

The Casino Shield



Sparky Inc.

Casino operators are always on the alert to detect any kind of gaming scam, or employee dishonesty involving gaming operations. However, often some casinos are not so vigilant when it comes to the more mundane day-to-day support matters, such as maintenance, restaurant, hotel activities, or the myriad subsidiary companies many casino based companies operate.

Upper management of an older casino decided it was time for a complete renovation. They hired a construction engineer, who drew up a renovation plan complete with construction schedules. He recommended they act as their own general contractor, which they did, appointing the engineer to direct each stage of the renovation.

The first stage of the renovation was to be a complete upgrade of the building's electrical system. The engineer solicited bids from four companies and awarded a contract to the lowest bidder. The electrical company was added to the casino's approved vendor list and work commenced.

The next stage was a major upgrade to the air conditioning system. The engineer rejected a bid from the casino's long time HVAC vendor in favor of a bid from a new company in a nearby city. Work began on the air conditioning roughly three months after the electrical work was completed. In another six months, the new air conditioning system had been installed and the job was completed. Room renovation was done floor by floor and included installation of upgraded plumbing items, new telephones, Wi-Fi transceivers, and new carpeting. In each case, the engineer went through a bidding process, awarded contracts, and added the vendors to the casino's approved vendors list.

The engineer, by now a vice president of the company, was in the process of finding decorators to redesign the casino floor space when the security director received an anonymous phone call. The caller informed him that the engineer / vice president was receiving kickbacks from the electrical and HVAC companies. The security director discussed

the call with his CEO, and they reported the matter to the local police, who commenced an investigation. They did not confront the vice president.

After obtaining subpoenas for the HVAC and electrical companies' bank accounts, the police uncovered they had paid over \$950,000 to Sparky Inc., a duly registered corporation in the same state. The vice president and his wife were the owners and officers of Sparky Inc. Sparky's bank records documented the purchase of expensive cars, considerable gambling activity, and some elaborate vacations. When confronted, the vice president admitted the whole scheme. The casino recovered most of the money from their crime carrier. The vice president and his wife were both sentenced to lengthy prison terms.

During the whole two year period of this loss, there was no oversight of the engineer / vice president. While the casino did have an approved vendor list, there was no background investigation done on any of their vendors. If there had been, it would have been discovered that the HVAC company had two prior felony theft convictions in another state. A careful comparison of the HVAC invoices would have shown that the casino was billed in duplicate for much of the work. The electrical company also double billed. The CFO was terminated. The loss could have been avoided if the engineer had been supervised and if the approved vendor procedure included a background investigation of the vendors. Considering the multi-faceted nature of casino operations, they are more vulnerable to vendor fraud than other businesses. Practicing these basic controls could have saved the company time and money by preventing this loss.

*By William F. Marston, VP, Crime Claims
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The above narrative is fictional; however, it is based on situations that have been reported.

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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Trust your risk mitigation needs to Lowers Risk Group, an independent, internationally recognized provider of loss prevention, investigation, and enterprise risk management (including human capital risk) services to the Casino & Gaming Industry. For more information, please contact:

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The Hidden Risks of Occupational Fraud [Infographic]

Your organization is at higher risk for occupational fraud than you might think. United States organizations lose more than \$652 billion annually to fraud perpetrated by employees, often managers or executives. Victims include private or public companies, not-for-profits, governmental agencies, and any other type of organization where managers and employees have access to financial or material assets.

One of the most challenging aspects of occupational fraud is that the perpetrators are usually people who have no prior criminal record. Well-run organizations use background checks to minimize risk in hiring, and prior infractions are generally grounds for refusing to hire a person. Yet people with previously clean histories who have earned trust in their positions may abuse that trust, using their privileged access to steal.

Perpetrators of fraud can exist in any place in an organization, but as our new infographic demonstrates, there are patterns showing that risk varies with role. For example, losses are greater the higher a person's position is in the organization, and the longer he or she has been employed. Specific types of occupations are associated with a higher incidence of fraud.

