WHITE PAPER

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Background Checks

Understanding Who You Are Hiring

Three common factors contribute to business fraud: inadequate prescreening of employees; limited internal controls; and too much trust placed into the staff. Most small businesses do not spend the money or time checking job applicant references, criminal history or references. While theft and fraud impact businesses of all sizes, small businesses tend to be financially impacted on a much greater scale, due to their limited financial resources and inability to recover.

According to the Association of Certified Fraud Examiners (ACFE) in their 2008 Report to the Nation, nearly 7% of all employees have some history of theft or fraud. This 7% figure, when applied to the 2008 U.S. Domestic Product, equates to nearly $994 billion in fraud related losses.

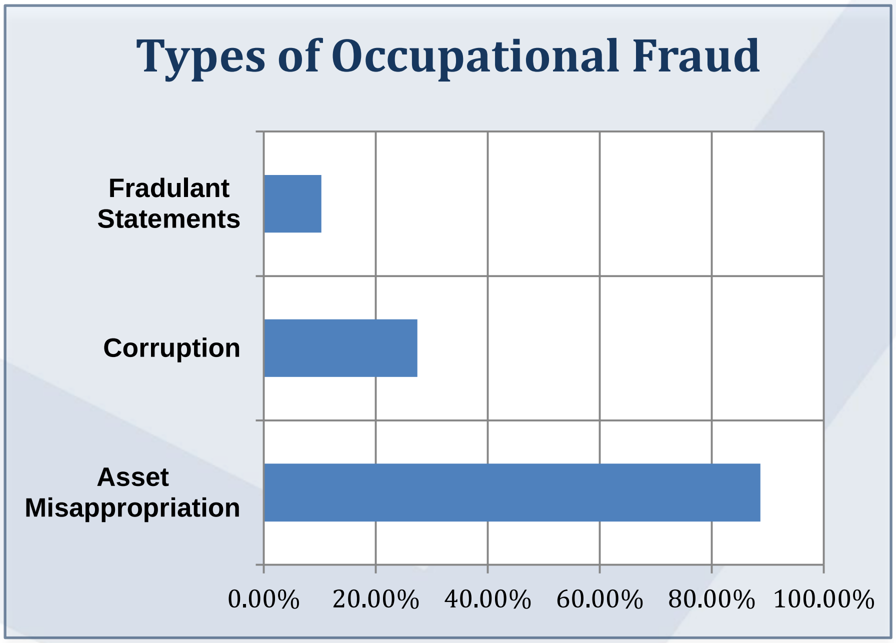
What steps has your business taken to protect itself against internal financial losses?

While multiple proactive solutions exist for combating internal theft and fraud, implementing background checks stops a great proportion of misfit applicants from entering an organization at the entrance gate, preventing losses before they occur.

Why do We Need Background Checks?

Whether in sports or in the investment markets, past performance is often used as an indicator of expected future performance. Background checks enable organizations to collect information about a job applicant's past through both open sources and public records. According to the ACFE, financial difficulties, such as foreclosures or bankruptcies, acts of a criminal nature, prior misrepresentations or a litigious past are all indications that future problems lie ahead.

According to the ACFE's findings in their 2008 Report to the Nation, the types of occupational fraud experienced by businesses are as follows:



When 'misfit' applicants are hired, it can lead to incidents of employee theft, workplace violence allegations and even negligent hiring lawsuits, each costing the employer valuable funds to reconcile.

Misleading Applicant Information

A study conducted between January and March 2011 by First Advantage Pvt. discovered that nearly 11% of all job applicants provide false or misleading data to potential employers during a job search. According to this report, the percentage of discrepancies has been rising every quarter.

According to the First Advantage report, 2 out of every 3 job applicants provide misleading information regarding their employment tenure. Applicants commonly tweak their graduation dates or employment dates in an effort to mask resume gaps. While the majority of misleading information centers around prior employment history, applicants also provide false information regarding their education and certifications/licenses, and in some extreme cases, they create fraudulent companies altogether, listing them as prior employers.

