



The Council of Better Business Bureaus

HOW TO PROTECT YOUR BUSINESS

With this practical handbook, you can detect, prevent, and cope with frauds, schemes, scams, and external and internal crimes.

• FONY INVOICES • SHOPLIFTING • CHARITY PLEAS •
• EMBEZZLEMENT • PILFERAGE • CREDIT CARD FRAUD •
• "ADVANCE FEE" LOANS • CARGO THEFT • DIRECTORY
ADVERTISING FRAUD • OFFICE SUPPLY SCHEMES •
CON GAMES • BANKRUPTCY FRAUD • COUPON
FRAUD • BAD CHECKS • COMPUTER CRIME •
NON-REGISTERED SALES



The Council of Better Business Bureaus

HOW TO PROTECT YOUR BUSINESS

Published by



BENJAMIN

in association with
Prentice-Hall, Inc.

TO GET ADDITIONAL COPIES

Individual copies of this book are available from your local bookstore, local Better Business Bureau (addresses, Appendix B), or the Council of Better Business Bureaus, 1515 Wilson Boulevard, Arlington, VA 22209.

Special Discounts for Quantity Purchases

Special discounts for bulk quantities (100 and over) are offered to business firms, associations, government agencies, and other organizations that plan to use this book as a promotional, educational, or public relations tool. Back cover identification and message are available, subject to CBBB approval, on orders of 1,000 or more. Contact the publisher: The Benjamin Company, One Westchester Plaza, Elmsford, N.Y. 10523. Telephone: (914) 592-8088.

Research and Writing: Neil W. Sandler
Editor: Virginia Schomp
Project Manager: Sara Woodard
Editorial Assistant: Annemarie Erena
Designer: Pam Forde Graphics
Illustrator: Ric Del Rossi/Mulvey Associates
Typography: Donnelley/Rocappi

Library of Congress Catalog Card Number: 85-070001
ISBN: 0-87502-143-3 Trade paperback, Benjamin Company edition
0-87502-144-1 Hardcover, Benjamin Company edition
0-87502-145-X Mass market paperback, Benjamin Company edition
0-13-430539-6 Trade paperback, Prentice-Hall edition
0-13-430547-7 Hardcover, Prentice-Hall edition

© 1985 by the Council of Better Business Bureaus, Inc.,
and The Benjamin Company, Inc.

All rights reserved.
Printed and bound in the United States of America.

Produced and published by The Benjamin Company, Inc.
One Westchester Plaza
Elmsford, New York 10523

First Printing: April 1985

*This book is dedicated to helping
the American business community
to fight those crimes that needlessly raise
the costs of goods and services
to its customers.*

Contents

Preface	9
Acknowledgements	11
Introduction	12

One of the fastest growing, most lucrative industries in the U.S. during the next two decades will be crime against business. Illegal proceeds will exceed revenues earned in such high-tech fields as aero-space technology, computers, and bioengineering. While the rapidly escalating rate of crime against business has driven many companies out of business, an alert and educated businessperson is not defenseless.

The BBB Works With Business
You Are Not Defenseless
Figuratively Speaking
The Role of the BBB
How You Can Help

SECTION I

SCHEMES AGAINST BUSINESS

CHAPTER 1 **Office Supply Schemes and “Paper Pirates”** 20

This rapidly growing multimillion-dollar-a-year scheme involves the unethical, but often legal, sale of poor quality, off-brand office supplies to businesses that think they are getting a name brand product at a special discount price.

The Case of the Careless Copier
Unethical, But Legal
“WATS-line Hustlers”
Protect Your Business
If You Are Victimized

CHAPTER 2 **Phony Invoice Schemes** 28

Billing schemes typically prey on the inefficiency of business. Most cases involve the mailing of phony invoices to employees who are not careful enough in scrutinizing bills being processed for payment. Includes section on directory advertising fraud.

The Case of the Bogus Bill
Anatomy of a Scam
Solicitations in the Guise of Invoices
Directory Advertising Schemes
Protect Your Business
If You Are Victimized

CHAPTER 3 **The "Charity" Plea** 36

American businesses are contacted regularly for donations to charities, foundations, and other worthy causes. Unfortunately, each year millions of dollars targeted toward worthy purposes are diverted into the pockets of swindlers.

