

THE HEAVY HIT OF SILENT THEFT



Distributors use undercover investigations to discover, and stop, inside theft.

BY BOB GATTY

Silent theft, the unscrupulous, surreptitious actions of distribution center employees, is quietly ravaging the bottom lines of many CDA members and they don't even know it is happening.



Barry Brandman

According to Barry Brandman, chief executive officer of Danbee Investigations, Fair Lawn, NJ, one of the nation's largest corporate intelligence companies, at least 80 percent of CDA distributors will be victimized at some point by inside theft or other costly illegal acts committed by disloyal employees.

"CDA warehouses have huge targets on them because the product they carry is a magnet for security problems," Brandman warns. "Distributors that have not experienced these problems are very rare."

Danbee Investigations is used by many CDA companies to assist with security, including the use of undercover investigations. "As we speak, we have about 10 operatives in place in these companies," says

Brandman. "One has been in place for over 15 years."

During a CDA-sponsored webinar Oct. 7, Brandman discussed several cases where undercover investigations exposed:

- An employee theft ring responsible for stealing nearly \$500,000 per year in inventory from a tobacco/grocery distributor;
- How employees were using and selling narcotics at work and avoiding detection, and stealing to finance their habits;
- How a purchasing agent's scam netted more than \$300,000 in cash and gifts until he was caught.

"You could almost say it's a bit of an underground economy, stealing and reselling these products," Brandman says.

To discover and put a stop to these activities, many distributors are turning to companies like Danbee Investigations to conduct undercover operations, where operatives are put in place as employees to obtain evidence to build a case against the perpetrator, usually resulting in arrests.

“Many distributors are pretty naive in terms of how they protect their assets, and unfortunately they can be in for a rude awakening,” warns Brandman. “A decent asset protection program is not good enough for this industry. It’s got to be robust, air tight.”

Case Histories

Here are several case histories presented by Brandman during the webinar:

Purchasing Fraud

A hotline call made by this employee stated that one of their purchasing agents was receiving kickbacks, gifts and paid vacations from a vendor.

Their corporate office maintained centralized purchasing for all of their warehouse facilities. Product was shipped directly to the satellite locations, with receiving documentation from all of the distribution centers forwarded to the corporate purchasing department for reconciliation and approval.

While analyzing the accounts payable history, Danbee observed an increase in payments to one particular vendor. No one had previously questioned why purchases from this vendor had steadily increased.

An undercover operative was placed into the role of a warehouse receiving lead. He observed that the internal receiving manifests used by the satellite facilities were generic, not sequentially numbered.

Thus, there would be no way to know if the original manifests were being replaced with falsified documents.

The investigator privately kept a log of all products he received from various suppliers. Danbee subsequently reconciled his counts to the payable documents at the corporate offices and found significant discrepancies with the same vendor.

By destroying the original manifests and substituting bogus receiving documents that indicated the ware-

houses had received more goods than they actually had, the dishonest purchasing agent could approve inflated payments to the vendor with whom he was in collusion.

Short-Receiving

Physical inventory numbers indicated that this distributor was missing over \$170,000 of product for the previous quarter. Sixty days later, a follow-up inventory revealed another \$112,000 of missing product.

The operative, working undercover as a forklift operator, learned that one of the receivers had secretly worked out a deal with a delivery driver and was signing for product that he was not receiving.

The receiving dock thief pretended to conscientiously count every incoming case. However, the undercover investigator was also counting the cases as he placed them into inventory.

When the investigator’s counts were compared to the receiving paperwork, it became obvious how the theft was taking place. The receiver was repeatedly caught “short-receiving” on covert cameras over the next several weeks, apprehended and prosecuted.

Key Takeaways

- Don’t be complacent. Most distributors are vulnerable to inside theft.
- Undercover ops are effective ways to discover and stop inside theft.
- Information gathered is invaluable for executives, far beyond strengthening security.
- Be patient. Undercover ops take time.

CONFIDENTIAL UNDERCOVER INVESTIGATION REPORT

INVESTIGATOR #: 672

Monday, Oct. 5 – At 7:15 PM, the investigator engaged in a conversation with Bill [selector] and Jose [loader]. They stated that the new video system that the company recently installed has not stopped theft.

Bill stated that the way he and other employees are working in collusion with certain company drivers looks exactly like standard operating procedure and there is no way management would be able to determine whether extra cases are being shipped.

