



# INTERNAL THEFT AND FRAUD AWARENESS/PREVENTION

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# WHAT IS OCCUPATIONAL FRAUD AND ABUSE?

- The Association of Certified Fraud Examiners defines occupational fraud and abuse as:

“The use of one’s occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization’s resources or assets.”

# INTERNAL THEFT, FRAUD, AND ABUSE

- Is clandestine (done in secret).
- Violates the employee's fiduciary duties to the organization.
- Is committed for the purpose of direct or indirect financial benefit to the employee.
- Costs the employing organization assets, revenues, or reserves.

# FOUR ELEMENTS OF FRAUD

- A material false statement.
- Knowledge that the statement is false when it was uttered.
- Reliance on the false statement by the victim.
- Damages as a result.



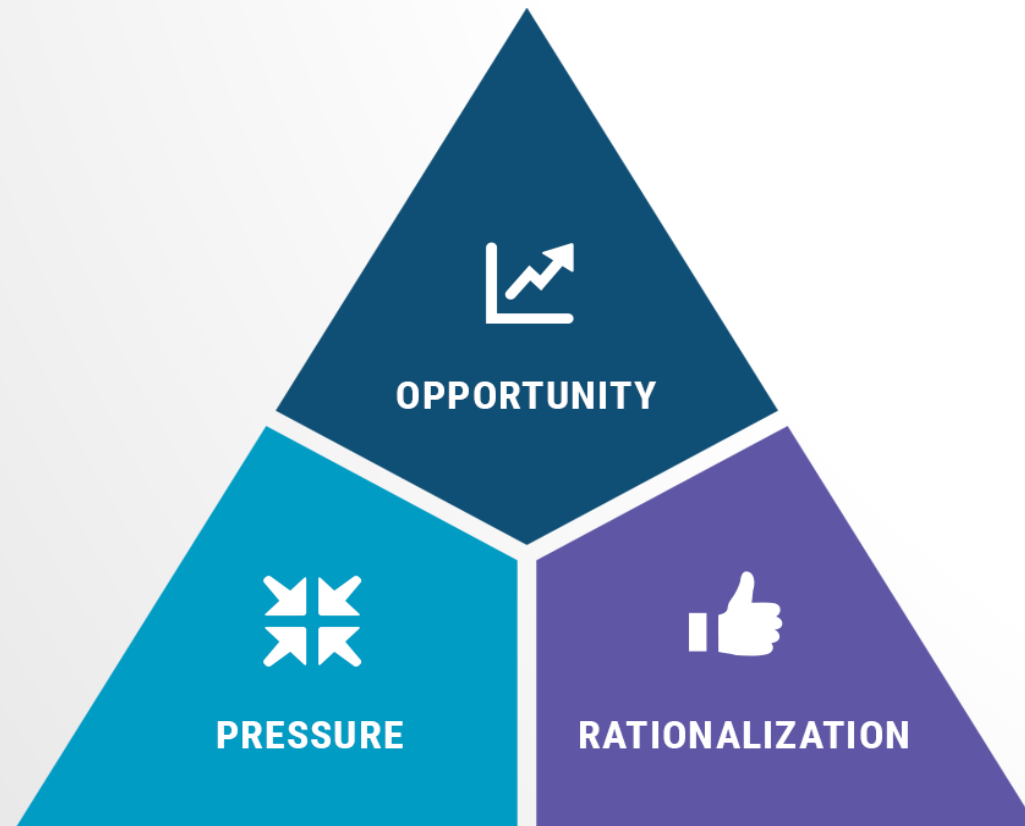
# COMMON VIOLATIONS

- Asset Misappropriation
- Corruption
- False Statements
- Petty Theft and Pilferage

# THREE MAIN CATEGORIES OF FRAUD

- Asset Misappropriation: Transactions or theft involving the organizations cash or check accounts, inventory, supplies, equipment, and information.
- Fraudulent Statement: Generally involve falsification of an organization's financial statements. (Player ratings, Check-out sheets)
- Corruption: To use your influence in a business transaction to procure some personal benefit not in the interest of the company. (Bribery, Illegal gratuities, Conflict of interest)

# The Fraud Triangle



# SIX TYPES OF NON-SHARABLE PRESSURES

- Violation of ascribed obligations
- Problems resulting from personal failure
- Business reversals
- Physical isolation
- Status gaining
- Employer-Employee relations

