

Safeguarding Shipments

Against Freight Fraud and Double-Brokering Risks

Seven Shipper Strategies to Shield
Cargo and Payments from Freight Scams



Executive Summary



With more than
\$700 billion
in revenues the trucking and logistics
industry is a big **target**.

A surge in post-pandemic freight fraud has created powerful riptides undermining trust and siphoning funds from shippers, brokers, and carriers. Freight fraud and double brokering are the main culprits, costing victims an estimated \$500 million to \$700 million in freight payments annually¹.

This common fraud occurs when motor carriers, logistics companies, or fraudulent entities re-broker loads without the shipper’s knowledge. Fraudulent entities will often steal the identities of legitimate motor carriers and find other victims to move freight and withhold payment.

Scammers typically access freight and capacity through digital load boards. Shippers can be liable for unpaid freight charges to the victim carriers. The greater risk is having freight stolen or redirected during transit. This TIA whitepaper shares best practices for shippers to mitigate fraud risks by validating and vetting transportation providers to ensure the correct entities move shipments.

Fraud Schemes Threatening Supply Chain Security

Fraud is more prevalent when freight markets are oversupplied with capacity. Scammers posing as carriers will ensnare freight brokers by offering ultra-competitive freight bids. Similarly, they entice carriers with above-average rates.

"There is a lot of pressure on brokers and carriers right now to make money," said Kyle Masters, senior director of transportation procurement for pet food manufacturer Simmons Foods. The Siloam Springs, Ark.-based company had approximately \$90 million in transportation spending in 2023 with 50,000 shipments.

The first sign of fraud is when pricing is too good to be true, but the level of sophistication goes much deeper. For instance, a southern California double-brokering network called the "Glendale Ring" perpetuated fraud by posing as dispatch services for legitimate brokers and carriers².

Companies in the network did more than steal identities. They altered paperwork from shippers, brokers, and carriers to make everything appear to the victims as they expected it should be. The sophisticated ring double-brokered more than \$300 million in freight value.

Other complex fraud schemes include redirecting loads to cross-dock locations to remove merchandise from trailers.

Choosing transportation providers based on how they vet carriers is the first step in preventing fraud, but nothing is entirely foolproof. .

“We hire and rely on brokers to protect us but cheaters and thieves will always beat the system” Masters said.

Shippers also control the verification process for drivers and carriers when they arrive to pick up and deliver loads. Beyond that, said Masters, "I don't know how much I can do from a shipper standpoint to impact [double brokering]."

Mark Funk has worked for shippers, carriers, and logistics providers. He said his experience, industry discussions, and research all point to the same conclusion: freight fraud is much easier to prevent than prosecute. As the director of carrier procurement for SPI Logistics, he works with more than 65 agent offices nationwide for the Surrey, BC, Canada-based company.

“Your average police officer doesn't understand cargo theft and the FBI doesn't want to get involved” he said.

Rectifying Unpaid Freight Charges

In many cases, freight brokers are just as much the victim as carriers in double-brokering schemes. In these situations, the carrier will not know who the original broker was and will pursue payment from the shipper. Shippers can be liable when a broker defrauds both parties.

Courts are sympathetic to unpaid carriers. For example, the 9th Circuit Court of Appeals decided against a shipper, Sears & Roebuck, when its broker went out of business owing Oak Harbor Freight Lines \$400,000. In 2008, the court ordered Sears to pay for the same shipments it had already paid the broker.

Simmons Foods has had a few trucking companies call asking for payment when they were the victims of double-brokered loads. In each instance, Masters said he expected his broker to pay the carrier.

Michael Lin, senior supply chain director at food shipper Musco Olives, echoes that sentiment. The food shipper did not experience freight fraud in 2023. He would expect Musco's 3PL to make it right by the carrier. "At the end of the day, I'm paying the bill one time," he said. The Tracy, Calif.-based company contracts with one 3PL for most lanes and spent \$8 million on transportation last year.