Employee Theft

According to a report released by the National Retail Federation in 2010, employee theft is on the rise.

Asset misappropriation falls into several categories, including:

- Skimming
- Cash Larceny
- Billing
- Check Tampering
- Expense Reimbursements
- Payroll
- Cash Register Disbursements

The U.S. Chamber of Commerce estimates that nearly 75% of all employees have stolen from their employers at least once, and that one and three business failures is the direct result of employee theft.

Workplace Violence

According to the Bureau of Labor Statistics census of Fatal Occupation Injuries (CFOI), homicide is currently listed as the fourth leading cause of occupational injury within the United States. While homicide is the most extreme form of workplace violence, stories have perpetrated the news over the past few years that are causing both employers and employees to think twice about the safety of their work environments.

Negligent Hiring Lawsuits

The U.S. is a notoriously litigious society, ever present by the rise in a relatively new form of litigation, Negligent Hiring. According to the general rule, Respondent Superior, employers can be held responsible for negligent acts and/or omissions of their employees (1).

While implementing background checks into the hiring process will not eliminate all instances of theft, violence or negligent hiring lawsuits, it can help mitigate hiring applicants that are unsuitable for an organization, reducing their impacts.

Benefits of Background Checks

Implementation of background checks to pre-screen job applicants offers a number of benefits, including:

- **Risk Management-**By reviewing the information contained in the applicant's background check, an organization can choose which levels of risk it is willing to accept.
- **Enhanced Profitability-**Proactive risk management effectively reduces the prevalence of costly employee issues and lawsuits. In addition, managing to a consistent hiring process will ensure that the organization is working within all applicable hiring laws, each helping to flow a few more dollars to the business's bottom line.
- **Enhanced Hiring Process-**Equipped with a candidate's accurate, relevant information, enables organizations to make sound hiring decisions.
- **Legal Compliance-**A consistent background screening policy and process positions a business to exercise due diligence when making hiring decisions. Processes within an organization help ensure that it is compliant with all state and federal hiring statutes.

Background Check Screening Components

When implanting background checks into an existing hiring process, simply adding the step isn't enough. Organizations must develop a background screening process to compliment the chosen screening tool to ensure compliance with all applicable state and federal hiring laws.

An effective background screening process should contain the following components:

- **Policy Purpose Statement**-The policy should clearly articulate who it applies to and the resources it is intended to protect.
- **Policy Scope-**Exact, precise language should define locations covered by the policy.
- **Responsible Parties**-The departments and/or positions responsible for policy implementation and management should be clearly stated.
- **Sensitive Positions-**Any position within an organization where employees deal directly with the public, enter people's homes or businesses, handle cash or valuable merchandise, have safety or security responsibilities and are positions of influence should be clearly identified. In addition, specific background screening steps deemed appropriate to screen the risk of this identified pool should be outlined and documented.
- **Background Check Process**-The chosen process to be performed with each candidate; and specifically for those applying for sensitive positions should be documented.
- **Record Retention-**Where and for how long records will be retained should be documented. This is a critical step in the event that the organization ever experiences a discrimination suit, specifically targeting hiring practices.
- **Legal Compliance-**All hiring practices must be in compliance applicable state and federal statutes as well as the Fair Credit Reporting Act (FCRA), when an applicant's financial history/credit history is pulled as part of the hiring process. In addition, the FCRA requires that any party performing a background check obtain written authorization from the applicant.

Developing background screening processes and procedures will ensure that not only your company obtains needed information for hiring decisions, but that it is in compliance at all times with regulatory and reporting requirements.

