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To Catch a Thief

To Catch a Thief...

*True tales from the electrical distribution industry!*

Coming soon...

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To Catch a Thief


Hollywood has mastered the art of the caper

Movies centered on theft usually include some very important plot devices:

- Captivating premise
- Dramatic twists
- Witty banter
- Beautiful locales
- And most importantly...

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• A handsome leading man

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• ...or men



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- Outside the glamour of Hollywood, theft and fraud have serious repercussions.
- For businesses, the threats can come from a multitude of internal and external sources:
  - Embezzlement
  - Stolen property
  - Credit card and check fraud
  - Collusion
  - Vendor Fraud
  - Burglary
  - Kickbacks
  - Cash register manipulations
- The impact of these incidents are profound and can lead to host of financial and legal issues.

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Foundation Research Opportunity:

- Current research project was inspired by a highly successful breakout session with Frank Abagnale
- Sponsored by the Channel Advantage Partnership
- Study conducted by Jay Albanese, PhD, who is on the faculty at Virginia Commonwealth University
- Albanese is a specialist in white collar crime
- Results will be from member survey and interview sources
- Task force of member companies also provide input on the subject and format of the research publications

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Once completed, the results of the study will provide:

- The rate of theft and fraud in the industry overall today
- How it compares to the economy at large
- The most prevalent types of theft based on survey results and interviews
- Common schemes and outrageous stories from fellow distributors
- Best practices to identify and prevent incidents
- Published in TED, white papers, case studies, and webinars

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The study's initial findings note that the largest source of theft in the industry is by employees. According to experts:

**90% of employees will steal if they are given the right opportunity**

In other words:

- 10% will never steal
- 10% will steal, if they have not already
- 80% will steal if given the right opportunity

**There is no typical profile of thief**

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**Who's stealing?**

Years on Job	Percentage
More than 5 yrs on job	25%
3 to 5 yrs	15%
1 to 3 yrs	35%
6 mos to 1 yr	10%
Less than 6 mos	5%

***There is no typical profile!***

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**What are dishonest employees after?**

- Predominantly product—wire, tools, and batteries
- Free money—cash, unauthorized credit card usage, and exaggeration of expenses
- Equipment

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Many factors to consider when examining why this occurs:

- Size of company
- Number of employees
- Location
- Loss prevention measures and asset controls (cameras, cycle counts, etc.)
- Effectiveness and degree of such practices and policies
- Awareness of employees—any factors that may drive them to steal?

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For those that steal, it is often the perceived *risk* vs. *reward* factor:

What are the chances that I will get caught?

What are the consequences if I am caught?

Are they severe enough to dissuade me?

**Remember:**  
**80% of employees have the potential to steal if given the right opportunity**

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•One of the most valuable tools in combating theft and fraud is...

**Your Employees**

- Teaching employees why theft hurts them is a powerful tactic and line of defense
- Help reinforce the importance of employee participation by:
  - Establishing incentives and rewards
  - Training to identify and report suspicious behavior
  - Clearly stating consequences to stealing

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Employee screenings: The first line of defense

Screening Method	Percentage
Verify past employment	90
Contact references	85
Drug testing	75
Multiple interviews	70
Criminal conviction check	60
Credit check	25
Verify education/training background	30
Honesty tests	10

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Despite your best efforts, incidents still occur. What do you do?

- Some companies have difficulty in getting their case to the prosecutor.
- For many, their areas do not have resources to pursue every case of theft because of other crimes.
- Companies often put together a case and hand it over to the prosecution to move things forward.
- In response, NAED will also publish a how-to guide so you can take the case directly to the attorneys.

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A quick look at victimization by non-employees:

Victimization Type	Percentage
Collusion with vendor	10
Theft of company equipment	15
Intentional expense exaggeration	15
Theft of cash/authorized credit card	40
Theft of product	85

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Let's discuss some scenarios based on a few experiences by different distributors.