# MOTIVATORS

- Living beyond one's means
- An overwhelming desire for personal gain
- High personal debt
- A close association with customers
- Feeling pay doesn't commensurate with responsibility
- A wheeler-dealer attitude
- Strong challenge to beat the system
- Excessive gambling habits
- Undue family or peer pressure
- Drug/Alcohol abuse

# RATIONALIZATION AND INTEGRITY

- Personal integrity may be the most important factor in keeping a person from committing fraud.
- Rationalization is the excuse that the fraudster uses in order to justify his activity. This is the “end justifies the means argument” and it is their attempt to make themselves into the victim rather than the perpetrator of the criminal activity.

# RATIONALIZATIONS

- “I was only ‘borrowing’ the money.”
- “This is not much money; the company won’t miss it.”
- “Everybody does it.”
- “They owe it to me.”
- “I’ll stop once I get over the financial hump.”
- “The company mistreats me.”

# OPPORTUNITY

- Opportunities to commit fraud can arise when an employee reaches a level of trust in an organization OR
- When internal controls are weak or non-existent.

This is the part of the fraud triangle that management has the most ability to control.



# DETECTING AND DETERRING INTERNAL THEFT

- In order to deter and/or detect internal theft, it is vital that effective controls, policies, and procedures are implemented and utilized in each department.
- Management must review the activities of each employee for adherence to these controls and this must be done on a regular basis.
- Each department and/or profit center possesses its own policies and procedures. An employee attempting to commit theft or fraud will normally violate or bypass one or more of these policies or procedures exposing him or her to detection by an alert supervisor or manager.

# BEVERAGE VOID REPORT

Server	Check #	Mgr. Initial	Explanation	Total Beverage	Drink type	Resold?	Time of Trans.	Time of void	Level
Andrea	938	AH	Test for margarita special	1.00	marg	yes	?	8:36a	L2
Gage	583	JH	Hit wrong button on gun	3.50	Brbn	N/A	1:25p	2:55p	L3
James	1197	JH	Replaced drink, did not like margarita	1.50	Corna	N/A	5:04p	10:00p	H
Corey	166	JH	Checking comp. balance	10.00	Comp cigs	N/A	8:59p	9:02p	L2
Jessica	949	CS	Cut off refund	4.50	Seag 7	no	2:09a	2:50a	L1
Jessica	953	CS	Cut off refund	4.50	Seag 7	no	2:46a	2:50a	L1
Mai	252	CS	Customer did not want, to small of shot	4.50	Maker s	no	10:51p	12:00a	L2

# KEY NOTES TO REMEMBER\*

- Median duration of a fraud scheme was 16 months.
- Internal control weaknesses were responsible for nearly half of all frauds.
- Tips are by far the most common initial detection method.
- 85% of fraudsters displayed at least one behavioral red flag of fraud.
- Only 4% of perpetrators had a prior fraud conviction.
- Data monitoring/analysis and surprise audits were correlated with the largest reductions in fraud loss and duration.

\*According to the 2018 Report to the Nations (ACFE)

# TOTAL PROJECTED GLOBAL FRAUD LOSS\*

- In 2017, the estimated Gross World Product was USD 79.6 trillion
- With a 5% loss estimate
- The projected total global fraud loss would be USD 4 trillion

\*According to the 2018 Report to the Nations (ACFE)

# COSTS OF INTERNAL THEFT FOR AN ORGANIZATION

- The Association of Certified Fraud Examiners report that the average organization loses more than USD 9 per day per employee or about 7% of its annual revenue to fraud and abuse committed by its own employees.
- For an organization of 1,000 employees, that amounts to USD 3,285,000 annually.

# COSTS TO GAMING PROPERTIES

- Casinos are more vulnerable than other organizations as they deal primarily with cash that goes unverified for a large portion of the time that it is handled by employees.
- Gaming properties also have retail operations, and have the same vulnerabilities as most retail businesses (estimated loss of 5¢ out of every dollar).
- Promotional/Marketing items such as players comps, database mail coupons, drawings, and other giveaways can and have been abused by employees.

# COSTS TO GAMING PROPERTIES

- Casino security and surveillance departments are rapidly becoming aware that the largest and most consistent threat to the profitability of the property is the employee.
- Recent arrest statistics indicate that almost 52% arrested for theft or cheating in a casino were employees of that casino.
- The actual percentage is higher as not all employees are involved in theft or cheating are reported to law enforcement by the victim organization.

