



Contract Fraud Costs You Money!

VIRGINIA FORESTRY SUMMIT 2019

MAY 1, 2019

NORFOLK, VA

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Agenda

- DRM Background
- Definitions
- Case study
- Control Measures for Landowners to Successfully Manage Contracts
- Questions



Company Background



Founded in 2001, DRM provides independent and confidential audit and support services for forest industry operations

Provides Operational Risk Assessments or audits (scale houses, procurement, timber security systems, fiber supply chain), Contractor Risk Assessments and Design, Implement and Test Theft and Fraud Prevention Systems.

Independent and Confidential Third Party

Personal Background



President of DRM, Inc.

B.S. in Forestry from Virginia Tech

8 years procurement forester

24 years forestry operations auditing and timber security (Canal Industries, Canal Forest Resources and now DRM)

Accreditations: Cert. Fraud Examiner, FRA Board Member, SC & NC
Registered Forester

Association of Certified Fraud Examiners, Forest Resource Association,
SAF, SC & VA Forestry Associations, Institute of Internal Auditors

Past Chair of the Southern Forest Products Security Group

Personnel Background

Employs five part time that have extensive backgrounds in forestry operations, and/or law enforcement. (ME, GA, AR, SC)

Vetted to ensure no conflicts of interest

Provides “boots on the ground” in Northeast, South Central and Southeastern regions (with plans for Western States).

Clients scattered throughout the US.



Contract, What Contract?

Landowners managing forest lands typically see contracts for forestry management, timber sale agreements, tree planting, timber stand improvement items, roadwork, line maintenance and hunt lease contracts.

Others contract possibilities might include – mining operations, cell phone leases, oil and gas rights, pine straw sales, etc..

However, There are still some who do not get a written contract!

Definitions of a Contract

A binding agreement between two or more persons or parties especially : one legally enforceable If he breaks the contract, he'll be sued.

A business arrangement for the supply of goods or services at a fixed price or hourly prices which details performance standards for each party

And details what happens when standards are not met.

Information on Contracts

All contracts are not equal

Details in the contracts are key.

A contract where the terms aren't understood by all parties can be used against you (cords vs. tons, Doyle vs. Scribner, and products with no clear specifications)

Once signed, it is very hard to dispute a written contract, especially if the terms are met. Know your terms definitions.

Case Study of a Dissatisfied Landowner

- A landowner signed a contract to have the timber harvested from his property.
- He agreed to a per unit price for two products, pine and hardwood timber. Contract clearly stated the tract was to be clear-cut.
- He was verbally promised the entire tract would net him \$50,000.
- He received a \$10,000 dollar deposit prior to harvesting and was told that it would be depleted as timber was harvested. Once the 10,000 advance was cut out, then additional tons would be paid at the per unit prices.

Case Study of a Dissatisfied Landowner

- The harvesting crew worked for a month hauling about 25-30 loads of timber per week.
- After two weeks the buyer supplied the landowner a settlement statement showing the number of pine and hardwood tons cut, depleted by the \$10,000 advance and he got a check for the balance of \$1250.
- After five weeks the crew moved off the property and about the same time a settlement statement arrives in the mail, showing more tons cut and a check for \$4,567. This is noted in bold as the **Final Statement**.

Case Study of a Dissatisfied Landowner

- The landowner called the buyer and said he was promised \$50,000. To date he has only received \$15,817.
- The buyer explains he made a visual estimate of the tract and unfortunately was mistaken in his estimate. But he states the landowner was paid for the tons harvested and those tons are documented in his settlement statements.
- Based on his first settlement statement the landowner believes he was not paid for the total tons harvested from his tract. (2 weeks production netted him \$11250, so 5 weeks should be worth at least \$28, 125)

Case Study of a Dissatisfied Landowner

- Calls to the local law enforcement agency were met with confusion and comments that this was a civil matter, not a criminal matter.
- The landowner contacted a local forestry consultant and the state forestry commission for assistance. However, with a signed and legal contract there was little to be done.
- The contract was very general in its terms, pine and hardwood timber, and it did not state the landowner was due \$50,000, it only referenced the \$10,000 advance and the per unit prices.

Case Study of a Dissatisfied Landowner—Questions?

- What's the landowners next move?
- Is this contract fraud?
- Why or Why Not?
- If the signed contract was honored to the letter was the landowner defrauded?
- Who is at fault in this case?

Case Study of a Dissatisfied Landowner— Comments

- Technically speaking the contract was legitimate, since it described an agreement between the seller and the buyer to harvest timber and an advance was given.
- Law enforcement could not assist since the terms of the contract were honored.
- A verbal promise of value, if not written down, is worthless!
- The contract was legitimate and legal, but unethical.

Other Types of Contract Fraud

A contract spells out all activity and products to be harvested, but the buyer only harvests some of the trees.

A contract that specifies how the tract is to be cared for (BMP's, Roads, SMZ,s) and then all of that is ignored in practice.

A contract designates pine pulpwood in the thinning agreement, and the buyer hauls pine chipnsaw and only pays for pine pulpwood.

Other Types of Contract Fraud

Lacking specific details can cost money!

- Handshake agreement on the harvesting prices leads to a landowner being promised one thing and paid a lower price.
- Push a road into the tract – can be interpreted several ways. To what specifications? Bicycle traffic, ATV traffic, light pickup or heavy truck? Billed by the hour is the number of hours specific and expected?
- Acreage variances – tree planting, chemical applications – you own 120 acres and they spray 220 acres.
- Contract specifies harvesting all timber, however, pulpwood markets become tight, so all timber becomes saw logs, anything not meeting saw log specs is left standing, leaving a mess for the landowner

Other Types of Contract Fraud

How much chemical are they going to apply? What guarantees do you have? Direct observation of mixing process may be called for, especially when you consider the current costs of chemicals.

Tree planting – how many, what spacing, what species, what generation, who gets any extra trees? Is the number of trees accurate?

Boundary lines – chopped, cleared and marked? Or just maintained? I may define maintained differently than you do!

How do Landowners Control Contracts?

A key control measure is to have an ***Excellent Contract*** with specifics



Specifics include: type of work to be done or nature of the agreement, equipment and material to be used, time frame, standards or metrics for operational success, payment terms, ***when in doubt specify!***

Control Measures for Landowners

Any work you contract on your property should be in Writing!

- Roadwork, site prep, planting, boundary line maintenance, chemical site prep, fire management.

This Work must be completed prior to your paying the contractor – No exceptions!

Again details for standard performance –push a road on property, can become push a crowned road into the property with a 38” Culvert installed roadside, and water management areas where needed (best if these areas are flagged and noted by both parties)

What About pay as cut timber sales?

Control Measures for Landowners

Timber Sale Concerns

- Whom do you trust?
- How do I get the best value?
- How do I make sure I get paid for everything?
- What are my costs?
- When do I sell and to whom?



Control Measures for Landowners

Timber Sale Controls

- Simple answer is hire experienced and qualified assistance (written contract)
- Get References
- Quality of work is a concern
- Contracts clearly stating what we want done
- Safeguard resources
- Evaluate work and contractor (look at other jobs they've done)



Control Measures for Landowners

Timber Sale Controls

- Understand the terms
- Pay as Cut
- Advance then pay as cut
- Lump Sum Sale
- Diameter Limit Cut
- Fuel wood sale
- Chip n saw
- Saw logs
- Pulpwood

Every Region defines these differently and
Con Artists Take Advantage!



Questions?



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