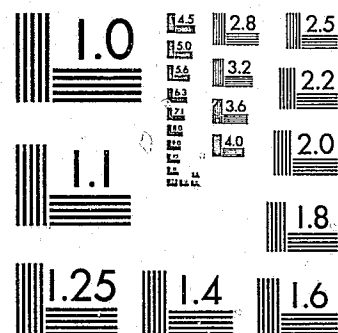


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12/30/83

INTERNAL SECURITY GUIDELINES

FOR WHOLESALERS AND DISTRIBUTORS

CONFIDENTIAL

- Pilferage: A Costly Problem •
- Management Options • Hiring Controls •
- Departmental Controls •
- Billing Procedures •
- ASIA Member Survey •

91143



AUTOMOTIVE SERVICE INDUSTRY ASSOCIATION
444 North Michigan Avenue • Chicago, Illinois 60611 • Phone: (312) 836-1300

INTRODUCTION

The automotive aftermarket business, like most other businesses, is constantly changing. Engineering changes have required stocking of hundreds of parts we never had before. Purchasing practices have changed considerably in recent years. Our sales programs include a wider market than before. And the computer has changed our office procedures.

One thing hasn't changed, however. Internal pilferage is still with us. Internal pilferage refers to an employee's theft from his employer. What has changed are some of the methods used. To better arm you to cope with changing conditions, ASIA appointed a committee to update its existing Internal Security Guidebook, and "Internal Security Guidelines" is the result of the committee's efforts.

Many theories attempt to explain why internal pilferage is rampant. Some point to lowering of moral standards, or our permissive society. Others accuse a judicial system that "Arrests 'em Monday. Tries 'em Tuesday. Turns 'em loose Wednesday."

This publication emphasizes how to cope with the problem today rather than analyzing its roots. Fraud, embezzlement, customer pilferage and burglary are mentioned, but they are separate major topics, and should be so handled.

These are not the "good old days." And to reduce pilferage you may have to change your attitudes towards employees and running your business. In order to analyze pilferage trends in the industry, we contacted several thousand ASIA members. Those questioned represented Wholesalers, Warehouse Distributors, Heavy Duty Distributors, Auto Trim Wholesalers, AEA Members, and Paint & Body Wholesalers. Thus the survey fairly represents our entire industry.

Over 90 percent of the book is new, including the results of more than 1,000 returned questionnaires from our member survey. Also, sample business forms appear in several sections of the text. Use them as guides to implement the manual's recommendations. Finally, the questionnaire enclosed with this book is for collecting your opinions of this publication. Please help us by completing the questionnaire and returning it to us.

The dictionary defines pilferage as the "unauthorized removal of property from the premises." Although this definition includes property taken by customers, this publication deals primarily with employee theft, because this represents the greatest potential loss. Your customers cannot pilfer in six months what a dishonest employee can remove in a day.

What is the pilferage loss in your establishment? It is undoubtedly much greater than you believe—and there are many substantiating figures to prove this.

We urge you to use these "Internal Pilferage Guidelines" to eliminate unnecessary losses and improve your overall profit structure.

CREDITS

Naturally, the first credit should go to the 1,000 ASIA members who took the time to fill in our questionnaire. This effort provided us with the largest statistical base ever assembled on our industry's internal pilferage problem.

The respondents gave freely of their experiences, regardless of how costly and painful they may have been. Although, most respondents gave us permission to use their names, we decided against identifying any firm or individuals.

We also owe thanks to:

EARL DOLIVE OF GENUINE PARTS COMPANY, Atlanta, GA, who let us extract information from his company's management publications on this topic.

THADDEUS DZIERGAS OF SYRACUSE DIESEL AND ELECTRIC, INC., Syracuse, NY, who contributed data of importance both to AEA distributors and the membership as a whole.

RICHARD REINERTSEN OF REID PSYCHOLOGICAL SYSTEMS, Two Illinois Center, 233 N. Michigan Ave., Chicago, IL 60601, for his contributions in the areas of polygraph and pre-employment testing.

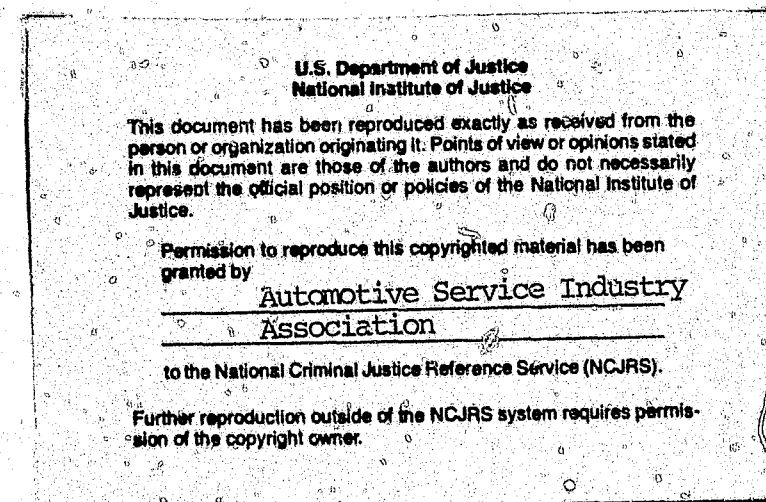
PHELPS TIME RECORDING LOCK CORP., 53 Park Place, New York, NY 10007, for their input on time locks material.

And, of course, special congratulations are due to **ARTHUR WOLFF**, Chairman of ASIA's Marketing Committee and Executive Vice President, National Auto Supply Co., Hazelwood, MO, who chaired the Internal Security Guidebook Committee. He spent countless hours supervising the gathering of material, writing copy and organizing the text into its finished form.

INTERNAL SECURITY GUIDELINES

FOR WHOLESALERS AND DISTRIBUTORS

Developing and Implementing An Effective Anti-Pilferage Program



AUTOMOTIVE SERVICE INDUSTRY ASSOCIATION

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Chapter 1

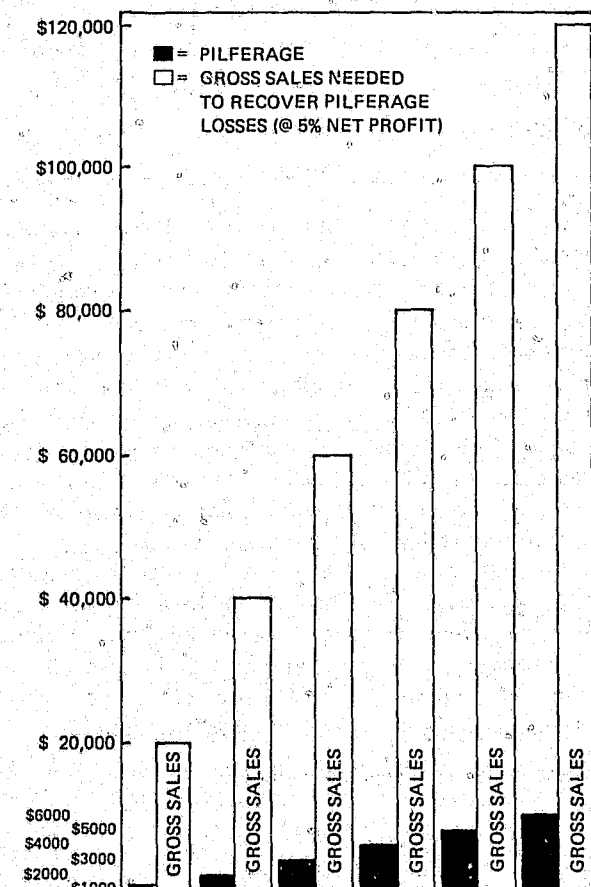
PILFERAGE: A COSTLY PROBLEM

Internal pilferage may seem an insignificant aspect of your business. But let us put the impact of internal pilferage in economic perspective. The business dollar represents two levels of value: "Volume dollars" are an annual sales total or the size of a particular transaction. "Profit dollars" are "volume dollars" minus all costs and expenses.

When someone steals \$100 worth of tools at your cost, he has taken profit dollars. When you lose a sale or have an order cancelled, you have lost volume dollars.

Profit dollars have many times the value of volume dollars. Everything pilfered is replaced with the money made from profit. Therefore, you should be on the watch for even slight shortages, since the net loss is many times greater than the equivalent volume drop.

What is the cost of pilferage to you? The formula is simple. At 5 percent net profit, for every \$1000 stolen, you have to do \$20,000 more business to recoup the loss.



Management should be wary of forming preconceived ideas. Many managers assume they know who is honest and who is not. Beware! Our survey shows that 23 percent of the

employees caught have over 5 years of service. This includes many people with 20 years of service. Surprised? Keep in mind, a longtime employee knows all the checks and feels he can beat the system.

Our survey also asked managers, "If you caught an employee stealing, would you give him another chance?" Forty-five percent said they would. Statistics, however, reveal that 91 percent will steal again.

In addition, research by the National Mass Retail Institute indicates that:

- Employees take about twice as much as customers.
- Prosecution takes place about one-third of the time.
- When prosecution does take place, the conviction rate is high.

EXPLANATION OF TERMS

(These are explained in greater detail in each section)

PILFERAGE: Unless otherwise noted, refers to internal pilferage only.

ACCOMPLICE: Any individual with whom your employee cooperates, including another employee, a customer, a supplier, a freight driver, etc.

MANAGER: A department head, head counterman, store manager, company executive, or any other person in a responsible position.

DEPARTMENT: One of the various divisions of your business such as shipping, receiving, shop, counter, or office.

TICKET: A written record indicating the movement of merchandise. Examples include Invoice, Debit, Credit, Shop Ticket, Paid-Out.

ABSORBING: Removing an article for personal use without being charged for it.

WHOLESALE: Taking large amounts of material as opposed to "one socket set".

SPOTTER: Someone hired by the company to spot pilferage.

WHOLESALE: Anyone who stocks and sells parts, components, and equipment.

TIDE: Try Introducing Deliberate Errors to check the honesty of employees in various departments.

Chapter 2

MANAGEMENT OPTIONS

Whenever a battle is lost history blames the general—not the private. The same is true if the battle is won—the general gets the credit. This is true, also, in combatting pilferage. If it is going on in your establishment, it is your fault, especially if you have spent little time doing something about it. In exercising your managerial responsibility to prevent pilferage, countless methods are available. But the management options that have, over time, produced the most satisfactory results involve a logical sequence of management actions:

- **CONVINCE YOURSELF THIS IS HAPPENING IN YOUR ESTABLISHMENT.** As illustrated in the previous section, pilferage can be very costly to the wholesaler/distributor. And do not make the mistake of concentrating all your attention at the cash register. Management all too often feels that watching the cash register is 90 percent of the solution. In actuality cash register losses are the least costly of all shortages, since they are most easily checked. Nevertheless, most safeguards are built around checking and double-checking the register, while the rest of the operation receives only casual attention.

Merchandise is the wholesaler/distributor's primary investment. It is worth a far greater amount than fixtures, equipment, cash on hand, shelving, etc. Your financial statement will show that the greatest concentration of dollars is for inventory. This is the area to watch.

It is better to pay for every cotter key that you use, so that you can truthfully tell any employee that every man in the company, including the Boss, must pay for everything he gets, no exceptions at any time.

- **SET AND PUBLICIZE CLEAR "ANTI-PILFERAGE" POLICIES APPLICABLE TO ALL EMPLOYEES, INCLUDING YOURSELF.** And set the example in adhering to these policies. If you take anything even as small as a roll of tape and walk out without billing it, you have given root to a trend. Any employee who sees you do it has been given an idea. It is better to pay for every cotter key that you use, so that you can truthfully tell any employee that every man in the company, including the Boss, must pay for everything he gets, no exceptions at any time.

This is a much better approach than to take anything you need and walk out with it. There is bound to be some envy

by employees who are not authorized to do the same thing. They are tempted to do it themselves, and you, the Boss, have caused this temptation.

