

# PURCHASE ORDER FRAUD



NEWS FLASH - Lessons from around RPM

## WHAT IS PURCHASE ORDER FRAUD?

The fraud usually involves the Fraudster attempting to pose as a legitimate customer ("business") with the intent of tricking the selling party into sending goods to them. This type of fraud can be done by either:

- Hijacking a legitimate business relationship, the Fraudster poses as that business, either entering fictitious sales or diverting shipped orders to an alternate delivery address.
- Setting up of a new customer account with the seller whereby the Fraudster poses as a legitimate business partner with the intention of purchasing goods.



## REAL LIFE SCENARIO



- An RPM Company received an unsolicited sales order from an individual purporting to be the Chief Procurement Officer of a large healthcare company.
- Standard credit procedures were followed and an account was opened, but there was no face to face contact with the sales team.
- Over the course of several weeks four orders were received, with shipped product totaling approx. USD\$400k.
- Communication with the customer was by email and telephone, across multiple departments.
- Once the credit period of 30 days lapsed, there were difficulties collecting the debt.
- Upon independent verification with the healthcare company they confirmed they had no relationship with the RPM Company - The orders were fraudulent.

## MISSED RED FLAGS

There were several red flags prior to the goods being delivered:

- Gmail account was used, unusual for a legitimate corporation.
- Purchase order and emails had discrepancies in formatting/ style, and mistakes in grammar and spelling.
- Unsolicited high value order with no initial customer contact.
- Inability to make contact face to face with the customer.
- Urgency of the orders.
- High value orders - large volume of one product type.
- Unusual customer type, outside traditional sales route.
- Credit references were bogus and had not been checked.
- Seniority of the contact, the Chief Procurement Officer of an \$11b company is unlikely to handle orders of this size directly.
- Change of addresses during delivery to new distribution depot.



## PROTECTING RPM



What lessons can we learn from this incident to avoid future losses?

- Be vigilant. Who is the Third Party?
- Get to know your customer prior to shipping product.
- If the inquiry is unsolicited, it may be too good to be true!
- Verify requests independently.
- Follow internal controls designed to mitigate risk.
- Be wary of emails and orders that request immediate action.
- Look out for grammar, spelling and formatting mistakes.
- Watch for unusual email addresses and lack of face to face contact.
- Ensure good communication between departments, spotting red flags is easier when working as a team.
- When in doubt - Ask for help! Your Compliance Team is here to help.

**WE ARE RPM AND OUR SUCCESS DEPENDS ON EACH OF US FOLLOWING THE RIGHT ROUTE AND EMBRACING THE VALUE OF 168® TO MAKE THE RIGHT DECISIONS.**

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