

# Ensuring the Right Partner with Due Diligence

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Rehmann Corporate Investigative Services

# About Rehmann Corporate Investigative Services

- Former FBI
- Intelligence
  - Due Diligence for M&A, Business Partnerships
  - Backgrounds
  - Asset Searches
- General Investigative Services
  - Forensic Accounting
  - Fraud and Embezzlement Investigations
  - Digital Forensics/IT Security
- Subsidiary of Rehmann – CPA and Wealth Managers

# Due Diligence

- What does it mean?
- Our meaning:
  - Developing intelligence/information to help business leaders make informed decisions

# Research in the USA

- Quantities of databases
  - Criminal, Civil, Bankruptcy, addresses, sex offender, local to national level
- Comprehensive databases
  - Statewide criminal all jurisdictions in one
- Easy access
- Minimal restrictions
- Long retention

# International Research

- Court structures differ from country to country
- Every country has different regulations, restrictions, requirements
  - Canada – RCMP houses criminal – Photo & Authorization
- Many no equivalent statewide criminal
- Record retention policies vary
- Fiscal records less accessible
- Some have no databases
- Online access rare
- Time and labor intensive
- Can you say that in Polish?

# DIY not recommended

- Rely on experienced sources
- Former FBI/intelligence professionals
- Boots on the ground sources
- Partner with an international network
- 590 offices in over 100 countries



# How do you find partners/brokers?

- Word of mouth?
- Online advertisement?
- Business Advisor recommended?
- What's missing?

# Vetting Process: Pre-Due Diligence

- Ask questions
  - Copy of their business license
  - References: domestic & international
  - How much do they claim to know about the market and legal requirements?
  - Trading history, including products and markets
  - Verify website



# Other things to consider

- What they bring to the table
  - Business Account
  - Business Assets
- Everyone puts best foot forward...
- What about what they don't bring to the table...

# Bright line distinction

## Proactive:

- Backgrounds
- Reputational Footprint
- Data
- Knowledge is power!

## Reactive:

- What IS true?
- Investigate
- Hire counsel
- Hire international counsel...
- No deal

# Trust, but verify...

- Are they who they say they are?
- What's going on today in their business?
- What happened last year?
- Know the risks - avoid surprises
- Ensure it's a solid decision

# Who should be verified?

- Companies & Individuals
- Anyone who has an impact on your deal
  - Points of contact: Broker, President/CEO
  - Counsel handling contracts, regulations and compliance matters
  - Financial consultants
  - Industry resources: logistics contacts/shippers, veterinarian/specialists
- Anyone else?

# Covert vs Overt

- Intelligence can be collected with or without the knowledge of the subject
- Always ask for a release
- Are they a willing participant?

# Due Diligence Tools



# Due Diligence Tools

- Confirmation of Identity
- Criminal & Litigation History
- Fiscal Overview
- Business Affiliations
- Reputation
- Complaints
- Certification and Licensure
- Sanctions
- Cyber Awareness
- Geopolitical Assessment

# Confirm Identity

- Name
  - US databases pull from multiple sources; less so internationally
  - Criminal records tied to an undisclosed alias name?
- SSN
  - Stolen Identity?
- Address
  - Where do previous addresses lead?
  - Likely not to disclose a locale with adverse info
- Associates
  - Are former/current associates clean?
- Associated businesses
  - History of previous business deals gone awry?



# Criminal History

Wouldn't you want to know if your contact has a history of:

- Embezzlement/Fraud
  - No assurance it won't happen again
- Sexual predator/violent offender
  - A danger to your operation?
- DUI/DWI
  - Terms of probation? Can't leave state/country? Your transporter?
- Drug charges/habits
  - Unresponsive in your time of need?
- Repeat offender
  - Reputation of your firm/assume liability

# Case Study: Game Changing Deal?

- Couple approached wealthy businessman to invest in their company
- Almost a done deal, until the truth was exposed:
  - Federal prison
  - Lawsuits and failed businesses
  - Divorce

# Verify fiscal responsibility

- Availability varies by country, reason for search, type of business
  - Undisclosed debts & liabilities
  - Bankruptcies
  - Unsatisfied judgments
  - Loan obligations
  - Liens
  - Unpaid taxes
  - Payment history/credit factors

# Credit-worthiness

- History of paying vendors/subcontractors on time?
- Business Credit Report
  - Payment cycles/consistency
  - Loans
  - Delinquency history
  - Revenue reported/fluctuations
- Why is this important?
  - Could impact your operation
- Gaps in information are clues to follow

# The tale of two balance sheets

## Disclosed

Assets:	\$4,500,000
Sales:	\$6,500,000
Inventory:	<u>\$3,000,000</u>
	\$14,000,000

## Discovered

Loans:	\$3,500,000
Debts:	\$1,500,000
Other Liabilities:	\$1,000,000
Judgments:	\$2,500,000
Failing investment:	\$3,500,000
Legal Fees:	<u>\$500,000</u>
	\$12,500,000

# Case Study: The Golden Opportunity?

- Company selling business | hot new intellectual property
  - Regional to national
  - Cutting edge technology
  - Exponential revenue growth
  - New untapped market territory
  - Established list of clientele
- Reported sizeable assets and miniscule debts
- Too good to be true?

## What we found:

- Over 100 lawsuits
- Dozens of unsatisfied tax liens and judgments
- Loan obligations
- Collateral listed was not owned as claimed
- Long-term leases

TOTAL: \$1 million of debt

# Verify licensure

- Valid/active?
- Disciplinary actions/complaints filed?
- Annual requirements satisfied?
- Barred from performing services being engaged to conduct?
- Some online, some boots-on-the-ground, some business-name dependent



# Regulatory & Compliance Checks

- ☑ Patriot Act
- ☑ Office of Foreign Assets Control (OFAC)
- ☑ International Policing Search
- ☑ Other Industry-Specific Checks

# Reputation Insight

- Online footprint/social media profile
  - Industry-specific blogs
  - Customer/client postings & ratings
  - Professional website and history of web presence
  - Verify registrant of website
  - Towers affect results if searched domestically
- Years in business/industry
- History and reputational standing in jurisdiction
- Able to provide industry-related references?

# Case Study: International Expansion

- Australian approached our Client
- Client looking to expand their brand overseas
- Australian was “very successful” in client’s industry
- Rehmann CIS uncovered he was a fraud
- Didn’t have ownership in businesses he claimed to be aligned with
- His office location proved to be a storefront

# Cyber Awareness

- Agriculture is digital
- Protect your data
- Ensure your systems are secure
- Ensure others' systems are secure
- Invest in cyber insurance before a breach occurs

# Geopolitical Assessment

- Political Climate
- Weather/Natural Disasters
- Pollution Levels
- Terrorism Concerns
- Other Industry Specific Barriers



# An ounce of prevention...



# Don't let the appeal of the deal cloud your judgment

- Trust, but verify
- Gather information
- Ensure partner passes the front page test
- Make informed decisions
- Hire a professional
- Invest today and save \$2,000,000, your business and your reputation

# Thank you!

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