Podcast 2

Inside Job: Exposing Theft & Fraud in Processing & Manufacturing Operations

In our first podcast, we explored the roles of motives, opportunities and indicators in theft. They are guideposts universal to all deviance, including the two most critical to businesses: theft and fraud.

However, the motives vary somewhat depending on the type of business involved, while the opportunities are specific to each type of operation. Indicators tie closely to opportunity and the systems, layout and culture of each business.

In this podcast, we deal with processing and manufacturing operations and the specific problems that this industry sector encounters.

While it is easy to describe the various opportunities and indicators that may be involved in lost profit in your business, knowing where you face risk is worthless, if you also do not have the tools to resolve problems.

My first, and most impactful business was a small company called Promax Investigators. Initially, I built it around the need that the micro-retailer—the corner pharmacy, the independent grocer, the small hardware and lumber business, and so on—had to deal with theft and fraud. Most of it, at first, was shoplifting. We designed short-shift solutions, where each store could contract for as little as one 1.5 hour shift per week of coverage. Our results were phenomenal, because those retailers, without the ability to afford 40-hour per week coverage, could still fight theft on a vey small budget.

In two grocery stores, we had more than 140 apprehensions in one month: a rate of one arrest PER HOUR.

But shoplifting was only about 60% of their losses. We uncovered a multitude of employee thefts or frauds and several supplier frauds, accounting for nearly 55% of the total recovered losses in that period.

That business grew into Loss Prevention Group Inc., with 126 employees across western Canada. When we moved into handling warehouses, shipping businesses, food processors and fabricating shops, the problems remained the same. Employees and suppliers in every business exploited vulnerabilities, causing tremendous shrinkage. Merely identifying risks and opportunities for loss would not have been enough. We provided solutions.

We were fortunate. Our reputation was so good that potential clients came to us, rather than having us go out and sell our services. Many of the businesses we worked for had been told about us by satisfied clients, and we often had to stall or decline clients because we did not have enough skilled staff at that moment to do the jobs properly.

Most businesses, though, do not feel they have a problem until the problem overwhelms them.

We were called in to deal with an extraordinarily high shrinkage in a lumber wholesaler operation: 14% in one year. We found the problem easily, but it was too late. The company folded within months.

The best solution is not to catch a thief or fraudster, but to prevent the embezzlement in the first place. It’s hard to do if the business owner is unwilling to admit that they have a potential problem.

There are three appropriate responses to identified risks: Deter, detect and respond.

We found that one client's bookkeeper was embezzling. Rather than fire her, the owner gave her another chance. And she took advantage of it. Two years later, we caught her again. This time, he dismissed her. We detected, but the owner declined to respond.

In many cases, when we do a risk analysis, the businessperson implements many of our recommendations, effectively deterring future loss.

To minimize risk of loss, all three responses are vital.

From the day an employee is hired, a supplier selected, or a contractor engaged, they face temptation. Some will resist, some will not, but your primary role in management is to mitigate or remove the temptation. This starts at the moment you screen the prospective employee or supplier and does not end. Never. Temptation always is there. If you are religious, just ask Adam or Eve.

Temptation is lowered when risk (or threat) is increased.

I love watching nature documentaries and chuckle when I watch some species of monkeys, or barn swallows.

The monkey tribe has its alpha male who guards his harem jealously. But when he turns his back, there is always a lower-ranking male who tries to sneak in and have pleasure with one of the females. And there often are females in the harem equally willing to sneak away and oblige him. That's giving in to temptation.

Barn swallows mate for the season, sometimes for life. But even after the two breed, the female will make herself available for some extramarital fun when the male disappears for a few minutes. Temptation.

Try leaving a cookie on a table and tell your 3-year-old to leave it. Turn your back and almost inevitably, the child will take the cookie. Temptation.

When the males stick by their partner, very little infidelity occurs in the animal world. When you keep the cookies locked away, few are swiped by the wayward child. No temptation, little opportunity.

So, from the day you set about to hire an employee, eliminate temptation. One of the most important ways to do this is to check references properly. Some past employers will not disclose the real reasons an employee left their company, for fear of lawsuits, but properly asked questions and proper protections, such as bonds and insurance will reduce the risk of loss.

In 2024, a woman was hired as office manager in a small town in Manitoba. At her past employment, she was let go after money disappeared. The new employer didn't bother to check her background, which also showed several small claims actions against her. Within six months, she stole more than $130,000.

In 2025, also in Manitoba, an employee was charged with theft of several millions of dollars from a lumber wholesaler, when he created false rebates under false names. He was terminated for unrelated reasons, but it was only much later that his frauds were detected.

Again in Manitoba, one person was charged with embezzling from the non-profit where they worked, and a CAO of a municipality was accused of stealing and defrauding the municipality of roughly $500,000.