A Case of Misguided Generosity
\$3 Billion Annually
Protect Your Business
Tax Exempt vs. Tax Deductible
If You Are Victimized

CHAPTER 4 **Loan Broker Frauds and "Advance Fee" Schemes** 48

While most organizations that lend money to businesses are legitimate, a growing number of self-proclaimed "loan brokers" offer to lend money they cannot provide—then abscond with the so-called "advance fees."

The Case of the Vanishing Broker
Monetary Matchmakers
Sorry, Wrong Number
Variations on the Scheme
Protect Your Business
The SBA Alternative
If You Are Victimized

CHAPTER 5 **Bankruptcy Fraud** 56

Taking advantage of recent changes in the law that are aimed at helping those with failed businesses get back on their feet, con artists and some formerly honest businesspeople are making a living by intentionally running businesses into the ground for profit.

The Case of the Menacing Merchants
The Changing Face of Crime
A Variety of Schemes
Protect Your Business
If You Are Victimized

CHAPTER 6 **Business Opportunity and Investment Schemes** 62

"Once-in-a-lifetime" opportunities to invest in a business in which you are all but guaranteed to convert your investment of several thousand dollars into many times that amount are rare at best. In most cases, the only thing that really is guaranteed is a con artist willing and able to rid you of your investment capital.

A Case of Bitter Sweets
Business Opportunities Abound
Inside the Schemes
Act II: After the Sale
Pyramids: Pointless Pursuit
Protect Yourself
If You Are Victimized

SECTION II

EXTERNAL CRIME

CHAPTER 7 **Product Counterfeiting** 80

Clothing designers aren't the only ones who earn a living by selling their name brand fashions. Unscrupulous manufacturers of clothing and other goods produce cheap

imitations, then sell the low-quality merchandise to unwitting consumers as the "real thing." Both the original manufacturers and consumers lose out.

The Case of the Buyer's Blues

An "Epidemic" of Frauds

From High Fashion to High Tech

Cracking Down

Protect Your Business

If You Are Victimized

CHAPTER 8 Crimes Practiced on Cashiers 88

Quick-change artists, who confuse cashiers and walk away with more change than they originally paid, have been succeeded by more sophisticated schemers. The quick-change scheme is now joined by price tag and container switches and refund frauds, among others. Includes special section on counterfeit currency.

The Case of the Sticky Tickets

Cashier Rip-offs: A Retailer's Nightmare

Protect Your Business

Counterfeiting

If You Are Victimized

CHAPTER 9 Shoplifting 100

Professional and nonprofessional shoplifters have been known to steal just about any item for sale in a store. Keeping employees and managers alert for these culprits represents the first line of defense.

A Case of Sticky Fingers

Perpetrator Profiles

The Mechanics of Prevention

Protect Your Business

If You Are Victimized

CHAPTER 10 Credit Card Fraud 108

As the dramatic increase in the use of credit cards almost replaces the use of cash for many Americans, great new horizons are drawn for criminals who find new ways to tap into this vast interchange of money. While stolen cards remain the primary avenue of crime, other schemes are catching up.

The Case of the Artful Chargers

The Credit Card Revolution

A Cache of Thieves

Protect Your Business

If You Are Victimized

CHAPTER 11 Check Fraud 116

"Bounced" checks written against insufficient funds remain the most common problem, but businesses also must be alert to a variety of check fraud schemes.

The Case of the Friendly Forger

Quiet but Costly

Case Histories in Brief

Protect Your Business

If You Are Victimized

CHAPTER 12 **Coupon Fraud** 126

Coupons offering “cents off” on everyday consumer necessities and appearing in magazines, newspapers, and the mail represent a \$2.5-billion-a-year business that is increasingly the target of coupon fraud schemes.

The Case of the Free Lunch
A \$2.5 Billion Business
How Couponing Works
Protect Your Business
If You Are Victimized

CHAPTER 13 **Cargo Theft** 134

Unauthorized shipments, stealing from the staging area, overshipments, night thefts from trucks, and tailgate thefts in broad daylight are just a few of the ways honest businesses suffer heavy losses at the hands of dishonest employees or other businesses.

