

Expert Outlines Trends and Tips You Can Use to Spot Frauds

February 1, 2005

We recently spoke with Gary Bares, founder of **Verifraud**, a firm which specializes in helping credit execs manage fraud risk. Before founding **Verifraud**, Bares built and ran the credit fraud risk management area for Comark, a \$1.5 billion computer distributor/reseller. Recently, Bares conducted a study of over 700 credit fraud attempts in multiple industries over a five-year period. The study examined the characteristics of fraud and what credit analysts believe is true vs. what is actually true when it comes to identifying the most common ways a fraud can trick credit people.

CT: First of all, tell us a little bit about what you do now.

Bares: **Verifraud** is a fraud risk management firm that offers training, consulting, and outsourcing solutions to business creditors in the area of fraud.

CT: What do you mean by outsourcing?

Bares: We help clients eliminate fraud losses by screening their credit applications. We run them through a filter and use an array of tools to really dig beneath the surface. And doing the same task for many companies creates efficiencies and allows us to spot abnormal activity, such as high levels of buying, that may not be visible to individual companies.

CT: So when you're trying to identify whether a potential customer is a credit fraud or not, what do you look for?

Bares: The intent of our investigation—and what all good credit investigations should strive for—is to use technology to answer four basic questions:

One: Who is actually controlling the company? This is not necessarily who is on the credit app, but who REALLY runs it.

Two: Where have they been and what is their experience? We use our negative database, among other tools, to check this information. Our experience shows that 22 percent of frauds can be directly linked to previous fraud attempts.

Three: Who are the principals associated with? Here we're looking for links with known fraud groups.

Four: Does the company actually have the market presence and operating infrastructure to be functioning as it claims to be? This is perhaps the most important of the four. Most frauds have the appearance of legitimacy. They'll have appearance infrastructure such as a web site, a good credit report, etc., but we look for operating presence.

CT: Can you elaborate on the last item? What do you mean by "appearance infrastructure" versus "operating presence?"

Bares: A company is not sustained by the appearance infrastructure. Rather, it is sustained by actual operating infrastructure, including business, customer, and supplier relationships.

CT: So if you can learn the answers to those four questions, you'll probably be able to identify most frauds, right?

Bares: Exactly.

CT: What suggestions do you have to help a credit analyst find out if a potential new customer is really telling the truth in these areas?

Bares: First, we recommend that companies designate one person to screen these. If you don't have a centralized source, you'll have fragmented learning. You won't spot the relationships and the higher ordering patterns, which I refer to as the "velocities" of ordering.

CT: Any other suggestions?

Bares: There are many tools out there that allow you to dig beneath the surface and build a profile of who you are actually dealing with. Two that come to mind are www.autotrackXP.com and www.accurint.com. (See "Dr. Credit: It's Hard For Debtors to Hide From Accurint," *Credit Today*, July 2004).

CT: How can a credit department use the tools in Accurint?

Bares: Part of the value of Accurint lies in its ability to help you find information on individuals and businesses such as corporate affiliations, address history, and public record information in order to find links to previous frauds. But equally important is its compilation of many search tools in one place, giving an analyst the ability to research in creative ways.

For example, Accurint's website registration search, which is a fairly well-known way to find the registrant information and creation date, allows you to not only search by domain name but will also return websites registered to a given person or address. This is a handy way to find possible related entities. Keep in mind that unless you've got a central person who knows the players involved in your bad-debt history, you won't be able to spot links to these past insolvencies.

CT: Is it legal to check these data?

Bares: It is important to remember that many of the searches on Accurint, such as their "People search" (including address history, employment, corporate affiliations, associates, court records, etc.) require "permissible use," which is part of the sign-up process for usage. If you have any questions about the "permissible use" qualification, you can contact the vendor.

CT: So Accurint is primarily a tool to help a credit analyst find connections with past credit frauds?

Bares: Accurint is used by many different functional areas, but credit employees often use it to screen for fraud. Screening for links to previous fraudulent activity is part of it, but it also helps to build a more complete picture of the applicant's operations. Of course, this should always be used in conjunction with other information, such as velocity of ordering, etc. Analysts can then look at the complete picture provided by such information and see if it's consistent with what's on their D&B and other credit information. Technology is evolving very quickly. Make sure you review what's out there and keep up to date.

CT: Any other suggestions?

Bares: A lot of companies are using the old, traditional approaches of checking credit. You pull a D&B, go to NACM's database, and maybe verify the address online. Many of these approaches haven't changed in 20 years, but the crooks adapt. Your credit checking procedures must evolve in order to be effective – to the extent that it's cost effective. Centralization of this process is critical, because only then can you spot the relationships.

