Seven Signs that Fraud May be a Problem in Transportation Operations

While Less Common Today, Lack of Controls and Technology Can Still Create Opportunities for Collusion and Fraud

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It's a subject most logistics managers would prefer not to have to worry about, but according to two industry consultants, fraud in transportation contracting and invoicing is still all too common.

Mark Sullivan, Head of Loss Prevention at consulting firm Kroll, and **Timothy Van Mieghem,** a founding partner at The ProAction Group, say one company they recently worked with was initially dismissive of a tip that a transportation manager was receiving kickbacks from a carrier because the company's logistics expenses had been declining. The problem: they have been highly over-inflated to begin with.

Writing in a recent issue of Kroll's ***Global Fraud Report***, Sullivan and Van Mieghem say that "Overpayment for services, one of the biggest red flags of all, tells you that the money is there. If it is available, there's a good chance that some people are scheming to get their hands on it."

They offer seven warning signs that proper logistics controls are not in place, which opens the door to the possibility of fraud and/or collusion between employees and service providers.

- **Undocumented selection of vendors or service providers**: When a single individual selects service providers, then related, controllable, or illicit players can be chosen. Better to have a cross functional team using multiple competitive bids that all can see.
- **Rates paid are not in line with the company's standing in the market:** There are limited opportunities for kick-backs when carriers are paying market rates – there isn't enough profit left to cover the graft. But even small overcharges per each transaction can lead to large "slush funds" that can be kicked back to buyers.
- **Payments made outside of the normal accounts payable system:** Of course, all payments to logistics vendors should first be matched to a purchase order and proof of delivery. "Progressive companies will calculate freight movement costs, create a purchase order for the planned move, compare invoices and insure that the delivery took place," Sullivan and Van Mieghem say.
- **Managers with unexplained lifestyle improvements or an extreme debt load:** Maybe the cause is a sudden windfall somewhere else, but obvious lifestyle changes are a potential warning sign. Also be on the look out for trips taken with logistics company personnel.
- **Unusual payment patterns:** When controls around payment matching and approvals are weak, service providers will learn that a company does not notice when they over bill, double bill, ghost bill, or bill for the wrong service. Look especially for a large number of transactions that fall below an audit threshold level.

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- **Business going to related parties:** Sullivan and Van Mieghem cite a case where on the surface it appeared that a company was paying market rates for transportation moves, but primary transportation buyer had partial ownership in the trucking firm that grew to be the company's largest carrier. The risk for this increases when a single individual can select the carriers and match and approve the invoices.
- **Complaints or tips:** Even with weak controls, things get noticed. In addition to overt complaints and tips, look for more subtle signs, such as a transportation manager obviously trying to exclude colleagues from elements of the process or looking at the data.

While changing rapidly over the past few years, in many companies the transportation department still operates with relatively little technology and somewhat outside the process scrutiny that most other functions receive. While logistics fraud by employees or carriers may not be common, the best practice is to eliminate the opportunity by implementing controls and transportation technology that shuts the window of opportunity.