

# TRENDS, TIPS AND LESSONS LEARNED

March 2012

## Upcoming Events

April 25, 2102

### **Hong Kong Trade Development Council**

New York, NY

"Background Investigations as part of Due Diligence for Businesses in China and the USA"

May 9, 2012

### **Financial Executives Alliance (FEA)**

New York, NY

"IT Security Audits and other Risk Reviews as part of Due Diligence"

May 10-11, 2012

### **Institutional Investor Forums - Family Office Wealth Management Forum**

The Ritz-Carlton – Greensboro, GA

Featured Presentation: Kenneth S. Springer, President, Corporate Resolutions, Inc.: The Different Flavors of Fraud Risks in Business Today

June 1, 2012

### **Los Angeles Venture Group**

Los Angeles, CA

Ken Springer, President, Corporate Resolutions Inc., will make a presentation on "What You Need to Know When Investing Abroad"

June 18-20, 2012

### **6th Annual Private Equity World Latin America 2012**

*Presented by: Terrapinn*

Gansevoort Miami Beach Hotel – Miami, FL

Ken Springer joins a panel of experts to discuss "Looking beyond track record in identifying top GPs."

Other members of the panel include Christina Kappaz, Associate, Cimarron Capital Partners; Peter Lipson, Managing Director, HarbourVest Partners; Jose Remy, Managing Director, Guggenheim Partners and Javier Freyre Trivelli, Gerente General, Invita Seguros.

June 20-21, 2012

### **Hedge Fund Leadership Council**

*Presented by: Institutional Investor*

Union League Club – New York, NY

Special Presentation: Due Diligence that Can Make a Difference given by Kenneth S. Springer, CFE, President, Corporate Resolutions Inc.

## Letter from the President

Corporate Resolutions Inc. is excited to announce the results of our industry survey of CFOs of private equity and venture capital firms. Those surveyed reported a significant focus on preventing and detecting fraud within their firms and portfolio companies. The survey showed that 39% of all respondents had encountered fraud at some point during their tenure as CFO within their own firms or at a portfolio company, and that 81% had not invested in a company because of suspected fraud or integrity issues.

Kenneth S. Springer, President  
Corporate Resolutions Inc.

*A full copy of this survey is included on the following page.*

**Also, in case you missed us in *The New York Times*, *BusinessInsider.com*, *PEHub*, *The Wall Street Journal*, *Investor's Business Daily*, and *Houston Business Journal*:**

<http://www.corporateresolutions.com/page/news/articles#115>



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## Private Equity CFOs Report Focus on Preventing and Detecting Fraud

### Survey Shows Background Checks on Employees and Companies Vital to Fraud Prevention

CFOs of private equity and venture capital firms reported a significant focus on preventing and detecting fraud within their firms and portfolio companies in a recent industry survey conducted by Corporate Resolutions, Inc., a global business investigations firm.

The survey, which polled CFOs of private equity and venture capital firms in the United States, showed that 39% of all respondents had encountered fraud at some point during their tenure as CFO within their own firms or at a portfolio company, and that 81% had not invested in a company because of suspected fraud or integrity issues.

Most respondents indicated that their firms had anti-fraud controls in place at the time of the fraud (67%) and almost all (91%) currently conduct background checks on employees at their firms and portfolio companies to prevent fraud. 88% of respondents reported that they are spending either the same or more money and time on preventing and detecting fraud now than in the same period twelve months ago.

"CFOs at alternative investment firms are increasingly aware that having the right tools and controls in place to prevent and detect fraud is paramount for protecting both their financial investments and reputation," said Ken Springer, President and Founder of Corporate Resolutions. "After Madoff and Stanford, the financial community is waking up to the need to show transparency and do their homework before investing. It's not surprising to see CFOs in the private equity world focusing on anti-fraud controls as a priority."

While background checks are reportedly widely used, 64% of survey respondents said that more thorough background checks would be more meaningful in uncovering integrity issues and preventing fraud. After background checks, interviewing management team members up front (45%), conducting more thorough reference checks with employers (45%) and interviewing former employees (45%) also ranked highly as more effective ways to prevent and detect fraud.

"The goal of this survey is to lift the veil on a topic that is germane to private equity, venture capital and hedge funds but not widely talked about or researched," said Joelle Scott, Director of Business Intelligence of Corporate Resolutions. "We hope that the survey will provide the community with some concrete insight into the need for thorough anti-fraud controls and the tools that are at their disposal to help protect their assets."

74% of respondents said that in their experience of vetting management teams and companies they have found background checks to be helpful in preventing bad deals where they could have been potentially defrauded.

When fraud was detected, asset misappropriation (67%), corruption (17%), and fraudulent financial statements (17%) were the most widely reported types of fraud. In most cases, the fraud was detected in under a year (72%) and was revealed through a management review (47%), account reconciliation (29%), by accident (12%), through surveillance or monitoring (6%) or by internal audit (6%).

A CFO who participated in the survey, stated, "My role as the CFO of a private equity firm involved in making middle market investments is multi-faceted and preventing and detecting fraud is a primary focus of my job, especially during the due diligence stage of a perspective acquisition. We utilize several avenues of research to detect potential fraudulent activity, including conducting background checks on key personnel, to limit our exposure and protect our investments."