

Layers of deception



More nurseries and carriers have encountered double brokering, where unbeknownst to them, the broker or carrier they contracted with isn't the one that ends up carrying the load. PHOTO ILLUSTRATION BY BILL GOLOSKI FROM ADOBE STOCK IMAGE BY ANDREW BURGESS

Shippers, brokers and carriers increasingly must be watchful for a fraudulent practice called 'double brokering'

BY MITCH LIES

FOR HIS FIRST 25 YEARS in business, freight broker Cory Kinnaman of **Truck Transportation Services** in Wilsonville, Oregon never ran into fraudulent carriers.

This past year, he has encountered them multiple times.

Last January, a customer hired him to broker a shipment and he secured a carrier. The shipment was delivered, the customer paid him, and he paid the carrier he assigned to the load. All seemingly routine.

The problem? Unbeknownst to him, a different company actually carried the

load, but they never got paid. Welcome to double brokering.

"So, several months later, I've been paid by the customers," Kinnaman said. "I've paid the truck that was hired to do the job. I get a phone call from a lawyer or a collection agency stating that we have not paid freight to the carrier that delivered the shipment."

Transportation executives say that fraud has been an issue in transportation services for years, but today, they are seeing more of it. Double brokering is an increasingly common scheme.

"We've been seeing it over the years," said Debbie Frederick of **K & M Distribution Inc.** in Rogue River, Oregon. "It's just that it's more prevalent right now. There's more of it going on. There are a lot more stolen identities and that sort of thing. Technology has kind of added to the issue."

As the term suggests, double brokering involves multiple layers of brokering, kind of like Russian nesting dolls. Carriers that exist only on paper are accepting loads, then passing them off to other carriers to actually do the work. It's illegal to do this without disclosing it.

Sometimes there are multiple middlemen each taking their cut. Sometimes they take it all, never paying the actual carrier.

"The scary part of this whole thing is that people are opening up companies, filing their company with FMCSA (Federal Motor Carrier Safety Administration), and using that to broker freight," Kinnaman said. "And they'll do that as long as they can, until they get caught and go out of business."

After going through paperwork, Kinnaman discovered that the trucking company he hired then went through another brokerage, who then gave the load to a second trucking company. >>

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The second trucking company, the one that delivered the nursery load, never received payment from the fraudulent company.

Kinnaman said the fraudulent company looked legitimate. It had its FMCSA paperwork. It had its certificate of cargo insurance. And it had its completed W9 forms.

“They looked like a legitimate company,” Kinnaman said. “They’ve got all the paperwork, but they do not have any trucks or trailers. So, they’re just acting as a broker posing as a truck-driving operation, when in fact they don’t really have anything besides the piece of paper.”

Trying to recoup payment from a company no longer in business is virtually impossible, Kinnaman said. So, in order to maintain good customer relations, Kinnaman paid when he was contacted by the collection agency. So he ended up paying twice for the load: once to the company that actually delivered the goods, and once to the fraudulent company.

“We didn’t have to pay, but I’ve got a

good relationship with that customer, and so most of the time, you’ve got to bite the bullet,” Kinnaman said.

Forearmed against fraud

Double brokering is illegal, but enforcement is often left to the industry itself. A proactive approach, vetting who you do business with, is the best protection.

Kinnaman today has added steps to his carrier-vetting process, including checking a carrier’s number of inspections and checking a “fraud tab” on a subscription program called Safer Watch. This service rates carriers based in part on their National Safety score, their insurance limits, the quality of their insurance company and other factors.

He also checks for duplicate phone numbers. “Sometimes what we’ll see is the contact number that we’ve got for the trucking company is also a phone number for a towing company, also the phone number for a construction company,” he said. “So, they’ve got all these different businesses listed on the same phone num-

ber. That’s a red flag.

“We’ve seen it where there’s been multiple MC (motor carrier) numbers for a carrier,” he said. “That’s a red flag, because that means they’re closing them down and starting up new ones for some reason. If I’m a fraudulent company or I’m not even a real company but I’m acting as a broker and I get caught, all I’m going to do is refile my paperwork and open up another business under another name with a new MC [number], even though my name is still associated with it.”

In some cases, everything will look good. A company will pass all the fraud-watch hurdles, but then at the bottom of the report he will notice that the company has zero inspections. “If you’ve got a carrier with 50 carriers and they’ve had zero inspections in five years, that’s not a real company,” Kinnaman said.

“It’s little things like that you have to watch out for. You’ve got to really be diligent about checking carriers,” he said. “From this point forward, I’m pretty

confident that we have worked through that and we're not going to have this issue moving forward."

But, he said, the opportunity for fraud is still ever present in the industry.

"The hard part is there's not a clear-cut way (to ensure legitimate business dealings) besides having a relationship with a truck company and knowing who it is you are hiring," Kinnaman said. "And for a brokerage, that's a tough sell, because we're onboarding new carriers all the time. I mean, we're trying to be as busy as possible."

Frederick at K & M said she too has added vetting protocols to protect against fraud in recent years, and, in fact, does so all the time. Also, she said, K & M keeps comprehensive records of every contact the company has with a carrier, including all emails and phone numbers ever used by a company.

Due diligence

"It's real hard to sort through it," Frederick said. "But within house, you have to do your due diligence. And I don't see it changing."

K & M Distribution also subscribes to programs that rate trucking companies based on their safety scores, maintenance scores, tickets and other classifications, programs that help ferret out fraudulent companies.

"And they give you the owners' names, contact names, all of that kind of stuff," Frederick said. "And we'll connect that information together with what numbers they called in on. And we'll look at what the Internet might show if you randomly go out and search for that carrier. You will want to look for telephone numbers, emails, names and that type of thing.

"We also verify directly with insurance companies. We don't take a certificate from somebody and use it. >>



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— Cory Kinnaman, owner, Truck Transportation Services



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We talk to the insurance company. We also try to get tractor-trailer VIN (vehicle identification number) numbers to match them up with the insurance company's information."

Frederick has encountered situations where a fraudulent operator will represent themselves as part of a known company. "Then they'll try to book a load with you, and they'll have the correct information about that company," she said. "But our first move is to call the owner of the company immediately and say, 'Can you verify this person is actually representing you?' And you'd be surprised how many times they say no."

New companies also draw particular scrutiny, she said, to the point where K & M has a policy that it won't work with trucking companies that haven't been in business for at least six months to a year.

"We've been in business for 32 years," Frederick said. "So, it's been years and years

"They'll see a load posted out there and all of a sudden, you'll get scammer after scammer after scammer."

— **Debbie Frederick,**
K&M Distribution

of seeing this kind of thing. And we are always trying to tighten it up, tighten it up, tighten up every way we can."

Frederick said that about 10 percent of the time she vets a company, a red flag will come up and she won't take the order. Also, she said, fraudulent operators seem to work more on a Thursday or a Friday afternoon when distributors are trying to cover orders.

"They'll see a load posted out there and all of a sudden, you'll get scammer after scammer after scammer," she said.

"Sometimes I think they have an internal email that says, 'Everybody blast and see if you can get in the door.' We might get 10 or 15 within an hour. So, you're always on your toes."

Frederick said there are times when her dispatchers get impatient as they wait for her to clear a carrier. "My dispatchers look at me and go, 'Are you going to clear?' And I'm saying 'No, I'm still in the middle, but I can't connect this dot and that dot. I'm finding a telephone number that goes back to someone else that I'm tracking. I've got a name that I see coming up somewhere else that had a bad business. And until I can say it's okay, we're not clear to load this company.'" ☺

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