DHG | private equity

IT Compliance Risk and Regulatory Challenges in M&A

Ryan Boggs and Ben Owings

Presenters

Ryan Boggs
Managing Director, DHG IT Advisory
864.213.4034
ryan.boggs@dhg.com

Ben Owings
Manager, DHG IT Advisory
864.923.2914
ben.owings@dhg.com

Agenda

- About DHG
- Compliance and Regulatory Frameworks
- Cost of Noncompliance
- IT Due Diligence
- Case Studies
- Questions

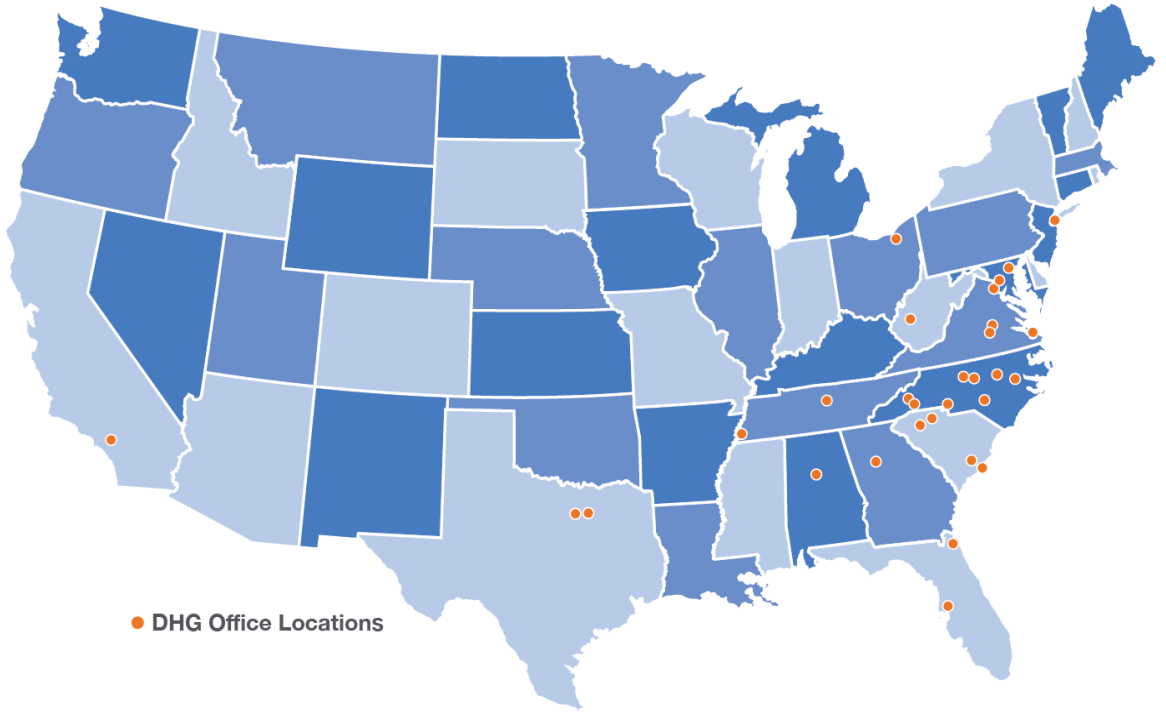
About Our Firm

2,000+
People, including 250 Partners / Principals

TOP 20
One of the top 20 largest accounting firms in the U.S.

20+
Offering tax, assurance and advisory services in more than 20 industries

50
Serving clients across the United States and internationally



THERE WHEN IT COUNTS

- Experienced professionals who understand your industry
- Significant partner involvement
- Ongoing communication to avoid surprises
- Focused on business risks & their impact on your entity
- Accessible, responsive, hands-on style
- Customized service vs. one-size-fits-all approach
- Big Four alternative

DHG Private Equity Overview

NAVIGATING COMPLICATED MARKET TRANSACTIONS

DHG Private Equity offers a dedicated group of professionals across multiple service lines to provide private equity firms and their portfolio companies a full array of services to meet their demanding needs in a challenging market.

FUND

- Fund Formation
- Tax Planning & Structuring
- Audit of Fund
- Valuation Services

TRANSACTION ADVISORY

- Financial/Accounting Due Diligence
- Tax Due Diligence
- IT Due Diligence
- Operational Due Diligence

PORTFOLIO COMPANY

- Annual Audit
- Tax Planning & Compliance
- IT Audits & Assessments
- Valuation Services

EXIT STRATEGY

- Sell-Side Due Diligence
- Initial Public Offering
- Tax Structuring
- Carve-Out Assistance

COMPREHENSIVE SERVICES

We provide comprehensive services tailored to meet the unique needs of our private equity portfolio company clients. Our breadth of services and resources give us great strength to address a wide variety of financial and operational issues for our private equity portfolio company clients. Our professionals have solid industry knowledge plus a multi-disciplined approach to financial, accounting and operational solutions by offering coordinated comprehensive services and strategies.