And those are just a very tiny number of the actual thefts going on, in one of the least populated provinces in Canada!

Why? They faced temptation, combined with huge opportunity. Yet, they could have been thwarted, even after they started, by following the indicators of theft.

There always are several vulnerable areas in any business, but in processing and manufacturing, many of them focus on the nature of the facilities: large spaces with little activity in many areas and low levels of supervision in critical components.

When I contracted to the federal and provincial governments, helping to set up micro-businesses and sole proprietor entrepreneurs, I discovered a common theme with new business owners. They had a wealth of knowledge, ability and enthusiasm for the core aspects of their operations, but were naïve when it came to administrative, supervisory or technical aspects. They may have wanted to do their electrical work all day or make their food products or manufacturer their unique creations, but they often loathed, or at least had woefully inadequate knowledge of bookkeeping, or computers, or sales or technical demands. This left them vulnerable.

A second theme was that they all underestimated how much time was needed for these administrative and operational duties while overestimating how much time they would spend on billable work. So, when they needed to adjust their incomes and expenses, they did what many businesses do: they cut administrative costs. In so doing, they created more opportunity for loss.

In processing and manufacturing, the first problem area is computer work and office administration. Problems are common in payroll, billing and collections, operating expense management, computer programming, and so on.

The second area is the work floor. The size of many plants, combined with the low number of staff often employed on that floor, allows for autonomy.

The third area is the receiving & shipping function.

Next, outside sales and delivery.

Each business in the processing sector, though, has individual priorities, and regardless of how large or small, opportunity exists.

Let's start with the last first.

Outside salespersons work with several distinct advantages, if they want to steal or commit fraud. They develop personal relationships with buyers, making collusion easier. They work autonomously, making it difficult to track any "side hustles" they may have going. They generally have a liberal expense budget that can easily be manipulated. They are empowered to handle rebates, refunds, discounts, special pricing and deals. Many may not be to your business's advantage. These advantages mean that you need to develop stringent controls to thwart any deviance.

Delivery persons have a penchant for side-hustles, too. I investigated one cross-docking facility where one driver made a daily stop first thing in the morning and just an hour or so before the end of his route. The company tracked his vehicle, but his stops were on innocuous routes leading to clients and to the warehouse, so it appeared he merely was taking a coffee break. In fact, he would meet other drivers at the coffee shop in the morning and discuss what they could trade off with each other, either shorting clients or the company. The same happened in the evening, but now he met his spouse, who would pick up any merchandise that he had "forgotten" to provide to the client. He had one other trick: his 5-ton truck was gasoline-powered. So, when he fueled up, he fueled his wife's car at the same time, at company expense.

Again, autonomy provided opportunities.

Most business owners recognize the weaknesses inherent in receiving and shipping but often are unaware of the most effective tools to discourage loss.

Receivers who develop relationships with drivers and suppliers also can develop dishonest relationships. Receiving doors are great opportunities to take merchandise out the back door, put goods in the garbage, short orders coming in, reroute deliveries, and so on. Almost 100% of your merchandise arrives through the back door, while almost all of your returns also end up being shipped out here. Often, a supplier or supplier's sales rep uses the receiving area for drop shipments, often working with the receiver. But the solutions are simple: effective cameras, proper paperwork (including logs) and effective follow-up.

Even with good systems, collusion can be problematic.

We worked with an international courier who used a comprehensive scanning system for merchandise leaving the property, but it was only as effective as the receiver who scanned the items was. In one case, he would loosely apply low-value item UPC codes, which could be scanned and removed once the driver left the loading docks.

The next area of concern is the plant or factory floor. This is a vast cave of opportunity, unless there are many employees in the area. Often, processing plants that rely heavily on automation use fewer staff, which, like the prior two areas, provides autonomy. However, the floor is not an area of prime concern for direct theft. Rather, it is a means to conceal goods or move goods around to make theft more convenient and private.

The last area is the administrative area. Here, all money eventually should flow through, whether electronically or actually. It is also the area where orders are placed, verified and accounted for, where payments and payroll are processed and where records of all activity are stored. It is also the area least understood and monitored by business owners who prefer to focus on production, rather than technical administrative details.

The plethora of opportunities here are far too numerous to enumerate and elaborate upon. Because of the very high risk here, the greatest effort should be put in to minimize risk of loss. If you are not in a position to properly monitor and assess each of the areas of the administrative operation, you should employ at least two outside sources of protection. First, an accountant who checks all the financial transactions monthly, and then a different accountant to do year-end taxes and closeout of books, to mitigate against bookkeeper loss and supplier problems. Second, a computer security and programming expert should be used every six months to ensure that there are no flaws, bugs or problems with software, programming and systems. Last, comprehensive security systems, processes and equipment should be used, to monitor and deter problems.