The Case of the Wheeler-Dealers
Multidollar “Roll”
Protect Your Business
If You Are Victimized

SECTION III

INTERNAL CRIME

CHAPTER 14 **Pilferage and Embezzlement** 144

Company books altered so that stolen funds or goods cannot be tracked easily; employees who pocket customers’ cash; items eaten directly from the shelves of a grocery store—all fall into this diverse and highly damaging category. But there are prevention strategies.

The Case of the Cooked Books
Crimes of Confidence
Floating a Kite
Protect Your Business
If You Are Victimized

CHAPTER 15 **Bribery, Kickbacks, and Payoffs** 154

Unethical and illegal payments of money, goods, and services occur at all levels of business and government. The problem is so pervasive that it is estimated that the cost of many goods is increased by 15 to 30 percent.

The Case of the Collusive Consultant
Behind the Schemes
Enlightening Inquiries
Protect Your Business
If You Are Victimized

CHAPTER 16 **Insurance Fraud** 160

While the majority of insurance fraud cases harm insurance companies, an increasing number are carried out against businesses that insure with nonexistent or “paper” insurance companies.

The Case of the Crooked Claimant
The Faces of Fraud
Protect Your Business
Insurance Companies Fight Back
If You Are Victimized

CHAPTER 17 **Computer Crime** 168

The fastest of the fast-growing crimes against business, computer crimes provide sophisticated criminals and teenage "hackers" with a "window into the system" through which they can manipulate information or steal funds. Considering that this is the beginning of the Information Age, thefts of information could be far and away the most costly.

The Case of the Systematic Stick-up

Opening Pandora's Box

The Habits of the "Hacker"

Protect Your Business

If You Are Victimized

APPENDIX A 178

A list of government agencies and associations that businesses can contact for advice and assistance. Includes addresses, phone numbers, and areas of activity.

APPENDIX B 182

The 165 local Better Business Bureaus, including addresses and phone numbers.

INDEX 188

Preface

In recent years, crimes against business have become a growing force in this country, costing billions of dollars annually. These costs to business are inevitably passed on through the system to the consumer.

For more than 70 years, the Better Business Bureau system has been in the forefront of the battle to promote fair competition and protect consumers from dishonesty in the marketplace. With the support of ethical business, it has successfully promoted the concept that business self-regulation not only will alleviate the need for government intervention, but also will yield better returns than practices that deceive or defraud the public.

In keeping with its basic mission to protect the consumer and maintain an orderly marketplace, the Council of Better Business Bureaus and its affiliated Bureaus have joined together to produce this book. Its primary purpose is to help concerned businesses to combat the more common schemes that prey upon the unwary employee, manager, or owner.

In making the information contained herein available to the thousands of businesses that support the Bureau system, the Council hopes that it has contributed toward maintaining an orderly marketplace—to the benefit of buyer and seller alike.

William H. Tankersley
President
Council of Better Business Bureaus

Acknowledgments

Many individuals representing public and private agencies, organizations, and corporations contributed time and effort to this project. We gratefully acknowledge their assistance—the information they provided, their comments, criticisms, and suggestions. Their names are too numerous to mention, but special thanks must go to our friends at:

A. C. Nielsen Company
American Bankers Association
American Express Company
American Insurance Association
Audit Bureau of Circulations
Bank of America
Commodity Futures Trading Commission
Direct Marketing Association
District of Columbia Police Department
Federal Bureau of Investigation
Federal Trade Commission
Fraud and Theft Information Bureau
International Anticounterfeiting
Coalition
Kentucky Department of Justice,
Office of Crime Prevention
MasterCard
National Computer Association
National Freight Claim Council of
the American Trucking Associations
National Retail Merchants Association
U.S. Attorney General's Office
U.S. Chamber of Commerce
U.S. Commissioner of Patents and
Trademarks
U.S. Department of Commerce
U.S. Department of Justice
U.S. Postal Service
U.S. Secret Service
U.S. Small Business Administration
VISA International
and
Retail Consultants: Richard Bigness
Jon Groetzinger

