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## Background checks an art, science

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**T**hough detecting fraud is important, so

is keeping it from happening in the first place—and any good prevention strategy begins with thorough background checks, according to Robert J. Strang, a speaker at the Foundation for Accounting Education's Anti-Fraud Conference on May 21. Strang, the Chief Executive Officer of Investigative Management Group, a company that provides corporate security and intelligence gathering services, said that when a firm is conducting due diligence on those with whom it does business, there's an exhaustive list of factors worth scrutinizing, including an individual's criminal history, what kind of bankruptcies he or she has had in the past, whether he or she has been the subject of litigation or regulatory actions, whether he or she has ever been involved with money laundering or theft of proprietary information, and at least "20 other things we look for."

While a good due diligence can range from \$2500 to \$15,000, he said that it's an investment that can save companies pain—and additional expenses—down the road. As an example, Strang said that his firm had recently come across an individual who was going to be a hedge fund manager for one of its clients. Over the years, he said, this particular

individual had done quite well in terms of performance and had an impressive personal story: before going into finance he had been a rabbi, a lawyer and a CPA, and had graduated from an Ivy League school. "We're sitting in the office going over the details and things just aren't adding up," Strang said. "We can't get records from the college, we can't find a record of his [being] a CPA, we can't find a state where had been an attorney," he said.

Turns out, the individual had lied his entire career, changing his story each time a new opportunity arose. Needless to say, Strang said, his client chose not to hire him. Another time, he said, a bank hired his firm, which has several former Internal Revenue Service (IRS) agents and prosecutors on staff, to conduct a background check on an individual who had applied for a \$100 million loan. The investigation initially seemed fruitless; Strang said his firm kept on seeing money from the individual leave the country but could not determine where it was going or why. Finally, he said, they called the U.S. Attorney in the individual's state for leads. "The prosecutor said [of the individual] 'he's not my neighbor, he's not my friend, but we talk about him here every day,'" Strang said. "About three weeks later, he was indicted."

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