

# Katzscan Quarterly

Supply Chain, Governance, Fraud, Turnaround Help  
3rd Quarter - 2009



Summertime in South Florida - hot & humid! If it's like this where you are, it's a good time to enjoy some inside air conditioning while reading this issue. :-)

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*

Norman Katz, CFE, CFS  
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[www.katzscan.com](http://www.katzscan.com)

Do you know of a company, *maybe your own*, suffering from disconnected dots?  
[www.disconnecteddots.com](http://www.disconnecteddots.com)

Let's link! [www.linkedin.com/in/katzscan](http://www.linkedin.com/in/katzscan)

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## SUPPLY CHAIN CORNER

### **Applying External Metrics To Internal Performance**

Common supply chain metrics, or key performance indicators, used for grading operational excellence (or lack thereof) with customers and suppliers can be similarly used to analyze how well the inter-departmental and intra-departmental processes are performing.

Picking and packing performance in ensuring the right item in the right quantity is selected for shipment to a customer is no different than selecting the same for raw materials or components entering the manufacturing process, or finished goods leaving manufacturing and entering inventory.

Conversely, the ability to receive the right goods in the right quantity from a department is no different than the ability to process an inbound shipment of



purchases at the receiving dock.

Too often, companies focus on their performance at the shipping dock (their customer performance), but fail to focus on their supplier performance (at the receiving dock), and forget to focus on their internal performance (in-between and within departments). The effect of this oversight is compounded by the inability to understand that the impacts of such inefficiencies go beyond just the immediate. For example, failure to accurately receive goods creates a discrepancy when the accounts payable department gets an invoice from the supplier; the inefficiency at the receiving dock has now become a burden to the accounting department who must reconcile the receipt versus the invoice. Further, the company may be paying for goods that were assumed received but in fact were not shipped.

Basic supply chain technologies -- the Enterprise Resource Planning (ERP) system, automatic identification (i.e. barcode scanning), and Electronic Data Interchange (EDI) -- have ceased to be "nice to have" technologies, but are at the root of process efficiencies and cost reductions across a wide range of industries, and are now very affordable and achievable for small to medium sized businesses to successfully implement.

***Next newsletter: Closing Supply Chain Information & Process Gaps***

## **FOCUS ON FRAUD**

### **When Internal Fraud Boils Over**

What extreme level of pressure must the honest employee endure before the strain becomes too great to bear and the burden breaks the ethical back of the employee?

The boiling point is when the pressure is too great on what would otherwise be an honest employee and a decision must be made between doing what is right and doing what will continue to pay the mortgage and put food on the (family) table.

Instead of "fight-or-flight" (the human response to an adverse situation), I call this "fraud-or-flight", the decision between committing fraud and risking employment. When "flight" (resigning from or risking one's employment) is not an option, an otherwise honest employee can literally be forced to commit fraud. In this case, the entity really to blame is the company's management, not the employee, because management forced a no-win situation upon the employee.

If this sounds a little fantastic, it is not -- this happens all the time, every day. The frauds could be buried in the organization's typical inefficiencies, and thus may not be noticeable at first or for a long time, but they exist and continue to happen nonetheless. In fact, it is management's own failure to see and understand what an employee must do to satisfy their job requirements that allows such frauds to go on unnoticed, but this is not an endorsement of micro-management. But from a SOX-compliance standpoint, management is assumed to have -- must have -- knowledge of an immediate employee's actions.

How can a manager manage effectively if the manager doesn't understand what the employee does each day, helping to ensure the employee receives a fair and balanced review? The answer is that the manager can't manage effectively and it's



the employee who suffers the immediate effect, with the company ultimately suffering too.

**Next newsletter: *How Cost-Cutting Can Cause Fraud***

## **TURNAROUND TIPS**

### **The System May Not Stink.....And Here's Why**

In a crisis situation, it's become easy to blame the primary software application (typically the Enterprise Resource Planning -- "ERP" for short system) for a company's woes. Regardless of whether this is fair, is it accurate?

There is a big difference between a software application that is dysfunctional (i.e. can't perform math correctly) and one that is perceived or reported to "stink" because it's difficult to use or doesn't provide the useful information a user wants.

A dysfunctional system may have started out fine, but after having been heavily modified over the years ceases to be reliable, program code literally tripping over itself due to trying to satisfy conflicting logic or what has been determined (or perhaps more correctly, "dictated") as a business requirement.

Leaving aside dysfunction, when a software application is reported to "stink", it typically means that the users are generally unhappy with how data is input and what information is available in queries and reports. The application in fact and more often than not has integrity and the information is accurate, but it may not be user friendly.

A common gap when implementing business software applications exists between how the data is set up and what capabilities the software has. Katzscan has saved clients thousands of dollars in modifications and replacements, and enhanced the basic capabilities of software applications, by creatively setting up data, to the delight of our clients and the surprise of a software company or two. Compounding the problem, left unchecked and with no data entry standards, haphazardly entered data that fails to follow rules from the beginning will ultimately result in a software application that fails to adequately support a business, though not due to its inability to accurately function.

Turnaround professionals need to be able to ascertain the difference before committing excessive dollars and resources to correct problems that may not truly exist. Business software applications, especially ERP systems, are great repositories of data; just because the current reporting mechanisms are not producing the desired output does not mean that the software "stinks".

**Next newsletter: *Failures Due To Fraud***



## GOOD GOVERNANCE

### **Relative Distance**

Good governance relies on there being relative distance between a decision-maker and the decision such that there is no affect on the outcome.

Sometimes a person is too close to a decision because the outcome will affect a person indirectly or directly. A politician may be swayed to vote a certain way not because it's right or wrong but because of how the politician's constituents will benefit or lose, and this will affect whether the politician is voted in for another term of office. Similarly, a politician or business person may vote a certain way due to a more direct impact, such as a bribe or kickback (otherwise known as a "gift" or "loan").

In relative distance, a person must separate themselves from influencing the outcome of a decision if they stand to gain in some way from the decision. This may require a person to leave the room or not vote on a particular matter.

This can be tough, because very often there is some type of gain from a decision. The creation of relative distance requires a person to be ethical ("do the right thing") and ensure that their decision is made in an unbiased, fair, and just manner, considering the pros and the cons, and ultimately voting based on what is right, not what is the benefit.

***Next newsletter: Full Disclosure***



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