FOREST STEALS MILLIONS

INTRODUCTION: A forester employed as the Director of Land Resources for an independent private college diverted timber sale proceeds away from the college and into his own bank account. The forester allowed timber dealers to harvest college-owned timber at discounted prices (sometimes for free) in exchange for commission checks written to the forester.

SECURITY BREACH/DAMAGE: Since the college’s main mission is educating students, a Department of Land Resources was created and given the responsibility of managing the 27,000 acres of timberland owned by the college, which includes timber sales. The Department of Land Resources consisted of the Director and one forest technician. Over a period of years, the Director operated several schemes to defraud the college. Schemes included:

1) Selling wood at below market price to dealers.
2) Receiving kickbacks in the form of commission checks.
3) Permitting dealers to harvest timber for free.
4) Bid rigging to favor dealers willing to pay kickbacks.
5) Buying real estate at inflated prices for the college in order to receive commissions from the seller.

RECOGNITION: While reviewing the budgeted revenue for the year, the college’s accounting department noticed revenue from timber sales was lower than expected. Since the Director was out of town, the forest technician was contacted and asked if there were any outstanding checks from the timber sales. The Technician entered the Director’s office to look for outstanding checks and discovered numerous un-deposited checks under the Director’s desk calendar. The accounting department was notified immediately and an investigation was launched.

ACTIONS TAKEN: Photos were taken of the checks under the desk calendar and left in place until the Director returned from vacation. An investigator familiar with the forest industry was hired to investigate the case of the “un-deposited checks”. Upon his return from vacation the Director attempted to cover up his schemes by soliciting the individuals involved to write backdated checks to the college. These checks were then submitted to the college with the excuse that they had been misplaced and just recently discovered. The Director also contacted the wood dealer responsible for the majority of the harvesting to obtain harvest and payment records related to activities on the college’s land. Those records were never found by law enforcement.

A federal grand jury charged the Director on numerous federal charges including conspiracy to defraud the college, conspiracy to launder illegal proceeds, interstate transportation of stolen property, and receipt of stolen property. The Director eventually pleaded guilty to conspiracy and interstate transportation of stolen property. He was sentenced to over 4 years in federal prison to be followed by 3 years of supervised release. He was also ordered to forfeit his interest in his
residence valued at $400,000 and ordered to pay restitution to the college amounting to more than $3,000,000.

**COMMENTS:** When the college created the Department of Land Resources and staffed it with the Director, the Director was given total autonomy over the college’s land. He determined the volume of timber to be harvested, handled all timber sales, negotiated contracts, and collected timber sale revenue. As Director, he did not need anyone’s permission or approval to conduct timber sales. He was given this responsibility because he was a registered forester with years of experience in the forest industry, active church member, and community leader.

This fraud highlights the importance of segregation of duties. Given the autonomous nature of the Director’s position he was able to manipulate documentation and conceal his theft from internal and external financial audits until he made the mistake of getting behind on his budget and leaving condemning evidence on his desk while on vacation.

**RECOMMENDATIONS:** All timberland owners have an exposure to timber theft and fraud, which can have devastating effects on the bottom line. Fortunately, by strengthening the business controls surrounding timber sales, these risks can be managed. Recommended controls are:

1) Clearly define and review the job responsibilities of all personnel involved in timber sales. This should be done in a written Policies and Procedures Manual.

2) Educate all personnel on the potential of theft and fraud and identify red flag situations.

3) Require segregation of duties so personnel do not have complete control over the timber sale process. A system of checks and balances should be in place so personnel selling timber are not responsible for handling the proceeds of the sale.

4) Review Cruise vs. Cut data when possible to compare pre-sale estimates with actual volumes harvested. This trend analysis will highlight anomalies, which should be investigated.

5) Require independent review and testing of the business controls surrounding timber sales. Businesses are not static and over time a good control environment can begin to weaken.

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