

## **Investigator's Corner**

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### **An Ounce of Prevention**

Periodically, we check the oil in our cars and the pressure in our tires. Each winter, the furnace gets the once-over. Preventive maintenance helps deter problems before they arise.

The vast majority of internal frauds are discovered by accident rather than by plan. Internal auditing is not designed to detect fraud, and a comprehensive fraud audit is too expensive to mount without reason. But, as with cars and furnaces, an ounce of prevention can head off problems and make for a smoother running operation.

Hiring the right person for a position falls to human resource professionals at the bank. Human resources identifies the skills necessary to be successful, assesses the personality of coworkers and supervisors, and then begins looking for the perfect match. Through interviews and reference checks, the candidate field is narrowed until just the right person is selected. The applicant has the skills and personality to do the job. But whether he or she is a security risk remains a mystery.

Reference checks are, of course, used to ascertain an employee's work habits. The problem with reference checks is that, fearful of lawsuits, former employers are reluctant to offer information beyond confirming dates of employment. Former employers may also give glowing references while being totally unaware that their employee was stealing. Unfortunately, that is the nature of internal theft.

### **History and Attitude**

The first step in preventing fraud is a complete verification of the applicant's work history, education, and address. If just these basics had been done and the employee's job history had been checked, one of our clients could easily and inexpensively have prevented a \$60,000 fraud!

An applicant's honesty can be assessed in two ways: by using his or her personal history and attitude.

The historical perspective focuses on the applicant's past behavior. How the individual acted in the recent past is a predictor of future behavior. However, criminal history searches capture only certain information. They may miss convictions outside the prescribed search parameters.

Reviewing driving records, for example, may give an indication of a drug or alcohol-related problem. The driving history may also identify the "impulsive" person or "risk taker." These two traits are closely associated with criminal behavior.

Unfortunately, driving and criminal histories may not tell the whole story. Convictions in these areas indicate only those instances in which the individual was caught. It has been our experience that people rarely get caught the first time they are involved in counterproductive behavior. As the frequency of their acts increases, so does the likelihood of discovery and prosecution.

Generating a criminal history is less likely when an employee steals from an employer. Many employers, for a variety of reasons, elect not to prosecute employees or shoplifters. Fortunately, however, many businesses have banded together to create a "mutual association" database of dishonest individuals.

Mutual associations typically are made up of financial institutions, retailers, restaurants, and other businesses concerned with hiring honest employees. Any member of the association identifying a dishonest employee, shoplifter, or individual involved in refund or credit fraud or writing bad checks reports the person to the mutual association database. The database contains only the names of those who have admitted or been proven to be involved in dishonest acts.

Consider that just one department store chain contributed the names of more than 3,000 dishonest employees and more than 18,000 shoplifters to a database in one year's time. The usefulness of this cost-effective screening tool is self-evident.

### **Honesty Tests**

Still, many dishonest people never come to the attention of police or security departments. So a tool to evaluate people's attitude toward honesty completes the circle. Some people inclined toward dishonesty have no access to money or merchandise or are so controlled that theft is unlikely. However, given an opportunity, they would be inclined to steal.

Paper-and-pencil honesty tests evaluate the applicant's attitude toward honesty, thus predicting the likelihood of a dishonest act. Simply stated, people who think like thieves are more likely to act like thieves than those who do not.

Research by test publishers such as Reid Psychological Systems of Chicago indicates that about 30% of unscreened applicants possess attitudes that translate into high risk for counterproductive behavior. This highly validated, non-discriminatory, easily administered, and cost-effective tool provides an important line of defense against internal dishonesty.

Another by-product of screening for honesty is the identification of applicants who are psychologically healthier, less likely to be involved in accidents, and generally better workers.

There are other background checks that may be useful in making the final selection of an

applicant. The cost of the screening tools should be weighed against the position, potential exposure, and available applicant pool.

### **Integrity/Customer Service Shopping**

Once employees are hired, management constructs controls that, when audited, assure their desired performance. What is happening and what management believes is happening are often entirely different things. In a recent case, a main branch teller was temporarily assigned to the bank's drive-up facility. While there, she observed what appeared to be theft of overages from customer deposits. Subsequent investigation revealed that eight out of 16 tellers were involved in this activity, including one with more than 30 years of service.

The widespread violation of trust could have been identified by using a technique employed by retailers: integrity shopping. Using integrity shoppers, stores can identify dishonest associates and customer service problems.

Financial institutions can obtain a variety of benefits from this tool too. The primary benefit will be observed in customer service. How are your average customers treated when they do business with the bank? Management can provide feedback to employees who excel and counsel those who do not. Product knowledge and salesmanship may also be evaluated independently by the shopper. Feedback in these many areas may also help human resources to identify training needs.

Most important to this discussion, however, the shopper program tests the integrity of employees by providing controlled opportunities to steal. The shopper may, in a variety of ways, provide such an opportunity during the transaction. This is not entrapment. Entrapment entails encouraging an individual to perform a dishonest act. Here, the shopper simply provides an opportunity. Most employers who use this tool alert their associates to its use, keeping the honest from being tempted. The shopper's feedback to employees helps to perfect the desired company service objectives and reinforces honest behavior.

Taking time when hiring to select the most skilled and honest people results in a tremendous return on investment. Performing preventive maintenance to monitor employees' subsequent performance and skills allows for better management and less risk of dishonesty.