Strategies for Shippers to Protect Their Supply Chains

Legitimate freight brokers and carriers nearly always bear the losses of unpaid freight charges from double-brokered loads. **Yet shippers play an essential role in preventing fraud by acting as the first and last line of defense.**

The first line of defense is vetting and auditing transportation providers. The second line validates carriers when they arrive to pick up and deliver. The following best practices can help shippers mitigate risk on both ends:

1 Conduct Rigorous Due Diligence

How do transportation providers assess motor carriers' credentials and identify red flags with insurance, operating authority, safety records, company history, financial stability, and other important details?

Answering these and other vital questions upfront is critical, but the vetting should continue throughout the relationship. Shippers could assess the quality of motor carriers their brokers use by subscribing to monitoring services. SPI Logistics' Mark Funk says these services can assign a grade score to carriers.

Besides mitigating fraud risks, understanding the broker's process for vetting carriers is an accident insurance policy. If a broker uses a carrier with a conditional safety rating, and the carrier has a fatality, the shipper could be drawn into an accident lawsuit claiming negligent selection, Funk warns.

When doing a fraud check on a carrier or broker, DeAnne Jackson, legal and risk manager for White Arrow, an integrated logistics provider headquartered in Montebello, Calif., said she evaluates:

- Inspections and violations
- Insurance coverage
- Employer identification number (EIN)
- Contact information on file with the FMCSA – use email addresses verified through FMCSA only.
- And more

With all the available information, "the amount of double brokering that exists in today's day and age is mind-boggling," she said. "We do our due diligence and have extremely stringent guidelines."

2 Foster Long-Term Relationships

Switching logistics providers frequently can make it difficult for shippers to sharpen their processes to reduce freight fraud risks.

"The number one thing a shipper can do is build strategic relationships with their brokerages," said John Janson, vice president of global logistics for Sanmar, a large shipper of custom apparel. "If you're chasing the bottom-line dollar and just looking for the cheapest way to move freight, then you should accept that you will have the challenges that come with that."

Sanmar looks at historical reports that show how many carriers its brokers assigned to its freight lanes. "Ideally, we want fewer carriers," he said. "That shows us something — that they're building a relationship with carriers and turning it into more of a static versus a random process."

3 Verify Carrier and Driver Information at Pickup

Require freight brokers to provide the carrier name and driver before their arrival for loads. With this information, shippers can confirm the load, carrier, and DOT numbers, and the driver listed on their documents matches the broker's record.

"In a high-volume shipping atmosphere, it's easy to get complacent. You must ensure that when you're using the brokerage and the drivers are coming in, you're giving the correct load to the right people," said Janson.

““ In most double-broker cases the carrier showing up has a different MC number than it was supposed to be” SPI Logistics' Funk said. “If the driver changes at the last minute that is a significant warning sign.”

After brokers accept load tenders, Sanmar uses an automated email system to send the bills of lading. The brokers must respond to the email with the details of the carrier and driver they assigned to each load and the appointment time, he said. Sanmar prints a sheet of all daily appointments with these details for each facility to verify before they load trucks.

4 Look out for potential fraud on Web-based Platforms

Load boards enable brokers to connect with thousands of carriers on any given day and are an essential part of the supply chain. Fraud has hit every web-based platform, however, and scammers have been aggressive on load boards to try to steal identities and target high-value loads. The load boards are working overtime to prevent bad actors from misusing their systems, and it is important to work with load boards to

ensure carrier compliance. Shippers should work with brokers to mitigate risk because brokers will use their in-house carrier selection process to validate the identity of the entities on all platforms.

5 Inform Carriers on How to Detect Fraud

Shippers and logistics providers can help prevent double brokering by playing a role in educating carriers.

DeAnne Jackson, from White Arrow, said the company's warehouses have a white paper available at check-in, educating drivers on how to protect themselves from fraud at check-in, drivers also receive a flyer that says, "Hey driver, are you a victim of fraud?"

The flyer lists several items owner-operator drivers can do to detect fraud by confirming that the broker they got a load from is legitimate using the Safer.gov website or monitoring service. **"I don't think many carriers know how to do fraud checks," she said.**

On Safer.gov they can verify company addresses, phone numbers, and authority.

"They can see how long the broker has been in business," she said.