Jose added that the employees know that no one is going to watch hours of recorded video each day. Although management thinks that installing the cameras will intimidate workers and deter theft, the reality is it hasn't.

At the 8:30 PM break, the investigator observed two employees in the parking lot transacting what appeared to be a drug sale. This supports what we suspect about cocaine and marijuana use by certain employees.

As reported in prior reports, certain workers do appear to be under the influence when returning to work after breaks and lunch periods. The investigator will continue to monitor this as the investigation progresses.

Tuesday, Oct. 6 – At 8:05 PM, Bill [selector] stated that everyone on the shift knows that James (the supervisor) spends very little time on the warehouse floor. Because he is almost always in his office, the workers know that they can neglect their responsibilities without getting caught and reprimanded.

Additionally, Bill stated that several of the shift employees deliberately work at a slower pace in order to get overtime and James never questions this. He estimated that the company is paying at least 12-15 hours in overtime every week that isn't really necessary.

After the break period, the investigator observed two new workers operating their forklifts in an unsafe, erratic manner. James was in his office and didn't observe this. Later in the shift, the investigator observed seven cases of damaged product in aisles 5, 6, and 8 where these two employees had been working.

 DANBEE INVESTIGATIONS

Distribution Supervisor Conceals Inventory Theft

The corporate office observed a sharp increase in damaged goods. Suspecting workplace substance abuse, Danbee placed an undercover operative as a forklift driver.

The operative observed damages were not excessive, contradicting the reports being turned in by the shift supervisor. He also observed inventory missing Monday mornings that he was sure was there Friday evenings when the warehouse was closed.

As a result, covert cameras were installed and they showed the shift supervisor returning over the weekend (when the facility was closed) and loading pallets of product into a rented truck.

Although management originally suspected workplace substance abuse, the problem turned out to be thefts concealed by bogus damage reports generated by their supervisor.

Exploiting a WMS Loophole

The distribution center's process for selecting and shipping product involved the use of computer-generated pressure sensitive stickers. Each case required that a sticker be affixed by the selector, or the checkers would not allow the product to be loaded onto an outbound truck.

A selector told the undercover operative he had discovered how this system could be circumvented. He later admitted to getting paid nearly \$2,000 a week by company drivers he was overloading with extra cases.

Over time, he explained to the operative that there was a duplication code for the software program, which allowed extra labels to be generated.

By installing spyware on their server as well as a covert camera viewing the printer that generated the labels, Danbee obtained irrevocable proof of the ongoing fraud—and the names of the drivers he was overloading.

Workplace Substance Abuse

The company received an anonymous hotline tip that several drivers were using drugs while making deliveries. The CEO decided on an undercover investigation for two reasons:

First, he feared that one of his drivers operating a truck while impaired would cause a fatality.

Second, if drivers were using drugs, he reasoned they were probably stealing product to support their habit.

The operative, hired as a driver helper/apprentice, learned what was happening, witnessing drivers using

cocaine during lunch breaks. The abusing drivers drug tested positive and were all terminated.

External Theft Was Really an Inside Job

After a targeted break-in that resulted in the loss of over \$6 million of inventory, senior management suspected it might be the result of inside information.

The undercover operative learned from coworkers that, prior to the break-in, one recently hired employee had been asking questions about the alarm and video systems. After learning this, the investigator focused on developing a friendship with this employee.

The operative learned that this worker lived at an address different from the one on his employment application. Further investigation revealed it was a rented apartment under another name—his real one.

Danbee then ran a background check, which revealed that he had a prior history for break and entry and possession of stolen property in two other states. During subsequent interviews, he admitted that he and several accomplices had committed the break-in.

