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Performing Due Diligence on Prospective Employees to Reduce Occupational Risk

In this ever-increasing age of employing risk-based approaches to managing client relationships, it is important to consider the development and deployment of a risk-based approach in screening prospective employees and performing enhanced due diligence on those prospective employees to avoid the potential for fraud. While most organizations are familiar with Know Your Customer (KYC) initiatives, there is a lot of evidence that suggests a Know Your Employee (KYE) program should be deployed as well.

The term "occupational risk" may be defined as "the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets." Occupational risk can be devastating and leave your company with a poor image. With identity theft, insider trading, fraud, embezzlement, data breaches, money laundering and other similar cases commanding significant coverage in the media, it is no wonder that regulators have been urging organizations to employ a risk-based approach when screening the background of new employees.

In the *2006 Report to the Nation on Occupational Fraud and Abuse*¹, the Association of Certified Fraud Examiners (ACFE) estimated that the typical organization loses 5 percent of its annual revenues to occupational fraud. According to the survey, if this percentage were applied to the estimated 2006 United States Gross Domestic Product, this 5 percent figure would translate to approximately US\$652 billion in fraud losses. The average loss was about US\$100,000 - US\$200,000 for each of the 1,134 cases reported. Even more striking is that over 24 percent of the occupational frauds caused at least US\$1million in losses to the organization and nine cases lead to losses of around US\$1 billion.

While screening prospective employees may be a relatively new concept to some, there is a precedent to rely on from guidance issued by the FDIC in June 2005, under FIL-46-2005, Guidance on Developing an Effective Pre-Employment Background Screening Process. This guidance by the FDIC points out that one should consider the different levels of risk associated with specific positions within the organization. Pre-employment screening can be an effective risk-management tool. It provides management with a degree of certainty that the information provided by an applicant is accurate and that the applicant does not have a criminal background or other risk factors. As an added benefit, proper screening can also help reduce employee turnover and ensure that the prospective employee is a good fit for your organization.

Proper screening, however, should go beyond simple reference checks. Other items for which to screen potential employees include any or all of the following:

- Criminal background checks
- Credit checks
- Drug testing
- Verification of information provided by the prospective applicant
- Verification of educational background/experience
- Screening against applicable government sanctions lists or caution lists

Depending on the specific type and level of position that's being filled, organizations may want to screen prospective employees against lists of individuals who are known to have been involved in high-risk activities, such as involvement in cases of financial fraud or financial crime, money laundering and other similar financial activities. Screening prospective employees against a sufficiently robust database of Politically Exposed Persons (PEPs) may also be appropriate. Organizations should also screen contract employees and consultants using similar screening criteria to mitigate their risks.

Should the same pre-employment screening criteria be used for all prospective employees? How far should an organization look when performing criminal background checks or other checks used in the pre-screening process? What kinds of activities that are identified from such searches should be considered to properly qualify an applicant's candidacy? These and myriad other questions will result from thoroughly analyzing your present pre-employment screening processes and evaluating whether changes to those processes are in order.

Some possible sources to perform background checks include scouring regulatory Web sites such as the Federal Bureau of Investigation and comparing names one by one. This can be time consuming, overwhelming and fraught with inaccuracies, as you can't easily catch misspellings, alternate names and translation errors. The other option is to employ screening applications that do all the work. These applications can often batch screen multiple names at a time against caution lists from around the world. These solutions generally offer a variety of filtering options, enrichment of government data, up-to-date information and other enhancements.

There are also a host of private firms that provide employee background-checking services that can assist with employment screening processes. Organizations need to be assured of the service provider's financial viability, internal controls and reputation. A proposed contract with such service providers must include language to protect the confidentiality of applicants' information. Management should be comfortable with the service provider's own hiring and

employment practices. Assurances should also be obtained that data gathered from the process will not be provided or sold to other persons and that the provider has safeguards against identity theft. Providers should also be capable and willing to complete background checks using records in all jurisdictions in which applicants have worked or lived and at appropriate local, state and federal levels.

While it is important to understand and manage organizational risks associated with pre-employment screening, the same measures can be taken to screen an organization's supply chain and service providers to ensure that it is protected from external fraud as well. Effective pre-screening of consultants, vendors and other outsourced labor can aid in making such a determination.

Organizations should be keenly aware of the sensitivities associated with using such screening activities so that deploying these measures does not impinge unfairly on an applicant's considerations or lead to other issues for the organization. Cognizance of equal employment opportunity laws and other related processes must also be fully engaged in the development of a coherent KYE program.

There are costs associated with developing and implementing an effective KYE screening process. The decisions on policies and procedures to be employed should include input from regulatory compliance professionals in conjunction with Human Resources and other appropriate management from the various lines of business, as needed. However, without an effective screening process, an organization may incur significant expenses from recruiting, hiring and training unqualified or undesirable individuals based upon their skill sets or backgrounds. It may also reduce turnover by verifying that the potential employee has the requisite skills, experiences, certification and acumen for the position; prevent employee theft, embezzlement or involvement in other related activities; and prevent litigation over hiring practices.

Once largely overlooked, employee fraud is costing businesses billions of dollars a year. With set KYE screening practices, much of this risk can be mitigated.

Accuity's Global WatchList®

Know Your Customer (or Employee) policies should not be viewed as an optional undertaking. Infractions against compliance regulations, no matter how minor, can lead to stiff sanctions and penalties. Accuity offers the information your mandatory due diligence programs need—Global WatchList (GWL).

GWL includes 100% of all regulatory sanction lists for every country worldwide such as EU, UN, OFAC, HM Treasury, Swiss SECO, and others plus a range of enhanced due diligence caution lists such as MSBs, Arms Dealers and Politically Exposed Persons (PEPs). GWL's array of lists is offered in a "cafeteria style" format—you choose only those lists that are necessary to meet your compliance needs. Accuity continually expands GWL, adding regulatory and enhanced due diligence data and lists in order to offer you the most up-to-date and accurate information to help protect your business.

For additional information about Global WatchList, please visit www.AccuitySolutions.com/GWL.

¹ <http://www.acfe.com/documents/2006-rttn.pdf>



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