Where there is value, there is  
fraud, ALWAYS!!!



# INDICATIONS OF THEFT/FRAUD IN RETAIL AND FOOD/BEVERAGE

- The employee fails to enter the transaction or does so after the customer leaves. The employee will set the payment aside or will place it into their pocket.
- The employee does not issue a receipt. This could be because the transaction was cancelled in the system and the sale never recorded, or if the sale recorded, a void may be generated after the sale.
- Undercharges or does not charge friends or family.
- Voids legitimate transactions.

# INDICATIONS OF THEFT/FRAUD IN RETAIL AND FOOD/BEVERAGE

- Enters transactions as a “No Sale”.
- Sells customer an item at one price, but rings it as a lower priced item and pockets the difference.
- Commingles company funds with personal money and/or tips.
- Frequently counts down and balances bank or register.
- Enters other than normal screen and makes unauthorized adjustments/changes.
- Unauthorized use of manager's card or supervisory cards.

# INDICATIONS OF THEFT/FRAUD IN RETAIL AND FOOD/BEVERAGE

- Prints out receipts or reports detailing total sales for shift or day.
- Comps a non-playing guest.
- Alters comps for more than listed value.
- Counts their bank away from cameras, supervisors, and peers.
- Stores coupons, two for one offers, or comps for later use with a cash customer.
- Does not return from or is short when is sent to the cage or bank for cash transfers or exchanges.

# MANAGER AND SUPERVISOR DUTIES AND RESPONSIBILITIES

- The Managers/Supervisors in a department are the best defense against fraud. It is the duty of management to protect the assets of the company by deterring or rapidly detecting any waste, fraud, abuse, theft, or inefficiency of operation.
- Monitor and review exception information daily. In addition, statistical information should be analyzed, as that could be indicative of a potential problem.

# TOP RED FLAGS FOR FRAUD BY EMPLOYEES

- Employee lifestyle changes (expensive cars, jewelry, homes)
- Significant personal debt and credit problems
- Behavioral changes (may be indication of drugs, alcohol, gambling, or just fear of losing job)
- High employee turnover, especially in those area which are more vulnerable to fraud
- Refusal to take vacation or sick leave
- Lack of segregation of duties in the vulnerable area

# TOP RED FLAGS FOR FRAUD BY MANAGEMENT

- Reluctance to provide information to auditors
- Managers engage in frequent disputes with auditors
- Management decisions are dominated by an individual or small group
- Managers display significant disrespect for regulatory bodies
- There is a weak internal control environment
- Excessive number of checking accounts
- Excessive number of year end transactions
- Service contracts result in no product
- Photocopied or missing documents

# RED FLAGS FOR EMBEZZLEMENT

- Borrowing from co-workers
- Gambling beyond the ability to stand the loss
- Excessive drinking or other personal habits
- Easily annoyed at reasonable questioning
- Refusing vacations or promotions for fear of detection
- Bragging about significant new purchases
- Carrying unusually large sums of money
- Rewriting records under the guise of neatness in presentation

# RED FLAG IN CASH/ACCOUNTS RECEIVABLE

- Excessive number of voids, discounts and returns
- Unauthorized bank accounts
- Sudden activity in a dormant banking account
- Taxpayer complaints that they are receiving non-payment notices
- Discrepancies between bank deposits and posting
- Abnormal amount of expense items, supplies, or reimbursement to the employee
- Excessive or unjustified cash transactions
- Large number of write-offs of accounts
- Bank accounts that are not reconciled on a timely basis



# RED FLAGS IN PURCHASING/INVENTORY

- Increasing number of complaints about products or service
- Increase in purchasing inventory but no increase in sales
- Abnormal inventory shrinkage
- Lack of physical security over assets/inventory
- Charges without shipping documents
- Payments to vendors who aren't on the approved vendor list
- High volume of purchases from new vendors

# RED FLAGS IN PURCHASING/INVENTORY

- Purchases that bypass the normal procedure
- Vendors without physical address
- Vendor addresses matching employee addresses
- Excess inventory and inventory that is slow to turnover
- Purchasing agents that pick up vendor payments rather than have it mailed

# COSTLY TYPES OF FRAUD

- Financial Statement Fraud
- Check Forgery
- Credit Card Fraud
- Medical/Insurance Claim Fraud

