

[Compliance]

Are your employees risking your business?

Maintaining strong supervisory programs is critical not only to reduce the potential risk of violating regulatory rules or regulations, but also serves as a prudent business practice to help assure that investor protection standards are met. The following article is the first of a three-part-series pertaining to internal risks and controls.

REVIEWING SUPERVISORY CONTROLS

Proper supervision requires a thorough knowledge of the activities conducted throughout the organization, including branch offices. The sales activities conducted by representatives require ongoing monitoring and review to detect and prevent potential abuses. While the supervisor has ultimate responsibility for overseeing the review, the supervisor may delegate such responsibilities to qualified staff. Consequently, it is the responsibility of the supervisor to ensure that the delegate receives the necessary training so that he is sufficiently qualified to carry out the requisite duties in order to appropriately observe each representative's behavior for changes or conduct that trigger a red flag necessitating further investigation.

In order to ensure that supervisory systems and internal controls are appropriate, consider whether there is/are:

- A robust training program for supervisors and their delegates, including a detailed description of roles and responsibilities;
- Periodic updates from senior management on regulatory requirements and firm product development;
- Easy accessibility to and/or communications from sales representatives concerning their day-to-day business activities;
- Compliance systems in place to monitor and survey representative reports (such as e-mails, active trading, etc.) so to detect and prevent potential "red flags;" and
- Audit programs to conduct due diligence on outside branch office activities.

EVALUATING INTERNAL RISKS AND DOCUMENTING POLICIES

In addition to the day-to-day oversight of employees and the review of customer trans-

actions, an effective supervisory program involves a broad set of compliance procedures and internal controls. Structuring the overall compliance and supervisory program should include involvement from senior management with regard to policy formation and reporting of violations, including heightened supervision or other disciplinary actions, as necessary. Depending on the size and structure of each organization, the firm may have various technology solutions for evaluating internal risks or may appoint qualified personnel for carrying forth supervisory oversight responsibilities. Regardless of the methodology, the following areas should be addressed when developing an internal control system:

- Who is responsible for the oversight;
- What rules or regulations govern the firm policy; and
- How to comply with supervisory procedure(s) and other firm requirements.

Supervisory procedures should be updated to reflect new or amended statutes and regulations. Consider signing up to receive regulatory compliance alerts issued by regulatory bodies, law firms or other organizations that keep a close watch on the legal and regulatory environment. Regularly performing risk assessments or internal audits can point to potential weaknesses in a supervisory system before problems arise.

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