IS A CRIME, AND SHALL BE ALSO SUBJECT TO A CIVIL PENALTY NOT TO EXCEED FIVE THOUSAND DOLLARS AND THE STATED VALUE OF THE CLAIM FOR EACH SUCH VIOLATION.

OHIO APPLICANTS: ANY PERSON WHO, WITH INTENT TO DEFRAUD OR KNOWING THAT HE IS FACILITATING A FRAUD AGAINST AN INSURER, SUBMITS AN APPLICATION OR FILES A CLAIM CONTAINING A FALSE OR DECEPTIVE STATEMENT IS GUILTY OF INSURANCE FRAUD.

OKLAHOMA APPLICANTS: WARNING: ANY PERSON WHO KNOWINGLY, AND WITH INTENT TO INJURE, DEFRAUD OR DECEIVE ANY INSURER, MAKES ANY CLAIM FOR THE PROCEEDS OF AN INSURANCE POLICY CONTAINING ANY FALSE, INCOMPLETE OR MISLEADING INFORMATION IS GUILTY OF A FELONY.

OREGON APPLICANTS: ANY PERSON WHO KNOWINGLY AND WITH INTENT TO DEFRAUD OR SOLICIT ANOTHER TO DEFRAUD AN INSURER: (1) BY SUBMITTING AN APPLICATION OR; (2) FILING A CLAIM CONTAINING A FALSE STATEMENT AS TO ANY MATERIAL FACT MAY BE VIOLATING STATE LAW.

PENNSYLVANIA APPLICANTS: ANY PERSON WHO KNOWINGLY AND WITH INTENT TO DEFRAUD ANY INSURANCE COMPANY OR OTHER PERSON FILES AN APPLICATION FOR INSURANCE OR STATEMENT OF CLAIM CONTAINING ANY MATERIALLY FALSE INFORMATION OR CONCEALS FOR THE PURPOSE OF MISLEADING, INFORMATION CONCERNING ANY FACT MATERIAL THERETO COMMITS A FRAUDULENT INSURANCE ACT, WHICH IS A CRIME AND SUBJECTS SUCH PERSON TO CRIMINAL AND CIVIL PENALTIES.

PUERTO RICO APPLICANTS: ANY PERSON WHO KNOWINGLY AND WITH INTENT TO DEFRAUD AN INSURANCE COMPANY PRESENTS FALSE INFORMATION IN AN INSURANCE APPLICATION, OR PRESENTS, HELPS, OR CAUSES THE PRESENTATION OF A FRAUDULENT CLAIM FOR THE PAYMENT OF A LOSS OR ANY OTHER BENEFIT, OR PRESENTS MORE THAN ONE CLAIM FOR THE SAME DAMAGE OR LOSS, SHALL INCUR A FELONY AND, UPON CONVICTION, SHALL BE SANCTIONED FOR EACH VIOLATION WITH THE PENALTY OF A FINE OF NOT LESS THAN FIVE THOUSAND (5,000) DOLLARS AND NOT MORE THAN TEN THOUSAND (10,000) DOLLARS, OR A FIXED TERM OF IMPRISONMENT FOR THREE (3) YEARS, OR BOTH PENALTIES. IF AGGRAVATED CIRCUMSTANCES PREVAIL, THE FIXED ESTABLISHED IMPRISONMENT MAY BE INCREASED TO A MAXIMUM OF FIVE (5) YEARS; IF EXTENUATING CIRCUMSTANCES PREVAIL, IT MAY BE REDUCED TO A MINIMUM OF TWO (2) YEARS.

TENNESSEE APPLICANTS: IT IS A CRIME TO KNOWINGLY PROVIDE FALSE, INCOMPLETE OR MISLEADING INFORMATION TO AN INSURANCE COMPANY FOR THE PURPOSE OF DEFRAUDING THE COMPANY. PENALTIES INCLUDE IMPRISONMENT, FINES AND DENIAL OF INSURANCE BENEFITS.

VIRGINIA APPLICANTS: IT IS A CRIME TO KNOWINGLY PROVIDE FALSE, INCOMPLETE OR MISLEADING INFORMATION TO AN INSURANCE COMPANY FOR THE PURPOSE OF DEFRAUDING THE COMPANY. PENALTIES INCLUDE IMPRISONMENT, FINES AND DENIAL OF INSURANCE BENEFITS.

VERMONT APPLICANTS: ANY PERSON WHO KNOWINGLY AND WITH INTENT TO DEFRAUD ANY INSURANCE COMPANY OR OTHER PERSON, FILES AN APPLICATION FOR INSURANCE, OR A STATEMENT OF CLAIM CONTAINING ANY FALSE INFORMATION, OR CONCEALS FOR THE PURPOSE OF MISLEADING INFORMATION CONCERNING ANY FACT MATERIAL THERETO, COMMITS A FRAUDULENT INSURANCE ACT, WHICH MAY BE A CRIME IN CERTAIN JURISDICTIONS.

WASHINGTON APPLICANTS: IT IS A CRIME TO KNOWINGLY PROVIDE FALSE, INCOMPLETE, OR MISLEADING INFORMATION TO AN INSURANCE COMPANY FOR THE PURPOSE OF DEFRAUDING THE COMPANY. PENALTIES INCLUDE IMPRISONMENT, FINES, AND DENIAL OF INSURANCE BENEFITS.

WEST VIRGINIA APPLICANTS: ANY PERSON WHO KNOWINGLY PRESENTS A FALSE OR FRAUDULENT CLAIM FOR PAYMENT OF A LOSS OR BENEFIT OR KNOWINGLY PRESENTS FALSE INFORMATION IN AN APPLICATION FOR INSURANCE IS GUILTY OF A CRIME AND MAY BE SUBJECT TO FINES AND CONFINEMENT IN PRISON.

The Insured represents that the information furnished in this application is complete, true and correct. Any intentional misrepresentation, omission, concealment or incorrect statement of a material fact, in this application or otherwise, shall be grounds for the rescission of any bond issued in reliance upon such information.

Completed by _____

Title _____

Date _____

Signature _____