Do not underestimate envy. Consider the following situation:

Your wife comes in and asks the counterman for a can of polish, a roll of polishing cloth, a flashlight and six 100-watt bulbs. And your son, who is building something, needs a box of ¼ x 2 stove bolts. She takes all this material and walks out without a ticket. Under these circumstances, what counterman would not envy her privileged position and resent his inability to do the same thing?

There should be no doubts as to your policies on handling of merchandise, and no firm is so small that it cannot have written policies on at least a few of the items.

There should be no doubt as to your policies on handling of merchandise, and no firm is so small that it cannot have written policies on at least a few of the items. Prepare typewritten sheets and give them to every employee. It might be wise to bring your policy to their attention at one of your company meetings. When pilferage is discussed, it must not be approached in such a fashion that your people feel it is an accusation. Indicate that this new system is being installed because it will facilitate handling, or it has been used effectively by other firms, or ASIA has recommended this new, improved policy. All of these are of course, true.

Do not apologize to your people for using this new system, but also do not present it on the basis that you know there is something wrong and you are going to correct it. A "First Sergeant" type of approach to this topic will not be the best. You will be much better off if you can get their compliance by co-operation rather than by fear.

These written policies can include:

- Employee Purchases
- Checking in of Merchandise
- IOUs
- Everything Must be Billed
- Pilferage Is a Crime

They are discussed in detail in later sections.

- **ESTABLISH HIRING AND DEPARTMENTAL CONTROLS.** Avoiding a problem before it begins is always a good idea, and you can do this by setting up practical hiring controls that allow you to thoroughly screen and evaluate prospective employees before they start on the job. Hiring controls are discussed in detail in Section III. Departmental controls are covered in Section IV.

- **ESTABLISH CASH REGISTER CONTROLS AND FIRM BILLING PROCEDURES.** These are discussed in Sections V and VI, respectively.

If your equipment were not identified and you discovered any of these items in an employee's basement, or in a police recovery operation, how could you prove in court that the equipment was your property?

- **IDENTIFY YOUR PROPERTY.** In addition to parts inventory, your company owns a lot of personal property. Use an electric engraving tool to permanently mark your company's name on typewriters, adding machines, CRT's, staplers, copying machines and other stealable office material. Also engrave your company name on drills, impact wrenches, special tools, valve refacers, grinders, jacks, etc. Even include hand tools if you want to go that far. If you look around your premises you may find other items such as ladders, counter adding machines, coffee maker, etc.

Although the primary purpose is to avoid having employees take these items, it is also a deterrent to customers and burglars. If your equipment were not marked and you discovered any of these items in an employee's basement, or in a police recovery operation, how could you prove in court that the equipment was your property?

- **TRY INTRODUCING DELIBERATE ERRORS (TIDE).** Here we introduce a "new" term called TIDE. As you go through the year you may want to check on an individual or department for pilferage. The best way is to introduce deliberate errors. In the case of a:

Driver: Put extra material on his truck to see if he returns it.

Receiving Clerk: Have extra material put in a shipment to see if it is reported as "over".

Bookkeeper: When someone gives you "Paid-On-Account" money, or any money, add an extra few bucks before handing it to the bookkeeper.

All Employees: Credit their account with too much to see if they tell you about it.

Branch Stores: Over-ship, to see if branches report they got too much merchandise.

Cash Register: Put in extra money, to see if the person checking the register lets you know.

TIDE can be used in almost every department. It will be further referred to throughout this guidebook. An important thing to mention here is that unless you have a large organization, take no one else into your confidence when using TIDE. The best way to keep a secret is to tell no one. Introduce all the deliberate errors yourself. If you can't do it successfully on the day you planned, then wait for a better day.

It would be bad practice to establish a system so tight that you require opening of lunch boxes, or other actions which would alienate the good will of your personnel.

- **DO NOT OVERCOMPENSATE.** It is important that you not overcompensate. It would be bad practice to establish a system so tight that you require opening of lunch boxes, or other actions which would alienate the good will of your personnel. Pilferage is an important item in your business, and should be watched for and safeguarded against, but be sure you keep it in proper perspective.

Remember, there is no 100 percent cure for pilferage. Obviously, we can never expect to completely eliminate this problem. We can only hope to use whatever the safeguards available to us to keep the problem to a non-injurious level. It is possible that many of your precautions will somehow be circumvented. If this happens, do not drop your guard on all the others. There is still a difference between a drip and a flood—do not become discouraged because all your plans have failed to work. There will always be what some wholesalers call "acceptable pilferage", such as disappearing pencils, scratch pads, envelopes, etc. How much of this you permit is, of course, up to you.

Chapter 3

PRE-EMPLOYMENT SCREENING

Everyone has done something only to regret it later. With a little precaution you can avoid the regret of having hired a pilferer. A few pre-employment screening tactics may prevent the hiring of someone you cannot trust. Here are a few suggestions.

THE APPLICATION FORM

Use an application form that asks for more than name, address, phone and previous employer(s). The application form should include questions on honesty and integrity, such as:

- Have you ever had an absenteeism problem?
- Have you ever used drugs?
- Will you take a Polygraph test?
- Why do you want to work for us?
- Why did you leave your previous employer(s)?
- Were you ever bonded or have you ever been rejected for bonding?

In addition, keep these points in mind when selecting or using an application form:

- Include a statement that the new employee is on a 60 day probationary period when first hired. This allows you time to make a complete reference check
- Employee signs the application underneath the probationary statement. It may save you a lawsuit later
- Look over the completed application for handwriting, spelling, attention to detail and thoroughness
- Applications should provide space for interviewer's comments.

Always check references. Use the phone if at all possible—you have the advantage of listening to voice inflections. Always ask if the reference's company would re-hire the applicant.

REFERENCES

Always check references. Use the phone if at all possible—you have the advantage of listening to voice inflections. Always ask if the reference's company would re-hire the applicant. Use a letter only when previous employers refuse to discuss the candidate by phone.

POLYGRAPH (LIE DETECTOR)

The polygraph is an instrument that records physical responses. Changes in the subject's respiration, blood pressure, pulse and galvanic skin response indicate the likelihood of a lie to a trained polygraph operator. The polygraph examination has three phases.

THE PRE-TEST INTERVIEW

During this phase, lasting between 15 and 45 minutes, the examiner explains the test's purpose and the nature of the instrument. The examiner develops and reviews all test questions with the subject.

Three types of test questions—irrelevant, relevant, and control—comprise a polygraph examination. Typical "irrelevant questions" are, "Do you live in Illinois?" and "Did you ever go to school?" These "irrelevant questions" establish the subject's normal response pattern.

In addition, four or five "relevant questions" are asked. The "relevant questions" relate to the matter under investigation. For example, "Did you steal the missing \$5000 from Smith Auto Supply?" Included also are "control questions" Although not directly related to the specific incident under investigation, these relate generally to the underlying issue. For instance, in a theft case the control question might be, "Did you ever steal anything in your life?" or "Besides what you told me, have you ever stolen anything else in your life?"

At the conclusion of the pre-test interview, the examiner reads each test question to the subject. Surprise or trick questions have no place in a properly conducted polygraph examination.

THE TEST

The examiner reads each test question to the subject, and the polygraph records the subject's physical responses as answers are given. This process is typically repeated two, three or four times, and rest periods provided between each test.

THE DIAGNOSIS

The examiner interprets the subject's physical responses, usually reaching one of three conclusions:

- The subject truthfully answered relevant questions
- The subject did not truthfully answer the relevant questions
- The test results are inconclusive.

"Inconclusive" means that, in the examiner's opinion, information from the physical recordings is inadequate for diagnosing truth or deception.

ADDITIONAL COMMENTS ON POLYGRAPH TESTING

Although the instrument and technique used in any polygraph examination are important, the critical factor is the examiner. An examiner must be an intelligent person with a good education. Dealing with people in sensitive situations, he must also get along well with others and be sincere. He must view each examination objectively, and not permit his personal views, prejudices or biases to distort his performance. Also, the examiner should have served a reasonable internship under another examiner.

As a result of the sophisticated equipment and testing techniques, most knowledgeable people in this field feel the polygraph is easily over 90 percent accurate.

It is common for a polygraph subject to be nervous and apprehensive about an upcoming examination. This feeling is understandable. Nervousness, however, will not cause a truthful subject to fail the polygraph examination. Physical changes induced by nervousness are separated by the examiner from those caused by lying. And during the pre-test interview, the examiner allays the apprehensions of truthful but nervous subjects. As a result of the sophisticated equipment and testing techniques, most knowledgeable people in this field feel the polygraph is easily over 90 percent accurate.

As an employer you would be using the polygraph most often as a pre-employment screening technique. Here is an example of how the polygraph worked for one firm.

A young man recently out of the military service applied for a job with an armored car, check-cashing agency. The company's armored trucks call at large companies to cash payroll checks at a relatively small service charge. Since he had entered military service immediately after high school, this was to be the applicant's first job. He had received an honorable discharge and his references were all favorable.

During a pre-employment lie-detector test, the subject gave deceptive answers when asked if he had ever stolen money. He later admitted that during the brief period since his military discharge he had committed four burglaries. He

obviously was not a good risk for a position with a check-cashing agency! Moreover, for his own good he should not have been subjected to the temptation that this position presented.

Laws regarding admissibility of polygraph evidence in legal cases vary from state to state. However, as polygraph testing becomes more proficient, courts are increasingly accepting their results. Currently 23 states require the licensing of polygraph examiners. Additionally, 15 states limit its use to criminal offenses. The states in each category are shown below.

Examiner's License Required	Use Limited to Criminal Offenses
Alabama	Alaska
Arizona	California
Arkansas	Connecticut
Florida	Delaware
Georgia	Hawaii
Illinois	Idaho
Kentucky	Maryland
Maine	Massachusetts
Massachusetts	Michigan
Michigan	Minnesota
Mississippi	Montana
Nevada	New Jersey
New Mexico	Oregon
North Carolina	Pennsylvania
North Dakota	Rhode Island
Oklahoma	
Oregon	
South Carolina	
Tennessee	
Texas	
Utah	
Vermont	
Virginia	

WRITTEN "HONESTY" TESTS

An honesty test is a paper and pencil psychological test, which measures a person's attitude toward honesty. It gives an employer the applicant's level of predictable trustworthiness. Further, this type of honesty testing is perfectly legal without restriction in all 50 states.

Need, opportunity and attitude operate together to produce dishonesty. Psychological testing focuses on the third factor, identifying people with theft prone attitudes. Even though it will not eliminate all employee theft, statistics

PRE-EMPLOYMENT SCREENING continued

show it will probably reduce the rate of pilferage when used for employment applicant screening.

These tests are based on a discovery made by a pioneer in the field of polygraph testing. He noted that when an identical question is asked of a verifiably honest person and a verifiably dishonest person, their answers are diametrically opposite. Thus, he could create through questionnaires, a rough equivalent of the polygraph. Since 1950, when honesty testing was made available to the public, a number of these tests have cropped up around the country.

If validated, honesty testing has been found to be accurate 85-88 percent of the time. With its accuracy factor, honesty testing has assisted companies in dramatically increasing their ability to identify and hire honest employees.

TEST SELECTION

When selecting an honesty test, determine whether or not it is reliable and valid. That is, does it accurately predict the risk of pilferage? The test's publisher can be of help in these areas.

- Ask the publisher for any outside, independent research which testifies to the test's validity and has been accepted for publication in a recognized, professional psychological journal. Have him get you copies of that research.
- Ask if, in the event of a discrimination charge, the test publisher will supply professional testimony and legal counsel in the defense of their results. This should all be offered, and any expenses incurred if such a charge is made should be absorbed by the publisher.

There is another check for a test's validity. Check to see if it is listed and reviewed in *Mental Measurement Yearbook* by Oscar K. Buros. *Mental Measurement Yearbook*, available in your public library, is America's standard of the industry on psychological testing.

If validated, honesty testing has been found to be accurate 85-88 percent of the time. With its accuracy factor, honesty testing has assisted companies in dramatically increasing their ability to identify and hire honest employees.

All pre-screening honesty tests must be able to prove and statistically demonstrate that their results have no adverse

impact on minorities. Obtain assurance that the honesty test does comply by asking the Equal Employment Opportunity Commission (EEOC) for copies of decisions rendered by federal or state agencies in discrimination investigations.