Group activity:

- On your table are 3 incidents with questions
- Take a few minutes to discuss each scenario at your table
- We'll reconvene in a about 10 minutes to talk about each situation

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**Scenario 1: Credit Scams**

XYZ Electric is a small company, one of those where every employee does a little bit of everything. In one instance, a driver was found to be filling up the gas tanks of his personal vehicles with the company credit card. Later on, he would periodically use the company gas card to fill customers' and friends' tanks for cash! Of course, he was supposed to use the credit card to fill up only company trucks.

In another incident, a purchasing manager was found to be buying furniture for her home and clothing for her family on the company credit card. She was having serious personal credit problems.

In each of these cases, the company person was authorized to use the company card, but misused that privilege.

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**Questions:**

1. What circumstances permitted these frauds to occur?
2. What must be done to prevent them in the future?
3. Would the controls be different for a larger-sized company?

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**Suggestions & Red Flags:**

- Company credit cards must be monitored closely; expenses must be agreed to each month by the authorized user and a supervisor.
- Amounts, frequency, and vendors can be scanned monthly on credit card bills for irregular credit card usage.
- The cost of a truck gas fill-up is quite different from that of a car. Clearly, the frequency and size of the credit card purchases were not being monitored.
- The number of people with access and company credit card privileges should be reviewed annually. Is it necessary for every driver and purchasing manager to have a company credit card?
- Fleet programs such as NAED's Exxon/Mobil Group Purchasing Fleet Program to monitor and control purchases

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**Scenario 2: A Calculated Burglary**

A break-in occurred one night at *Elmo's Electric* and it appeared that the Burglars knew where they were going. They cut a hole through the metal exterior of Elmo's locked and windowless warehouse--- a hole which happened to be cut very near where the copper wire is stored. They took \$50K worth of copper wire, moving it out through the bay doors and using Elmo's Electric own fork-lifts to load the reels into their "getaway" truck.

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**Questions:**

1. What safeguards could *Elmo* consider to make losses such as this less likely?
2. How do you protect product if there is a break-in?
3. Who was the burglar in this case?

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**Suggestions & Red Flags:**

- Metal buildings (most warehouses) are easy to enter by cutting through the exterior wall.
- Outside cameras are needed that face the building, in order to record any entry or vandalism, especially on sides of the building not visible from the street.
- Elmo's also needs a better alarm system. A compromised building wall should result in a major alarm alert, not just a loud noise that is lost in the darkness.
- Likely was a former employee: anyone recently and unhappily fired?
- Take the forklift keys and put them in a safe place for the night.
- Park trucks in front of the warehouse doors at night in order to prevent a large-scale burglary.

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**Scenario 3: Right T-Shirt, Wrong Guy**

A guy walked up to the counter at *Clyde's Electrical Distribution* wearing a company T-shirt from a longtime customer. The guy said he was there to pick-up a few things for the customer, who had a direct bill account. Clyde's Electrical counter person was experienced and knew his company, but he did not know this guy. In the end, the guy picked up about \$1,000 worth of material.

When billed, the customer company called, and said they didn't know who this guy was. As a result, they were declining the charge.

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Questions:

1. Do you think this is a situation that companies with counter areas often face?
2. What steps should the counter person have taken to verify the guy's assertion?
3. What policies would have prevented this?

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Suggestions & Red Flags :

- Need to Xerox photo ID of all non-cash-paying customers
- Counter-person should not be expected to know everybody. Procedures should protect him.
- On his computer screen at the counter, all those permitted to sign for direct-bill orders should pop-up. If the guy's ID doesn't match any of those names, the credit manager must be called immediately.

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Key Take-Aways:

1. Reliance on "strategies" to reduce theft are only as good as the diligence of people who do it (reference checks, shipment checks, credit checks, etc.)
2. Careful hiring practices are crucial to protect against dishonest employees.
3. Deterrence works 2 ways: the impact of an arrested employee and a vigilant work force.
4. There is no particular type of dishonest employee, but periodic credit checks can identify those in financial trouble and at higher risk for problems.
5. Communication is needed within the industry when a dishonest employee is discovered. It is very likely the employee will seek future employment in a familiar business environment

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More from the study will be published this summer!

If you or a colleague would like to share any experiences with theft and fraud, please contact me:  
[stenevck@naed.org](mailto:stenevck@naed.org) or 314-812-5306.

Thank you!