CT: Care to share any recent war stories?

Bares: The last two major California frauds we stopped involved perpetrators buying 5- to 10-year old companies with good credit reports.

CT: How did you spot those as frauds?

Bares: We spotted heavy ordering across the industry. This was one of the most important signs in this case, as in others. If everyone is receiving new applications at the same time, it's a huge red flag. That's the importance of being connected with your peers.

CT: Did those companies have good ratings?

Bares: Yes, they certainly did. I spoke with the old owner of one of these businesses, who told me that he never did more than \$400,000 in annual sales. Within a month, the two largest business credit-reporting agencies both showed this firm with \$5 million in sales. This combination of a good credit rating and years of good payment history is very dangerous. Losses in that case were in the range of \$4 to \$5 million. And that was the sixth bust-out we've watched these guys run.

CT: Other than the flurry of ordering, were there any other clues to help you identify these firms as frauds?

Bares: There was no notice of the ownership change anywhere. But they were sloppy enough to use a name that I knew was affiliated with a past fraud. In addition, one was a small, electronic, circuit board designing firm, which all of a sudden wanted to buy a lot of laptops. The ordering behavior was not consistent with what you would expect from a company in this line of business.

CT: Sounds like a good tip off

Bares: We also had a produce company with 4 employees try to order 75 laptops. Again, this was obviously not consistent with operations.

CT: What geographic trends have you noticed lately?

Bares: We've seen a lot of the organized groups moving from Los Angeles to Las Vegas. Fraud in the Atlanta area is also increasing significantly. Georgia moved up to number 5 from number 8 or 9 over the last two years. I wouldn't be surprised to see more movement out of the traditional "hotspot" areas because they know those areas are being looked at more carefully.

CT: Are there any particular trends in industry sectors now?

Bares: I've seen an increase in what I call "takeover bust-outs." With the number of small online companies out there today, it's much easier [for the fraudster] to go in and buy one of these companies for \$25,000 or \$50,000 that may be distressed. If they have a decent track record, it can be very dangerous.

Gary Bares is the Founder and Director of Verifraud, a Division of Direct Alliance Corporation, Tempe, AZ He can be reached at 866-205-8872 or gbares@verifraud.com.

**Top 10 "Fraud States" -- Incidents Per Zip
Code**

State	Percentage
California	46.9%
New York	23.5%
Florida	14.3%
Nevada	5.1%
Georgia	3.1%
Illinois	3.1%
New Jersey	2.0%
Maryland	1.0%
Michigan	1.0%
Delaware	1.0%

Zip Code	City	State
89029	Laughlin	NEVADA
91201	Glendale	CALIFORNIA
48214	Detroit	MICHIGAN
91789	Walnut	CALIFORNIA
78597	S Padre Island	TEXAS
91745	Hacienda Heights	CALIFORNIA
10455	Bronx	NEW YORK
90042	Los Angeles	CALIFORNIA
90712	Lakewood	CALIFORNIA
10460	Bronx	NEW YORK
07452	Glen Rock	NEW JERSEY
38112	Memphis	TENNESSEE
10032	New York	NEW YORK
10472	Bronx	NEW YORK
33351	Ft Lauderdale	FLORIDA
33027	Hollywood	FLORIDA

90058	Los Angeles	CALIFORNIA
10034	New York	NEW YORK
11220	Brooklyn	NEW YORK
90260	Lawndale	CALIFORNIA

Related Articles

- [So You Think It Can't Happen to You? \(Conference Bonus Article\)](#)
- [Is It REALLY a SALE? Three Principals of Revenue Recognition](#)
- [Fraud by Bankruptcy Workout Specialists Alleged](#)
- [Systemic Method to Spot Duplicate Accounts & Fraud](#)
- [Monthly Survey: Stuffing the Channel: Dangerous to the Health of Your A/R! A Majority Report Direct Experience With Channel Stuffing](#)
- [Why It's So Easy to Get Creditor's Money Out of the Country](#)
- [Small West Bank Town With Dozen's of Bustouts to Its Credit - U.S. Government Checks to Bustout Operators?](#)
- [Inside Information About Bustout Front Men](#)
- [The Problems Faced by Prosecutors When Prosecuting Bustouts](#)
- [Where Do Bustout Goods Go?](#)
- [The Streets Are Paved with Gold! Maybe Not, But the Pockets of Some of Our Visitors Are Being Lined With US Dollars](#)

[Home](#) | [Search](#) | [Credit Jobs!](#) | [Sample Articles](#) | [Help](#) | [Tell a Friend](#)

© 2005 Credit Today

All Rights Reserved. Reproduction without permission prohibited.