

Caveat Emptor

In a post-Madoff world, due diligence is a must for deal makers getting involved with transactions and bringing on new staff

By [Ken Tarbous](#)

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Investigative Management Group, founded by former **Drug Enforcement Administration** special agents **Robert J. Strang** and **Ann Hayes**, has seen an upswing in demand from investment banks, private-equity firms and hedge funds.

The New York-based firm — which has a network of nearly 500 former prosecutors, agents, and police and military operatives — investigates deal partners, counterparties, and potential hires. It also offers advice on security issues.

Lately, in this post-Madoff world, business has picked up for Strang and Hayes with more requests for financial due-diligence investigations, background checks and other services.

Hayes and Strang each have had distinguished careers in law enforcement and the private sector. Strang, IMG's chief executive officer, worked at the **Federal Bureau of Investigation** and was a DEA special agent. His work was recognized with four **U.S. Department of Justice** awards and two letters of commendation from the U.S. attorney's office.

Hayes, IMG's president, was an undercover special agent in Afghanistan and Pakistan for the Justice Department, and she was the first woman to graduate No. 1 in her class from the DEA Basic Training Academy. She received several Justice Department commendations and served in the New York City mayoral administrations of both **Rudolph Giuliani** and **Michael Bloomberg**.

While agents at the DEA, the pair envisioned a venture that would deliver investigative due diligence and other security services to the financial industry. They formed **Strang Hayes Consulting** in 1989, selling it to **SPX Corp.** in 2001. In 2003, they started IMG.

The company is involved in a joint venture with **Giuliani Security & Safety**, the former mayor's firm ([see related story](#)). Strang served on Giuliani's transition team and advised him on anti-terrorism during his presidential bid.

Strang and Hayes recently spoke with *IDD* about how they've gotten more calls from hedge funds, private-equity firms and investment banks — all looking to protect themselves and their transactions.

IDD: What services do you provide?

Strang: We do due diligence in terms of background checks for alternative investments, whether it be real estate, private equity, hedge funds or any other alternative investment, because there's not a lot of public information. Obviously, there's got to be some research and credibility and peace of mind going into those deals.

The second thing we do is litigation support, which is everything from surveillances to interviews, digital forensics, and forensic accounting

The third part is security consulting, which is everything from doing security audits and assessments for major corporations, to doing travel-related security, workplace violence or other security issues that come up in corporations. Interestingly enough, a third of the work we do, across the board, is outside the United States.

IDD: Who are your clients?

Strang: Our major clients are major corporations, their law firms and the banking industry, from private banks to international banks on the due-diligence side. It's corporations, law firms and banks.

A lot of our client base is in New York, but we're just based here. Our work is all over. The world is flat, and that's another reason why our business is more important than ever, because you're dealing all across the country and around the world on add-ons, on acquisitions, on managers, on alternative investments. Doing the due diligence becomes even more important.

IDD: What concerns do firms in the finance and investment space have when they hire you?

Strang: I always equate what we do in this business to going for a title search when you are going to close on a property. Who would buy a house without doing a title search? Well, who would invest money, especially with what we know today after all the insider trading cases, after all of the frauds that have been committed involving money managers and hedge fund managers around the country? With the knowledge that the investor has today, who would put at risk any of their assets without doing a title search, if you will? Without doing due diligence? A background check?

There are two ways a background check can be done. A lot of people don't realize this. You either do it with a consent form, which is a written consent where we ask for certain information, or you can do it confidentially. Probably about half of our clients do the background checks confidentially. Nobody ever knows that they're being done. The reason we can do it is that we have all the indices systems. We know how to do the public-record searching, and we know where to look. It makes it easier when you have a consent form. When you do it confidentially, you get all the information at the end, but it's for the investor only.

So, if you have a relationship with the individual, if it's a deal that you've been working on for six months, you feel funny going in at the end and saying "I'm going to hire a SWAT team to do a background check." We're usually the last people brought in on a deal.

IDD: What types of investigations are done in the investment banking, private equity and hedge fund spaces?

Strang: We look for criminal history. We look to see if the person is on a watch list for money laundering or terrorism, which all falls under the Patriot Act now. We take a look at all those different lists to make sure that, No. 1, the person isn't involved in any type of criminal activity or on any watch list known to man in the United States, and sometimes in other countries as well depending on where we're doing the work. We check everything. We look to see if they have ever been involved in a crime as an unindicted co-conspirator or an associate in some way. We don't just check criminal history, we look at the surrounding situations. We really examine them to make sure.

We look for judgments, liens, bankruptcies, partnership disputes. We take a look at all the public indices for any kind of litigation. When you think about the impact that any of these things, in and of themselves, can have on a transaction, it could be big. It could be a deal-killer if we find something or it can be something just to change the actual merits of the acquisition, to can change the price, to renegotiate the terms. Very often something small will come up during the course of the background check that will have a direct effect on the deal itself, either through an employment contract or through the terms of the deal.

We find people who lie, people who say they graduated from a college or law school and they never graduated or they didn't even attend. We find people who have had bankruptcies in related fields and never mentioned it to the acquirer or the investors.

We had a case a few years ago where [a client was] in the process of giving a huge loan and we found out that the person who we were about to give the loan to was about to be indicted and was under investigation. We found that out independently by doing our own research and then doing additional research by checking with sources and luckily stopping our client from lending a hundred million dollars before there was a disaster. These are the kinds of things that are deal-breakers.

Hayes: We're not out to kill any deals. We present the facts of whatever we find to the client. If they ask our advice or opinion we give it to them.

I've seen sexual harassment kill a deal, but I've seen other sexual harassments not kill a deal. It really depends on how the person explains it, how they approach it, but at least you have all that information there. Once you have that information, it's how the person handles it. "Yes, I do have a bankruptcy four years ago, but this is why. I was involved with another person who was not who I thought he was and we got into this venture and that was my best way out. I have all the documentation." That beats somebody saying "I've never had a bankruptcy. What are you talking about?" Lying.

IDD: In what areas are your due diligence investigations?

Strang: We're like a private government agency. When people have an internal issue, whether it be fraud, theft, sexual harassment, workplace violence, age or race discrimination, drug and alcohol problems, they call us to solve the problem quietly, and professionally be able to make sure we treat everybody within the company with respect. That's why they bring us in. Sometimes we use our digital forensics. We might have to pull a hard drive and look for information. That's a wonderful investigative tool. We might have a forensic accountant go through the books and records to determine where and when the fraud has been conducted and who conducted the fraud. Sometimes it includes interviews and surveillance. It really is a wide range of investigative tools that we use on any particular problem.

IDD: Have more corporations been doing background checks and due diligence investigations?

Hayes: There's always been an interest in it. When things are great and things are going well, and there's a flood in the market like we saw several years ago with lots of mergers and acquisitions and lots of equity deals going through, it's a hurry-up thing. Let's get it done. But they were still doing checks, because you have to watch your money, because of the things we learned in the '80s obviously. But today, especially with the way things are, there is a tremendous scare for people with the responsibility they feel with other people's money, so we've seen an uptick in just basic due diligence.

Strang: We've always had a good volume of business with a small percentage of investors over the years. Over the last year, since all these fraud cases have hit, people are becoming more aware that you have to do this kind of due diligence. Even if you know somebody, you should have a policy that covers from A to Z, like the title search analogy, to say that every time we deploy money we do a background check.