Highlighting the Need for Proactive Fraud Prevention

The hidden risks of occupational fraud can make it seem like you can't trust anyone you work with. The truth is that proactive **fraud prevention** tactics you employ to prevent losses can also help preserve an open, trusting work environment.

Lowers Risk Group's latest infographic, several excerpts shown below, features data from the Association of Certified Fraud Examiners' [2012 Report to the Nations](#). To view this infographic in its entirety, and other related blog posts, please visit: <http://www.lowersriskgroup.com/blog/>.



7 Ways to Strengthen Your Enterprise Risk Posture

Experience and research have enabled Lower Risk Group to identify many ways companies can reduce or prevent fraud while protecting the organization's most valued assets:

1. Set the "Tone from the Top"

Managers and owners of small-medium sized businesses should focus their control investments on the most cost-effective mechanisms, such as setting an ethical "tone from the top" for their employees, as well as those most likely to help prevent and detect the specific fraud schemes that pose the greatest risks to their businesses.

2. Review & Analyze Past Losses

By holding scheduled review sessions, financial performance can be interpreted and any past losses examined. Discuss ways to avoid similar losses in the future. Periodically evaluate and reevaluate potential loss scenarios that would adversely affect the organization and its ability to conduct business. Build processes and systems to help eliminate any identifiable causes and address contingency planning scenarios.

3. Create & Maintain a Strong Ethical Culture

In June 2010, the Arlington, VA, based [Ethics Resource Center](#) released a national study that found that organizations with strong ethical values – from top executives to middle managers to rank and file workers – experience less misconduct, more frequent reporting of misbehavior, and less retaliation on the job. The study indicates that strong ethical culture in a company has a profound impact on the workplace behaviors that can keep a business out of jeopardy.

4. Empower Employees

Employees must know they can directly create and influence your organization's risk mitigation strategies and tactics. Let them know that doing so can potentially save the business its earnings and reputation.

5. Build Redundant Checks & Balances

It is imperative to change any key financial steps where only one person has full knowledge and control. Two (or three) person control is essential even for the smallest of organizations.

6. Institute a Loss Prevention Program

After careful and thorough analysis, design, plan, and implement a comprehensive loss prevention program that directly addresses the risks your business faces.

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7 Ways to Strengthen Your Enterprise Risk Posture

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7. Create Touch Points

Identify where your organization connects with employees: new employee orientation, company-wide meetings, technical training, employee letters, bulletin boards, websites, and publications. Then determine how each of these touch points can serve as an opportunity to train and reinforce ethics, fraud prevention, compliance, and other similar messages.

The seven practices outlined here can go a long way toward strengthening your organization's risk posture and protecting it from losses. Enlist the help of a qualified [risk management consultant](#) to assess your risks and design programs to protect your people, brands, and profits.

Lowers Risk Group & Great American Insurance Group Risk Mitigation White Paper Series: *Employee Theft in the Casino & Gaming Industry*

Excerpt from *Employee Theft in the Casino & Gaming Industry* whitepaper:

Some people are wondering if the emphasis on employee theft in the casino and gaming industry has been lost. In the December 2010 edition of *Casino Management*, in an article entitled, "What is the Real Cost of Employee Theft?," Douglas Florence, Sr. approaches the subject. Looking at the microcosm that is Nevada, Mr. Florence notes that, when a criminal arrest was made in Nevada, 67% of the monetary values involved in the crime were the result of employee theft – either carried out alone, in collusion with coworkers, or with assistance from outside, third-party accomplices or agents.

If true, the statistic is alarming and points to an increased potential for employee related crime of all types – theft, fraud, embezzlement, extortion – especially for the casino and gaming industry which continues to expand even amongst the toughest of economic times. When extrapolated from its Nevada context, by rights a state already hard hit by the recession with high unemployment and the housing collapse, but also a state with a heavy casino and gaming footprint, might not one wonder what impact increased employee related crime would have on gaming development within their respective states? This white paper looks at the domestic casino and gaming industry as it stands today, as well as where it appears to be heading, and attempts to examine the validity of concerns regarding employee related crime based upon a variety of research studies and industry reports.

To learn more about how proactive [loss prevention](#) can work in your organization, and to request this whitepaper please [contact us](#).

