



Fraud Against Business

Each year, small businesses are targets of fraudulent or deceptive sales practices. Often, it is only a matter of identifying suspicious situations, asking the right questions, and communicating with others. If you suspect a scam:

- Alert all employees and warn them about contacts.
- Provide detailed instructions and directions to staff on how to handle suspicious solicitations and sales attempts.
- Alert and pass the word on to local business associates and law enforcement agencies, the Better Business Bureau, and the Bureau of Consumer Protection (800) 422-7128.

This packet contains information about:

- Business opportunities
- Charitable contribution pitches
- Coupon books
- Office supply scams
- Phony billing schemes
- Prize offers
- Vanity publishing
- Phishing emails

Business opportunities

Many small business owners are approached to invest in other business opportunities in conjunction with or in addition to existing business operations.

Promoters may claim the venture will increase customer traffic flow into the current business or that little effort is required to collect high profits. Ask the following questions before you invest:

- Is the product or service a proven value or just a gimmick?
- What are the true costs of the venture?



- Will the seller supply training, management, and promotional assistance?
- Is the seller primarily interested in selling distributorships or in marketing a product or service?
- How many other investors are involved? How many other distributorships will be sold or are already operating in the area?
- What profits can be expected and documented by the seller?

Review all aspects of any agreement before signing. Ask for copies of business and financial statements.

Check to see how long the company has been in business or if any complaints have been filed with the Better Business Bureau or the Bureau of Consumer Protection.

If you are interested in a business opportunity, obtain the names of at least 10 other investors and contact them to discuss their experience.

Charity pitches

Most businesses are regularly asked to donate funds to needy causes.

While many requests are legitimate, every year small businesses become victims of fraudulent or deceptive charitable solicitation schemes. Some of these include:

Law enforcement/fire fighter organizations

A common solicitation involves purchasing advertisements in various “official” publications. These publications appear to be associated with organizations or groups such as fire fighters, law enforcement, or other official agencies.

While many of the publications do exist, the promotion is often an independent, profit-making venture.

Telephone solicitors often ask if businesses wish to renew ads from last year, leaving the impression of a routine transaction. In many cases, however, the business has never dealt with the publication.

Other callers lead businesses to believe the group is affiliated with the local law enforcement agency or that the business will receive preferential treatment after purchasing an ad.

The advertising price is usually not given unless you ask and the callers may be reluctant to provide specific distribution information. One small business owner bought an ad, only to find out the publication was not even distributed in the state the business was located.

Book cover and placemats

In one scam, a company promised to design book covers with anti-drug messages to be distributed to a local high school.

However, the solicitors were collecting money on behalf of a publishing company, and the publishing company never contacted the high school to discuss the book covers or to obtain permission to solicit in the name of the school.

Candy sales

In a recent fraud, several boxes of candy were delivered to a local merchant. The clerk who accepted delivery was told the candy was part of a fundraising effort to benefit a well-known youth group. The clerk provided advance cash payment for the candy. When the store manager contacted the youth group’s headquarters to verify the delivery, the manager found out the group was not involved in candy sales for fundraising purposes.

Special events

Businesses are often asked to buy tickets for charity events or to donate to worthy community causes. Promoters may ask you to contribute enough money to buy a block of circus tickets with the understanding that low-income youth will attend the event. In some instances, the tickets have not been made available to the youths as represented.

Protect your business

Before agreeing to make a donation or lend support to a charitable cause, ask the following questions:

- Who are they? Obtain the organization’s complete name and address, as well as the names of the principle officers.
- Are they solicitors, volunteers or paid telemarketers?
- What is the organization’s stated purpose? Does it publish an annual report that contains detailed budget information for public review?
- How much money is being collected on behalf of the organization and how much is going towards the stated purpose?
- What percentage of contributions goes toward the professional fundraiser’s salaries and other administrative costs?
- If the solicitor is selling advertising space in a publication, ask to see a copy of the latest issue. When will the next issue be produced? How many copies will be printed? Who will get copies?

Any legitimate group will disclose financial information and answer detailed questions about how it uses the money it collects.

Wisconsin law, Wis. Stat. ch. 202, requires all organizations soliciting for charitable donations to register and file an annual report with the Wisconsin Department of Financial Institutions (608) 267-1711.

