

Katzscan Quarterly

Supply Chain, Governance, Fraud, Turnaround Help
1st Quarter - 2009



Greetings, and welcome to 2009. I hope everyone had a very nice holiday season.

Thank you for allowing me to communicate with you. I hope you find the content informative.

Happy reading - enjoy - and your comments and suggestions are appreciated.

Sincerely,

Norman

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Do you know of a company, *maybe your own*, suffering from disconnected dots?
www.disconnecteddots.com

Let's link! www.linkedin.com/in/katzscan

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SUPPLY CHAIN CORNER

The Single (Internal-External) Supply Chain

The supply chain represents not just the activities that happen outside your company's walls between your customers and your suppliers, the supply chain also defines what happens in between and within your company's departments, and includes everything from raw materials to components to finished goods to monies.

The movement of raw materials starting from the receiving dock through raw materials quality assurance, raw materials inventory, manufacturing, finished goods quality assurance, finished goods inventory, and distribution is in fact a supply chain, even though there was no involvement of a customer or a supplier in the traditional concept. (If any of the operations were outsourced, then likely an external provider would have been used, but this is a simpler example.) The fact is that between two entities in a supply chain relationship, one entity (the recipient) is the customer, and the other entity (the provider or source) is the supplier, and these entities can be



internal, external, or both.

The same key performance indicators (KPI's or metrics) that are applied to up-stream supply chains (selling to customers) and down-stream supply chains (receiving from suppliers), can be applied to the internal movements within the internal supply chain. From a holistic viewpoint, we can consider that companies have two supply chains: one inbound and one outbound that run in parallel to each other.

The holistic view of the supply chain becomes more important with the understanding that because of the supply chain's interconnected links, an abnormal event that happens in one link can have a ripple effect through the supply chain, and may manifest itself differently than its original form; this can be especially true of supply chain frauds. For example, a substandard raw material or the introduction of a foreign substance could turn an edible product unhealthy or deadly.

To measure the performance of the inbound and outbound supply chains we need some basic technologies that allow us to gather information electronically, and move away from paper-based processes.

Next newsletter: Affordable & Achievable Supply Chain Technologies

FOCUS ON FRAUD

Causes Of Fraud

There are several theories as to what causes people to commit fraud.

One classification of theories are called Strain Theories; these theories postulate that strain causes fraud. An example of this is the strain theory that pits the "Haves" against the "Have Not's". Here, a person wants what someone else has -- be it a fancy car, nice clothes, jewelry, a nice boat, etc. -- but cannot achieve those things via legitimate means, and thus must commit fraud to do so.

Another reason is rage against the machine. Here, a person commits fraud because they are fed up with a situation, such as their job. Without the ability to quit due to loss of income, a person will commit fraud against their (hated) employer. Inventory theft is an example, or the theft of supplies or other assets such as money, perhaps through the falsification of expense forms. The employee feels entitled to what they are stealing because of their (perceived) poor treatment by the employer.

A third reason people commit fraud is due to external pressures of society. Addictions (i.e. drugs, gambling, alcohol, etc.), children's college expenses, the illness and care of a family member, personal losses -- these are all examples of situations that a person may have very little control over. Unfortunately people tend to be reluctant to get the help they often need because they don't know where to turn or, more often, the stigma around the revelation that such a problem exists.

Too often overlooked in my opinion, in the next newsletter I'll discuss how internal company pressures can cause fraud.

Next newsletter: How Internal Pressures Cause Fraud



TURNAROUND TIPS

Controlling Chaos -- Inventory & Fixed Assets

One of the first tasks in turning around an ailing company is to know what you've got to work with, and this includes available inventory and fixed assets, as these may be needed as collateral for cash.

Can you rely on the company's primary business software application, (likely the Enterprise Resource Planning -- ERP -- system) or the computer programmer for accurate information? Maybe not, especially if the software application or the people in charge of it are root causes of the company's failure.

The turnaround professional is left with the need to quickly control chaos, get an accurate read on the company's inventory and fixed asset positions, and do so at a reasonable cost.

There are several off-the-shelf software applications available -- starting around a few thousand dollars -- for inventory and fixed asset management that can be implemented quickly, are easy to use, and can accurately provide for long-term tracking of inventory and fixed assets.

Maintaining this information outside the company's primary software application may have benefits, especially if the functionality was lacking or the accuracy is suspect. And just because inventory and fixed assets are maintained separately, this does not mean that it will be difficult to reconcile to purchase orders and sales orders, as this can be accomplished either manually or programmatically, depending on the situation.

Next newsletter: Financial Reports Due Diligence



GOOD GOVERNANCE

What Is Good Governance?

Good Governance is about doing the right thing. What that right "thing" is depends on the situation, and the decision can be predicated on the person's values, morals, and ethics as shaped by their environment, from childhood through adulthood.

Companies are not absolved from Good Governance; Sarbanes-Oxley was created to strengthen how (public) companies govern themselves after the failures such as Enron, WorldCom, and Global Crossing proved that some companies can't be relied on for self-governance (self-control?) without guidelines.

Good Governance includes treating everyone fairly (ethically), akin to the Golden Rule of "Do unto others....." From a business perspective, "everyone" includes employees,



competitors, suppliers, customers, and shareholders.

Consider, and answer honestly, the following two statements, especially if you are an executive or management level person:

"Our employees are empowered to ask for, and receive, training, especially if they've never been trained on how to do their jobs correctly and are thus unable to perform to expectation."

"We treat our suppliers with the same value, honesty, and integrity as we treat our customers."

While the state of the economy is not a driver for Good Governance behavior, in difficult economic times, when companies must rely on their relationships with employees, suppliers, and customers at a deeper level than ever before, there is no better time to consider how you're governing your company and operations, and how much you can benefit from doing things right.

Next newsletter: Legal versus Ethical