



# Whistleblower Program

## Office of the Controller - City Services Auditor

Fraud Awareness and Prevention

June 2016

## WHAT IS INVENTORY THEFT?

Inventory theft is the removal of assets, usually by an employee or groups of employees, from storage for resale or personal use. Inventory theft can happen in any number of ways, and employees may use more than one scheme to manipulate inventory records.

## INVENTORY THEFT RED FLAGS

Knowledge of “red flags,” or indicators of possible fraud, can help detect improper conduct. If you suspect possible misconduct, look for a number or a pattern of red flags, rather than one red flag, before drawing firm conclusions.

Some of the most common “red flags” associated with inventory theft include:

			
<b>Unexplained inventory variances, or inventory values that do not change or minimally change from period to period.</b>	<b>Missing documentation related to the receipt or shipment of inventory.</b>	<b>Inventory items improperly designated as scrap or obsolete.</b>	<b>Empty packing boxes stacked or positioned to create the appearance of a full inventory.</b>

## PREVENTING INVENTORY THEFT

A program designed to prevent and detect inventory theft should:

- Implement proper inventory counting procedures, and count inventory on an irregular schedule.
- Separate duties amongst staff that purchase, receive, distribute, and record inventory.
- Control physical access to inventory.
- Instill a work environment focused on employee integrity.

Employees should report suspected inventory fraud to the Whistleblower Program. To report suspected improper activities, go to [www.sfgov.org/whistleblower](http://www.sfgov.org/whistleblower).