First Advantage

Rescreening employees for the greater good

How to better protect against internal fraud and risk with expanded screening

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Introduction

These days, organisations get it: background checks are good for business. Thoroughly screening candidates before they're hired and granted access to money, sensitive information and vulnerable populations is an accepted best practise in many parts of the world. Today, however, there is growing interest in rescreening existing employees to further protect organisations and their bottom line.

A 2020 Association of Certified Fraud Examiners (ACFE) report underscores the need, revealing that 10 percent of global occupational fraud cases occurred in the Asia Pacific region, causing a median loss of $195,000.[1] Clearly, there is good reason to screen employees both before and after they're hired. Here we explore how internal fraud and other critical factors—including the surprising impact of the COVID-19 global pandemic—are driving an increased need for rescreening and discuss important issues to consider when crafting a successful, long-term rescreening strategy.

59%
Employees with 5+ years at an organisation stole 59% more for a median loss of $238,000, compared to those working with the company for less time.[1]

Internal fraud is driven by incumbent employees

A recent global fraud survey of more than 5,000 respondents from around the world found that of all the fraud incidents reported in the study, nearly 40 percent were committed by internal perpetrators (i.e., employees), while another 20 percent were committed by employees colluding with external perpetrators.[2] Put simply, the majority of fraud reported in the survey involved incumbent employees.

Internal fraud occurs post-hire, after the employee has cleared the initial pre-employment background check, while they're actively employed by an organisation. According to the ACFE report, 6 percent of internal fraud perpetrators out of the 198 reported cases in the Asia Pacific region had prior fraud convictions. That's up to 11 incidents that could have been avoided. At a median loss of $195,000 per incident, proactive rescreening to detect new and evolving employee-related risk could have helped to avoid an estimated $2.1 million in losses.

What's worse, employee tenure directly impacts the loss amount. The longer an employee works for an organisation, the more money they can steal over time. Specifically, the ACFE report revealed that employees with more than five years at an organisation stole 59 percent more for a median loss of $238,000, compared to those working with the company for less than five years who were responsible for a $150,000 median loss.

COVID-19 is exacerbating fraud conditions

A triangle of factors are known to drive internal fraud—opportunity, motivation and rationalisation—and the COVID-19 global pandemic is fueling all three. In a survey of Australian senior executives performed early in the pandemic, 83 percent believed their organisation was more vulnerable to fraud since the onset of the pandemic and 67 percent felt that employees were the biggest fraud threat.[3]

Opportunity for fraud has increased with remote work, less direct employee supervision and the general distraction and restructuring of internal resources caused by the pandemic. Motivation and rationalisation have also increased as many employees were suddenly furloughed or forced to take a reduction in salary or hours “for the greater good of the business.” In turn, this could lead employees to rationalise that they are entitled to more money or that the organisation “owes them.”

3 key factors driving internal fraud
all are increasing during COVID-19

“Change” is the only certain thing in business

Just as employees evolve on a professional trajectory after being hired, their lifestyle and circumstances outside of work also evolve. People make mistakes. They get into legal trouble. They experience financial hardship. Their workplace morale and attitude can change. Put simply, a clean background check at hiring doesn’t guarantee a clean background check a year or two later. Things change.

Considering the certainty of change, more employers are taking action by periodically rescreening their employees. According to a Society for Human Resource Management (SHRM) survey, 15 percent of respondents say they annually rescreen employees. In addition, the survey reveals that organisations also rescreen employees when “triggered by an event” and when any type of job change occurs, such as a promotion, relocation or lateral move.[4]

Rescreening for the greater good: how to get started

With hiring idled in many parts of the world, HR can use this time to review incumbent workers and use rescreening to keep existing employees motivated and focused on the greater good of the organisation. HR leaders must ensure that employees understand their actions—both at work and in their personal life—can directly impact public perceptions of their employer and affect the organisation’s brand.

Rescreening should be positioned as a part of a broader HR strategy to further strengthen an organisation, not as a separate administrative task or a way of monitoring employees. Get started by working with key stakeholders from the top down—think: CHRO and legal teams, as well as HR directors, managers and supervisors—to develop a rescreening policy that is fair, seamless and effective. Gaining buy-in at all levels of an organisation is critical to rescreening success. Pay special attention to:

- Regulatory issues: some industries have strict screening requirements that may apply to rescreening
- Existing HR policies: amend to include new rescreening guidelines
- New-hire contracts and forms: ensure rescreening language is incorporated
- Internal communications: clearly communicate with employees in person and in writing about why and how rescreening will take place

What does a rescreening programme look like?

