Guidepost

THE IMPORTANCE OF CONDUCTING YOUR OWN DUE DILIGENCE

A recent article from the Wall Street Journal discusses the resignation of the Care.com CEO after an earlier investigation reported on the inadequate vetting of the company's caregivers. "Ms. Marcelo's resignation as CEO comes after the Journal's investigation in March found instances in which caregivers hired through the Care.com platform had police records and were accused of committing crimes while caring for clients, including child abuse, sexual assault and murder."

This is truly alarming, and of great concern to those who may already employ help to take care of elderly parents or young children, whether through Care.com, other service providers, or privately employed.

The article further says, "Previously, the company had relied on families and others to do most of the vetting of the caregivers that they hired, and had encouraged them to pay for additional background checks on those individuals."

The question is who is ultimately responsible for doing a background check on caregiver? What should the customer consider the responsibility of the company versus his or her own responsibility? Were Care.com's customers impressed by the company's advertised security measures or were they perhaps drawn in by a persuasive website, reasonable prices or simple convenience? In my experience, one should conduct their own due diligence in sensitive matters such as this.

A Word of Caution for Family Offices

The above story should serve to raise awareness for family offices for which it is not uncommon to rely on recommendations from friends or family members for potential business opportunities, service providers and more. However, as I mentioned in my podcast *Risk Management for High-Net-Worth Individuals: How to Address Security Needs and Mitigate Risks* this works great, until it doesn't. All members of household staff, regardless of position, should be fully vetted – from babysitters and nannies, to household cleaners, dog walkers, and gardeners.

A thorough due diligence process should provide you with enough information to make an educated decision about the level of risk you are willing to take in a given situation. As an example, at Guidepost Solutions, we were asked to conduct a background check on a pilot who would serve in a private service role. We found he had an extensive history of speeding tickets, but never any accidents or DUIs. Ultimately the client decided this wasn't an issue, reasoning the pilot just enjoyed going quickly, whether on land or in the air.

In some cases, simply initiating the due diligence process itself may be enough to deter ne'er-do-wells. We recently had a client looking to hire a live-in employee. When we asked the job applicant, who would be coming from overseas, to sign a release giving us permission to conduct research on her in her native country, she suddenly withdrew the application, leading the client to believe trouble was likely averted.

This same level of diligence should apply in business dealings too. As detailed in the blog *Could a Better Background Check Have Prevented a Massive Accounting Fraud?*, Sunbeam Corp. failed to conduct a thorough background investigation when it hired Albert J. Dunlap as its Chairman and CEO that ultimately had significant consequences for the company. When his phony accounting practices were exposed, the company was forced to restate its results and its share price collapsed, triggering class-action securities fraud cases.

Dunlap's successor said it best: "I find it most unusual that anyone could be hired as a chief executive of a major company without having their background thoroughly checked."

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