# OTHER TYPES OF FRAUD

- Falsifying timesheets for a higher amount of pay
- Stealing of any kind (cash, petty cash, supplies, equipment, tools, data, records, etc)
- Forgery
- Not depositing all cash receipts
- Creating fictitious employees and collecting the paychecks
- Paying for personal expenses with business funds
- Increasing vendor invoices through collusion
- Billing for services not rendered and collecting the cash

# TRENDS AND ANALYSIS

- Financial Analysis
- Observations
- Exception Reporting

# DATA ANALYSIS IN RETAIL AND/OR F&B

- Discounts
- Voids
- Comps
- Splits/Combines
- Print Last Receipt
- Cash Drawer Log On/Log Off
- No Sales
- Overs/Shorts

# DATA ANALYSIS

- Paid Outs
- Credit Card Settlements
- Excessive Tip %
- Zero Cash
- Excessive Check Time Durations
- Excessive Sale of Low \$ Items
- Low Cash Sales

# INVESTIGATE

- Compare stats to others in same role in same outlet
  - Remember, numbers could be skewed
- View journals and checks
- Analyze terminal transaction data as well as cashier statistical information



# KEY TERMINAL TRANSACTIONS

- Cash Drawer Log On
- Cash Drawer Log Off
- No Sale
- Pass Cancel
- Zero Cash
- Print Last Receipt



# DISCOUNTS

- Compare stats to peers
- Tender type\*
- Timing of discount

\*Low cash sales, excessive check duration times, excessive tip %, cash drawer log on/log off

# VOIDS

- Compare stats to peers
- Tender type\*
- Access
- Authorizer

\*Low cash sales

# COMPS

- Compare stats to peers
- Tender type\*
- Timing of comp

\*Low cash sales, excessive check duration times, cash drawer log on/log off

# SPLITS/COMBINES

- Compare stats to peers
- One pass or multi pass
- Tender type\*
- Access/authorization

\*Low cash sales, excessive check duration times, reprint last receipt

# PRINT LAST RECEIPT

- Compare stats to peers
- Tender type\*
- Requirement for accounting
- Access/authorization

\*Low cash sales, excessive check duration times

# CASH DRAWER LOG ON/LOG OFF

- Compare stats to peers
- Tender type before and after\*

\*Low cash sales, pass cancel, print last receipt, comps, discounts

# NO SALES

- Compare stats to peers
- Tender type before and after\*
- In addition to terminal transactions
- Access/authorization

\*Low cash sales, pass cancel, print last receipt, comps



# OVERS/SHORTS

- Compare stats to peers
- Washing variance
- Impressment

\*Timing of variance

# CREDIT CARD SETTLEMENTS

- Card decline\*
- Known customer
- Refunds

\*Excessive tip %

# EXCESSIVE TIP %

- Compare stats to peers
- Tip on cash
- Identification of guest
- Compare tip to check\*
- Access/Authorization

\*Credit card settlements, excessive sale of low \$ items, discounts

# ZERO CASH

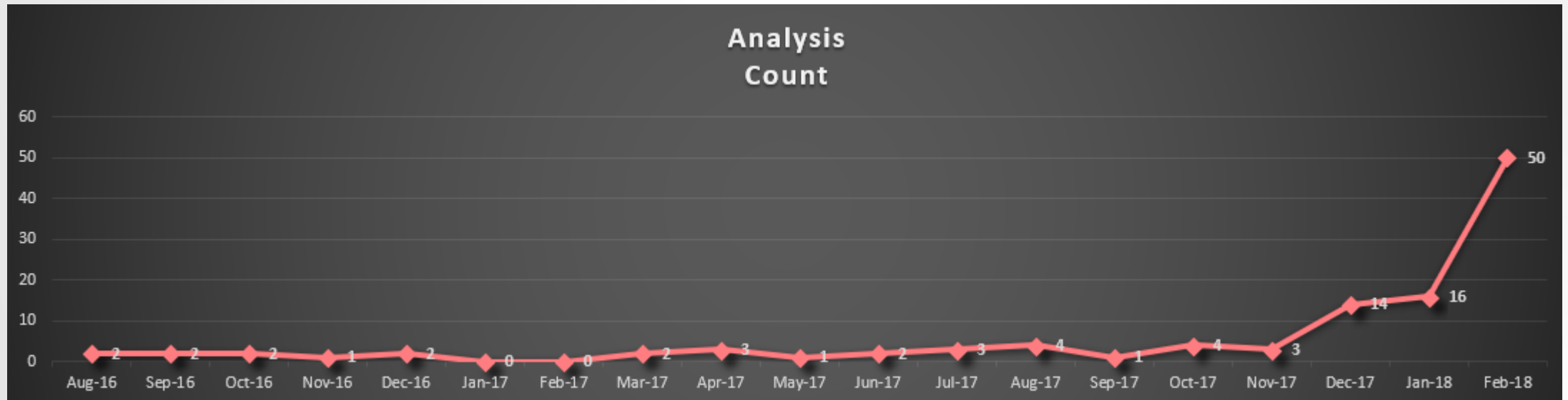
- Compare stats to peers
- Access/Authorization