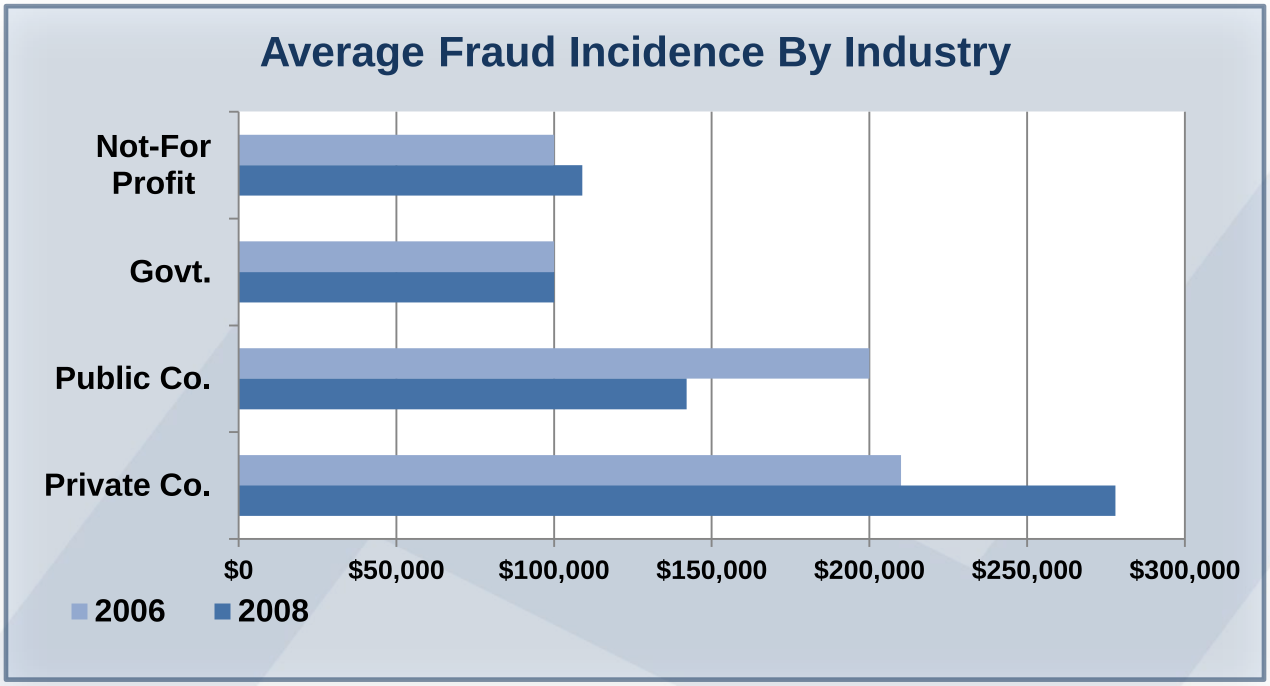
SMB vs. Corporate Background Check Needs

Fraud prevention solutions in businesses of all sizes are similar; however, small businesses are not often large enough to implement systems of checks and balances across divisions in the same fashion as their larger counterparts. Most small businesses rely upon a system of 'trust' over structured internal control systems.

As a result, the median loss suffered by smaller organizations was $200,000, as reported in the ACFE's 2008 Report to the Nation. While smaller businesses experience the largest median losses, they are experienced across all types of organizations as seen below.

Organization Type of Victim- Median Loss

It isn't surprising that of the businesses surveyed, private companies reported the lowest usage of fraud prevention strategies.



Implementation of anti-fraud controls results can result in a measurable impact on any organization's fraud exposure. Background checks, internal checks and balances, fraud training for employees and regular internal audits can contribute to a reduction in fraud exposure and business losses. Integration of background checks is a cost effective, first step, toward building a fraud prevention culture.

The best solution to potential issues is always prevention. While employers can and should implement monitoring programs within their organization to prevent theft and violence, preventing un-fit employees from entering their workforce will not only save initial training resources, but will prevent potentially damaging losses over time. While background checks cannot guarantee a flawless hiring process, they can dramatically improve the quality of hires brought into your organization, ultimately reducing workplace risk.