A broker should have active broker authority. If the load was dispatched from another carrier, ensure the carrier has active broker/carrier authority. Additionally, carriers should know the market rate of the lane. If it sounds too good to be true, it probably is. Verify the email address that sent the rate confirmation and company name – look for misspellings, incomplete or missing contact information. Carriers can also Google the address on Safer.gov to see if it is legitimate.

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Insist on Real-Time Tracking Updates

Shippers' efforts to prevent freight fraud are enhanced with automated freight visibility systems that collect tracking data through mobile driver apps and electronic logging devices (ELDs).

Increasingly, shippers require freight brokers to provide GPS data from carriers. Simmons Foods set a goal for 2023 to have 90% of its shipments tracked accurately. Masters estimates the company reached 85% by using the FourKites visibility platform.

“If a broker or an asset-based carrier cannot give us 90% tracking and has no path to improvement, that will eliminate them from our network,” he said. “We’re a decade into the ELD mandate and freight visibility tools. There is no excuse for a truck driver who does not want to be tracked. It’s the new normal for business.”

What shippers may not realize, however, is that many brokerages still have people calling their carriers and typing their location statuses into their systems.

“Maybe the broker doesn’t enter the correct information, or they don’t get a hold of the carrier and put a false location status into their system,” says Funk. What shippers should do, he stresses, is to fully understand the technology and process brokers use for tracking loads and get the data directly through real-time system integrations.



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Enforce Appointment Scheduling

This practice, shippers say, serves as a bulwark against fraud by giving facilities information about carriers before they arrive. Besides getting an appointment time, consider asking the motor carrier to provide a load number, driver name, truck/trailer number, and other details that can be verified upon arrival.

“We’re strict with appointments. You can’t just roll in. [The carrier] sets a time and then gives their name and the shipment number provided by our 3PL. That information gets logged in with the appointment, and my 3PL passes it to me,” says Lin.

“When they check in at the shipping office, they must check in with the shipment number, appointment time, and carrier name. That should match up with what we have written down.”



Harnessing Technology to Enhance Visibility and Security

New technology solutions will continue emerging to assist with fraud prevention and provide greater supply chain visibility for shippers. Present and future possibilities include:

- Systems that automatically validate carrier data against risk assessment databases when loads are booked.
- Electronic paperwork with validation points that are difficult to forge or alter.
- Providing unique QR codes or authentication keys directly to drivers to confirm their identities at pickup. "A technology-based broker could tell drivers they will send a code to their phone. And when you get there, you can show that code to the dock worker. It would be a randomly generated code," said Funk.
- ELD and telematics data validation to confirm that the same equipment that picked up the freight delivered it without pooling equipment and drivers.
- Advanced tracking systems to monitor the condition of individual pallets or containers within trailers.

Promising technologies can complement and strengthen shippers' fraud controls and data capabilities. Shippers working closely with trusted partners can identify solutions for their needs and processes.

Instilling a Culture of Vigilance

Building a culture focused on security and preventing crime is as critical as any process. Security must be a core value promoted throughout the organization. Steps shippers can take include:

- Provide freight crime and fraud awareness training to all supply chain managers and front-line personnel.
- Ensure thorough onboarding and background checks for all employees handling freight.
- Empower people to ask questions and delay shipments if something seems suspicious.
- Reward employees for identifying potential fraud and share success stories to illustrate impact.

The Path Forward

Freight fraud has crippled profitability for many freight brokers and carriers, and if left unchecked, it could become a far more serious issue for shippers. Prevention is the goal.

Thoroughly vetting and auditing brokers and carriers, requiring transparency, building strategic partnerships, and leveraging technology solutions will continue to bolster shipper defenses and benefit the transportation and logistics industry.

With proper precautions, shippers can limit their exposure and actively combat freight crime by implementing secure processes and partnering with brokers and carriers with the same priorities. With collective vigilance, fraud and theft can be reduced.



Sources Cited:

- 1 TriumphPay, a division of Dallas-based TBK Bank SSB, cited by the Wall Street Journal: <https://www.wsj.com/articles/growing-freight-fraud-is-peeling-millions-from-the-u-s-shipping-market-8a6cfb90>
- 2 <https://www.freightwaves.com/news/former-employees-shed-light-on-sophisticated-double-brokering-network>

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