Head Directly to Jail, Do Not Collect $2M

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It’s been awhile since I’ve had the time to sit down with friends and family to play an old-fashioned game of Monopoly. (With “real” paper money — none of the credit card devices that the game has now). Not a great fan of math or the concentration necessary to continually watch for rental properties and money-winning chance cards, I happily default to whoever volunteers to play banker. While I focus on staying out of jail, I assume they’re not pocketing any gold $500 bills or misappropriating mortgaged properties. In the news lately, I’ve begun to see just that. Theft in the manufacturing sector, where trusted employees are stealing from companies they’ve been with for a number of years. Quite a bit more damaging than a few lost plastic houses, fraud in manufacturing companies seems to be becoming more and more common.

In 2009, a man was convicted [1] of selling uncertified aircraft parts used in Boeing 737s. In 2010, top executives with the nation’s leading supplier of body armor for the U.S. military were charged [2] with insider trading, fraud, and tax evasion. In 2011, a chief financial officer for a door lock manufacturer was indicted [3] on charges of embezzling over $2 million from his employer. And in 2012, a few of the news stories that I’ve seen so far involve a payroll administrator embezzling [4] nearly $880K from the manufacturing company where she worked, a bookkeeper who was stealing [5] thousands from a family run plastics machining business, and a Glock executive facing [6] racketeering charges.

In a number of these cases, the lies and stealing had been going on for a number of years. And in at least one of these, the culprit was a trusted family friend — a not uncommon problem for small companies. Small companies often employ

acquaintances who they trust, and often employ fewer anti-fraud controls than their larger counterparts. According to the Association of Certified Fraud Examiners [7], small companies account for one-third of all business fraud. And experts say that it can take as much as twelve months or more to first detect fraud, leaving a huge chunk of time with which thieves can have their way with your company checkbook. While the banking and financial industries are often thought of the most victimized industries, the manufacturing sector also carries a high risk for fraud. Susceptible to noncash fraud such as asset misappropriation, the manufacturing industry is also vulnerable to intellectual property theft, including technology and trade secrets.

With fraud in the manufacturing sector continuing to rise, businesses need to look for ways to protect themselves. Steps to secure your business might include reviewing online banking and transactional accounts daily, dedicating a computer to just banking transactions (no email or web browsing on this computer), and using spyware detection and authenticated applications. And learning to work your way around a computer system can be beneficial — digital artifacts (digital data alterations in a digital process) can be used to track events such as if and when a particular file was opened, or whether an application was used to delete certain files. Automation and inventory management solutions have become common and effective controls for manufacturers, as well as surveillance equipment in plants and loading docks. Maintaining a tip line for employees to confidentially call in if they suspect a coworker of fraudulent activity can also be an effective tool in stopping theft early.

Despite safeguards, fraud is growing in the manufacturing sector. If you suspect fraud in your organization, immediately begin documenting all suspicious activity. Documentation identifying losses must be thorough, and may help to prevent a wrongful termination lawsuit down the road. The company’s insurance agent may also need to be notified, and the responsible party may need to be criminally charged for an insurance claim to succeed. Certified fraud investigators can be called in to help document, assess damage, assist in the criminal investigation, or just provide a preventative fraud risk assessment for the company. In today’s economy, maintaining a fraud risk prevention strategy may be the key to a company’s survival, as fraudulent activity can quickly reach into the tens of thousands of dollars.

The company, or player, with the best strategy does tend to win — and a fraud risk prevention strategy is no different. Maybe I should try out the electronic banking version — maybe I’d be able to more easily track my cash electronically as I buy properties, collect debts, and pay to get out of jail.

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