The major concern with office staff is that business owners tend to trust them too much, often hiring family or friends, who are often more than willing to take advantage of any loophole you may have left open.

Of all the investigations we have handled involving administration and office personnel, more than 70% of the deviance occurred at the hands of trusted, unsupervised persons.

This provides a general overview of problem areas in processing and manufacturing.

Now, let’s look at specifics and assess the most effective solutions.

Let’s start with the last of the four areas first, again: Salespersons and delivery drivers.

A national meat processing plant empowered its sales reps to handle all returns (out-of-date product, damaged goods, etc) and issue on-the-spot credit notes. It also empowered the sales reps to discard of these damaged goods. One salesman made an estimated $3,500 (in today’s dollars) extra each week by taking “blown vacs,” close to stale date goods and even good product out of the store, issuing credits and then reselling the merchandise to a local restaurant. He also issued credits worth less than value to the stores from which the goods came, undercounted the items taken and directly stole other merchandise as he left through the receiving doors.

The primary problem with the store shipper was not dishonest, but indolence. He checked nothing.

We installed cameras, inside and outside the doors, after catching this sales rep. These cameras were monitored at all times but reviewed weekly. We set up a cage area where all returns and damaged goods were held, away from the receiving doors. The receiver had to get the floor manager to unlock the cage whenever goods were accessed. Then we established a series of logs for goods in and out, refunds and rebates, damaged goods, spoilage and logs of people entering and exiting the receiving areas.

These solutions worked for both sales reps and delivery drivers, along with the receiving door function.

An international dairy operation experienced the theft of a full pallet of butter weekly. Our undercover employee found that a route commissioned salesman making home deliveries and deliveries to small restaurants as part of his client base had arranged with the shipper (again!) to allow the pallet to be stolen. But what to do with that huge amount of butter? The route franchisee had regular clients, including fly-in lodges and northern clients, who bought the butter at 25 cents on the dollar.

We implemented bills of lading, a double verification system in the warehouse, direct follow-up with every listed client, random “tailing” of route franchisees and an infrequent, unpredictable double check of vehicles leaving the premises. Aside from the value of the butter thefts, the operation saw an increase in profitability of approximately 1.25% in the next quarter, likely attributable to the deterrent effect of our actions.

Sometimes, loss occurs in the most unlikely places and the most unlikely businesses.

A truss manufacturer seems to be a highly unlikely place for theft. Firstly, many of the trusses spanned over 30 feet and weighed hundreds of pounds. Hardly lunch-box theft! Secondly, trusses are specialty items and any employee, at most, would only build a new building once in a lifetime, if at all. But one manufacturer lost over $350,000 to an intrepid couple of employees.

They set up the templates for the manufacturing of each custom truss, and no one challenged their role or expertise. So, they developed their own client base, where they manufactured trusses to order, using the company ay equipment, warehouse and staff.

We implemented a yields analysis that identified areas of weakness in inventory, as well as an efficiency analysis of production. Both revealed that, in specific weeks, costs per unit of production rose while productivity fell.

In another metal fabrication shop, their expert in problem solving and creating new designs had extremely high wastage, which the owners expected was due to his regular design experiments for them. In fact, he was milling his own stuff, discarding it in the waste bins and later retrieving it. Where custom work is involved, manufacturing facilities need to implement more stringent controls.

Establishing a yields log for every project and tracking any discards, by whom and the reasons for the spoilage also reduced opportunity to take goods. Cameras at all remote exits, which also were alarmed, disallowed any surreptitious moving of goods out those doors.

An office employee of one company never took time off and insisted that she could handle all the transactions in the office without help. What she was doing was ensuring that no one could track her frauds and thefts. When she fell ill and a temp was called in, her larceny was discovered: over $800,000 in four years.

Another employee routinely worked after hours, claiming that he preferred the solitude. He did. He used his quiet time to steal files and client lists, which he used to set up a competing business with a friend.

Office areas require an abundance of controls, skilled experts who can be called on to investigate and monitor processes and workflow, and strict protocol of who has the authority to do what. Wherever possible, a second person should be trained in each office function, so that no one is irreplaceable. And consistent monitoring via electronic tools, cameras, software and human resources all should be coordinated to keep administrative employees honest.

Processing and manufacturing businesses have as many opportunities for theft as retailers do, without the risk of shoplifting. For retailers, the risk is spread over the scores of employees and the hundreds or thousands of customers. For manufacturing, the risk is spread over a handful of office personnel, a few suppliers and salespersons and an array of production workers. Yet the damage that those internal sources of loss can do is easily as significant as all the people involved in potential shrinkage in retail settings.

While controlling shoplifting is an ongoing challenge, proper systems and controls can almost entirely eliminate loss in the factory. The question is, are those business owners willing to acknowledge the risks and act on them?

Next podcast: Measuring the effectiveness of emerging security systems, devices and equipment.