Introduction

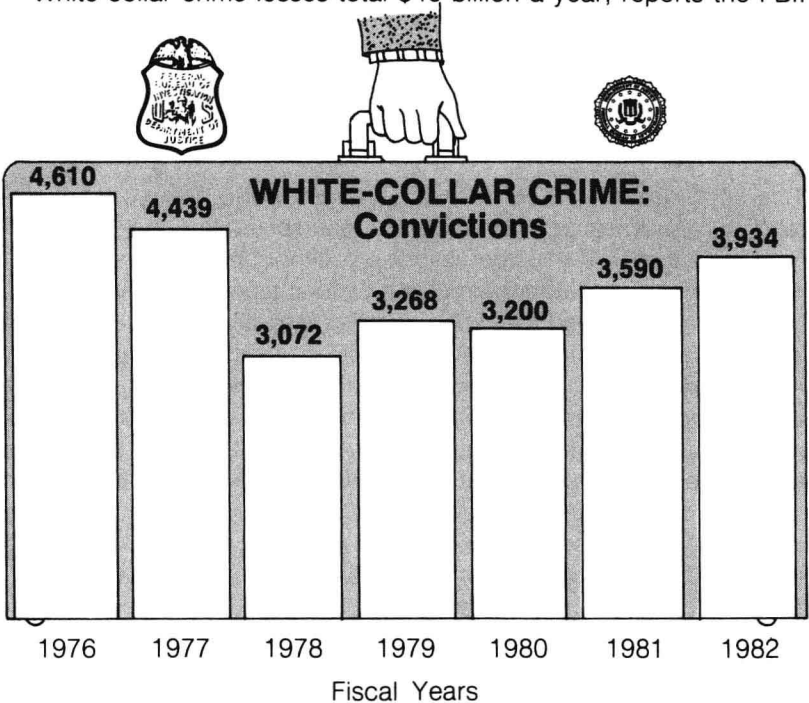
One of the fastest growing, most lucrative industries in America today is crime against business.

Through the 1980s and 1990s, the dollar value of cash, merchandise, and information obtained through employee theft, computer fraud, office supply schemes, bribes, kickbacks, credit card fraud, and related crimes will far outpace that earned in such highly touted, high-tech industries as aerospace, computers, and bioengineering. Surprisingly, knowledgeable crime watchers predict that for the most part this accelerating crime wave will comprise not such familiar, well-publicized crimes as robbery and shoplifting, but rather "white-collar" crimes and a whole new class of schemes and frauds perpetrated both within and outside targeted businesses.

Consider the following facts:

- In the early 1980s, an average of 20,000 credit card crimes are committed *every day*, according to the Committee of Banking, Finance and Urban Affairs of the U.S. Congress.
- Foreign product counterfeiting was responsible for the loss of over 130,000 U.S. jobs in 1982, reports the International Trade Commission.
- One-fifth of the investigative staff of the Federal Bureau of Investigation (FBI) in 1982 was targeted exclusively at detecting fraud and white-collar crime. The result: nearly 4,000 convictions and an estimated \$2.6 billion in crime prevented.
- The combined losses due to shoplifting and internal pilferage by employees add up to 15 percent of retail prices, estimates the U.S. Department of Commerce.

- The National Office Products Association cites annual losses of \$50 million to businesses due to office supply schemes, but notes the actual figure may be even higher.
- In the bank credit card industry alone, losses due to the fraudulent use of credit cards rose from about \$11 million in 1972 to over \$125 million a decade later—over a 1,000 percent increase.
- Computer crimes perpetrated in a scant 0.0003 second (3 milli-seconds) have netted these specialized criminals millions of dollars.
- Insurance fraud results in annual losses of \$4 billion, a figure reported to be spiraling upward.
- White-collar crime losses total \$40 billion a year, reports the FBI.



Prepared by U.S. Department of Justice, Federal Bureau of Investigation

The BBB Works with Business

During more than 70 years of operation, the Council of Better Business Bureaus and its network of local BBBs have documented thousands of cases in which businesses have suffered at the hands of con artists and schemers. The victims include a wide variety of businesses, from neighborhood "mom and pop" stores to multi-national conglomerates.