Test only those job applicants in whom you are interested.

ADMINISTRATION AND COSTS

Test only those job applicants in whom you are interested. The test can be completed at your location in approximately 45 minutes. Once completed, the test is checked, assuring that all questions have been completed.

The completed test is mailed to the testing firm's office. It is usually scored, analyzed and the results called back to authorized personnel on the same day it is received. It can also be phoned to the test publisher. If he has an incoming WATS line, it will, of course, save phone costs. An analyst will ask for scoring numbers and immediately return a verbal result. Regardless of the scoring method used, a written confirmation should be sent.

PROS AND CONS

Just as there are two sides to every story, there are advantages and disadvantages to the use of psychological honesty tests. Here is brief list of both:

ADVANTAGES

- Effective
- Inexpensive
- Legal in all 50 states
- Nonoffensive; non-threatening
- Easy to administer and obtain results
- Creates an immediate security consciousness in new and present employees

DISADVANTAGES

- Difficult for employers to interpret results and evaluate candidates based upon numerical raw score indicators
- The applicant who was dishonest in the past, but has recently "gone straight," will probably be rejected

USE WITH CURRENT EMPLOYEES

Many testing firms also offer tests for checking the trustworthiness of your present employees. They are gen-

erally used before promoting someone or when a significant stock shortage is detected. Typically the test is administered to a large group of employees equally under suspicion. The test minimizes the investigation's scope by identifying the personnel most likely contributing to the "shrinkage" problem. Follow-up with another procedure, such as a polygraph test, can be used with this smaller group. The concept, validity, EEOC acceptability and other considerations for these tests should be essentially the same as for those designed for pre-employment screening.

The cost of these tests varies widely, ranging anywhere from \$10 to \$30 depending upon the volume and the testing firm. Details of this variety of test and its functioning, advantages and disadvantages, should be discussed with each test producer.

BONDING EMPLOYEES

Bonding an employee is a kind of insurance which protects you—up to a specified dollar amount—against pilferage by that employee. If you do not presently bond employees, you should look into it. If bonding is currently part of your operation, review the level of your coverage. To illustrate, if your cashier absconds with \$15,000, and your coverage is only \$10,000, then you lose the difference. Most people now covered find out too late that they are under-protected.

Our survey on bonding indicates:

BOND EMPLOYEES	22%
DO NOT BOND	78%

As a result of bonding, those who do:

RECOVERED LOSSES	62%
GAINED NO RECOVERIES	38%

When recovery is not made, one of two common factors is usually involved. Either the amount stolen is too small to bother with, or adequate proof for a court case cannot be obtained. However, as the survey shows, the minority who do bond stand a good chance of loss recovery, and the 62 percent figure is over twice what it was 10 years ago. Changed attitudes toward the thief have made the difference. Employers prosecute more now and recover more. Merchants are no longer taking the fatherly attitude toward pilferage. The losses are becoming too severe to overlook.

Beware when dealing with bonding companies. Bonding does not necessarily insure you against loss. Like any other business, bonding companies exist to turn a profit. Therefore, their contract wording and business practices are often designed with their convenience and profit in mind.

For example, your contract with the bonding company may state that you will be reimbursed "after proven theft." "Proof" that an employee took some specific items can be extremely difficult to obtain. It is improbable that you could submit an itemized list like the one below.

1,282	Spark Plugs
16	Electric Drills
34	Point Sets
11	Socket Sets
83	Screwdrivers

Most contracts state that the employer must provide the proof of pilferage. The bonding company will not do the detective work for you. Of course, if you suspect a theft, the police department might conduct an investigation, and the bonding company might participate. If you are using a bonding service, check your contract to see if the bonding company will also gather the proof of employee theft.

Also, not all bonding companies actually check out your employees. They may do some surface checking—investigating credit rating or driving record—but they do not always dig deep. They play the law of averages, avoiding the expense of heavy research. They feel the extra payouts caused by superficial investigating will be less than the cost of doing all the background work.

Some employers feel that the illusion of being checked by a bonding company deters pilferage. They have their personnel fill out a bonding form but never send it in for processing. The employee has the feeling he is bonded, and this acts as a deterrent.

Until recently, the employer in many cases was his own biggest problem because he refused to pursue total prosecution. Employers have historically taken the "soft" approach, which has meant a light sentence, generally consisting of some sort of probation. Management choosing not to prosecute justifies this by saying the amounts stolen are too small to fool with. The managers contend they will prosecute if serious amounts are involved. The bonding companies state that employees who see other personnel going free will be tempted to pilfer also.

We are not recommending any approach, because each wholesaler/distributor's circumstances are unique. However, as we mentioned earlier, an increasing number of wholesaler/distributors are taking a hard-line attitude toward employee theft.

Chapter 4

DEPARTMENTAL CONTROLS

To facilitate effective anti-pilferage controls throughout your establishment, we have segregated the wholesaler/distributor's various operational areas into "departments," or general areas of concern. These include:

- Receiving
- Shipping
- Drivers
- Shop
- Counter
- Supplier Salesmen
- Office
- Branch Stores
- Drive-In Service
- Computer Operations
- All Departments

Although some general procedures apply to nearly every operational area, each has its own set of idiosyncracies, opportunities for pilferage and methods for combatting it. Each of these areas is discussed in detail below.

RECEIVING

Receiving appears to be the least likely place to have a problem, because the topic under discussion is merchandise "leaving" the place, not coming in. However, this department enjoys no immunity. "Receiving" pilferage can be accomplished in many ways.

As mentioned before, in small organizations the receiving clerk is often the same person who puts the merchandise on the shelf, and also the one who ships it out. In these cases it is easy to claim there was a shortage in shipment, because the merchandise has already been put in stock.

The best procedure to counteract this is:

- Have the clerk notify you right away of every incoming shortage. Instruct him not to wait several days.
- Instruct him not to put any of the merchandise away until he calls you.
- Check with the shipper or supplier promptly, while everything is fresh in the minds of the people who may have handled it. This is an easier situation to handle if your Perpetual Inventory is accurate.

The important thing to note here is that a receiving clerk's collusion with a freight driver, warehouse driver, etc. is all that is needed to form a "shortage" team. The incoming driver is able to get the merchandise out of the building, because he's able to leave without suspicion with a truckload of merchandise intended for other customers.

Other employees in your organization also get to know

incoming drivers, and might be tempted to use the same means to get their material out of the building via the receiving dock. To make this more difficult, some establishments set up a "yellow line" area, with a sign stating that non-employees are to stay within those lines.

It is a good idea to spot-check the next incoming shipment yourself from that company which always seems to have shortages. This is also a good place for TIDE.

The ASIA Member Survey indicated the receiving clerk was responsible for 7 percent of recorded pilferage. This was at the low end of the spectrum.

In one case reported in the Member Survey, the shipping clerk was routinely parcel posting a box to his own house. Not only was he stealing, but the owner was paying the postage.

SHIPPING

The greatest pilferage loss comes from collusion, and the shipping clerk and driver combination enjoys the perfect set-up for getting merchandise out of the building without it being obvious. In fact, most pilferage teams seem to include either a shipping clerk or a driver. The shipping clerk is always at the shelving, pulling parts, and the driver is always loading it onto the truck. It is an easy matter to put more on than was invoiced. There have been cases reported in which the rebuilders' truck driver, working with the shipping clerk, was able to easily haul out extra material at the bottom of the core barrel.

In one case reported in the Member Survey, the shipping clerk was routinely parcel posting a box to his own house. Not only was he stealing, but the owner was paying the postage. Naturally, one box mixed in with several others was easy to "lose" in the everyday crush of business.

To avoid this, try to use a Schedule of Shipments similar to the example shown on page 11. You can easily make up your own form, and make several photocopies. After you determine what form works best for you, have it printed.

By using this kind of form you can spot-check to see if any shipments are ready to go out, but are not listed.

In the ASIA Member Survey, the shipping clerk was reported responsible for 10 percent of the pilferage. This is higher than supplier salesmen, shop or receiving department.

RECORD OF SHIPMENTS

	DATE	TO	VIA/NUMBER	REMARKS	BY
1	1983 Jan 6	Bill's Garage Central City, Ohio	UPS 62489	gasket set	al.s.
2	✓	H & K Motor Simons, Pa	PIE B/L 43758	junk fuel pumps	Joe V.
3	✓	Autro Olds Kempville, In	UPS 62491	catalogs	al.s.
4	✓	Black & Decker Towson, Md	UPS 62492	sander repair	Joe V.
5	Jan 7	Big Ben Coal Co Morgan, In	Central Mtr B/L 43759	stock order	al.s.
6	✓	Young's Body Shop Floren, In	Greyhound Bus	gal paint	al.s.
7					
8					
9					
10					
11					
12					
13					
14					
15					

A "Record of Shipments" book is easy to maintain, and entries require approximately 10 seconds per shipment. Note

that there is a place for the person who handled the transaction to sign his first name and last initial.

DEPARTMENTAL CONTROLS *continued*

DRIVERS

In the Member Survey, the driver was mentioned as the culprit more often than any other employee, except the counterman. This is not surprising, since the driver has countless opportunities to get merchandise out of the building. And he also knows a lot of potential customers who might be looking for bargains. In fact, drivers were mentioned so often there might be a tendency to assume there are no honest ones, which, of course, is both unfair and untrue.

Here is a sampling of how drivers have worked some schemes:

1. Picked up orders at warehouse, but not all of the merchandise got to the store. The driver made an extra stop at home to drop off the contraband. It was checked in as a shortage.
2. Loaded extra material on the truck, and left it with a customer to hold temporarily.
3. Offered to help with order filling (so he could get to the bins).
4. Picked up returns from customers—saw that they got credit—but parts never got back to the store.
5. Put in two gallons less gas in truck than gas ticket showed. At the end of the week the unused gas was put in his own car.
6. Brought in Cash Tickets showing customer got 2 percent discount for cash, when it really didn't happen.
7. Left stolen merchandise in his truck, which was parked outside. Came back at night and retrieved it.
8. When customer paid cash, the driver pocketed the money and reported that the customer didn't need the merchandise, so he put it back on the shelf.
9. Driver's duty included working on Perpetual Inventory, so he changed the cards to match his pilferage.
10. During a delivery, while waiting for the customer to get out from under the car or to come in from outside, the driver would steal from the customer's stock.
11. The driver taking Parcel Post to the Post Office took along extra labels addressed to himself, and applied them over the original label. The problem was later blamed on "poor postal service."
12. The driver sold the truck's spare tire and wheel, and claimed it was stolen.
13. The driver claimed that while he was inside making a delivery, someone stole parts off the truck, while in fact it was the driver who took them.

The following procedures could help prevent some of the examples of pilferage numbered above:

1. Call the manager at the warehouse right away while it's fresh in his order picker's mind. Do this every time there is a shortage.

- 2,3. Occasionally, and unannounced, check every item on the truck just before it leaves, to see if everything is covered by an invoice.
- 4,6,8. The driver should not be permitted to return material directly to stock, or to ring the cash register from his own deliveries. He should check in to another person.
5. Every gas ticket turned in should be entered on a sheet showing speedometer miles, gallons purchased and dollar amount. It takes only a few minutes to determine if the truck is getting respectable mileage, or only four miles to the gallon.
- 12,13. Have the driver make a Police Report. It may deter future incidents, because it is illegal to file a police report on a false crime.

In some cases as many as 20 different companies reported the same schemes. Other schemes were also mentioned, but these were the most common.

In the Member Survey, drivers were reported responsible for 27 percent of the thefts. This is a higher percentage than any other area, except the counter.

Naturally, you do not want to slow down the operation, but you could and probably should insist that all parts be pulled by the counterman.

THE SHOP

The machine shop, in most cases, is virtually a separate entity. The customer usually goes directly to the shop and deals directly with the machinist. The work to be performed and price to be charged are determined between the two of them. The machine shop man, more often than not, also pulls his own parts.

