PE MANAGER

MAY 2012 | ISSUE 93 | privateequitymanager.com

FOR PRIVATE FUND CFOs, COOs AND COMPLIANCE OFFICERS

HUMAN CAPITAL

Everybody lies

*Don't be fooled: the private equity world is by no means exempt from the omnipresent issue of dishonesty. **Robert Strang** of Investigative Management Group provides some clear cut advice on identifying the bad apples*

In the last three years, private equity firms began paying closer attention to the details in the background reports created on their prospective employees, investments, and strategic partners. There is not much mystery why considering the industry has experienced a rise in allegations of fraud that ranges from theft to embezzlement to self dealing. In response, firms need to be prudent in choosing their management and employees, especially when going abroad where less information is readily available to uncover fraud.

Often a comprehensive due diligence investigation can help. A comprehensive background report is not just a "data dump" of available public records on an individual. Rather a detailed background investigation is coordinated by a team of investigators who will conduct a thorough review of all available public records and in-depth analysis of each aspect. The level of analysis is crucial and must include a proper assessment of any discrepancies, inaccuracies or other data that warrants further examination.

Strang: *trust but verify*

The screening process can be conducted confidentially (without the subject's knowledge) or with the subject's signed authorisation. The signed consent also allow for the legal basis to review credit and driving history. If there is any derogatory information uncovered during a background check, we alert the client immediately. The client can then gauge the significance of the derogatory information and then make a decision as to whether further investigation is required. For example, a criminal record result may be a Driving Under the Influence (DUI) offense. Critical questions to review are: when was the arrest; how old was the subject at the time of the arrest; what was the blood alcohol level at the time of the arrest?

Overall a majority of private equity firms will conduct some level of due diligence when reviewing their prospective management teams. But the key difference amongst firms is the level of review. Of course there is a cost/benefit analysis to consider - the $10,000 thorough and comprehensive background searches are costly. However, the benefit is an in-depth report that covers all available aspects of candidate and has left no stone unturned. ■

SPOTTING A FRAUDSTER

A few quick tips to follow when screening candidates or employees:

- Don't assume an individual's seniority or rank directly corresponds to their credibility.
- Gaps in an individual's employment history may mean something more than just a period of search or relaxation.
- Don't ignore the power of Google: Often media reports and social networking sites reveal (or serve as a starting point in discovering) any wrongdoings.
- If a subject lists references that are prior employers - you need to conduct independent research to confirm the subject's prior employment.
- The lack of specificity. We see this with education that is reported. A resume will list a school, year and major, but will not indicate "Bachelor of Science" This would suggest that a degree was awarded, however, the subject only attended the school.
- Credit issues are prevalent. A credit report will reflect collections and/or delinquent accounts that are 30, 60 and 90 days late.