Coupon books

Small business operators are often approached to participate in coupon book promotions. The business offers discounts or extras in the coupon books that are sold by promoters to consumers.

Problems occur when promoters change the terms of the coupons to make them more attractive to buyers, when the books are oversold, or when books are primarily distributed outside the firm's normal business area.

Before entering into any agreement with a coupon book promoter, consider:

- The total cost to the business of the goods and services to be used in the promotion.
- The total number of coupon books to be sold and distributed.
- The marketing area to be covered by the coupon book offer.
- The type of clientele to be solicited for the sale or distribution of the coupon book.

If there are any representations made about the proceeds being used to support a charitable purpose or a project sponsored by a civic organization, ask the same questions you would for other charity pitches.

Office supplies

Some scammers prey on small business owners hoping they will not notice a bill for office supplies like toners or paper which the company never ordered.

The product being pitched is not always copy machine toner. It might involve computer supplies, paper for facsimile machines, restroom urinal blocks, or light bulbs. Promoters who pitch inferior paper at inflated prices are so common they have earned the nickname "paper pirates."

Wisconsin businesses may also receive invoices for office supplies that look quite authentic. They are often personalized to include the name of the business or even the purchasing agent.

Sometimes these are advertisements cleverly disguised to look like bills. Follow-up letters and invoices are often sent to give the impression that you are late in making a payment. One company follows its solicitation with a letter threatening credit rating damage if the phony invoice is not paid.

Other billers may claim that a tape recording has been made of the agreement to purchase goods or services

and that collection procedure will begin in order to get the money.

Protect your business

The following procedures will help keep your business and employees from being victimized by phony office supply schemes:

- Assign one person or department to handle sales calls and approve all purchases for office supplies.
- Instruct employees not to give out information on office machines and copiers, especially when responding to telephone sales solicitations.
- Check out unfamiliar companies and offers before placing an order. If it sounds too good to be true, it probably is.
- Keep a list of regularly used vendors as protection against schemers who claim the order is a "renewal."
- When you do place an order, ask for confirmation in writing with all conditions clearly spelled out.
- Compare prices and quality of products with other suppliers.
- If the company claims to have a tape recording of the order, insist on hearing it. (Keep in mind recordings can also be altered.)
- Notify the supplier of unauthorized shipments or invoices immediately, in writing. Clearly state that you did not place an order and will not accept delivery.

Overpayment scams

Your firm receives a telephone call to find out what brand of supplies or equipment the business uses.

On the return call, the caller claims to represent a reputable company with which your firm often does business.

The caller often states that surplus merchandise is available at a reduced price due to a cancellation or over-order by another purchaser. Sometimes, callers may offer free gifts to employees to induce sales.

However, accepting the gift may mean other obligations have been accepted as well.

Regardless of the sales pitch, the results usually are:

- The business receives a shipment of poor-quality merchandise, with an invoice that often demands more money than what was stipulated in the original agreement.
- Products are delivered that are not as ordered or expected. The supplier then refuses to accept returns or provide refunds.
- No products are ever delivered and there is no sign of the supplier who has already gotten your money.
- An invoice or shipment is sent even though you clearly refused to place an order with the company. The supplier demands payment and threatens to turn your account over to a collection agency or attorney.

Phony billing schemes

Wisconsin businesses should be on the alert for invoices demanding payment for supplies, goods, and services never ordered or never received.

Every year, businesses lose substantial amounts of money because they fail to question or even recognize these phony demands for payment.

The most common type of phony billing scheme involves solicitations for “yellow page” advertising. Consumer complaints filed with the Bureau of Consumer Protection indicate that a variety of firms send statements for “yellow page” directory advertisements that look very similar to invoices mailed by better-known directories.

The solicitations even include the familiar “let your fingers do the walking” symbol. Sometimes businesses are contacted by telephone asking them to renew ads from last year, leaving the impression the transaction is routine.

Since the solicitations and invoices appear to be identical to a normal billing, the invoice is often inadvertently paid with a number of other routine bills.

These invoices range in price from a few dollars to several hundred dollars. The directories may be published; both the independent promoters rarely provide details about how many directories are published and where they are distributed.

The directory publishers stay within the limits of the law by including a statement that says, “This is not a bill and you are under no obligation to pay the amount stated.”

