

The Casino Shield



Bogus Vendors = Costly Crime

Most businesses regularly rely upon outside service providers to support some facet of their day-to-day operations. Virtually no business is exempt from making use of such third-party vendor relationships simply because the various products or services offered by these outside firms either aren't or can't be addressed directly by the businesses themselves. Such relationships exist in virtually every industry sector – manufacturing, health-care, banking, educational institutions, public utilities, etc. – casino and gaming establishments not excluded, especially those with retail shops, restaurants, hotels, and/or entertainment venues attached to them.

While the various exposures presented by vendors and the products or services they offer can oftentimes be overlooked, the risks of theft, fraud, and embezzlement are real and collectively represent one area where crime losses are prevalent. According to the Association of Certified Fraud Examiners, U.S. organizations lose approximately \$65 billion annually to fraud – or an estimated 5% of their revenues.

An example of a vendor fraud loss occurred in a casino resort located in Atlantic City, New Jersey. The resort is expansive and includes a casino, hotel, retail stores, spa, and several restaurants. This loss involved the Insured's fine dining French restaurant.

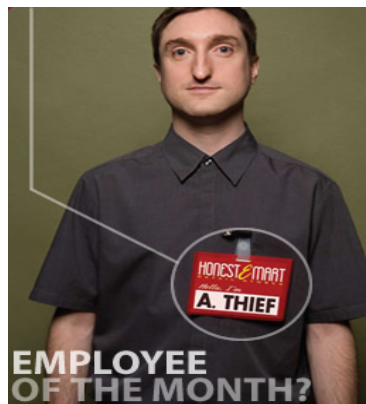
The manager of the French restaurant was responsible for ordering food and supplies. The manager had been with the company for over ten years and was well-liked and respected. The vice president of the resort was working on a new

budget plan. Due to the economy, he was looking for ways to cut costs. He began looking at the restaurant expenses and noticed over the past year, their expenses related to supplies had increased 20%. He questioned the restaurant manager about this increase and was told things were just getting more expensive.

The vice president was not pleased with this response and began a further investigation. In particular, he noticed large and frequent payments made to two companies he had never seen before.

The vice president was suspicious of the steep invoices and again questioned the manager. The manager replied he ordered his cleaning supplies from one company and utilized the other for paper products. The vice president stated he was confused and thought they ordered their cleaning and paper products supplies from a different company, pointing out that he saw payments to all three vendors. The manager appeared red faced and nervous and told him he would get the proper documentation.

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Contact List



Great American is prepared to provide the insurance protection your casino needs to guard against fraud, theft, robbery, kidnap and ransom, or computer crime. For more information, please contact:

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In Tough Economy, Employee Theft Climbs To 'Epidemic Proportions,' Experts Say

Evidence against a young bookkeeper was in the photos she brought to work — her frequent Vegas trips, the \$1,000 exotic puppy, and \$18,000 in house renovations.

She didn't need photographic proof of her sudden breast augmentation surgery. All on a \$20,000 annual salary.

Finally, her boss became suspicious when she bought a Mercedes — with cash. "This woman did everything but come to work with a sign on her back saying, 'I'm stealing your money,'" said James Ratley, president and CEO of the Association of Certified Fraud Examiners, an Austin, TX based organization with more than 50,000 members worldwide.

Not every dishonest employee, of course, flaunts his or her clandestine wealth as much as the young bookkeeper. Ratley said fraud by employees is more widespread than most employers realize.

It is difficult to gauge the losses, but a survey of fraud examiners estimates that businesses lose as much as 5 percent of their revenues to various forms of fraud by employees, from bookkeepers to CEOs. **A survey by the National Retail Federation put employee fraud ahead of shoplifting as the primary cause for retailers' losses.**

"Fraud has grown to epidemic proportions," Ratley said. "It is so pervasive, it can no longer be ignored."

Ratley doesn't have to search his files for examples.

Consider just a few of the frauds that made news in Austin, TX: A couple discovers that their bookkeeper of three decades has stolen \$1 million from them when they go to sell their company and retire. A banker underwrites his NASCAR racing team with almost \$1 million in phony loans to friends and relatives. A national charity employee steals almost \$600,000 by inflating invoices for cell phones and selling the devices on the Internet.

But headlines are the exception, not the rule, for fraud by employees.

Fraud A 'Loss Leader'

Occupational fraud is difficult to prosecute because the risk of punishment is low and managers — concerned about the company's image or their incompetence in preventing the fraud — often prefer to deal with the crime quietly.

Fraud is a problem for businesses of all sizes, but firms with fewer than 100 employees are twice as likely to be victimized, according to the fraud examiners' survey.

"Fraud is a loss leader for a lot of small companies," said Bob Stocker, a founder of Bookkeeping Express, a national company with 33 franchises, including one in Austin.

Too often small firms have the same person writing checks, doing the billing, and reconciling the books each month.

The owner is focused on sales or managing the staff or, in the case of a professional, practicing law or medicine, without focusing on the books.

"Doctors, dentists, and lawyers make excellent fraud victims," Ratley said. If the firm is large enough, the duties of writing checks, billing, and reconciling the books should be split among employees, experts say. If that's not practical, an outside bookkeeper can be hired to reconcile the books each month.

