



Stock Plan Audit and Control Checklist

Plan Review

Review all plans to ensure:

- Meets requirements for applicable tax, securities and accounting treatment/exemptions
- Shares available for issuance are adequate for demand
- Shares are registered w/SEC (S-8 or other) or qualify for an exemption from registration (Rule 144, Rule 701 or other)
- Plan expiration date is adequately in the future
- Provisions are in place to allow for the equity compensation and benefits intended
- All applicable situations and definitions are covered clearly
- Plan provisions are reasonably administrable

Processing Controls and Transaction Reporting

General Processing Controls: For each process, ensure the following occurs:

- Appropriate authorization, audit trail and backup for all participant updates, transactions and corrections
- Reconciliation/accuracy validation and audit by second person, if possible
- Compliance with applicable US and international tax, securities, corporate, accounting, asset transfer/retention and data privacy regulations
- Applicable and timely registrations, filings and disclosure
- Consistent handling of processing and special situations so plan provisions/regulatory requirements are maintained and no person or group gets special treatment or privileges
- Review of proposed grant adjustments for potential accounting and tax impact

Participants:

- Validate adherence to **General Processing Controls** (above)
- Ensure all those eligible, and only those eligible, participate and that participation is at the appropriate level and discontinued at the appropriate time
- Track changes in employment status, related dates and reasons (new hires, terminations, rehires, transfers, leaves of absence, disability, death after termination, etc.)
- Required updates communicated in a secured manner
- Required updates communicated in a reliable manner that ensures all are received and processed
- Process to ensure that all appropriate communications are accurately prepared and reliably delivered to participants who should receive them

Grants:

- Validate adherence to **General Processing Controls** (above)
- Obtain copy of the Committee or BOD authorization for the grant
- Be sure the right person is getting the right option type, term, vesting, number of shares and option price
- Ensure that no terminated employees received grants in error
- Check that grants are made under the appropriate plan/agreement, within plan limits and provisions
- Validate ISO and §423 ESPP limits
- Distribute plan and prospectus as required and document acceptance by participant
- Establish basis for fair value determination and assumptions used in FAS 123 disclosure

Exercises/purchases:

- Validate adherence to **General Processing Controls** (above)
- All exercises requested are processed / All restricted awards have appropriate vestings processed and restrictions removed
- Transaction is processed for the correct person, per their instructions (correct exercise/order type and number of shares) and with the correct authentication (self-log-in or Service Representative authentication process)
- Appropriate information obtained before transaction is allowed: pre-transaction forms (e.g.: W8/W9), authorizations (e.g.: exercise-specific or standing letter of authorization, agreement to allow use and transmission of private information as required to process the transaction, authorization for ISO SDS and STC withholding), attestations (e.g.: not in possession of inside information, ownership of swapped shares, applicable holding periods met, etc.) and acceptances/acknowledgements (e.g.: acceptance of grant)
- Correct transaction date applied
- Transaction against the correct grant, at the correct exercise (grant/option) price
- Exercised shares are exercisable by the person requesting the exercise (vested, not expired, no hardship holds, active status or in termination grace period, not transferred)
- Trades do not occur on blackout dates
- Sale price for shares fits within the high/low range of trades for the day
- Payment for shares collected/validated and applied to the proper company account(s)
- Correct taxes calculated, withheld/collected, applied to the proper participant and company account(s) and paid to the tax agency(ies) (per applicable tax profile, withholding limits applied, additional withholding elections applied)
- Correct proceeds (shares and/or cash) delivered to the participant per their instructions (applicable option cost, taxes, commissions and fees deducted, proper share registration, delivery location)
- Correct option cost and taxes delivered to the company
- Conduct ancillary system updates (general ledger, payroll, transfer agent, etc.)
- Plan-imposed exercise limits enforced
- Separate duties for the collection of cash, processing of deposits and general ledger entries
- Separate duties for the processing of grants/exercises and dispersing of checks/shares

- Appropriate audit trail maintained for transaction and any subsequent modifications, and audit trail documentation maintained for the appropriate period of time
- Reports are accurate and delivered on a timely basis to the appropriate locations
- Processes adequately documented and documentation updated as needed

Terminations, Cancellations, Expirations:

- Validate adherence to **General Processing Controls** (above)
- Ensure correct modifications are made to vesting, outstanding shares, last date to exercise
- Ensure correct number of shares are canceled for right person on appropriate date
- Ensure appropriate acceleration of vesting if applicable
- Upon acceleration of vesting, recalculate \$100 rule for ISOs
- Ensure proper accounting for grants retained by terminated employees who become consultants

Other events/transactions: Set up internal controls if they are applicable for your company:

- Stock splits
- Repricing
- Reloads
- Transferability
- Exercise prior to vest
- Change of control
- Gain deferral
- Performance Awards

Reconciliation

The following numbers should be reconciled on a regular basis (at least monthly):

- Common (and/or other) stock outstanding
- Option/RSA/SAR shares outstanding
- Shares authorized for issuance under the plan(s)
- Shares authorized but unissued
- Transaction totals

Reconciliation pointers

- When performing reconciliations, validate that ending balances from the prior period equal beginning balances for the new period, and document any discrepancies
- Document all reconciling items, *i.e.*, transactions with an applicable date in a previous period that were processed in a subsequent period
- Validate that all like numbers (*e.g.*, options granted) for equal time periods that appear in multiple reports and systems are the same, and document any discrepancies
- Validate info to the original source documents and against a separate system or record set
- Reconcile both dollar and share totals for transactions

Data Security and Retention

- Data maintained where it is backed up regularly and is accessible only to the appropriate individuals with the appropriate authentication
- Access is appropriately distinguished by job role between view-only and add/change/delete access
- Procedures to ensure private participant information is not shared via unsecured vehicles or with individuals/ organizations who do not require it to perform specific duties
- Electronic and hard-copy files retained for the required length of time
- Disaster recovery plan in place and regularly reviewed

Documentation

- Listing of individuals responsible for setting policies and procedures and authorized “Administrator” as defined in the plan document(s)
- Intent of practices
- Intended plan usage
- Interpretations and definitions for all pertinent items not covered in the plans or agreements
- Listing of job positions that are allowed access to records, what access is allowed and how that access is limited and monitored
- Guidelines and safeguards in place to conform with data privacy laws
- Backup and disaster recovery processes in place for both electronic and hard-copy records
- Examples of communications and education provided to participants, retention period, form and location
- Copies of all versions of plans, amendments, prospectuses, agreements, filings and applicable consents/board of directors meeting minutes

General Documentation Guidelines: For each process, documentation for the following information:

- Trigger that begins the transaction – Required authorization(s), input used for processing, who provides it, when to expect it, how it is generated, why it is important, and retention period, form and location
- Processing that occurs and who does it, why, where, how and when
- Output that is created, who gets it, when, why and how, and retention period of time, form and location
- Reconciliation process used to ensure accuracy and who performs the first check and the audit check

Please note that this information is provided as a guide to help in developing and implementing internal audit and control measures for stock plan administration, and should not be relied upon as meeting the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. It is up to each company’s independent auditor to approve the internal controls used for the company.