The whole set-up is so self-contained that, if the machinist wanted, he could perform work and not charge for it, and give out parts and not charge for them. While he's pulling the parts he needs, he could also pull parts for the customer.

Naturally, you do not want to slow down the operation, but you could and probably should insist that all parts are pulled by the counterman, who should list them directly on the Shop Ticket.

One of the most-cited reasons machinists are allowed to go to the shelves themselves is that "the counterman is always busy." This can be cured to some degree by making the machinist think ahead and be more businesslike. Instruct

him to make a list of what he needs, and:

- Request all parts for each job at one time.
- Submit the request when he receives the job, not three minutes before he's going to use them.

The counterman can then pull the parts at his first break in counter traffic.

Elsewhere we mentioned the technique of putting good material in the scrap barrel that's outside the back door, then retrieving the material after closing. The machinist is in the best position to do this. Some cases were reported in which the Internal Revenue Service (IRS), while going over tax returns, asked what happened to the money the wholesaler/distributor received from selling scrap.

If you cover his tools on your insurance policy, get an inventory of his property. This avoids his adding new numbers to his tool box at your expense, or claiming excessive losses.

Tool insurance coverage is another facet of potential machine shop problems. General industry practice is that the mechanic furnishes his own hand tools, and the employer furnishes the air, electric and special tools. If you cover his tools on your insurance policy, get an inventory of his property. This avoids his adding new numbers to his tool box at your expense, or claiming excessive losses.

In the Member Survey, the shop man was responsible for losses in 7 percent of the cases. He was the least troublesome person of all the employees—but 7 percent can still represent quite a few dollars.

THE COUNTER

Because the counter is the highest-traffic area in your establishment, it has a high potential for pilferage activity. Since the owner often spends a lot of time on the counter, he may feel he is watching it, and probably is. Nevertheless, pilferage still occurs. Here are the principal "schemes" to watch for:

- Customer and counterman have an arrangement in which purchases are made right at the counter, but only a portion of them are billed. These transactions can even be handled right under your nose. This is

especially true where a lot of merchandise is on display. These transactions usually result in the customer's hurrying to leave the counter as soon as he has his material. This type of collusion can often be detected when a customer insists that a particular counterman wait on him, or when his phone calls are always limited to this counterman.

Also watch for invoices on which items have been scratched off because "the customer decided he didn't need it after I got it out." The deletion may have occurred hours after the customer/accomplice leaves, allowing him to walk out the door fully invoiced in case he is stopped.

- Counterman writes refund slips for material or core deposits which are not actually returned. Since most firms require the cash sales ticket in order to make a refund, insist that this ticket be attached to the "Paid-Out" slip. For returns made on charge accounts, the office copy should be marked showing that it was returned. This will keep you from writing several credits on the same item.
- Counterman puts list prices on cash tickets to list customers, then alters them to show net price before ringing them on the register, and keeps the difference. The safest way to handle this is to have validating-type cash registers. This is the register that stamps the amount of the ticket. The other choice is to have one cash ticket copy stay in the machine. This copy, of course, cannot be altered (See Section VI, Cash Register Controls).
- Counterman deliberately mis-adds cash tickets, then corrects the amount after customer leaves and pockets the difference. If your office procedure is such that you check additions or extensions, then you will catch this. If not, be on your guard if one clerk seems to always have tickets with erasures or corrections.
- Altering of amounts on cash tickets, as shown on example below:

11.22	7.95
17.22 (4.22)	7.95 (4.95)
551.22 (\$1.22)	7.95 (2.95)
17.22 (10.22)	

Note how easily the \$11.22 was changed to \$4.22, \$1.22, or \$10.22, and how \$7.95 was changed to other lesser amounts. Other numbers can easily be converted in this manner.

DEPARTMENTAL CONTROLS continued

- Counterperson issues phony Paid-Outs for pickups or hardware items, which have not actually been made. All Paid-Outs should be made (or OK'd) by the manager, and should have the sales slip attached.
- Counterperson voids cash ticket, then pockets the money. To prevent this, instruct the counterperson to follow a set procedure whenever he voids a ticket, as follows:
 - Draw a line through every entry in such a manner that the Ticket can still be read. Otherwise, you will often find that when you refer to a voided ticket, it has been so obliterated that you cannot make it out.
 - Mark the Ticket "VOID" in bold letters.
 - Mark the reason for voiding, such as:
 - "Duplicated Billing"
 - "Wrong Parts"
 - "Rebilled"
 - When it is rebilled, give the "new" invoice number.

You might also consider changing your policy of voiding "Cash Tickets" to one of "Absolutely No Voiding of Cash Tickets." (Write a refund slip instead)

- Since the counterperson takes most of the calls for delivery to customers, he can fill the order with the requested items—and add in extras—or simply not bill all of what he has given.
- See "Cash Hold Tickets" under Office control.

These transactions can even be handled right under your nose. This is especially true where a lot of merchandise is on display.

Some of the previous transactions cannot be easily accomplished when there is computer billing at the counter since the computer makes the entries. Many wholesalers/distributors commented in the Member Survey that since installing computers their gross profits improved. Some of this is, of course, due to the elimination of errors. But we cannot overlook the probability that some of this improved margin is the result of closing some pilferage leaks.

In the Member Survey the counterperson was reported to be the most prevalent department in which pilferage occurred. The counterperson was responsible in 31 percent of the cases. This was nearly as great as the combined total of shipping clerk, salesman, shop operator and receiving clerk.

SALESMEN

The Member Survey indicated that the wholesaler's/distributor's own salesmen are involved in pilferage more often than the Receiving Department of the Machine Shop. Salesmen were reported responsible for eight percent of the pilferage loss.

This is possible because of their unique position. A salesman, most times, has access to everything in the store. He is always in the shelving, office, shop or shipping areas. He handles a lot of paperwork, including writing credits.

Typical sales pilferage techniques include:

- Taking material as salesman's sample or leaving material on trial with customer, and not returning it. To counter this, establish some type of Salesman Sample Procedure. Do not trust anyone's memory to get the samples back. Two control methods which will accomplish this are:
 - Actually invoice to the salesman, at dealer cost, items taken by him, and write a credit upon return. If you feel this could be confused with his regular account, then use two separate statements with one marked "Sample Account."
 - Make up a 3 x 5 card for every item taken as a sample, and have him initial it. Upon return of the item, have him request the card back. Obviously, any card still in the file with his signature indicates he still has the sample.
- Bringing in cash for customer payment on account, but instead writing a credit for equal amount of merchandise. Do not permit salesmen to write credits, even though they are permitted to give the customer a Paid-On-Account receipt when collecting money. Credits for returned merchandise should be written by other authorized personnel.
- Claiming customer was shorted on order, and asking for "no charge" material. As outlined elsewhere in this book, shortages should always be handled at department-head levels. Do not permit order filler or shipping clerk to correct any errors without your approval. It is important to place shortages in a major category where "the boss is informed of it." (See Section VII, "Dealing with Pilferage")

OFFICE

Office type thefts are usually considered as embezzlement, and we said we would not cover fraud or embez-

zlement because they are full topics on their own. However, some office activities should be watched closely:

- The person making up bank deposits should not be permitted to write credit memos. This keeps them from writing a credit memo for payment on account, then pocketing the money. The customer will not complain, since his next statement will show a clean slate.
- Office personnel making payments to non-existent companies.
- Office personnel paying for invoices on which merchandise has not actually been shipped. These cases will more readily occur with the collusion of small local suppliers, rather than direct factory-type shipments.
- If the same person who checks the cash register also handles Perpetual Inventory, be sure he or she is not working in complicity with someone at the counter, or in some other vulnerable place in the store. A few cases were reported in which office personnel, when checking the register daily, managed to accomplish a false shortage. This is a place for TIDE.

Make it a standard practice for the person signing the checks to ask at random "to see the entire file" on some of the transactions. Special attention should be given to checks made out to lumber companies, appliance wholesalers or other areas where the material may be siphoned off into personal channels. Also, periodically look at a few of the files on local warehouses and transient help payroll. Avoid a pattern of checking, and do not explain your reason for wanting to see the entire file. Keep your inquiries "all over the lot" so that the office cannot be sure where you will look tomorrow, or next month.

It is important to ask many questions when you are looking into the "entire file." Go into great detail with your questions, and do not show that you are completely satisfied. Do not complain by saying you are dissatisfied, but do not express satisfaction either.

- Cash Hold Tickets. Although they originate at the counter, Cash Hold Tickets eventually end up as an office function. A cash-hold transaction is a peculiarity of the wholesaler's/distributor's business. It is not a cash sale, nor is it a charge sale. It is something in between and is comparatively easy to void or to write off. It is usually poorly written and cryptic, such as:
 - Bill
 - @ Main Street Motors — \$5.00
 - or
 - Red
 - @ Acme Chevrolet — \$7.00

The beneficiary is usually an employee of a regular charge customer, to whom we have given this temporary charge. Many of these people are transient, and a month later they are gone without a trace. Since cash-hold items are not usually for large amounts, management often has a tendency to overlook them. But watch them, they can add up.

BRANCHES

Branch stores are good examples of areas where large volumes of material are handled well out of your sight. In places like this, the activity is fairly high, and underhanded activity can easily get lost in the shuffle. Pilferage is easily accomplished in the branch operation, because the branch store truck (or your truck, if you deliver) is in and out of the branch every day. Overshipping is a simple matter, difficult to detect because the branch was never billed for those items, and, therefore, cannot be short those part numbers.

The accomplice in this case does not necessarily have to be the driver. The accomplice could be the person at the branch who checks merchandise in. He is the one who would report overages or shortages.

This is where TIDE must be used often. As stated elsewhere, when you Try Introducing Deliberate Errors, do it as follows:

- Overship several items.
- Undership several items.
- Do both in the same shipment.

If the shortages are reported—but not the overages—you will know you have a problem. If you overship only, and don't undership, the branch store can always say "We were busy that day and didn't check in the shipment, so we didn't know it was overshipped." Insist that branches check in their shipments at once.

Branch store returns should also be watched, because they sometimes run as high as 15 percent of sales. This makes for a lot of return traffic. Branch store operators have reported "pilfered" returns, such as:

- Old cores instead of new in the box.
- Boxes that are returned as 10-in-the-box are not full boxes.
- Gasket sets and other sets have been broken open, and have parts missing.
- Merchandise is returned in a brand you do not stock, or it was discontinued three years ago.

If these returns are accepted without close check-in, and

DEPARTMENTAL CONTROLS *continued*

that store is credited with full value, the branch has built up a "balance" to work from.

Paperwork between stores must be complete and reviewed at least annually.

DRIVE-IN SERVICE

In recent years some wholesalers/distributors have added drive-in bays, and this has created the need for a new set of safeguards. We now have a simple way for the thief to get material out of the building. When the customer picks up his vehicle, he could leave with a trunkful of your merchandise. If company tools are left in the vehicle, and discovered there by management, the perfect excuse is "They were left there by mistake."

The relationship between an employee and a drive-in customer is much closer than at the counter. Many car owners will hang around for hours waiting for their vehicle, and this gives them an opportunity to become friendly with shop personnel. Also, if the customer leaves with a box of merchandise "that he had in the trunk," who is going to stop him?

Another technique is not to list on the Shop Ticket all the parts that were used.

Many vehicles require road-testing when completed, and this, again, provides an unsupervised channel through which parts can leave your business.

Obviously, controls are necessary, even though they are hard to implement. In the summer, most overhead doors are fully open, and people stream in and out all day. Nevertheless, you should establish ground rules to cut down pilferage possibilities.

These ground rules can include:

- The vehicle owner should talk only to the Service Manager, and leave his vehicle where he pulled in.
- Have a separate waiting area for customers, with chairs and perhaps a television set.
- If the mechanic is ready to test drive the vehicle, the Service Manager should look in the trunk and back seat.
- The mechanic should not be permitted to get anything out of stock. Instead, he should put his request on a note and hand to the parts man or Service Manager.
- When the vehicle is ready and parked outside, lock all doors to be sure nothing is put in it later.