When considering how to build an effective rescreening programme, several questions immediately come to mind.

- ***Who is rescreened?*** Everybody from the top down should be rescreened and here's why. The ACFE report offers a detailed profile of fraud perpetrators in the Asia Pacific region. While employee-level workers were responsible for the most cases of fraud, 40 percent, executive-level workers had the largest cost impact, as they were responsible for a shocking $1.2 million in median losses. As mentioned earlier, with the right opportunity, motivation and rationale, employees at any level of an organisation can put the business at risk.

- ***How often should employees be rescreened?*** This can vary depending on many factors but rescreening all employees every two to three years is a good rule of thumb. An exception might be highly regulated industries such as financial services, where annual rescreening is becoming a best practice and its even required in some situations. Any organisation with fiduciary responsibilities or with access to vulnerable populations is at heightened risk and might consider more frequent rescreening. Other high-risk industries could include petrochemical, education, utilities and telecommunications, to name a few.

Rescreening Checklist

- Rescreen ALL employees
- Rescreen every 2-3 years
- Updated background checks should include:
  - *Criminal checks*
  - *Anti-money laundering checks*
  - *Credit and bankruptcy checks*
  - *Right to work checks*

- ***What screening components are used?*** The types of background checks included in rescreening vary depending on availability within specific jurisdictions. Here's a good rule to follow: be sure the updated background check covers key areas that are subject to change and could put employers at risk. Examples of screening components often used in rescreening include:
  - Criminal checks such as police background checks, when available and permissible
  - Anti-money laundering (AML) checks, especially for financial service organisations and banks
  - Credit and bankruptcy checks, since "living beyond means" is cited as one of the top five red flags in the profiles of fraud perpetrators in the ACFE report
  - Right to work checks, since employers who retain staff members with expired visas may be exposed to liability

- ***How is rescreening performed?*** Typically, the employer organisation orders the updated background checks using the candidate's details such as complete name, date of birth and other basic information. The candidate then receives an email and completes any required forms and/or consents. At this point, the screening partner performs the check(s). Results are delivered to the employer organisation so they can review the updated information and determine the potential for risk.

Don't forget about ROI

Let's be clear: rescreening costs money. However, given the soaring price of internal fraud which can easily cost hundreds of thousands of dollars, if not millions, it's a worthwhile investment that can help grow the bottom line. Given today's unprecedented workplace conditions and rising concerns about fraud risk, HR leaders across the Asia Pacific region must work harder than ever to support risk management and corporate security. Rescreening all employees, especially tenured employees who have been with the organisation for years, can be a critical component of a dedicated fraud programme that significantly reduces fraud losses and, ultimately, pays dividends over the long term.

Apart from mitigating risk, rescreening employees can also help protect an organisation's brand from the fallout linked to negative publicity. Take, for example, the recent $310 million scandal at a Chinese-based coffee company. After it was publicly revealed that the company's CEO and COO were responsible for the fraud, investors and company insiders alike quickly broke ties with the company.[5]

Potential Benefits of Rescreening

Better Bottom Line

- Reduce fraud losses *—a median loss of $195,000 per incident*

Better Risk Mitigation

- Deter fraudulent behavior
- Safeguard customer and employees

Better Brand Protection

- Protect against negative publicity
- Increase trust in the brand

Rescreening can also pay off in other ways. If appropriately positioned, it can be used as a competitive differentiator in the marketplace. For example, a service company that promotes a robust employee screening and rescreening programme can provide its customers with greater peace of mind and increased trustworthiness. Likewise, it might also deter candidates with fraudulent tendencies or intentions from applying at an organisation. And last, it can help safeguard customers and employees from being affected by evolving financial and physical risk within the workplace.

Take the first step today

Opportunities for internal fraud and employee-driven risk are ever-present in business today. As organisations around the world expand their background screening mindset and adjust their fraud detection priorities in the wake of COVID-19, it's increasingly important to consider rescreening all employees as a proactive risk measure. By working closely with internal stakeholders from the top down to thoughtfully approach the issue and build a comprehensive rescreening strategy that is fair, seamless and effective, organisations can take positive steps to reduce fraud losses and better protect their bottom line, their customers and their employees.

Sources

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