

Grade these ideas for annual review tests from your peers

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The annual review this year at **Sectoral Asset Management** in Montreal took longer and was more detailed than usual. One reason: CEO/CCO **Jerome Pfund** tried something new. He took an **SEC** document request letter from **IA Week** and pretended it was real - to test the firm's ability to respond.

The annual review at **Chase Investment Counsel Corp.** in Charlottesville, Va., includes a section on possible regulatory changes expected later this year, says **Catherine Farrar**, senior VP/Compliance Officer. She wanted senior staff to know what might be coming. A mock audit conducted last November aided Farrar's review. "They found what we expected them to find; that our processes are working," she says.

Ambitious describes the tweak to **James Jones'** annual review and testing processes. The COO/director of operations at **SPC Financial** in Rockville, Md., poured trades from 500 discretionary accounts into Excel in a bid to uncover any hidden bias by traders. "It's just a voluminous task," he says.

He has heard the SEC may be interested in looking at accounts that stray two standard deviations from the firm's performance composite. Because of all the market volatility last year, he has set up the Excel file to tag any trades outside one standard deviation. His analysis goes deeper than his usual yearly examination for any signs of front-running or allocation issues.

Perhaps you aim for a test around valuation. Extract a sample of accounts to see if market values match between your firm's portfolio records and its custodian's, recommends **Michelle Kennedy**, consultant with [Compass Compliance Services](#) in Greenwood, S.C. "Any bond market values over the tolerance level (\$1.00)" should be questioned, she writes in an e-mail. Investigate multiple pricing discrepancies to minimize future problems. You may also entertain hiring a third-party pricing service, if only for the "end of month" valuation period, she adds.

Reconciliation

Kennedy also favors a sampling to confirm accounts reconciled from the previous billing period. If problems appear, understand why the accounts didn't reconcile properly and how to fix the issue. **TIP:** Don't have the same person doing each month's reconciliation. Kennedy recommends you alternate the task. She also believes the CCO should "randomly select a few accounts (monthly or quarterly) and request the portfolio administrator to provide evidence of the accounts reconciling." Another good idea would be to review the client file or blotter for posting date entries, she says.