Preparing for Arrests

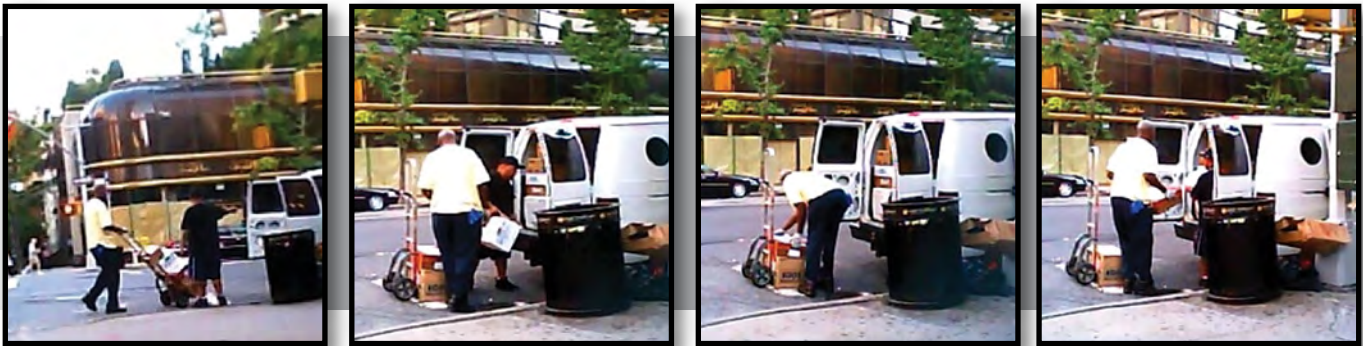
Typically, says Brandman, the undercover operation builds sufficient evidence that the inside employee eventually confesses. Once the investigation is completed and the case nailed down, law enforcement officials are notified and the individuals are arrested.

“Once the problem is inside the threshold of a company, it's the company's responsibility to investigate and gather evidence and then go through the judicial system,” Brandman explains. “The police are not going to conduct an investigation inside a company. That's not their job. So we need to conduct those investigations and make sure we have irrefutable evidence.”

Private investigators also have an advantage over public law enforcement officers. They are not bound by the Miranda law, which most knowledgeable suspects will use to stop talking and to “lawyer up.” “So our success rate is much higher,” Brandman says.

In addition to helping to uncover inside theft and illegal drug activity, many distributors have told Brandman that an important benefit of undercover operations is to provide them with intelligence about the company's own operations.

“I've had more than one CEO tell me that they learn more from the confidential investigation reports they receive once a week than they do from their own managers,” he explains. “That's because it's completely unbiased. It gives them an ace up their sleeves.”



Above: These photos show a trucker who was overloaded with extra product (by dishonest warehouse personnel he was conspiring with) selling the goods to an accomplice.

Accomplices inside the warehouse informed the drivers about extra cases of product they loaded onto his truck the night before. The driver contacted his accomplice, who met him during his route deliveries with an empty van, which the driver helped to fill with stolen cases and then receive cash payments.

“We were able to expose this six-figure a year theft ring through the efforts of one of our undercover operatives, who was working inside the warehouse and became aware of the regular overloading of certain company drivers,” says Brandman. “Needless to say, the client was thrilled with the results.”

Brandman said undercover operations can provide comprehensive intelligence, including:

- Individual theft and collusion;
- On the job drug usage and distribution;
- Operational problems, such as poor productivity, lax supervision, factors hurting morale and non-adherence to company policies;
- Weaknesses in existing security safeguards;
- Corroboration for a theft insurance claim.

Temptation and Opportunity

“As cigarettes continue to go up in price and as taxes increase, there will be more and more internal theft because there is an extremely lucrative black market,” Brandman cautions. “More often than not, these are people who started out honest, but succumbed to opportunity and temptation.”

And the fast-paced operations within distribution centers contribute to the success of silent theft schemes. “You are moving product at a rapid pace on multiple shifts and you’re focusing on getting the product picked, packed, loaded and delivered to the customers,” he says.

Brandman points out that many inside thieves believe there is a low risk of getting caught and that they can make a lot of money. “Today, the Internet has become a high tech flea market for stolen merchandise,” he says. “The problem is that it’s difficult to discern whether the product has been stolen or not.” Moreover, the marketplace for such goods is the world, no longer flea markets within a 50-mile radius.

Undercover Strategies

Some Brandman strategies for distributors who use undercover operations:

- Keep the loop of who knows about the operation as small as possible. The more people who know, the greater likelihood of an inadvertent leak.
- Use the confidential information as intelligence, not proof. Don’t pull the trigger too fast, but patiently gather evidence and then take action. Handled properly, the arrested employees need never know they were caught by an undercover op.
- Undercover is not a short-term solution. It takes time for operatives to develop a rapport with employees. At least six months is needed. “The longer you run an undercover investigation, the better the intelligence you will gain.”
- The first problem an operative discovers may not be the complete story. There may be more. “Identify all of your issues so you don’t leave any of that cancer behind.” **CD**

Bob Gatty is CDA vice president of communications and editor of Convenience Distribution™.