Of course, these precautions have to be accomplished

with tact. Do not approach them in an "investigative manner." There is no need to alienate either the customer or the mechanic.

COMPUTER OPERATIONS

In the early days of computers it was easy to avoid computer theft. You merely "put a lock on the input machine and went home." But today it is a whole new electronic battle. A smart thief can steal more with a terminal than he can with a gun. Several cases have been reported in which high school students have manipulated computers through a telephone modem link, and defrauded unsuspecting companies of thousands of dollars in merchandise. Others have gained access to travel agency computers, acquiring scores of free travel tickets. Bank employees have juggled accounts for years before being caught. Other trusted personnel have put phony people on the payroll, paid ghost companies' non-existent invoices, made refunds to phantom accounts, etc. Strangely enough, publicity on these has been sparse because companies fear the bad publicity, and management does not want to admit they have been taken.

When establishing computer controls and safeguards, keep these factors in mind:

- It is difficult to thwart a computer professional who has chosen your computer to tap—but the pro is not the major threat. The major threat comes from the opportunities provided for your own employees to "play" with your computer.
- All computer systems provide the possibility of an activity report at the end of the day. Use it! This is your most effective safeguard against computer theft.
- Request the suppliers of your computer hardware and software systems to advise you on methods to make your computer system more resistant to theft. Or secure the services of a "computer consultant" or "data system consultant" (often listed in the Yellow Pages of the telephone directory). If your local police department has a Fraud and Bunko department, they might also be able to help. If you decide to bring in a computer consultant, get his price first. Some of these specialists charge \$100 an hour plus expenses, if travel is involved.
- Establish levels of access, such as "Read Only" for all personnel who do not know the "password" to vulnerable areas in the computer.
- Do not abdicate responsibility to the computer. Many organizations, for instance, insist that all checks be signed by a responsible official, rather than letting the computer issue and "sign" checks. This provides

an important safeguard.

- You may also want to discuss coverage of computer operations with your insurance carrier. Get from him the advisability and price of coverage on:
 - damage, theft or wiping out of software, programs and security discs
 - damage to hardware and main frame
 - business interruption during downtime

Coverage of computer operations is different than ordinary fire or loss coverage—check it out.

PILFERAGE POSSIBILITIES in ALL DEPARTMENTS

We have segregated the book into departments, showing what to watch for and actions to take in those departments. But some activities can be accomplished in several departments, and sometimes by everyone.

- Taking out merchandise in a lunchbox or a coat. In some cases, when the person is caught, he or she will claim it was placed there by another employee as a prank, or maybe to "get even." Security is generally not as tight at lunchtime as it is at night—and material may be more easily taken then.
- Putting merchandise in the trash barrel outside and

taking it out of the barrel after closing.

- If trucks are parked inside, puts merchandise in the truck, and retrieves it after the truck leaves the premises.
- "Breaking Out." This means an employee conceals himself in the store just before closing. He then takes whatever he wants, and "breaks out." NOTE: This cannot be done if all doors need a key, even to get out.
- If there is a second floor window (especially if overlooking an alley or parking lot), it is an easy matter to throw pilfered merchandise to an accomplice.
- If a customer asks to have someone drop merchandise off on his way home, this creates an excellent opportunity to take along a few extra items.
- Factory men spend a lot of time in your aisles. They may not steal their own material, but may take merchandise from another salesman's area or tool line.
- "Stuffing." This is concealing small articles in a bigger box. Items such as ratchets, sockets, grease seals, ignition parts, valves, hydraulic parts, gas filters, boxes of bolts, PCV valves and many others can be hidden in boxes of brake shoes, mufflers, water pumps, pressure plates, etc.

Look over this list and set up your safeguards, such as changing all "snap-lock" doors to deadbolts so "breaking out" cannot occur. You may want to move the trash barrel inside, and develop other procedures that fit your own situation.

Chapter 5

CASH REGISTER CONTROLS

Run properly, the cash register is an important and accurate tool. However, loose procedures at the register can incur a substantial financial drain on your business. The key to safe use of the register, as mentioned earlier, is an established policy—one which everyone understands and follows.

The following eight situations represent typical costly cash register transactions to watch for:

- The customer buys three items and returns one of them. But the refund ticket indicates all three items were returned, and the employee pockets the difference. To avoid these phony paid-outs or refunds have the customer sign the refund slip. Also, attach the original sales slip to the refund slip. Since most wholesalers/distributors require the invoice for any refund, this is easily done.
- Another common problem is persistent cash shortages in the register. If this occurs at your counter, consider using a multiple drawer register. Each employee has access and responsibility for only one drawer. A reduction in—or the elimination of—shortages often comes with the loss of anonymity. A validating register also combats shortages. This machine stamps the amount of the sale along with the clerk's number on each ticket. In addition, a validating register also confirms paid-outs, which eliminates that problem. Paid-outs are discussed later. A rebuilt machine costs about one-third the price of a new one, and, although special invoices are preferred, this type of machine will work well with your present invoices.

Do not permit the driver to ring up his own deliveries or anyone but authorized register personnel to make change for personal use.

- Unauthorized personnel in the register. Do not permit the driver to ring up his own deliveries or permit anyone but authorized register personnel to make change for personal use. The fewer people into the register, the better. It is easy to explain that if there is a shortage, employees are not suspect if they never go to the register.
- IOUs should be avoided altogether. However, if you choose to allow them, only a department head should write them. And the date the employee is going to pay back should be noted on the IOU. IOUs are too easily "lost" from the register. Having the employee get

the money from the office, rather than the register, also avoids problems.

- Bogus checks. An employee may cash a bogus check for an accomplice and then be "unable to recall" who presented the check. An established check-cashing procedure avoids this. Refer to the next section on cashing checks for suggestions. In a similar vein, use of stolen credit cards has become popular so you should be on the lookout for problems with unauthorized credit cards. One counterman may cause all the problems, and can quickly relieve you of a lot of money.

Cash register overages also present temptation. An employee may pocket an overage that has built up in the register during the day.

- Cash register overages also present temptation. An employee may pocket an overage that has built up in the register during the day. The overage can accumulate from a number of small sales (10 to 25 cents) for which tickets are not written. Frequently, the money from such sales is left on the register's ledge, becoming a temptation for use in a vending machine or building an overage. Such pilferage is not necessarily in small amounts. An overage can also be created by simply not writing a ticket for a large ticket item. One possible solution is to establish a procedure whereby all items, regardless of price, must be invoiced at the time of sale. Some wholesalers/distributors have a policy where any sale under 50¢ value is still invoiced at 50¢. The customer is forewarned that the minimum charge on cash sales is 50¢. If such policies, or variations thereof, are used, the practice of establishing overages will probably never occur.
- Cash refunds for charge items. Many customers routinely charge some items while they pay cash for others. A dishonest employee might write a credit memo for a returned charge item, while at the same time writing a cash refund. The refund is, of course, pocketed by the employee. The solution? Mark the original office invoice on all returns and refunds. Additionally, add a note to the original office invoice indicating the item has been returned. This prevents several returns of the same item.

- Temporary paid-outs. You can stop another cash leak by prohibiting all "temporary"—and undocumented—paid-outs. For example, someone takes \$10 from the register and gives it to the driver to take the parcel to the post office, saying, "I'll write the 'paid-out' when you come back and give me the exact amount." Writing the "paid-out" later is easily "overlooked," and the register is suddenly \$10 short. Establish a policy: Even if the driver will be gone only a few minutes, show the "paid-out" on a slip placed in the register.

Some wholesalers/distributors have instituted a so-called "cash register is for cash" program. They have removed all other transactions from the register.

One simple policy avoids many register problems. Some wholesalers/distributors have instituted a so-called "cash register is for cash" program. They have removed all other transactions from the register. If there are any refunds, IOUs, paid-outs, etc., they are handled from the office. The cash register is used only for cash sales.

Although it is unlikely that you are experiencing a significant cash loss from each of these deceptive practices, your awareness of them goes a long way toward prevention of significant losses from all of them added together.

CASHING CHECKS

During the business day, checks presented at your counter fall into two categories. First, are those presented by a well-known customer, someone established with you from whom you would have no trouble getting payment for a check that bounces. Second, are those presented by anyone else.

The second category creates the problem. And although only about three percent of the checks accepted are bad, they are 100 percent of the problem. Checks that come in the mail cannot be screened, but these are not part of the troublesome three percent. Checks coming across the counter create the headaches.

It is a good idea to appoint only one person to approve every check that comes across the counter. Normal business flow permits this policy. You might need an alternate to provide check approvals during vacations and lunch hours, but the one-person policy should stand. Why? Simply be-

cause it is easier to teach check cashing caution to one person than to an entire crew.

To some degree, a check is a "promissory note," saying the holder has the cash on hand in a checking account. If this is true, then the individual should not object to your calling the bank to find out.

If someone in the second category comes to you and you must decide whether to accept a check, there are only two things you need to know:

- Is there a bank balance to cover it?
- Is this person the lawful holder of the check?

To some degree, a check is a "promissory note," saying the holder has the cash on hand in a checking account. If this is true, then the individual should not object to your calling the bank to find out. This answers the first question in approving the check.

Next the individual must provide identification to your absolute satisfaction—not to your casual satisfaction. In states that have a photo on the driver's license, request to see the license. Compare the name thereon with the name on the check. And, of course, compare the person with the photo. In addition, it is useful to have identification by someone who knows this person. If the individual says that Mr. Jones from Jones Service can provide identification, then call Mr. Jones and give him a description of your customer. You can then inquire if Mr. Jones has taken this person's checks. Only when identification is absolute, should the check be approved.

If the holder cannot be properly identified, or if the banks are closed, then it is wise not to cash the check until both questions of approval can be answered.

You will sometimes be asked to approve second-person checks (those written by someone else and given to or endorsed to the current holder.) These are even more risky than

CASH REGISTER CONTROLS continued

direct personal checks, and identification and references must be absolutely sound.

If the holder cannot be properly identified, or if the banks are closed, then it is wise not to cash the check until both questions of approval can be answered. In order to justify this action, merely ask yourself if you would extend credit to such an individual without checking. In actuality, this is what you are doing by cashing the check without proper research.

Some firms approve checks only if a driver's license or other identification is shown. This, of course, does not prove the money is in the bank. It only verifies identification. Nevertheless, each company should set its own policy based on experience.

Avoid taking a check for any amount greater than the purchase. If the check is bad, you lose the merchandise and the extra money.

Following are some guidelines and precautions for check approval:

- The "passer" is usually an intelligent person who makes a business of cashing bad checks. Do not underestimate him. Do not be afraid to ask questions, and do not hesitate to check on the answers.
- Be sure the person is of legal age. Charges cannot be pressed against juveniles in some states. Beware—forgery rings frequently use young people.
- Avoid taking a check for any amount greater than the purchase. If the check is bad, you lose the merchandise and the extra money.
- Reject a check showing any sign of alteration.
- Do not accept as automatically safe: cashiers checks, payroll checks, checks cashed by clergymen. Follow your firm's standard approval policy.
- Do not be rushed, and do not let the customer's anger color your research. If in doubt, pass it up!
- Traveler's Checks have an almost astounding reputation. Few instances of fraud exist, and in some cases involving fraud, the Traveler's Check companies have covered the checks. Nevertheless, there is nothing wrong with asking for some identification if it appears necessary.
- Never take a check from a customer made out to your company, if the customer simply wants cash. In this case have the customer make it out to himself or to

"cash." If you cash a check made out to your company, the customer can come to you at the end of the month, claiming that he has paid something on account—and he will have a cancelled check to prove it.

In a moment they give you an approval (or rejection) for the check. If you get the approval and the check bounces, they will make it good.

"Check guarantee" services, such as Telecheck and Telecredit, operate on a fee-per-check basis. They work this way:

- You call them on a toll free 800 number.
- They ask you a few vital questions.
- In a moment they give you an approval (or rejection) for the check. If you get the approval and the check bounces, they will make it good.

The fee is reasonable. You pay a percentage of the amount only on checks you have called in. You pay nothing for any other checks you approve without their service.