You Are Not Defenseless

The stereotypical armed bandit is becoming of almost secondary concern as, increasingly, culprits turn out to be trusted employees, family members, or friends. This phenomenon demands a whole new manner of vigilance.

A little knowledge is a very useful thing when it comes to recognizing and foiling a fraud, scheme, or theft. While there are no fool-proof solutions to the serious crime problems discussed in this book, you can keep losses to a minimum by knowing and applying these four basic principles.

- Be aware of your crime losses.
- Apply risk management techniques to prevent crimes before they occur.
- Train employees at all levels in crime prevention.
- Report all illegal activities to the appropriate law enforcement authorities.

This book describes how various schemes work, how you can defend your business against con artists and schemers, and what legal recourses to use if you are victimized. Although there are areas in which the nature of operation of the various types of schemes overlaps, we have divided the white-collar crimes commonly committed against business into three categories. Section I deals with "Schemes Against Business," including office supply schemes, phony invoice schemes, charity schemes, loan broker fraud, bankruptcy fraud, and business opportunity schemes. Section II, "External Crime," covers product counterfeiting, crimes practiced on cashiers, shoplifting, credit card fraud, check fraud, coupon fraud, and cargo theft. Section III addresses some of the fastest growing and most damaging types of business crimes—"Internal Crime." This section covers embezzlement and pilferage; bribery, kickbacks, and payoffs; insurance fraud; and computer crimes.

A book could be written on each of the topics covered. But we feel that it is most important for every businessperson to acquire a basic understanding of the most prevalent forms of the crimes that threaten their businesses. That knowledge is the first important step in learning how to stop, or at least reduce the risk of, crime against business.

Figuratively Speaking

In an effort to indicate the extent of losses sustained by the business community due to crimes directed against it, we have contacted nu-

merous government agencies, business organizations and associations, law enforcement officials, and private monitoring groups. Nearly all of these groups caution that it is virtually impossible to compile totally accurate statistics in this area, the main barrier being the frequent non-reportage of crimes against business. The National Institute of Justice points out that some businesspeople who become aware that they are victims of such crimes as internal theft and fraud resolve these problems internally, never making their losses public; others write them off as an inevitable cost of doing business. Embarrassment also may discourage the reporting of crimes to public agencies or business groups. And, of course, there are the crimes that are never detected, often because businesspeople have not been trained to recognize the tell-tale signs. For whatever reason, many crimes against business never become part of official estimates, making many statistics little more than educated guesses. The figures we cite constitute the “best guesses” of a host of individuals and organizations, but the reader should be aware that even among the experts, figures often vary widely.

The Role of the BBB

Our goal is to help you avoid becoming a victim of the kinds of crime covered in this book. A special section in each chapter details your legal recourses and the appropriate agencies to contact if you *are* victimized, and Appendix A provides addresses and phone numbers for the agencies cited.

We urge you also to contact your local Better Business Bureau. Appendix B provides addresses and phone numbers for the 165 local BBBs in the U.S.

Local Bureaus assist businesses and consumers through:

- ☐ Pertinent information. Each local Bureau keeps files on large numbers of firms and organizations in its service area. BBBs provide such basic information as how long a firm has been in business, whether or not customers or other businesses have filed complaints, and the nature of complaints and the manner in which the firm resolved them. BBBs can also provide factual information on local and national charitable organizations: We provide the facts; you draw your own conclusions.
- ☐ Complaint handling. Acting as impartial third parties, BBBs actively work for mutually acceptable solutions to disputes between businesses, and between consumers and businesses.
- ☐ Checks on advertising claims. BBBs regularly monitor advertisements and investigate misleading or inaccurate claims. In addition, the Bureaus handle complaints from businesses concerning competitors' advertising.

INTRODUCTION

- ☐ Standards development. Working with industry and business groups, the BBB develops voluntary advertising codes and standards.

How You Can Help

We hope that readers will bring to our attention schemes against business that are not covered in this book, as well as unusual variations of the crimes outlined in these pages. Only by working with you can we continue to assist you and your business colleagues in combatting our common enemy, crime against business. Please direct your comments to:

Public Information Department
Council of Better Business Bureaus
1515 Wilson Boulevard
Arlington, VA 22209