

PRISM INSIGHTS

TRENDS IN OPERATIONAL DUE DILIGENCE



A greater focus on technology during ODD.

How and why technology has played an instrumental role in lowering operational risk during the year of “Work from Home”.

Some of the latest Technology Best Practices:

1. Manager provided laptops.
2. VPN on all devices.
3. Use of a firewall.
4. Two factor authentication.
5. Complex passwords.
6. 60 or 90 day password change policy.
7. New and updated equipment.
8. HD video conference calling.
9. Messaging.
10. Secure data rooms.
11. Workflow software.
12. Increased use of cloud hosting.
13. Cyber risk management is shifting to large technology companies such as Microsoft via their cloud services.
14. Automation of forms and reports.
15. Overall digitization.

Investments in technology and communications have proven to be worth their weight in gold during the pandemic of 2020. Firms that make ongoing investments in new and secure hardware are winning at lowering their operational risk. These firms are also making positive impressions with their investors on how they run their business efficiently and securely, and last but not least they are keeping employees happy and interested.

PRISM prefers to see asset managers provide company laptops that are encrypted and have a secure VPN into the firm’s firewall, versus firms that have a BYOD policy (bring your own device). The cyber risks that can exist in personal equipment, that may be old and/or less secure than new equipment, can be high. It is a best practice to make the \$1,500 average investment per employee to lower cyber security risk. The new equipment can also add employee satisfaction, knowing that their firm makes investments in technology and its people. Personal laptops used for business purposes can also deteriorate the value of the computer that is owned and purchased by the employee

The use of video conference calling has become today’s norm, and it likely will continue to be the new preferred communication method, over a traditional telephone. Working from home can be very similar to working in the office, and actually seeing the person provides better communication and a more professional environment. Video conference calling can help reduce operational risk

and increase operational efficiency, as people are visible and theoretically more accountable.

Using messaging tools also improves the “work from home professional environment”, as messaging makes each team member always available, as if they are all in the same building.

The use of secure data rooms is also on the rise, as portfolio management and hence due diligence does not take a break during a pandemic. The secure automation of document sharing saves time, and decreases the number of one off investor requests, that may ultimately not be necessary to complete the due diligence.

The use of software, including workflow software, greatly helps supervisors manage their remote staff. Audit plans and checklists exist for a reason, and the reason is to better manage operations and ensure that all of the steps and procedures were in fact conducted and reviewed. Workflow software also provides for a greater degree of accountability when an actual sign off exists. Lastly, these automated checklists help management and staff measure time spent on certain tasks, where the older “in person” way of managing processes might not provide the same granularity of an operational evaluation.

While 2020 is the year of the pandemic, it is also the year of digitization for the modern world. Doing away with paper, and increased reliance on robust cloud infrastructure is paving the way for efficiency and decreased operational risk.

Hedge fund and private equity operational due diligence since 2009.

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