In our survey we asked members about their check cashing policies. The responses revealed that most member wholesalers/distributors use the following guidelines:

- Obtain identification through driver's license, especially in states that now have a photo on the license.
- If the license meets approval, cash checks up to \$25 (some went to \$35).
- If the amount is over \$35, check with the bank.

Our original impression was that this policy was loose and unbusinesslike. It looked like a real playground for "check artists," but it does not seem to have worked that way. Of course, there were some losses, but the people we interviewed said they were few. Moreover, checks that did bounce were usually so small they caused little financial pain.

An established check approval and cashing policy saves both dollars and sanity. To be effective the policy must be understood and followed by all employees. And to assure continued adherence to your guidelines, review your policy with employees periodically.

Chapter 6

BILLING PROCEDURES

Most employees are honest people. And as honest people, they naturally on occasion want to purchase items from you. This need not be a problem, but inadvertant—and sometimes calculated—theft can occur if you have no set policy for handling these transactions.

EMPLOYEE PURCHASES

Each establishment should have one person whom everyone goes to for personal purchases. This individual should get the parts, write the bill and price all items for the employee.

This avoids notes, memos and any other un-numbered piece of paper, which might be easily lost. It also avoids improper pricing.

Watch for employees who never seem to make any purchases. It is reasonable to assume that anyone owning a car and working for a parts house will require some parts, accessories or additives at least once during any 90-day period.

You can establish the price at which items are to be sold. Most wholesalers sell at cost or cost-plus-10 percent. They feel if goods are sold on that basis, and the employee knows it, there may be less temptation to steal.

Watch for employees who never seem to make any purchases. It is reasonable to assume that anyone owning a car and working for a parts house will require some parts, accessories or additives at least once during any 90-day period. A good practice might be to insist that all employees' purchases are charged so that the records may be kept. If there is a potential credit problem, write it on a charge ticket and enter the money as "paid on account" so that it will still pass through the books.

"Trading" is another way employees remove material from your shelves. They trade some of your items to the fellow who works at the hardware store or drugstore. They might trade to a mechanic who works on their cars, and the trade is made in lieu of cash. Trading also occurs with local "pick-up warehouses" where employees of both places have a chance for mutual gain. In several cases where this was uncovered, the employees did not really consider it stealing. They admitted it was not honest, but felt it was a step above actual stealing, because the components were not traded for money. When discussing pilferage with em-

ployees, remember your idea of stealing and theirs may be quite different.

If you need some justification for changing your employee purchases policy, you may want to use the suggested statement of policy that follows. Simply fill in the blank spaces and post it or distribute it in your next pay envelope.

EMPLOYEE PURCHASES POLICY

We follow the recommendations of the Automotive Service Industry Assn. (ASIA) for employee purchases.

- One person and an alternate will be responsible for billing all employee purchases.

— Billing will be handled by: _____
— The alternate will be: _____

- Purchases will be billed at: _____

— Since this is lower than catalog price, do not request this price for friends or relatives. It is for your personal use only.
— Do not use notes or memos to take out personal need items.

- If an exchange is involved, you will be billed for the core until it is returned.
- Our terms are cash or charge. If you charge purchases, the charge is to be paid by the 10th of the following month. If you cannot meet these terms, please notify us at time of purchase. Employees are not tax exempt. You will have to be charged sales tax.
- If you are familiar with the catalog, please supply the part numbers when requesting the parts.
- Notify us of your purchase as early in the day as you can so we can pull the parts for you. It avoids a closing time rush.
- Returns, if any, should be handled through the person designated above.

Thank you for your cooperation

EVERYTHING MUST BE BILLED

The reason everything leaving your premises must be billed on a numbered piece of paper is that it is to easy to

BILLING PROCEDURES continued

lose a note. For instance, an employee takes a bunch of parts home, not knowing which ones will be used. The individual puts them all on an un-numbered note and bills himself after bringing back what is not used. Sounds simple. Saves bookkeeping. Saves time. Right?

When discussing pilferage with employees, remember your idea of stealing and theirs may be quite different.

True, but it also tempts the employee to save money at your expense. If the note is "lost," no one is the wiser. The employee may keep the memo for several months. And if you inquire about it, the individual can produce the note to show the purchase is not forgotten. The note is only lost after you have forgotten it.

We propose you soften the blow to your employees by introducing a new, overall program that covers all phases of billing everything. This way, you will not appear to be singling out any one employee or group of employees. A policy statement such as that below can be used as instructions for billing everything.

EVERYTHING MUST BE BILLED

Every time something leaves the store, it must be recorded on a numbered invoice, transfer, debit or other applicable paper. Notes or memos should not be kept on any items that are "billable." The following are typical examples:

- Customer borrows a tool from the shop.*
- Loaner grease gun, battery charger, or other instrument is loaned to the customer.*
- Customer or employee takes two items, not knowing which will fit. Bill both. Write credit upon return.
- Returning a "pick up" to a local car dealer. Put on a debit.
- Return of cores to our alternator supplier, clutch supplier or any other supplier.
- Return of warranty material to supplier.
- Deposit on ridge remover.*

- Material on which you do not have the price. Bill it and leave price open.
- When you send a customer something that he has been "shorted," bill it "no charge" and reference the original invoice on the bill.
- When sending equipment items out for repair, use an order number.

All items must be billed on some numbered piece of paper.

*Anytime you give someone a loaner tool or equipment, use new equipment prices. This gives an amount high enough to induce the customer to return it promptly. It should make very little difference to the customer, since he will return it anyway.

Chapter 7

DEALING WITH PILFERAGE

After you have established a system to keep pilferage to a minimum, the system should be considered in the same light as a piece of machinery. It should be tested. How? Introduce deliberate errors. It is a relatively simple technique for checking the honesty of your employees and keeping everyone aware that you are concerned with accurate reporting and pilferage.

Each department requires a different technique and errors should be introduced only by a person in upper management. Since wholesalers/distributors have many different procedures, no standard method for checking can be recommended. However, we suggest possible techniques in the following section. Some of them have been mentioned in previous sections, but are worth repeating.

When a shipment arrives and is unpacked but not yet checked in, have someone call the receiving clerk away from the area. In his absence, add extra items to the shipment.

TRY INTRODUCING DELIBERATE ERRORS (TIDE)

The receiving department is easily tested. When a shipment arrives and unpacked but not yet checked in, have someone call the receiving clerk away from the area. In his absence, add extra items to the shipment. Use parts from your own stock of that line. You will soon know if the overage is called to your attention or "absorbed."

Here is a suggested technique for checking a truck driver. Use the same general procedure as above, but this time put some extra material on the truck. This test is best made with valuable items or easily disposed-of items such as an electric drill, spark plugs, etc.

Many wholesalers/distributors have branch operations. They should also be tested occasionally. You can overship, using the above method, to see if it is reported. When this is done, on the same shipment include an item that is short. This avoids the excuse: "We didn't check that shipment in because we were too busy that day." If the shortage was reported on that shipment—but the overage was not—you will know someone has yielded to temptation.

The cash register should also be subject to sporadic and deliberate errors. To check the register simply put extra money in the drawer to see if it is reported. Do not always use an even amount such as \$5 or \$10. Try \$4.20 or \$16.35 or another amount.

Other departments can also be spot checked by introducing deliberate errors of some kind. Adopt methods suited to your own operations. Spot checking should occur constantly and follow no set pattern. If you are always testing your system and your people know it, they can never be sure which errors you are aware of. As a result of your efforts, many shortages you did not know about will undoubtedly be called to your attention. A spot checking system should be vague. No one should really understand how the checks are made or what you really do. How often or to what depth you check should always be unclear to your employees. This keeps anyone from learning a pattern. It also keeps them from knowing what facet of your operation you are not checking.

Many people are opposed to spot checking as outlined here. They claim that it is like leaving the keys to your car in front of your teenage son when he has been denied his driving privileges.

We are aware that spot checking may tempt some employees to pilfer, even though they have never stolen from you in the past. This is not a disadvantage. And your spot checking will not start anyone on the road to ruin. If the temptation placed before employees causes them to slip off the straight and narrow path, then how can you be sure it has not happened before? For your business' sake, it is better to identify any pilferers early rather than find out after you have suffered a considerable loss.

Spot checking, of course, cannot be well done in a loosely knit establishment. The deliberate errors would probably identify someone as a pilferer, when actually the shortage is due to lax procedures. Spot checking is best accomplished after set procedures are established.

Obviously, use of this approach requires a detached, objective attitude. Introduction of deliberate errors includes the element of baiting, and some wholesalers/distributors may be uncomfortable with this. Nevertheless, these things may become necessary. And the individual wholesaler/distributor must decide if the ends justify the means.

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CHECKING SERVICES

Checking services are outside agencies which send someone to shop in your store, making purchases which create

DEALING WITH PILFERAGE continued

opportunities for the counterman to pilfer. In response to our member survey, a surprising number of wholesalers/distributors asked where they could contact one of these services. Some implied the service would be useful at any price. Even if the check uncovered no theft, it would at least give the wholesaler/distributor peace of mind.

How do they operate? Here are some typical checking service techniques:

- They make a purchase and try to walk out without getting a ticket.
- Or they make a purchase, get a ticket, and after the ticket is written, ask for another item to see if the counterman does add it to the existing ticket.
- They also shop at closing time when the counter people may be tempted to cheat because the register has been checked out or the lights are already off.

Several different contracts can be made with checking services, and you would be wise to read them twice before signing. Some contracts are written so that the service gets 50 percent of any recovery.

COSTS AND CONTRACTS

Several different contracts can be made with checking services, and you would be wise to read them twice before signing. Some contracts are written so that the service gets 50 percent of the recovery. Some include prosecution costs, and others make the wholesaler/distributor pay these costs. If you are interested in merely finding out if you have a problem at your counter, be sure your contract calls only for discovery—and not recovery. Some recovery contracts insist on prosecution, with 50 percent of the settlement going to the checking service.

A checking service usually makes 12 to 20 separate contacts over a two or three day period. Different people make the purchases. Sometimes the service uses a team, including up to four people, some of whom are women.

A report is provided and includes each individual transaction. The report gives the following information:

- The name or description of the counterman.
- Date and time of contact.

- The invoice that covered the sale.
- Comments on courtesy, appearance, and promptness.

Employment of a checking service involves two basic costs. First, wholesalers/distributors must refund money for all materials the checking company purchases when making buys. In addition, the fee for the service usually runs between \$125 and \$200 per store, depending on which of the above contracts you use. Many state associations have group rates for this service. These rates represent a substantial savings to association members.

If you do decide to use a checking service:

- Contact them yourself, not through your secretary.
- Determine which contract you want—with recovery or without.
- Get the price.
- Ask how many "buys" they will make.
- Have them show you the report form they will use.
- Consider the dates. Are they to be selected by you or by the service so that they are a surprise to everyone?
- Do not tell anyone else in your company.

When contacting a checking company, it is wise to use the phone. If you must write, prepare the letter yourself.

CONTACTING A SERVICE

When contacting a checking company, it is wise to use the phone. If you must write, prepare the letter yourself. Do not dictate to your secretary. She may tell her boyfriend who works on the counter or notify someone else of the letter. When the checking date arrives, do not inform anyone, not even your manager or other confidants. Opinion is divided on whether your crew should be informed that you are using this service. One side says that if the employees know a checking service is being used, they will be afraid to cheat, not knowing which customer is a tester. Wholesalers/distributors holding the opposite opinion say they are more interested in finding pilferers. Whatever your current opinion, these points should be discussed with the checking company you intend to use.

Checking services prove invaluable in many instances, and most often it is the trusted employee who is caught. Thus, in our opinion, you are wisest to keep your use of this service a secret from everyone.

The frequency of checks must be up to the individual wholesaler/distributor, but we recommend checking about once a year.

UNDERCOVER OPERATORS

Many checking services also have facilities for undercover operators. These people are actually put on your payroll as employees and then placed in the department where you feel there is a problem. Most undercover operators can accomplish their job in less than 12 weeks. Standard practice is to keep them on the payroll for several weeks after their work is accomplished, never exposing them as operators. This permits the wholesaler/distributor to use inside undercover operators again without causing a tightening up every time a new person is hired. And what will this cost your business? The charge for this service consists of the regular salary for that job plus the service company's override.

