

KNOW YOUR EMPLOYEE (KYE)



Why Does KYE Matter?

Traditionally, we have concentrated on identifying customers, but what about employees? Know Your Customer (KYC) is an essential precaution, but it is not sufficient. It must be coupled with knowing your employee.

In a 2015 article published in *Times of San Diego*, a Banker admitted in the San Diego Federal Court that he caused Citibank to fail to report suspicious transactions and fail to maintain an effective Anti-Money Laundering (AML) compliance program. In his plea agreement, he admitted that he used his position as well as his finance knowledge to aid his clients in avoiding detection by Citibank's AML compliance program. He illicitly managed not to report Citibank customers he knew were engaged in various suspicious and high risk activities. He undermined the Bank's obligations in exchange for cash and in kind compensation. He also counseled customers on the specifics of the Bank's AML parameters by providing the customers with internal use only AML Guidelines. The Moral of the story is, it is those individuals on the inside of your business who can often do the most damage, due to their access to your key assets and familiarity with your processes (and how they might be manipulated).

A Company should protect itself against any threats which can develop within the organization. However, it is not about distrusting your staff; but instead making sure that you really know them. A KYE program means that the organization has a system in place that allows it to understand an employee's background, conflicts of interest and susceptibility to money laundering and any other illegal conduct.

Things To Know About An Employee



Management should know the complete background of each and every individual who is employed by the Organization. The following information should be available for employees:

- ✦ His/her full name, permanent residential address, and contact numbers;
- ✦ Any criminal record;
- ✦ How well has he/she performed at his/her previous organization;
- ✦ His/her credentials, past experience, specialization and interest levels; and
- ✦ How frequently has he/she changed his/her previous organizations



Please do not forget to collect the copies of their educational certificates, identification documents (IDs) and proof of address verification documents for your own records. The original documents should be reviewed and the copies should be certified by a senior officer as seeing the true and correct copy of the original. It helps you check the authenticity of an individual. Hence, reference checks are also essential in knowing an employee.

Employers should know an individual well before recruiting him/her and making him/her responsible for ongoing projects. Do not hire individuals just because you have to fill a vacant position; you must ensure that they can perform certain tasks within the organization given their capabilities and character.

Why Is Employee Evaluation Important?

Managers ought to know the capabilities, expertise, skill sets of each and every individual they employ. It helps with the effective delegation of authority and tasks. As a Manager, you should assess whether an employee needs improvement in carrying out tasks so that additional training can be provided where necessary.

By conducting regular employee evaluations, managers can determine whether their employees are performing their duties in accordance with various Company policies and procedures as well as regulatory requirements. Employee evaluations can also help to unearth internal threats to your business.

Topics Discussed:

- ⇒ **Why Does KYE Matter?**
- ⇒ **Things To Know About An Employee**
- ⇒ **Why Is Employee Evaluation Important?**
- ⇒ **Monitoring Employee Behaviour**
- ⇒ **Processes/Internal Controls**
- ⇒ **What Should Be Maintained On Employee Files**

Monitoring Employee Behaviour

Management should monitor their staff's behaviour so as to identify any situation that might be considered suspicious. The following are some examples of suspicious conduct:

- ✦ Lifestyle and spending habits which are not consistent with their salary, financial position or level of indebtedness;
- ✦ Sudden and significant changes in their standard of living;
- ✦ If employee refuses to take vacation for no apparent reason;
- ✦ Employees who don't allow other colleagues to assist certain customers;
- ✦ If employee suspiciously receives gifts or gratuities on a regular basis;
- ✦ Employees who are reluctant to accept any promotions or changes in their activities; and
- ✦ Employees who stay at the office after working hours or that go to the office at odd times for no reasonable explanation.



Just as a Suspicious Transaction Report (STR) can be filed with the Financial Intelligence Unit (FIU) on a customer, the same procedures can be followed for an employee if suspicion is noted.



Processes/Internal Controls

The following internal controls can be employed to minimize internal threats.

- ✦ Develop an organizational chart which outlines the chain of authority. This should be available to all employees.
- ✦ Solid KYE policies and procedures should form part of a sound compliance program, on anti-money laundering and ethics. The Company's policies and procedures should outline what is expected of employees, what tasks should be consistently carried out and should also be in line with the Laws and Regulations of St. Kitts and Nevis, especially as it relates to anti-money laundering and countering the finance of terrorism.
- ✦ Develop detailed job descriptions outlining employees' roles and responsibilities and to whom they should report.
- ✦ A strong moral and ethical culture would, in most cases, prevent any perversion of rules and regulations.
- ✦ The segregation of duties is also another important factor. It involves separating three main functions and having them conducted by different employees: i) having custody of assets; ii) being able to authorize the use of assets; and iii) recordkeeping of assets. Segregation of duties ensures that there is an oversight and review function and helps to prevent fraud or theft.
- ✦ Regular reconciliation of various records. Not only should receipts be reconciled with deposits, for example, but such reconciliation should be regularly reviewed by someone in higher authority than the employees making the records and doing the reconciliation.
- ✦ Employees should be required to take at least two weeks' vacation each year. A fresh set of eyes can be an excellent tool.
- ✦ The Company should conduct a personal and professional background check of the candidate when considering their application. Background screening of prospective and current employees, especially for criminal history, is important to identify and minimize any internal threats. Supervisors and Managers must also know the staff in their department and report any substantial change in the financial situation or in the spending habits of the employees working directly under them. At the same time, the Compliance Department must ensure that employees are not listed on the OFAC or any other watch/sanction lists.
- ✦ Employing performance evaluations, rewards and disciplinary measures. Compliance with standards for the prevention of money laundering and terrorist financing should be considered as an element to be evaluated when appraising employee performance.

What Should Be Maintained On Employee Files

Human Resources Files should be maintained for all employees containing the following:

- ✦ A sheet containing the employees basic information such as name, address and emergency contact;
- ✦ A resume;
- ✦ Employment letter/contract, as well as the job description;
- ✦ Certified copies of qualifications earned;
- ✦ Reference letters [at least two (2)];
- ✦ Copies of training certificates;
- ✦ Police Record;
- ✦ Performance Evaluations/Appraisals;
- ✦ Records of vacation; and
- ✦ Any due diligence/background check performed on the employee.



References:

- *Anti-Terrorism (Prevention of Terrorist Financing) Regulations (ATR), No. 47 of 2011.*
- *Anti-Money Laundering Regulations (AMLR), No. 46 of 2011.*
- <http://www.managementstudyguide.com/importance-of-knowing-employees.htm>
- <http://timesofsandiego.com/business/2015/10/15/banker-admits-to-bribery-aiding-clients-to-laundry-money/>

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