

Business Credit Fraud



Objective

- Discuss Fraud Warning Signs
- Fraud in Sales – Bust-Outs
- NSF Checks as a Fraud
- Financial Statement Irregularities
- Internal Theft
- Confession of a Bust-out King



Fraud Defined

Fraud: "An intentional perversion of the truth for the purpose of inducing another to rely on it to part with some valuable thing. A false representation of a matter of fact, whether by words or conduct, by false or misleading statements, or by concealment of that which should have been disclosed, which deceives and is intended to deceive another so that he shall act upon it to his legal injury".

Fraud Warning Signs

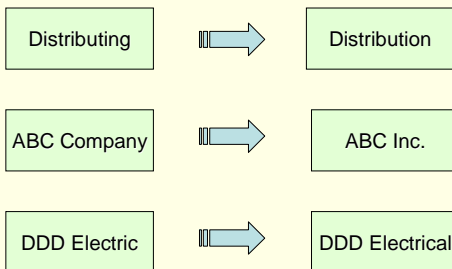


Bust-Out Scam

- NSF checks replaced with other NSF checks
- Accounts with sudden increased sales

- Ask for cash or guaranteed funds for any NSF check
- Use a check guaranty service
- Call the bank for verification of funds
- Hold future orders until check clears the bank
- Use EFT's
- Monitor credit limits, set limits appropriately and investigate sudden increased sales.

Same Name Scam



Note: Sometimes the name will be identical

Helpful Hints for Stopping Same Name Scam

- Investigate new customers carefully
- Verify who the phone number is listed to by doing a reverse look up on the internet
- Verify information on the credit report to the information on your credit application
- Call the business from a number published in the phone book on company web page. Ask if the applicant works for the business and if they are applying for credit with your company.

Warning Signs in Sales

If it sounds too good to be true, **It Probably Is!**

- ➔ Unsolicited Order
- ➔ Large increases in Orders
- ➔ Unusual Product Mixes



Unsolicited Orders

Sales Has To Work Hard For Orders



Has sales been pursuing this customer?

Watch For Large Increases In Short Time Period



Has another supplier cut them off? Are they Expanding?

Faxed, or Emailed Orders From Hearing Impaired Telephones



Ask for call back number and verify number. Do you get voice mail when you call back?

Asked to Ship via Common Carrier Outside Your Market



Is there another supplier closer? Why would they want to pay for shipping?

Trade Shows

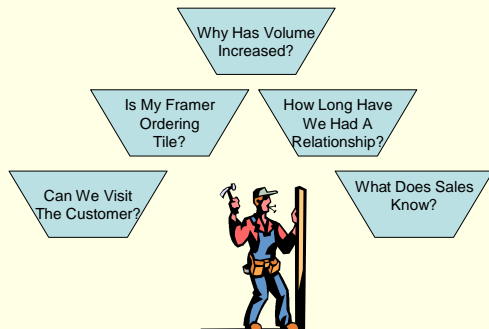
- Random Mix of Products
- No Relationship to Sales
- Products ordered in quantities that don't make sense for the size of the business or type of business

- If customer is trying too hard, back off from the sale.
- Offer to call the customer to verify the order after the show, then do your homework.
- Talk to other booths, have they had similar orders?

Credit Reference Requests



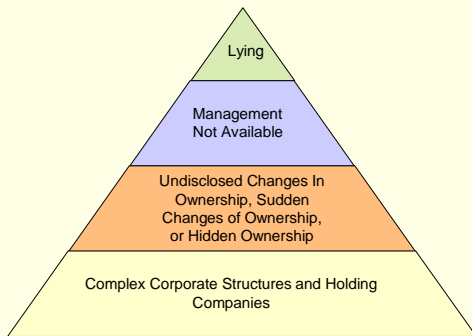
Increased Orders & Unusual Product Mixes



Questions to Ask

- If a retail store, what is the square footage?
- How many locations does the business have? Can they be verified?
- Has sales visited the location or headquarters?
- Does the customer know who his sales rep is?
- If they have increased sales to their customers will they tell you who the customers are?
- Is the background of the principles known?
- If you go on a customer visit is the business too neat and tidy? Are the phones ringing? Are employees busy?

Other Warning Signs



Classic Excuses by Fraudulent Debtors

- He is out collecting from our customers
- She is over seas on a buying trip
- He had a heart attack
- She is in a meeting
- I'm sorry he just left
- He is on vacation (for the 6th time in the last few months)



NSF & Counterfeit Checks

•500 Million checks forged annually

•\$10 Billion in lost revenues

Solutions

•Ask for ID on Cash Sales

•Use ACM to guaranty Checks

•Train People in your location to watch for warning signs a check could be forged



Signs of a Forged Check

- No perforation on the side or top of check
- Ink from an ink jet printer doesn't dry and will smudge if you wet it
- Names and address don't match
- P.O. Box or mail drop address
- Signature doesn't match name
- Inverted water marks
- Slightly raised rather than flat numbers
- Misspelled words
- Poor paper or printing quality
- Signer is unusually slow and particular about signature
- First 4 digits of routing number are wrong
- Bank insignia is incorrect
- Signer cannot produce ID
- Check that is already signed. Ask presenter to sign again. Can they match the signature?

Financial Statement Irregularities

- Overstated sales
- Unstated expenses
- Overstated assets
- Understated liabilities
- Balance sheet doesn't balance
- Net income is too high for industry standards
- Reporting accounts receivable that isn't collectable or isn't owed

The Account Skipped



Report Accounts that Skip to NACM's APG group.
This action could help stop future frauds.

Assets Removed

Does the owner have the right to remove assets from his business?



Employee Theft

- Listen to customer complaints that might signal missing payments or credits for returns
- Have good separation of duties when handling cash deposits
- Balance cash sales daily
- Do background checks on new potential employees
- Maintain security in your computer system
- Have periodic process audits
- Watch for employees who continually live beyond what their salary supports

Bust-Out King Reveals Secrets to a Successful Scam

- Capital, preferably \$100,000 or more
- A capable front man
- Good location from which to receive and ship merchandise
- Equipment
- Financial Statements
- A Corporation