"It's not that expensive," Stocker said. "It takes us a couple of hours, maybe \$200 a month."

At a minimum, Stocker said, credit card and bank statements, preferably with check images, should be sent unopened to the owner, not an employee. And really look at them," Stocker said. "Any credit charges they don't recognize, call the credit card company and get the backup information."



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In Tough Economy, Employee Theft Climbs To 'Epidemic Proportions,' Experts Say

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Audits Aren't Enough

Ratley said an employer shouldn't assume that the company's annual audit protects the firm from fraud. Audits, he said, are just a sampling of a company's finances to give a picture of the firm's financial health, not a thorough search for fraud.

"Audits only uncover 13 percent of frauds," Ratley said. Tipsters, whether co-workers, vendors, or competitors, expose 40 percent of the frauds, according to the fraud examiners' report.

For that reason, Ratley recommends a hotline for reporting suspicious activity.

Who Steals From An Employer?

"Most fraud perpetrators are trusted and well-liked," Ratley said. "The more trust an owner puts in their employees, the greater the opportunity for them to cross the line." A picture of perpetrators emerges from the survey of fraud examiners and Ratley's interviews of suspects.

"Bad people are supposed to look a certain way," Ratley said. "They don't." Most of them had never stolen previously from their employer. Their stories usually share three traits: opportunity, financial need, and the ability to rationalize.

Among the common rationalizations: "I'm just borrowing this money. I've worked here a long time. They passed over me for a promotion. The company doesn't care about me."

In some instances, the employee may repay the money the first couple of times they steal it. Eventually, they become accustomed to the extra cash and can't stop.

"People don't intend to steal as much as they did," Ratley said. "Often they don't even know how much they stole." And they are surprised when they get caught. "Most of them get caught," Stocker said. "The question is, how long they get to do it."

According to the survey of fraud examiners, schemes last a median of 18 months and the median loss is \$160,000. But nearly a fourth of the frauds involved losses approaching \$1 million.

Bad Times Expose Fraud

A sluggish economy exposes many schemes.

"When the economy is good, there is more money flowing. You've got more business coming in, so you are more likely to hand off the bookkeeping," Stocker said. "There's more money in the checking account. Your costs are going up with revenue, so you don't notice the higher (fraud) costs." When money gets tight, however, it becomes harder to conceal the fraud. Once the fraud is exposed, the issue becomes trying to recoup the losses. "Catching them is one thing," Stocker said. "Getting your money back is another." Ratley agrees.

In some instances, the dishonest employee has bought houses or cars or boats that can be sold. Often, there is little to show for the crime. "People do not steal money to save it," Ratley said. "They steal it to replace money already spent."

Tips For Preventing or Detecting Employee Theft

- √ **Separate** bookkeeping, billing, and account reconciliation functions.
- √ **Company owners** should receive bank and credit card statements.
- √ Establish a **hotline** for receiving tips of suspicious activity.
- √ **Educate** employees on the cost of fraud to the company.
- √ **Encourage** co-workers to report fraud.
- √ **Create a climate** of honesty and integrity.
- √ Use continuous **auditing software**.
- √ **Rotate** sensitive jobs.
- √ Use **background checks** in hiring.



Sources:

Association of Certified Fraud Examiners (ACFE)
Laylan Copelin, American-Statesman Staff

Bogus Vendors = Costly Crime

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The vice president further investigated and conducted an inventory count of the supply room. Much to his dismay, he couldn't find any of the supplies purchased from these two companies. He then tried researching the vendors, but could not find any information on them.

The vice president discovered the restaurant manager had set up these two bogus companies and was collecting the payments he himself authorized. The Insured lost over \$750,000 to this fraud that took place over three years. The embezzler has since been arrested and charged.

As evidenced by this large loss, it is crucial to maintain strict vendor controls. An authorized vendor list with approved vendors should be utilized. Business due diligence investigations and ownership / key personnel background checks should be conducted on each vendor. Furthermore, perpetual inventories of materials and

supplies need to be taken and periodically verified by physical count.

This type of audit should occur at least quarterly. It is also recommended requisition and purchase orders be issued only after the approval of specified personnel within specified limits. Bank accounts and credit card statements should also be reviewed monthly. These extra, relatively inexpensive measures can save a company from a significant loss, which few can afford especially in today's environment.



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Employee Theft Statistics

- The FBI calls employee theft one of the **fastest growing crimes** in America.
- Nearly **one-third of all employees** commit some degree of employee theft, according to the U.S Department of Justice.
- The U.S Chamber of Commerce estimates that employee theft costs businesses **\$40 billion each year**. That's ten times the value of street crime losses annually in the U.S.
- The Chamber also reports that **one of every three business failures** is the direct result of employee theft.
- The **banking industry** reports losses of **over one billion dollars annually** due to employee theft, greater than the amount taken in bank robberies many times over.
- Recent reports have found that employee theft is increasing at a rate of **15% annually**.
- Government research has found that **every family** pays an estimated **three hundred dollars** each year to subsidize business losses due to employee theft.

For more information about Lowers & Associates and any of the risk mitigation services that we offer, please visit our website at www.lowersrisk.com or give us a call today!