\*Low cash sales

# EXAMPLE

- Excessive Cash Drawer Log On/Log Off and Excessive Pass Cancels

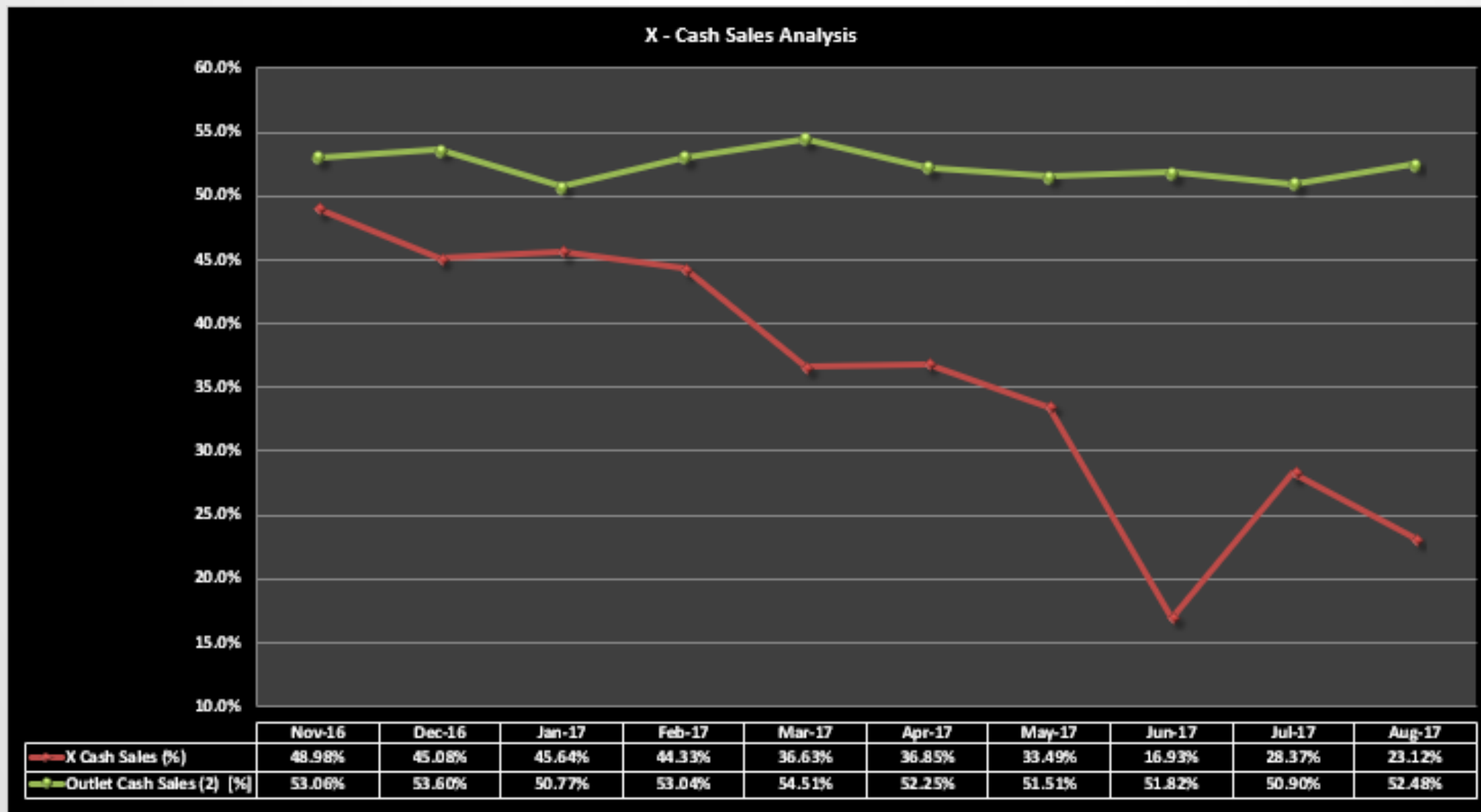
2/7/2018	9:25:18 PM	Pass Cancelled	8197	\$20.13
2/7/2018	9:25:20 PM	Cash Drawer Log Off	0	\$0.00
2/7/2018	9:25:38 PM	Cash Drawer Log On	0	\$0.00
2/7/2018	9:26:04 PM	Pass Cancelled	8200	\$20.13
2/7/2018	9:26:05 PM	Cash Drawer Log Off	0	\$0.00
2/7/2018	9:26:36 PM	Cash Drawer Log On	0	\$0.00
2/7/2018	9:28:30 PM	Pass Cancelled	8204	\$25.55
2/7/2018	9:28:32 PM	Cash Drawer Log Off	0	\$0.00
2/7/2018	9:37:11 PM	Cash Drawer Log On	0	\$0.00
2/7/2018	9:58:49 PM	Cash Drawer Log Off	0	\$0.00
2/8/2018	2:41:51 PM	Cash Drawer Log On	0	\$0.00
2/8/2018	2:44:55 PM	Cash Drawer Log Off	0	\$0.00
2/8/2018	2:44:59 PM	Cash Drawer Log On	0	\$0.00
2/8/2018	2:53:39 PM	Cash Drawer Log Off	0	\$0.00
2/8/2018	2:53:48 PM	Cash Drawer Log On	0	\$0.00
2/8/2018	2:59:16 PM	Cash Drawer Log Off	0	\$0.00
2/8/2018	3:17:40 PM	Pass Cancelled	8694	\$14.72
2/8/2018	3:17:44 PM	Cash Drawer Log On	0	\$0.00
2/8/2018	3:40:52 PM	Pass Cancelled	8710	\$28.04
2/8/2018	3:40:53 PM	Cash Drawer Log Off	0	\$0.00
2/8/2018	3:41:09 PM	Cash Drawer Log On	0	\$0.00
2/8/2018	3:46:42 PM	Pass Cancelled	8716	\$7.69
2/8/2018	3:49:35 PM	Pass Cancelled	8720	\$47.21
2/8/2018	3:49:36 PM	Cash Drawer Log Off	0	\$0.00
2/8/2018	3:49:50 PM	Cash Drawer Log On	0	\$0.00



