

The
FORGOTTEN FACTOR

In Preventing Employee Fraud:

Employee Screening

By James A. Stavros, CPA

The manager's tale is all too common. A seemingly trustworthy person turned out to be a fraud. How do dishonest people get hired? Is there anything a company can do to protect it from bad apples?

Fortunately the answer is yes. Through effective employee screening, a significant percentage of potential fraud cases can be identified—and eliminated from consideration—during the hiring process. Unfortunately, many companies neglect this most basic preventative measure, or fail to conduct it properly. As a result, employee screening has become the “forgotten factor” in preventing employee fraud.

Appearances, as we all know, can be deceiving. Yet many employers base their hiring decisions on their “gut feeling” about a person. More often than not, that instinctive response is accurate. Impressive, charming candidates usually turn out to be impressive, charming employees. But not always. The exceptions can be so costly to a firm through direct financial losses, stolen inventory and loss of goodwill with clients, customers and the public.

Fraud experts estimate that 5-10% of the population will commit fraud without moral compunction. In other words, they'll steal from their employer as much as they can. Such individuals are usually con artists with excellent acting skills. They are charming,



persuasive, believable and capable of bold-faced lies. Others only take advantage of a situation if it arises.

Many intent on committing fraud have track records that, if discovered, would expose their true employment history. These individuals expect that prospective employers will not check their resumes or references. In fact, many employers do not verify this information or they do so in a cursory manner. Employee screening, conducted by either the human resources department or outside specialists, is the most effective way to unmask

untruthful applicants or applicants with a previous history that includes “red flags.”

The most important attribute of effective employee screening is that it must go beyond the traditional surface check of provided information. To be done properly, it requires individuals who have been trained to dig into the background and character of applicants. It should be noted that whatever information is obtained must be gathered in an ethical and legal manner.

“But he was devoutly religious!” the manager of a medium-sized manufacturing company exclaimed upon discovering that one of his recent hires had defrauded the company of \$30,000. “He talked about his faith—which was the same as mine—with such conviction that I never doubted his honesty.”

Equally important is to request written authority from applicants permitting an investigation of their background and the ability to speak with former employers. The wording of such a request should be devised in collaboration with legal counsel or an employment expert. What information can be legally obtained varies from state to state and must be factored in (see Exhibit I). An applicant's failure to authorize such an inves-

tigation does not necessarily indicate dishonesty. Some individuals concerned with privacy rights may decline as a matter of principle. It should certainly not be the sole reason to pass over an otherwise promising candidate.

The following areas are the cornerstone of effective employee screening:

Education verification – you would be surprised at the number of people who embellish or fabricate their educational qualifications. Contact each school and confirm degrees and grades attained.

Employment verification – first obtain explanations from the prospective employee for any gaps in employment and reasons for leaving former employers. Then contact the employers directly.

Employers are understandably cautious these days about giving out less than favorable information about former employees

due to privacy laws and possible liability issues. Human nature also makes it hard for some employers to speak negatively about a previous employee who may be starting a new job.

This is where the employee screening process most often breaks down. Typically, a human resources member calls a former employer, receives a vague but not incriminating report and accepts that information as accurate. But if the former employer had been questioned more directly—and more aggressively, without being unpleasant—a different story may have emerged.

Employment references – former employers and colleagues should be asked about an applicant's work performance and character (work habits, honesty, leadership qualities, interaction with other employees, etc.). Again, the skilled interviewer can draw out this information by asking the right questions the right way.

Financial stability – perform a credit check and obtain other publicly available information to assess financial stability. The information is not in itself a reason to immediately discredit a candidate (although it can be for positions requiring bonding, etc.), but should be evaluated closely.

If the applicant appears to have serious financial problems—several credit cards with outstanding balances at credit limits, loan charge-offs or judgments filed against him or her—it's a red flag. Those capable of fraud are often heavily in debt. If you see an individual with monthly debts of \$8,000 applying for a position in your accounting department that pays \$3,500 a month, how will this person make ends meet?

Security risk – perform a check to see if there is a criminal record. If so, check whether the offense is specifically related to the person's job. This information rarely makes it to the resume.

Accountants are often in a good position to offer advice, and sometimes assistance, in hiring new staff for a client. The amount of screening due diligence could vary depending on the position and industry. For example, for industries such as trucking, each applicant's driver's license should be checked in each state for certification and violations. Imagine the corporate liability exposure if a driver with a revoked license caused an accident, or if an unlicensed practitioner was allowed to practice accounting, law, medicine, etc.

Conducted either in-house or by an outside firm (for a few hundred dollars a check), employee screening is a low-cost means to weed out potentially dishonest and low-integrity employees. As a result, the firm will save money, improve the quality of new employees, get better performance results and secure the firm's external and internal image. When the health of your business is at stake, an ounce of prevention is surely worth a pound of cure.

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EXHIBIT 1

Consent Statement for Conditional Offer of Employment

To whom it may concern:

I have applied to _____ for employment. Part of the hiring process is an investigation and verification of information I provided, or will provide on my application for employment, and in occasional reports during my employment with _____. These investigations are conducted by the company and/or its authorized agent, _____. Therefore, at this time, and until I specifically inform you to the contrary in writing, I hereby authorize and direct you to release to _____ and/or _____, information contained in your files concerning my employment with you, my educational record, my credit record, my record of criminal convictions, and/or other information contained in your files relevant to my employment at _____.

Full Name of applicant (surname and all given names)

Maiden Name/Prior Surname (if applicable)

Date of Birth (year/month/day) Social Security Number

Present Address (street name and number, city, province, postal code)

Previous Address (if present is less than 2 years)

Applicant's Signature Date