SURVEY RESULTS

Our several thousand member survey included the following three questions regarding the use of checking services. We feel the response from more than 1,000 members is significant:

- Do you use a checking service to see if invoices are written on every sale?

Yes	41%
No	59%

- Has this service caught anyone?

Yes	47%
No	53%

- Do they charge you a percentage of the amount they recover?

Yes	58%
No	42%

Note that the 47 percent who said they caught someone is not 47 percent of all firms surveyed. Rather it is 47

percent of the 41 percent using a checking service.

The figures show that dishonest employees are discovered about half the time when a checking service is used. Our figures do not indicate the number of countermen caught pilfering per firm. However, we have been led to believe it is always more than half the people tested.

Listed below are some typical comments our members listed on the survey in reference to checking services:

- Have not used checking service in 10 years. Do not know why.
- We are a WD, and have almost no cash sales.
- It is hard to find a good checking service.
- This service is a must. Try it. You will like it!
- We have paid 50 percent of recovery—and it is worth it.
- Our checking company did not catch anyone the last time. I do not know if they are lax or if our employees have become honest.
- Where can we find the names of some of these service companies?

SHORTAGES

Shortages at every level, and however slight, should be checked by the owner or his designee immediately. A feeling of importance must be attached to any shortage. Impress all personnel with the idea that any shortage is handled at the top level. Create a firm understanding that shortages are a matter of concern. Otherwise you may have problems. For example, most bank tellers, payroll clerks and sales people who are tempted to steal start by taking a little bit. And if they get by with that, they take a bit more.

The greatest mistake made by management is taking only casual notice of shortages. We cannot overemphasize the value of top management involvement in investigating any shortages. Many have a tendency to watch closely the cash transactions in their establishments, but as soon as that cash is converted to merchandise, concern with theft declines. The subject is of great importance. Bring it up at company meetings. Talk about its importance and demand improvement.

All personnel must be trained to investigate every shortage thoroughly and promptly. Hopefully this practice will keep everyone from taking a few small, inexpensive items and later graduating to larger, more valuable components. Discourage everyone from taking the first step.

In large establishments, shortages should be handled by management at or above the department head level.

DEALING WITH PILFERAGE continued

all possible. Shipping clerks, order fillers, and counter men should never be authorized to decide how to handle any shortages, even small ones. Granting such authority to employees at this level issues them a license to get material out of the building on a no charge basis—and minimizes the seriousness of theft.

Compare your procedures with those of a bank. If at any time your deposit slip did not agree with the cash amount received by the teller, you would quickly hear from the bank's management. Yet the loss of cash in the wholesale/distribution auto parts fields represents only a fraction of the loss through stolen merchandise. Your personnel will not place the same value on merchandise as they do on money, if management does not set the example.

Frequently, the shelf quantity does not match the perpetual inventory amount. What is done about it? A simple change is made in the recorded amount so that it matches the shelf amount.

A COMMON SHORTAGE PROBLEM

Frequently, the shelf quantity does not match the perpetual inventory amount. What is done about it? A simple change is made in the recorded amount so that it matches the shelf amount. And what if it is short again next month? Again, the records are altered. This, of course, is easy to do, but it is not really a cure. It is a compensating entry that makes the problem appear to vanish.

In cases like this, the wholesaler/distributor knows there is a shortage, but does not know where to pin the blame. To cover your most likely leaks, talk to your personnel. Ask the counter man to be sure that he is putting down the proper part numbers, that he writes legibly and that he is meticulous about writing credits. Remind the order filler to be careful about pulling the right numbers from the shelf. Also speak with the receiving clerk and emphasize that if an order is checked in wrong, it is entered wrong on the inventory sheets, creating problems throughout the system. Do not hesitate to speak with other personnel if the situation requires. Always stress the need for accurate, legible records and exact counting of all components.

SALES-INVENTORY-PURCHASES (SIP) RATIO

The only way to accurately identify a shortage is to take

a physical inventory. Since a physical inventory is usually taken only once a year, a long time elapses before a suspected shortage can be checked. A reliable method of predicting shortages is needed.

Bookkeeping figures, available on the premises, provide data that can be converted to useful percentages. The Sales to Inventory to Purchases (SIP) Ratio, using available data, reveals the balance of sales to purchases.

A useful method exists. Bookkeeping figures, available on the premises, provide data that can be converted to useful percentages. The Sales to Inventory to Purchases (SIP) Ratio, using available data, reveals the balance of sales to purchases. It also provides a running record of inventory level. An example explains how this SIP Ratio works:

- If you made a 30 percent profit last year, and you plan to make 30 percent this year
and
- If you replace every item you sell this month at 70 percent of selling price
and
- If you never increase or decrease your dollar volume of stock
then
- Your inventory would be the same at the end of every month and at the end of every year.

How does this data work to the wholesaler's/distributor's advantage? Assuming a business expects a 30 percent gross, every month's purchases should be 30 percent less than sales. If not, then the overages or shortages are recorded. Purchases are never exactly 30 percent less because of overbuying, underbuying and seasonable items. However, at some time purchases and sales ought to balance. If after six months, for example, purchases are not 30 percent less than sales, check inventory further. Either inventory has actually increased, or it just appears that way.

If a check of inventory and buying practices shows that purchasing has not increased, then maybe someone is absorbing merchandise. Of course, an adjustment must be made if selling prices have been cut or the gross profit margin altered in some other way.

The two SIP charts shown on the next two pages provide sample figures for gross profit margins of 30 percent and 33 1/3 percent.

SALES-INVENTORY-PURCHASES (SIP) CHART

The SIP Ratio encourages a balance between sales and purchases. And if that balance does not exist, further checking clarifies the reason.

	SALES	PURCHASES @ 30 % GROSS PROFIT		THIS MAKES INVENTORY		NOW SHOULD HAVE Start
		Were	Should Have Been	Over	Under	
JAN	40,000	28,000	28,000	—	—	100,000
FEB	37,000	28,000	25,900	2100		102,100
MAR	36,000	28,000	25,200	2800		104,900
APR	36,000	26,000	25,200	800		105,700
MAY	36,000	25,500	25,200	300		106,000
JUN	37,000	25,200	25,900		700	105,300
JUL	35,000	25,200	24,500	700		106,000
AUG	34,000	25,200	23,800	1400		107,400
SEPT	37,000	23,000	25,900		2900	104,500
OCT	37,000	25,200	25,900		700	103,800
NOV	36,000	26,000	25,200	800		104,600
DEC	37,000	26,000	25,900	100	→	104,700

(NOTE: Figures are rounded out to the closest hundred)

The arrow shows how much inventory should be in stock if gross profit is set at 30 percent.

To clarify:

If the amount shown by arrow is \$104,700
And actual counted inventory is 100,000
You have a shortage of \$ 4,700

It appears that there is pilferage by customers or employees. Possibly the firm is selling cheaper than it should. Or there may be poor check-in procedures. Only further investigation will reveal the reason for imbalance. If this year the wholesaler/distributor is buying better—or conversely, buying poorer—he has to adjust the "Purchases @" column to reflect the amount being made.

DEALING WITH PILFERAGE continued

SALES-INVENTORY-PURCHASES (SIP) CHART

	SALES	PURCHASES @ 33 1/3 % GROSS PROFIT		THIS MAKES INVENTORY		NOW SHOULD HAVE
		Were	Should Have Been	Over	Under	
						Start 100,000
JAN	40,000	28,000	26,700	1300		101,300
FEB	37,000	28,000	24,700	3300		104,600
MAR	36,000	28,000	24,000	4000		108,600
APR	36,000	26,000	24,000	2000		110,600
MAY	36,000	25,500	24,000	1500		112,100
JUN	37,000	25,200	24,700	500		112,600
JUL	35,000	25,200	23,000	2200		114,800
AUG	34,000	25,200	22,700	2500		117,300
SEPT	37,000	23,000	24,700		1700	115,600
OCT	37,000	25,200	24,700	500		116,100
NOV	36,000	26,000	24,000	2000		118,100
DEC	37,000	26,000	24,700	1300	→	119,400

To clarify:

If the amount shown by arrow is \$119,400
And actual counted inventory is 100,000
You have a shortage of \$ 19,400

Let us assume the wholesaler's/distributors margin has dropped from last year's gross by 1 1/3 percent. Year end inventory would change from \$119,400 to \$114,000.

Inventory at 33 1/3 percent gross \$114,000
Actual inventory count of 100,000
Shortage of \$ 14,000

Remember that seasonal buys, special buys and late shipments all cause imbalance in sales/purchases figure. However, the figures should balance eventually—perhaps in 90 day intervals. Waiting too long to physically check inventory causes the biggest problems. Our advice? Do not wait for year end. Take a mid-year inventory.

HANDLING KEYS

Whenever a key-holding employee leaves your firm,

change the locks. This should be done even if the individual is honest. It eliminates a suspect, if a shortage comes up.

Do not have keys hanging on a nail near the door they open. Anyone can have a duplicate made and return the original to the nail before management realizes it.

Neither drivers nor anyone else should take vehicle keys home. Trucks are easily stolen by an accomplice or used for unauthorized purposes.

RECORDING DOOR OPENING

A recording door opening device is a simple bolt-on mechanism that registers every time a door is locked, not just closed. It registers the time the door is unlocked for the day and locked for the night. The device also registers any times the door is unlocked after hours.

The door lock company which installs the lock fixes all other entry doors so that the last door closed must have the security lock. This means no one can circumvent the security door by going through another door.

The lock contains a paper disc which is mailed in once a week for decoding. The lock company then mails the wholesaler/distributor a report showing the times the store was locked and unlocked. The man removing the chart cannot tamper with it because it contains markings that mean nothing, until it has been put through a decoder. For greater secrecy, the weekly report can be sent to the wholesaler's/distributor's home.

WHEN YOU UNCOVER PILFERAGE

Outrage. Shock. Vengeance. Pity. Hate. The discovery of pilferage leads to a complex emotional reaction. A few words of advice. Do not act on your first impulses. Take a little time to think it through. Acting on the rebound might be expensive and counterproductive. Avoid doing something that puts the pilferer on guard, permits the person to get rid of the evidence or undo something that has been done.

Avoid doing something that puts the pilferer on guard, permits the person to get rid of the evidence or undo something that has been done.

Professionals in this field like the advantage of surprise confrontation with a suspect. If the person is questioned early or in some other way learned that he is suspect, the advantage is lost.

Once a pilferer is identified, it does not necessarily follow that discharge must be immediate. This avenue is not ruled out, but there are alternatives. However, if firing is in order, we suggest the following precautions and procedures:

- If you are not pressing charges or attempting to recover the money, have the person resign in writing, rather than being fired. This tactic has special value in cases where guilt is simply your word against the employee's. Laws generally favor the underdog—the employee.
- If an attempt to recover the money is planned, and the employee has admitted theft, have the individual handwrite an admission in his own words. Have it witnessed and signed. A typewritten sheet, signed by the employee, is less acceptable in court. A clever lawyer can make quite a presentation for the defendant, claiming the individual was made to sign under

pressure, in a state of semi-shock or under considerable duress.

- Our general advice—get rid of the employee. However, extenuating circumstances may keep the individual on the payroll. Perhaps the pilferer is your brother-in-law. If this is the case, make it clear that this is a second chance, but a third will not be granted. Statistics show the employee is not discharged in one-third of such cases, and 90 percent of these people are caught stealing again!

Do not attempt your own interrogation or handling of the case. Leave this to professionals who have studied and worked in this field.