# EXAMPLE

- Low cash sales indicated theft
- Cash analysis determined amount





X - Cash Sales Analysis							
Month	X Gross Sales	X Cash Sales (\$)	Projected Cash Sales (1)	Variance (\$)	X Cash Sales (%)	Outlet Cash Sales (2) [%]	% Difference
Nov-16	\$990	\$485	\$525	(\$40)	48.98%	53.06%	(4.09%)
Dec-16	\$2,420	\$1,091	\$1,297	(\$206)	45.08%	53.60%	(8.52%)
Jan-17	\$3,947	\$1,801	\$2,004	(\$203)	45.64%	50.77%	(5.13%)
Feb-17	\$1,711	\$758	\$907	(\$149)	44.33%	53.04%	(8.72%)
Mar-17	\$5,786	\$2,120	\$3,154	(\$1,034)	36.63%	54.51%	(17.88%)
Apr-17	\$4,928	\$1,816	\$2,575	(\$759)	36.85%	52.25%	(15.40%)
May-17	\$2,582	\$865	\$1,330	(\$465)	33.49%	51.51%	(18.03%)
Jun-17	\$5,375	\$910	\$2,785	(\$1,875)	16.93%	51.82%	(34.89%)
Jul-17	\$4,657	\$1,321	\$2,370	(\$1,049)	28.37%	50.90%	(22.53%)
Aug-17	\$3,752	\$867	\$1,969	(\$1,102)	23.12%	52.48%	(29.36%)
<b>Total</b>	<b>\$36,147</b>	<b>\$12,034</b>	<b>\$18,917</b>	<b>(\$6,883)</b>	<b>33.29%</b>	<b>52.40%</b>	<b>(19.10%)</b>