

Dendro Resource Management, Inc.
*provides audit, security and consulting services
designed to raise the theft and fraud prevention stance of the timber industry.*



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About Us

With over 23 years' experience in the forest products industry, Dendro Resource Management, Inc. (DRM) is a leader in timber audit services. DRM is committed to supporting the integrity of the forest industry by providing independent analysis and recommendations regarding internal controls as well as actively detecting and documenting theft and fraud incidents. Customer programs can be tailored with your

***Speaking at VA Tech in March:
Becoming a Student Again!***

This coming month I have the opportunity to discuss timber security issues with a class of upcoming foresters at Virginia Polytechnic Institute and State University. The class happens to be the same timber procurement class I was required to take when I attended quite a few years back! This is the 2nd time I've met with this class and I find I get as much out of the experience as they do. I enjoy talking with the students, sharing my experiences and hearing their perspectives.



At the same time though, in a way, this forces me to become a student again as well. In preparing for the class, I revisit the concepts and principles that are fundamental to our work and I research the latest trends and findings to ensure my message is relevant and vibrant.

This month's article takes a look at how, even today, we are still students and teachers. Maybe it'll bring back fond memories for you of your school days and how we must always be learning to stay ahead of the game and teaching so others will join us.

*Sincerely,
Aaron Gilland
DRM, Inc.*

**Is Security Really Necessary?
*Convincing non-Security Managers of its Value***

In preparing for VA Tech, it occurred to me that success in

Company's needs in mind. With DRM you are guaranteed independence and confidentiality.

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our work requires us all to be students **and** teachers. We are students in that we should be continuously learning as much as we can about the methods and practices of crime perpetrators. Although many of us have been in this business for a long time and consider ourselves experts, we won't be experts for long if we don't stay



current. Fortunately, training can be obtained at The Forest Products Security Group. Their annual meetings are designed for the express purpose of learning from actual case studies. This group is part of the Forest Resources Association which also publishes security alerts to keep us informed on security issues. Both are great resources to stay current. There are others as well. In any case, the world is always changing and thieves are always looking for new ways to get away with their crimes.

On the flip side, to our own organizations we are teachers and resident experts. Oftentimes, our biggest obstacles in implementing an effective timber security program are the non-security colleagues and top management within our own organizations. Most of the value of our work comes in prevention. It's hard to measure crimes that weren't committed or even attempted. In tough economic times, when funds are tight, sometimes it's not easy getting the funding or resources needed for theft prevention. Our role is to teach others why security makes good business sense.

Perhaps having a simple model can help us here.

Using "Fire" as an Analogy

In talking with non-security types, one of the most difficult obstacles is overcoming the simple belief that friends and associates would never steal from me. Although I'm not suggesting that we must scrutinize everyone or everything, there are enough cases where "good" employees have scammed the company to convince us to take notice. Why do we think we're somehow immune? Oftentimes,

although they may not steal from you, they can justify stealing from an impersonal company. If you are in the timber industry, you are vulnerable to theft and at least some minimum level of caution is prudent - if only to keep honest people honest.

The Fraud Triangle



When talking with a non-security person I like using the graphic I've attached here as an illustration of the overall process and the areas to consider in looking at the security of your own business.

The graphic illustrates that there are three basic parts to a criminal act, just as there are three basic elements to fire. A fire requires fuel, oxygen and heat (or a spark). The three comparable elements of fraud are pressure, rationalization and opportunity.

Pressure (fuel): Generally, individuals are under a financial pressure of some kind to commit a crime, similar to "motive" in police investigations. Money or financial gain is almost always the motive for theft. Without extenuating circumstances that make the need for more money a temptation, many employees wouldn't want to risk losing their job and their reputation. Those financial needs and wants however, provide the fuel to take action.

Rationalization (oxygen): Most people are honest. Although there are many factors that impact individual circumstances, as a rule of thumb, studies show that

- ◆ 40% of employees will never steal or be dishonest.
- ◆ 30% of employees will steal or be dishonest on a regular basis
- ◆ And 30% will steal or be dishonest depending on the situation (easy opportunities).

These percentages can vary depending on the study, but all agree that there is a large percentage of society that will

steal if given opportunities where they feel they can't be caught. When pressures mount, people get desperate and can rationalize their actions and do things they may not have done under other circumstances. Furthermore, perpetrators can justify the reasons why he or she is going to commit the crime. Think of your own experiences. How many of you hedge a little on tax deductions? How many tell the grocery store clerk about the items he forgot to ring up? Honest people can become dishonest in the right situation. Then as they pull off the "first caper", confidence builds and the rationale solidifies. Whether or not people actually respond to these rationalizations depends on their oxygen levels - do they take in enough of the "steal it" air to take action? How well can you rationalize your behavior when you need to?

Opportunity (spark): Finally, for the theft to take place, ultimately there has to be opportunity. Perpetrators generally choose times when they believe they can't get caught and they have access to the system (or the opportunity) to commit the fraud. Opportunities come in a variety of forms -- having access to the truck used to remove the timber, having responsibility for weighing and documenting loads, or having the chance to drive in the wrong direction undetected.

With fire, eliminate one element (fuel, oxygen, or heat) and the fire is extinguished. Eliminate one element in the fraud triangle and you can stop the fraud.

Which one of these elements do you think we have the best chance of affecting?

The only element of a fraud we can control as managers, internal auditors and foresters is "opportunity." If we can put together a program that keeps honest people honest, we will be successful.

Ultimately Good Security is Just Good Business

How can we expect to leave a valuable resource such as

timber or wood products out in the open without taking some measures to protect it? Fraud statistics indicate that annually the timber industry likely loses approximately \$8.5B each year to theft. This number is based on an annual production of \$175B in product sales and an estimated 5% fraud rate determined by ACFE. Yet, historically, that number can shrink. Based on experience and interviews with potential and discovered thieves, perpetrators are deterred if there are clear and effective procedures in place and the general perception in the word-of-mouth local community is stealing is taken seriously by your company and prosecutions will happen.

Having a solid security program will also send a positive message to your valued and honest contractors. Knowing that you are controlling your processes increases their chance of getting the work in the first place and receiving an honest rate for it. Typically, dishonest contractors will under-bid the contract knowing the charges will be subsidized with stolen loads. Since honest contractors can't compete with those artificially low rates, you could ultimately find yourself with only thieves as contractors. Although everyone wants to get the best rate for quality service, and there's no harm in looking for the lowest bidder, be careful that the savings you get in the short run doesn't translate to serious losses in the long run. That wouldn't be a good deal in anyone's book.

Conclusion

How much money did you save by locking the door on your residence this morning? How many of you feel comfortable leaving your billfold out in open view with the windows rolled down in your vehicle? Can you trust all your fellow employees? How about others who may wander by? Truth is, we sometimes don't value security until AFTER an incident has occurred. Then we ask ourselves why we didn't take some preventative measures. How much is it worth to you then?

The best security program is one that is grounded in the principle of working with honest people and then keeping

those honest people honest.