

CITY COMMERCIAL CORPORATE - MISSING DIVIDENDS**The Situation**

You are the Public Relations Manager at City Commercial Corporate Company (CCC) and you are responsible for all customer and dealer contacts in your Branches throughout the country. You are based at the Head Office in Uxbridge, London. The date today is September 17th.

The Problem

Two weeks ago the Vice President of Risk and Securities contacted you to look into complaints received from various Investment Advisers and their managers about Nautilus dividend payments that went missing. This specific portfolio has outperformed the comparative industry by a margin of 16% annualized rate. Nautilus has been the most successful growth investment product for CCC with a steady growth over the last 12 months. You immediately contacted the appropriate stakeholders to get more information regarding the problem situation. It appears that the first complaint was received on June 2nd.

More Background Information

This is a challenge because you are unsure whether; a. This is a process malfunctioning, b. It is an employee not following the necessary procedures or c. It is a programmer having made a mistake with the upgrade of the system. The best strategy is to review the process for dividend payments and to see if there are possible explanations for what was happening.

The process for dividend declaration and payout is roughly the following: the entire process is electronic; specific software was developed for CCC to integrate with the Investment Adviser's software and also with the data provided by the on-line Nasdaq, NYSE and Dow Jones Industrial exchanges. The CCC software extracts the necessary investment balances from daily closing balances on the various exchanges as well as the investors' account details in the Investment Advisors databases. This information is integrated into a single daily report generated by 7 a.m. every workday. The Friday balances at the close of trading are used for the Monday morning report.

From this report, two actions are initiated:

1. The first one is an automated transfer of funds from the CCC trust account paying the individual investors their "profits" for the month, quarter, half year or year. The frequency for individuals is determined by the contract with CCC and could be paid on any day during the month based on their anniversary date. Funds are paid when a profit is realized. The appropriate amount is transmitted electronically to the individual's nominated on-line checking account. This system was updated for all CCC head offices on March 1st to accommodate a major increase in volume experienced. The week of April 7th most of the upgraded software parameters had to be re-programmed to accommodate moving from a weekly report to a daily report for all three interfaces mentioned.

This was done at Moor House in London and our US regional office in UBS House in New York City. The entire company and all its brokers are using the same software. However, because of unique country requirements, each country head office's own programmer performed the re-programming of the software. The system used to generate weekly reports and then balances would be transmitted to investor accounts by the end of each week. Now the system is generating daily reports and balances are transmitted daily. Our Brokers did not have to do this (they are still on the weekly report system) and at the moment we are only receiving complaints from our own system. Both the system upgrade and re-programming modifications were done for the Nautilus product only and not for the comparative Elemis and Columbus products.

2. The second action is a manual detection system performed by an employee who is dedicated to a number of investors and their Investment Advisers. A clerk inspects the morning report personally and extracts clients who need to be compensated on that specific date. The clerk will then issue a check to be mailed to the investor's nominated address. As from April 7th this is also done daily to be on par with the e-system. On May 10th the manual and e-system were manipulated to have a more evenly spread workload over all the days of the month. This was done to remove complaints about uneven spread of daily workload at the end of each month. Each head office's own programmer did this modification manually.

Based on feedback both from the clerk and the Investment Advisors, the periodic missing dividend payment complaints came as a result of the electronic process and not the manual process. The missing detail seems to be happening with the daily integration transaction and transmission that is performed with the customer's checking account. Almost all complaints were recorded at the beginning of the month.

You are experiencing this problem in the Moor House facility in London and it has been rumored that British Telecom might have been responsible for this situation. It was found that during a previous vendor visit earlier in the weekend proceeding March 16th, a copy of the master database had been restored onto the Moor House backup server. This meant that effectively there were two copies of the database for every system component. When you tried to download any part of the system, its configuration would corrupt and prevent it from working correctly.

With the update of the CCC system on March 1st, it was required to re-scan and reload voided check specimens from each of the investors who would like to make use of the e-system. It was reported that there were a few incidents where these specimens were never submitted or were received late. Up to this point, you cannot verify if this would account for the complaining investors whose transaction transfer date falls on the 31st of a month.

About four months ago, the Risk Manager also informed you that the US federal tax authorities (IRS) instituted a new reporting requirement that needed to be incorporated into the software reporting tool. It is highly suspicious that the missing detail problem started exactly a day after the first annual requirement from the IRS was executed on June 1st. This was the first time a report transmission took place from our system to that of the IRS. You may recall that the US Brokers complained about this because they did not have the means of effecting this change and our programmers did the modification for them for a fee.