Cybersecurity & Privacy Compliance for M&A

TACKLING M&A CYBER RISK AND COMPLIANCE CHALLENGES

For businesses engaged in mergers and acquisitions, cybersecurity risks can derail a deal. When you purchase a company, you own its data - past, present and future, which can have a significant impact on valuation. DHG helps your company reduce cybersecurity and data risk associated with a transaction.

HELPING YOU MITIGATE RISK

Our goal for each transaction is to arm our clients with the appropriate information to allow them to make important decisions about proceeding, renegotiating, restructuring or withdrawing from a potential transaction. A cybersecurity incident or breach constitutes a significant operational risk. It can affect a company's value in many ways:

- DECREASED TRUST IN BRAND
- INTELLECTUAL PROPERTY THEFT
- DIRECT & LONG-TERM REMEDIATION COSTS
- REVENUE LOSS
- INCREASED CYBER INSURANCE COST
- SIGNIFICANT BUSINESS INTERRUPTION

To help you avoid these risks, our team assesses information security and compliance activities of the target company or acquisition, so that services and processes are secure, streamlined and efficient. This helps keep transactions and data secure as well as identify and resolve any prior security incidents.

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Compliance Frameworks and Regulations

The Why

Reduce due diligence efforts

Reveal hidden issues

Establish baseline

SOC Reports

- System and Organization Controls (SOC)
  - + SOC 1 – Internal controls over financial reporting
  - + SOC 2 – Trust Services Categories
  - + SOC 3 – General Use

- Annual reports

- Provides opinion on controls

- Supports vendor management

PCI Compliance

- Requires storage or transmission of debit and credit card information
- Most organizations have transferred risk to payment processors
- Remaining compliance requirement – Self Assessment Questionnaire
- Annual requirement

HIPAA

Health Insurance Portability and Accountability Act (HIPAA)

- Store transmit or maintain protected health information (PHI)
- Security, Privacy and Breach Notification Rules
- HHS – Office of Civil Rights Regulator
- Ongoing compliance

HITRUST

Health Information Trust Alliance (HITRUST)

- Assurance report on Common Security Framework (CSF)
- Data Security and/or Privacy assurance
- Supports vendor management

GDPR

General Data Protection Regulation (GDPR)

- Required for any organization operating within the European Union (EU) or providing services within the EU
- Use and retention of EU personal information
- May 25, 2018 deadline
- Penalties - 4 percent of annual global revenue or 20 million euros

CCPA

California Consumer Privacy Act (CCPA)

- Consumer rights
  - + To know what personal information is being collected
  - + To know if personal data is sold or disclosed and to whom
  - + To say no to the sale of personal information
  - + To equal service and price, even if consumers are exercising privacy rights

- $7,500 per violation

- July 1, 2020 deadline (extended)

Other Frameworks and Regulation

- ISO 27001
- NIST
- SSPA
- NAIC's Model Law
- State Laws
- 23 NYCRR 500
- FISMA
- FEDRAMP

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Cost of Noncompliance

Cost of Noncompliance

- Data breach costs - $242 per record

- Regulatory Fines
  + OCR $1.6 Million penalty on November 7, 2019

- Remediation Costs
  + $3.86 million data breach costs
  + Sanctions
  + Brand damage

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IT Due Diligence

IT Environment

- Hardware, software and architecture
- Connectivity
- Capacity and stability
- Software development and acquisition

Reliance on IT

- Legacy hardware and software
- Vendor dependence
- Staffing
- Source code

IT Strategy, Planning and Expenditures

- Budget to actual
- Staffing
- Hardware and software
- Third parties

IT Operations

- Governance
- IT Support
- Training and certifications
- Policies and procedures

Risk and Controls

- Data security and privacy
- Access controls
- Continuity and Recovery
- Cybersecurity

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Case Studies

Case Study 1

Regulated target, performing annual SOC reporting

Outcome:

+ Reduced IT due diligence

+ Leveraged SOC audit opinion

+ Readily available documentation

Case Study 2

Regulated target, noncompliant

Outcome:

+ Extensive IT due diligence

+ Large lift from target and PEG

+ Ongoing remediation costs and risks

Case Study 3

Manufacturing target, unregulated

Outcome

+ Difficult to establish baseline

+ Limited documentation to support controls

+ Legacy systems

+ Limited exposure to IT assessments

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Q&A

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Thank you!