Protect your business

Take the following precautions to protect your business against phony billing schemes:

- Do not place orders over the telephone unless you are certain it is a reputable firm.
- Be sure of the organization’s name, address, and phone number as well as the solicitor’s name and his or her position with the company. Check records to confirm any claim of past business.
- Read your mail carefully. Warn employees to be on the alert for any unusual invoices.
- Check business records to determine if merchandise or services were authorized, ordered, and delivered before paying invoices. It may be helpful to have one employee review and approve all invoices.
- If the company claims to have a tape recording of the order, insist on hearing it.
- Before placing any advertising, verify that the publication exists. Make sure its circulation suits your needs.
- When in doubt about yellow page directories, contact the directory you want to carry your advertising to verify that renewal invoices have been mailed and clarify procedures for payment.
- Report phony billings to postal authorities and alert other businesses in your area.

Prizes and promotions

There are hundreds of companies that use prize offers to extract money from businesses.

Prizes include vacations, precious gems, or luxury cars. In order to be eligible to claim the prize, businesses are asked to purchase several hundred dollars in advertising specialty products, such as pens, mugs, key chains, hats or other promotional items with the company’s name on them.

After agreeing to pay for a COD package containing a few dollars’ worth of junk, the prize arrives. Its value

never exceeds the money paid. Cameras turn out to be plastic junk; precious gems look like the gravel in the driveway.

Vacations have so many restrictions you would be better off planning and paying for your own vacation instead of taking the “free” trip.

Some prize offers look like official gift certificates, bordered in gold. Others look like important official correspondence complete with validation number, or like a telegram or something important in an express delivery mail pouch.

No matter how they are packaged and how official they look, if you have to pay to win or receive a free gift, it is probably not worth the money.

Protect your business

Experience shows these companies rarely answer or adjust complaints and are hard to find once problems are reported. If you receive an offer for a prize:

- Find out the name and address of the company or person placing the call. Check them out before agreeing to become part of their advertising promotional campaign.
- Call local suppliers to compare prices and quality.
- Ask questions about the quality and restrictions on the prizes.
- Insist on written information from the caller.
- Be suspicious of offers that must be acted on immediately or require cash payments sent through express delivery services.
- Instruct employees not to accept COD packages from unknown companies.

The postal service allows small business operators and others to pay for COD service with a personal check payable to the mailer instead of the postal service.

Also, under Wisconsin law any unsolicited merchandise you receive is a gift. You may keep it without any obligation whatsoever.

Vanity publishing

This scheme begins with a letter addressed “Dear Business Executive” or “Attention Professional Engineer.” The letter goes on to describe how the

publisher of “Who’s Who in the Business World,” or “The World’s Top Engineers,” wants to include your name and accomplishments in the next edition.

Often, the recipient is flattered into providing the details of his or her career. The vanity publisher counts on people who think they have received a special recognition being more than willing to pay to see their name in print.

The publisher charges a fee for the privilege of being included in the listing, and then tries to sell copies of the book at inflated prices.

A variation of the scheme involves a business being contacted by a phone caller who wants to include the company’s name in some kind of directory. These directories are usually aimed at a specific market or profession. A fee is charged and the directory is usually distributed, if at all, to subscribers only.

Protect your business

Ask yourself how much of an honor it is to be included in a directory when you are required to foot the entire bill. Get the answers to these questions:

- Exactly what costs are involved? Ask about processing and photography fees, handling charges, and costs to purchase additional directories, certificates, or plaques.
- When will the directory be printed? How many directories are printed?
- Where they are distributed. Check with your local library or bookstore to see if they have ever heard of the directory or carry it in their collection.

Phishing emails

Some phishing e-mails specifically target small business owners with the goal of hacking into their computer or network. Common examples include e-mails pretending to be from government agencies, such as the IRS claiming the company is being audited or phony e-mails from the BBB saying a complaint has been filed. If you receive a suspicious e-mail from a government agency or the BBB, do not click on any links or open any attachments. Contact the agency directly to confirm the legitimacy of the e-mail.

Stolen identity

Scammers will often pretend to be a legitimate company for the purposes of ripping off consumers. When it comes to stolen identity, the company does not necessarily lose money, but their reputation is potentially tarnished as angry customers who were ripped off by the scammers think the real company is responsible.

For more information or to file a complaint, visit our website or contact:

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