An Ounce of Prevention

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From all outward appearances, it was another typical day at this East Coast retailer. At approximately 10:30 am, a trucker arrived to make a delivery. After greeting the receiver at the back door, the driver proceeded to unload 36 cases of product. In return, the trucker received nearly $5,000 in cash from one of the owners of the retail business.

As the driver returned to his truck, he had no idea that this delivery was being captured on video by investigators who had been surveilling him for several weeks. While this transaction may have appeared legitimate to the casual observer, the investigators knew that this retailer was not an authorized customer and should not have received this delivery, which was valued at more than four times what he had paid the trucker.

This unauthorized delivery was another piece of evidence that would eventually be used to convict the driver and his helper of grand larceny. During investigative interviews, both admitted to stealing nearly a quarter of a million dollars from their employer and regularly making unauthorized deliveries for cash.

Inventory Can Easily Disappear

Everyone has heard the expression that something "fell off the back of a truck." The reality, of course, is that cases of product don't just fall off trucks. More often than not, the product is delivered to a waiting accomplice…with no questions asked as long as the price is right.

To dishonest warehouse personnel, checkers, supervisors, or truck drivers, working in a distribution facility is the perfect environment to camouflage collusion. With thousands of cases of product being shipped and received in a busy and sometimes chaotic environment, it creates a smokescreen that can conceal a six- or seven-figure theft.

There are numerous ways that dishonesty regularly takes place:

- Dock employees make deals with company truckers, common carriers, or small parcel delivery drivers, adding extra product to their orders in return for a percentage of what they sell the goods for.
- Truck drivers can call in fictitious shortages. Dishonest ones have even been known to steal from customers when they didn't carefully check in their deliveries.

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by Barry Brandman

- Warehouse employees can remove product via uncontrolled overhead and emergency doors, by circumventing alarm devices, or concealing good product with trash.
- Receivers can falsify counts on inbound shipments, signing for product that didn't actually arrive. The delivery driver pays the receiver for fraudulently signing for a complete delivery, then sells the goods for cash.

Theft activity like these examples can go on for months—even years—without management finding out that it's happening because the methods used to steal oftentimes look exactly like standard operating procedures.

One example of how destructive theft can be to a company's bottom-line involved employees on the night shift who were regularly overloading certain drivers. These employees were making five times their weekly paycheck from their dishonest activities, and the ringleader was none other than the shift supervisor who managed to manipulate weekly cycle count reports so the losses were not detected. The net result was over half a million dollars a year of inventory disappearance.

Prevention Is More Cost Effective

Companies that adopt a proactive approach to protecting their assets almost always fare better than those that react after they've been victimized. The objective should be to focus on how many employees you can keep honest, rather than how many you can catch stealing.

Among those preventative techniques that have proven to be the most effective are:

- ***Clarify your expectations:*** Create an awareness that your company is concerned about asset protection and will not tolerate illegal or unethical activity. Your loss prevention policies and procedures should be formalized and provided to all employees who should read and sign them as a condition of employment.
- ***Educate your key personnel:*** Send managers and supervisors to conferences and workshops where they can learn how theft takes place and enhance their ability to recognize the "red flags."
- ***An 800-tip line:*** Employees who are aware of theft will typically remain silent unless you provide them with an absolutely risk-free way of communicating what they know. However, in order to be effective, a tip line program must guarantee callers complete anonymity rather than simply promising to keep their identity confidential. And, because most workers feel justified in receiving a percentage of what they save their employer, it's a good idea to offer a reward for confirmed information.
- ***Audit inbound and outbound shipments:*** In order to detect problems like overloading and short receiving, unannounced audits should be conducted. This is another way of verifying that key distribution personnel responsible for controlling inbound and outbound product are honest and conscientious.
- ***Going undercover:*** Companies find that putting an investigator on the inside who appears to be just another coworker to everyone else can not only expose who is responsible for theft, but can also shed light on workplace substance abuse, deliberate destruction of company property, lax supervision, and other costly problems. Keep in mind, however, that undercover work is never a quick fix. Unlike the way it is often portrayed in television crime dramas, cases cannot be solved in 60 minutes.
- ***Monitoring of company drivers:*** Covert surveillance will expose time and product theft. Non-covert surveillance, where security representatives select a truck to audit as deliveries are being made, are equally effective because they will prevent, as well as detect, collusion between warehouse personnel and truckers.

Companies that implement strong, proactive controls find that the number of thefts, as well as the dollar amount lost on an annual basis, typically stay well below the industry average. ∎

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