

OLD SCAM FINDS NEW VICTIMS

Savvy Businesses On Guard Against Check-Floating Scheme...

Columbia, Md.—While spectacular corporate fraud producing the bankruptcies of companies like Enron and WorldCom grab headlines, a garden-variety business scam, the "bust-out," has been wreaking havoc for years at businesses without the resources—or commitment—to shut it down. Considering how rarely this crime is prevented, the stakes are at least as high.

But there are ways to fight back, according to the National Association of Credit Management, which points to the recent jailing of a bust-out artist to illustrate the pitfalls of careless credit practices and the benefits of working with law enforcement. If companies hadn't been willing to admit being fleeced and devote some time and money to support the prosecution, "there could have been so many more victims," Isabel Mercedes Cumming, assistant state's attorney for the City of Baltimore's Economic Crimes Unit, said.

Fifty-year-old Michael Murray is now serving a prison sentence after pleading guilty to a scheme in which he defrauded suppliers of about \$338,000. Murray set up shop in Baltimore as president of two companies he called Easy Access and Char Enterprises. Murray targeted everyday merchandise, from snack foods and soda pop to soaps and fragrances. His victims included distributors unknown to the general public as well as consumer giants such as The Coca-Cola Company and Gillette.

In a classic bust-out, Murray contacted the companies with an offer to buy large quantities of merchandise. The terms: cash on delivery. The suppliers would deliver the goods to Murray's downtown Baltimore warehouse, in exchange for a check drawn on a business account. When suppliers complained to Murray after his checks were returned for insufficient funds, he'd make apologies for the "mistake" and send another check. Often, by this time, another truckload of goods was on its way to Easy Access or Char Enterprises, but subsequent checks had no more cash behind them than the first. The accounts were real, but unfunded. By the time the suppliers realized they'd probably been taken, Murray had sold the stolen goods at flea markets. The pattern might continue for awhile at a given company before Murray would move on to the next.

Murray might be a free man today if he hadn't pushed his luck. Convicted by Baltimore City last year, he was released on home detention on probation—a move opposed by prosecutors—that required him to make partial restitution for the stolen goods. Murray promptly set up shop in the same location, with the same company names and even the same business checking accounts. Another arrest followed and he's been locked up since August 13th.

"You'd think he would have gotten different checks," Cumming said. But even then, the second prosecution depended partly on the fact that one of Murray's last victims, American Hotel Register, contacted the Baltimore City Police, running into thick case files both in the city and in NACM's Asset Protection Group (formerly the Loss Prevention Group), which had been coordinating the case with law enforcement. Companies that documented the crimes and were willing to testify in a court far from their own headquarters were also instrumental to the case.

In the case of American Hotel Register, the company flew security and safety manager Bill Wagner from its Vernon, Ill. headquarters to Baltimore to accompany police who executed a search warrant. When they entered Murray's warehouse, they found \$800 worth of the company's goods—a minuscule fraction of the \$29,000 they lost in bogus orders, but enough to help trigger the arrest.

But how could Murray get as far as he did? It's a combination of limited company resources and standard business practice, according to the experts.

Cash on delivery, or COD, has been around for years and companies eager to make a sale are often willing to chance it—most of the time, they collect. And when they don't collect, it's not immediately clear whether the reason is fraud or a legitimate customer having trouble making ends meet. Suppliers will try to carry customers for awhile with an eye to the long-term future. "So in many cases," according to Joe Crowley, head of NACM's Asset Protection Group, "it's written off as a simple collection issue. Every company is pretty much willing and comfortable with carrying a certain amount of writeoffs, from year to year."

Another weakness to be exploited is the knowledge that company and state or city resources are often stretched thin and can devote only so much attention to suspected fraud. Many municipalities do not have economic crime units that can focus on bust-outs, for example, and if criminals limit their take or keep moving often, they probably won't get caught.

And cities may have dollar-value thresholds below which they can't justify a prosecution, as do federal authorities, which may only get involved when the fraud goes across state lines. The larger the economic base of a region, the higher that threshold may be.

According to NACM, criminals who commit such crimes have a much better chance of not getting caught in big cities such as New York or Los Angeles, where resources are spread thinly. In those cities, the FBI may only get involved when the net value is a million or more. Fewer than one percent of criminals committing such crimes get caught; the average bust-out nets between \$3 million to \$5 million. However, energies devoted at the federal level to combating economic crimes is increasing, with the growing recognition that business fraud helps fund terrorism. And companies can help reduce fraud without waiting for help on the outside.

Both Cumming and NACM's Crowley agree on these guidelines to follow:

- Get certified funds instead of COD
- Get a thorough background check from credit-rating agencies
- Work with organizations like NACM's Asset Protection Group, "which would have known immediately about Mr. Murray"

If you suspect you're being victimized, reach out to prosecutors. "People should realize that we do prosecute these cases," Cumming said, "and justice does happen."

Crowley cites warning flags that include a new client's selling goods below cost. "That's a sign they they never intend to pay you back," he said. Other signs include receiving unsolicited orders by fax or from cell phone numbers, and responding vaguely to questions about the company's corporate structure or business model. Still another, he continued, is a total lack of response to dunning notices. "Creditors are sometimes amazed at how thoroughly and resolutely a buyer resists terrifying letters and dire phone calls... well, he never intended to pay you in the first place."

Still, Crowley says, many credit managers are very savvy "and have a good, gut intuition that says, 'Let me call the NACM Asset Protection Group on this.'" What NACM's Asset Protection Group provides is a centralized data-collection center that can connect the dots when a new scam is emerging and help support law enforcement and private enterprise in thwarting them. Crowley refers to his division as a "disciplined gossip club" that can immediately connect to its more than 28,000 business members in response to suspect behavior.

The \$338,000 that Murray was convicted for "may not sound like a staggering amount of money," Crowley said, "but in a city the size of Baltimore, that's huge. And imagine what's taking place on a daily basis across the nation."

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The National Association of Credit Management (NACM), headquartered in Columbia, Maryland supports more than 25,000 business credit and financial professionals worldwide with premier industry services, tools and information. NACM and its network of Affiliated Associations are the leading resource for credit and financial management information and education, delivering products and services which improve the management of business credit and accounts receivable. NACM's collective voice has influenced legislative results concerning commercial business and trade credit to our nation's policy makers for more than 100 years, and continues to play an active part in legislative issues pertaining to business credit and corporate bankruptcy.

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