- If your decision is to fire, to press charges to the extreme and to recover the money, talk to an expert. The bonding company, a qualified attorney or law enforcement personnel can tell you how to prepare a strong case.
- Do not attempt your own interrogation or handling of the case. Leave this to professionals who have studied and worked in this field.
- Do not reveal the discovery to the employee until after you have consulted with this expert. Juries are generally favorable to the accused, so you need as close to an iron-clad case as possible.
- Consider unemployment compensation. In many states you must have an actual court conviction to avoid unemployment compensation. Paying the compensation may, of course, be less costly in the long run than permitting theft to continue.
- If an admission of theft is given and the stolen amount is stated, you can almost be sure it is twice that much. Even if the employee feels an honest answer is being given, it probably is the amount gotten for the stolen goods—not their sale value at your location.
- A final caution. Where there is one, there are two. Unless you have a small organization, you will seldom find someone working alone. Most thefts require collusion. Be on the lookout for the accomplice.

Although we have presented several suggestions for handling the discovery of theft, there is no best approach for all cases. Individual wholesalers/distributors must do what is best in their unique situations.

Chapter 8

ASIA MEMBER SURVEY

This section brings together the survey results, including typical comments, that do not appear in earlier sections of the manual. Although this material does not fit neatly into

the earlier main sections of the manual, we feel it provides important additional and enlightening insights into the problem of pilferage.

SURVEY RESULTS

IF YOU FIRED AN EMPLOYEE FOR STEALING AND A PROSPECTIVE EMPLOYER CALLED FOR REFERENCES, WOULD YOU:

Tell him the truth?	78%
Answer "no comment?"	18%
Say nothing derogatory?	4%

COMMENTS

- ✓ Why should I not tell the truth? I would expect him to tell me the truth if I called him.
- ✓ The new laws make me lie.
- ✓ If the employee was dishonest, we hint around, but do not say it outright.
- ✓ I do not tell the whole truth, but I do mention the I would not re-hire the individual.
- ✓ I told the man who called me that the employee was a crook, but he hired the person anyhow.
- ✓ There is no reason not to tell it like it is.
- ✓ I answer some of the questions by saying, "If you come to see me personally I will give you all the details."

- ✓ Not only would I tell the truth, I would call the employee and repeat what I said.
- ✓ It depends how well I know the caller.
- ✓ Sometimes I tell them it is partly my fault because I let the individual get away with it too long.
- ✓ I tell my employees when hired that I will tell later employers the absolute truth.
- ✓ Our management group decided to tell the truth, but our lawyer said not to.
- ✓ I would tell the truth only if I decided to prosecute.
- ✓ A fired employee never gave me for a reference.

TWO THIRDS OF OUR RESPONDENTS HAVE CAUGHT PILFERERS. OF THOSE, WHAT PERCENT HAVE CAUGHT:

One or two people	56%
Three or more people	21%
Five or more people	14%
10 or more people	6%
15 or more people	3%

COMMENTS

- ✓ I lost \$100,000, but only recovered \$45,000.
- ✓ I guessed the amount of loss and settled for \$4,000.
- ✓ Lost \$10,000. I am supposed to get installment payments but I have not seen anything yet.
- ✓ I am aware of no loss, but that does not mean one does not exist.
- ✓ Had a \$1,000 loss but had to settle for \$500 because the judge said some items did not have serial numbers. And I could not prove they were mine.
- ✓ I have caught three people, but Lord knows how much they took.

- ✓ Had about five people who averaged \$2,000 each.
- ✓ He took \$2,000. I got back \$1,200 only after threatening prosecution.
- ✓ I have not caught anyone in the last eight years, and it is starting to worry me.
- ✓ Of the three people we caught, one admitted to \$2,000; one to \$6,000; and one to nothing.
- ✓ Lost about \$8,000, but what hurt was that he was a key man.
- ✓ We are in the middle of a \$30,000 claim now.
- ✓ We had 14 employees take \$20,000. Our recovery was

- only 50 percent.
- ✓ I have two men who I know are stealing, but I cannot catch them.
- ✓ The courts are not very good when a wholesaler tries to prosecute.
- ✓ The last pilferer I fired went on unemployment for six months. It cost me more than my loss.
- ✓ Three people took \$25,000.
- ✓ Of a \$9,000 loss I got back \$5,000 from the thief and \$4,000 from the bonding company.
- ✓ Our loss was \$400,000, but recovery was only \$220,000.
- ✓ Of a \$20,000 loss I have only gotten back \$200.
- ✓ Had a \$12,000 loss. Got back \$2,000--and the lawyer

- got most of that.
- ✓ They admitted to \$4,600, and paid it all back, but I am sure they took much more.
- ✓ My losses would have to be very big before I would fight the court system.
- ✓ Lost about \$10,000. The thief was a partner in a branch store.
- ✓ Lost \$3,000. The employee returned \$400 and went to prison.
- ✓ My \$20,000 loss was not discovered until inventory time.
- ✓ I lost \$4,000 and recovered 100 percent. But the CPA costs were \$1,800.

WHERE, AT YOUR LOCATION, HAS THE GREATEST AMOUNT OF PILFERAGE TAKEN PLACE?

Countermeasures	31%
Driver	27%
Management Personnel	11%
Shipping	10%
Salesmen	8%
Shop	7%
Receiving	6%

EDITOR'S COMMENT

- ✓ Note the positions of the management personnel and salesmen.

HOW LONG WAS THE PILFERING EMPLOYEE WITH YOU?

Less than one year	38%
One to five years	44%
Over five years	18%

EDITOR'S COMMENT

- ✓ Note the relatively high percentage of employees with over five years service who were caught pilfering. It is almost one out of every five.

REGARDING YOUR EMPLOYEES:

What percent is 90% honest?	56%
What percent takes small items?	85%
What percent is dishonest? under	10%

EDITOR'S COMMENT

- ✓ This substantiates the industry belief that almost everyone takes some small items.

ASIA MEMBER SURVEY continued

IN YOUR OPINION WHY DOES THE EMPLOYEE PILFER?

- | | |
|---|-----|
| 1) General need for money | 87% |
| 2) Lower prevailing moral standards | 76% |
| 3) Knows it is easy to get away with | 74% |
| 4) Employer is underpaying employee | 69% |
| 5) Supporting a habit (drugs, drinking, etc.) | 64% |
| 6) Thrill of getting away with it | 42% |

EDITOR'S COMMENT

- ✓ Employers have some control over the third and fourth factors, but the remaining items are essentially out of their control.

IS IT EASY TO STEAL FROM YOUR COMPANY?

- | | |
|-----|-----|
| Yes | 65% |
| No | 35% |

COMMENTS

- | | |
|---|---|
| <ul style="list-style-type: none"> ✓ We periodically hire an inside informant from a detective agency. He operates as a regular employee. The last time we used an agency, we caught five pilferers. ✓ We feel theft has dropped considerably since we started using polygraph tests. ✓ Even though we feel our employees are honest, we do not close our eyes to the possibility of pilferage. ✓ I feel we reduce the need to steal by selling to our employees at cost. | <ul style="list-style-type: none"> ✓ We randomly stop our delivery trucks on the road to check the paperwork against the load. ✓ We have installed a metal detector on the employees' exit door. ✓ For the past 10 years we have used a detective agency. In addition to identifying pilferers, the agency told us who was drinking, smoking pot, and leaving early. ✓ When we discharge someone for stealing, we leak the information so that all personnel hear it. |
|---|---|

COMMENTS OF PROSECUTION EXPERIENCES

- | | |
|--|---|
| <ul style="list-style-type: none"> ✓ When we fired a minority person for stealing, we found ourselves defending our position with EEOC. ✓ From what I see, the offenders usually go free and steal again. ✓ Employee stealing will be here forever because the courts are in their favor. ✓ We cannot check a person's background anymore because EEOC regulations make former employers afraid to talk. | <ul style="list-style-type: none"> ✓ Not only are the courts a problem, but pilferage is socially acceptable today. ✓ The hardest problem was getting the State's Attorney to prosecute. When the employee was convicted, he got five years, but it was a suspended sentence, and the man is back on the street. ✓ From past experience, we have a new motto: "Never accuse - unless you can prove." |
|--|---|

COMMENTS ON UNFORTUNATE EXPERIENCES

- | | |
|--|--|
| <ul style="list-style-type: none"> ✓ Our system is not that good. We cannot really tell if someone is stealing. ✓ Until we got the questionnaire, we did not realize we had a poor checking system. ✓ In some instances we have lost stock due to our loose controls. ✓ There have been several cases where an employee left us, and we later found out the person had been stealing. ✓ The last several times we had a problem, it was with my | <ul style="list-style-type: none"> own relatives. ✓ My employees make long distance calls on the company phone. I call that stealing. ✓ I had continual cash shortage, and when it was traced down, my most trusted man was the culprit. ✓ We do not know who is stealing and who is not. We suspect, but we have no proof. ✓ It seems that in my company we close the barn door after the horse is gone. |
|--|--|

- ✓ We feel we have too many people with authority to write credits, to go to the register, to make purchases, etc. Our

system allows flexibility but makes checking shortages difficult.

WHAT ACTION DO YOU TAKE AGAINST EMPLOYEES CAUGHT PILFERING?

Our survey asked several questions about what a wholesaler/distributor would do if a pilferer were caught. Answers varied widely, but most are represented in the following list:

- ✓ Would not fire him the first time. Would if he did it again.
- ✓ I am a former court judge. It has made me tougher.
- ✓ It is hard to fire someone in a small town. Word gets around.
- ✓ Wrong is wrong. I would have him arrested right away.
- ✓ It all depends on the amount he took.
- ✓ I do what the bonding company tells me.
- ✓ The few times we gave a second chance, they still gain.
- ✓ Each circumstance is different. We make up our mind as we go.
- ✓ We are disgusted with the way the courts handle it.
- ✓ We admit we are weak. We never prosecute.
- ✓ The law ought to be changed so that you must prosecute.
- ✓ If it was the first time, I would ask for double the amount in restitution.
- ✓ I can get restitution by going to court and plea bargaining.
- ✓ In my case the court fined the employee, but I had to sue the bonding company in order to get my money.
- ✓ The attorney was a bigger crook than the person I fired.
- ✓ Would be based on the quality of our evidence.
- ✓ Catching a man four years ago and not firing him has

made him our most valuable man today.

- ✓ My bookkeeper ripped me off. The bonding company paid me off. But the police still have not found her.

The question "Are you reluctant to discuss theft with an employee?" yielded these responses:

- | | |
|-----|-----|
| Yes | 29% |
| No | 71% |

Asked, "Would you disregard the theft if the value were \$100, \$50, \$10?" respondents answered:

- | | | | | |
|-------|-----|-----|----|-----|
| \$100 | Yes | 2% | No | 98% |
| \$50 | Yes | 3% | No | 97% |
| \$10 | Yes | 15% | No | 85% |

Clearly, our members are concerned about any amount stolen. However, there does seem to be some reluctance to discuss it with employees.

GENERAL COMMENTS ON PILFERAGE

- ✓ When we uncover theft, we feel it is only the tip of the iceberg.
- ✓ It was surprising to find that thermostats were being stolen, since they never had been a problem before. The thief explained they are light enough to put in a pocket. A few fit a lot of cars, and they are fairly expensive.
- ✓ We discovered one counterman who swapped our merchandise for work on his car by a garage customer.
- ✓ We have had some theft from outsiders, such as the freight delivery drivers, and servicemen who come in to work on electrical or plumbing problems.
- ✓ One of our counter girls was concealing merchandise where we could not look.
- ✓ Stealing can be avoided by dealing fairly with employees.
- ✓ I believe that almost every employee takes something, however small.
- ✓ Most employees feel that the employer has plenty of money and will not miss what is taken.
- ✓ Would like to put in some kind of program, but I am

afraid it would cost an arm and a leg.

- ✓ Personnel see the employer not reporting overages from suppliers and holding back credits from customers. Why should employees not follow suit?
- ✓ I cannot understand why employees see other personnel steal and do not report it. When questioned, they say they did not want the individual to lose the job.
- ✓ We need a book on this topic. The small jobber has no guidance.
- ✓ Honesty has no grey area. We discharge people for any theft.

Knowing that many wholesalers face problems similar to yours, hold some of the same views and have had similar experiences in attempts at prosecution may help save your sanity. Hopefully, this final chapter goes beyond that by giving you greater understanding of how pilferage takes place. Recognizing a potential problem is the first step in prevention.

END