INTRODUCTION: A timberland owner in the Southern U.S. discovered that a large amount of timber was being diverted from its lands. This “theft by diversion” scheme had allegedly been going on for several years.

SECURITY BREACH/DAMAGE: The landowner, who at that point did not have far-reaching security measures in place, had a long-term business relationship with a subcontract logger to haul timber to specific contract mills in the area. This logger, operating multiple trucks, was routinely diverting one or two loads daily to non-designated mills, using assumed names and the cover of a separate contract. This alternate timber contract was registered with a close relative who operated a woodyard in a nearby community. The logger was basically diverting timber through his relative’s woodyard and pocketing the proceeds.

RECOGNITION: The landowner had heard rumors of timber diversion against this logger earlier but had tended to ignore them, reasoning that they originated with a competing logger. However, with such allegations re-emerging, the landowner observed one of the logger’s trucks outside a normal mill haul route. He also noticed that a few trucks had returned from their round trip to the mill more quickly than expected and that a pattern of “undercuts” was occurring on certain units. Based on these observations, the landowner arranged for a security contractor to conduct camera surveillance on relevant timber tracts. The camera surveillance and subsequent wood flow audit produced enough evidence to substantiate the landowner’s suspicions. The landowner notified law enforcement, who initiated a criminal investigation.

ACTIONS TAKEN: The law enforcement agency conducted surveillance activities on the logger and interviewed numerous truck drivers, loggers, mill managers, and associates during the course of the investigation. A search warrant for records was obtained and led to the discovery of sufficient incriminating evidence to launch a prosecution.

The length of time that the scheme had been ongoing and the amount of diversion was far greater than initially realized. However, the prosecutor elected to pursue a “best evidence” case, based on incidents documented during the most recent two-year period. While the fraud amount prosecuted exceeded $400,000, the actual amount of loss to the landowner was substantially greater. Based on statements, records, and information obtained about the length and scope of
the diversion, it is estimated that the total loss was well into the millions. Ultimately, the logger was indicted and later convicted of committing mail fraud, received a multiple-year prison sentence, and was ordered to pay restitution to the landowner; however, the restitution was far less than the amount diverted.

**COMMENTS:** It appears that the landowner’s close personal relationship with the logger may have been a factor in the landowner’s lax auditing of a situation that provided opportunities for fraud and the landowner’s delay in suspecting the scheme. There was no indication that the landowner conducted any routine wood flow audits on any of the logging sites prior to this allegation surfacing.

**RECOMMENDATIONS:** Perform random camera audits to compare visual data with wood settlement data. Conducting these audits should become a regular part of a routine, ongoing timber security program. Even though these audits may fail to disclose anything improper, they establish an open baseline of accountability that can itself discourage fraud. (Information about who is to be audited and where/when the audit is to be conducted should be restricted to a few individuals.)

Investigate tips and allegations to the best of your abilities as soon as possible. Rumors should not be discounted, especially when they are combined with “red flags.” These allegations deserve a thorough inquiry. Instead of mentally reasoning why an action is innocently explainable, err on the side of caution, and consider the possibility that it could be something more sinister. Business relationships operate off of trust but also require effective systems to verify accountability.

Contact and involve law enforcement once you have verified a crime has occurred. A law enforcement agency with experience in timber investigations, such as a state forestry investigative unit, is usually very thorough in its inquiries. Law enforcement agencies have capabilities and methods to gather evidence that you may be unable to match. The earlier the contact, the better the chance of a successful prosecution.

Set up a hotline to gather tips and information. Many individuals are reluctant to report improper or illegal activities directly to the manager or landowner. The anonymity and availability of a “hotline” offers employees, contractors, and others a simple and effective method to report fraud and abuse. If your operation is too small to enable you to set up your own “hotline,” check with your state Forestry Department or area law enforcement agencies for other options. Many law enforcement agencies have programs to gather tips and information and may provide you with a phone number you can publicize.

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