GREAT AMERICAN and LOWERS RISK GROUP

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The Casino Shield

Taking Advantage of Trust

A well operated human resources department is critical for any business, and casinos are no exception. Considering the diversity of departments within a casino and the unique functions performed by the employees, it is not an easy department to manage. The human resources managers must be highly intelligent and experienced. Unfortunately individuals in these management positions can take advantage of their good reputations and use their position for personal gain that is detrimental to their company.

A small casino in the southwest U.S. opened up in the mid 1990's and within a few years had grown to include a few hundred slot machines and approximately 30 table games. The casino grew to a staff of around 300 by early 2000. Around this time, they hired a new HR manager who had previous experience working in the gaming industry.

The new HR manager immediately contributed a well-received style of management and organization the department previously lacked. He took it upon himself to get involved in the day-to-day functions and worked with a very hands-on approach. The casino's management was very pleased with his performance and decided to make him responsible for overseeing all aspects of the payroll functions as well.

Like any small to mid-sized business, healthcare insurance and employee benefits are a significant expense to the casino. They chose the most reasonable program they could find and allowed the HR manager to take care of the rest.

They appreciated this undertaking and he continued to gain respect. During the various forums regarding their benefits package, he empathized with the employees who felt the costs were high and assured them he paid the same premiums and that it was the best option available. In actuality the latter part was true; it was the best option available, but he was not paying the same price.

One day an employee within his department saw a medical bill with the HR manager's name on it left on the copy machine tray. She decided to flip it upside down and delivered it to his office so that his personal information would not be left out in the open. While she thought this was a kind gesture, the HR manager scolded her and uncharacteristically raised his voice. He ranted about how she was out of place for picking up his private material. She apologized and went back to her desk disturbed. It seemed very suspicious to her and she decided to report it through their anonymous hotline.

Around this time, the HR manager took a three week vacation leaving someone else temporarily in charge of the payroll and benefits administration. While performing the payroll duties, the employee noticed names of individuals that no longer worked for the casino were still listed.

It was the perfect storm. A full audit and investigation was launched and the HR manager's fraudulent activity was revealed.

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Contact List

GREAT AMERICAN INSURANCE GROUP

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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Inside This Issue

How You Can Cut Your Organization's Risk Of Fraud by 50%

You've seen the data before: Organizational fraud is a huge annual cost. Managers want to reduce the costs, so the real questions are to learn why fraud occurs and what to do about it.

The most compelling explanation for organizational fraud is the [Fraud Triangle], as summarized in our infographic on the next page. Frauds occur when there is opportunity, one or more employees are under perceived financial pressure (incentives exist), and they can rationalize their fraudulent behavior. These three factors correspond to the legs of the Fraud Triangle.

1. Control the Opportunities to Reduce the Chances of Fraud

In our experience, organizations can reduce the probability of organizational fraud by just removing one of the legs of the triangle. There are things you can't control, such as employees' spending habits, but if you remove the opportunity for employees to get their hands on an asset without the potential of getting caught, then you've reduced that probability by 50 percent.

2. Opportunities for Fraud Can Emerge as Unintended Consequences

Some of the factors that can promote opportunities for fraud can be linked to cost reducing strategies since modern businesses try to run very lean. In other words, these opportunities become unintended consequences of well-motivated management decisions.

For instance, coupled with technology, companies can turn more complex processes over to one or a few people, reducing the number of controls required to protect precious assets. For example, in a situation where a single person can balance accounts, and write and sign checks, an opportunity is created. At the same time, managers have fewer avenues for personal oversight of complex organizational structure; they may even cut back on the frequency and depth of internal or external audits.

3. Tactics for Thwarting Fraud

Taking steps to reduce fraud not only saves the company money directly, it also addresses the underwriting criteria insurance companies are likely to use in evaluating a company. Some of the tactics you can use to prevent and detect fraud, as well as demonstrate your program to the insurance companies, include:

- ☑ Internal controls
- ☑ Segregation of duties
- ☑ Comprehensive employee background screening
- ☑ Vendor screening and due diligence
- ☑ Establishment of a tip line or whistleblower program
- ☑ Set the "Tone At the Top"

Controlling organizational fraud requires management review and an organizational culture that promotes healthy behavior. Removing the opportunities for fraud is a vital first step, but one that needs to be revisited on a regular basis as the organization evolves. The opportunities you are trying to suppress are often the unintended consequences of actions you take to grow your business.

By Mark Lowers,
President
Lowers Risk Group

The Fraud Triangle:
A Model for Understanding Why People Commit Fraud

THE FRAUD TRIANGLE

A MODEL FOR UNDERSTANDING WHY PEOPLE COMMIT FRAUD

The Fraud Triangle model, developed by famed criminologist Donald R. Cressey, is useful in understanding the circumstances and rationale behind occupational fraud. How can the damaging acts of an employee be explained?

> OPPORTUNITY

Potential fraudsters identify an opportunity to use/abuse their position of trust for personal gain and they believe they have a low risk of getting caught in the act.

Opportunities stem from...

- Weak internal controls
- Poor security
- Unchecked management access
- Low likelihood of detection
- Lack of policy enforcement
- Uncontrolled vendor relationships

Opportunity can sway the otherwise honest.

> INCENTIVE

Need and greed are common incentives for committing fraud. When coupled with opportunity, the temptation can be all too great.

Common pressures that lead to fraud:

- Financial difficulties
- Living beyond means
- Control issues, unwillingness to share duties
- Divorce/family problems
- Wheeler-dealer attitude
- Unusually close association with vendors

> RATIONALIZATION

Some individuals possess an attitude or set of ethical values that allows them to knowingly and intentionally commit a dishonest act. Others may be able to rationalize a fraudulent act as being consistent with their personal code of ethics.

Common rationalizations:

"I was only borrowing the money."
"I was entitled to the money."
"I had to steal to provide for my family."
"I was underpaid; my employer cheated me."
"My employer is dishonest and deserved to be fleeced."

(Source: ACFE)

6 WAYS TO COMBAT FRAUD

The best way to prevent employee fraud is to adopt practices that will decrease opportunity and incentive. Here are 6 ways to strengthen your risk posture in order to reduce the risk of fraud.

> Form internal audit programs
> Establish a code of conduct
> Conduct pre-employment screening
> Perform management reviews
> Screen suppliers and third parties
> Watch for "red flag" fraud indicators

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Taking Advantage of Trust

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The HR manager had the most comprehensive health and life insurance coverage option, but was paying for the least comprehensive. There was a significant difference in the amount he should have been paying. On top of that, the coverage was extended to his wife without additional premium.

As he found it easy to gain this coverage without detection, he broadened his theft. He took advantage of overseeing the payroll by performing various ghost payroll schemes throughout the year. Individuals who were no longer employed were being kept on the payroll for several months after their termination or resignation. He manipulated their paychecks and diverted them to his bank account.

The scheme lasted nearly 10 years and the misappropriation of funds totaled close to $500,000. The casino management has since instituted a separation of duties between the payroll and human resources functions. Additionally, both departments now have more oversight from senior management. Specifically regarding the payroll duties, persons who are authorized to hire/fire employees no longer distribute the payroll. The casino management now has a respect for these procedures. They have come to the unfortunate realization that even exceptional employees should not be trusted to have excessive authority with no oversight.

By Patrick Shannon, Sr. Acct. Executive
Great American Insurance Group
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The above narrative is fictional; however, it is based on situations that have been reported.

NEWS: Should Patron Have To Pay $500,000 Casino Debt?

March 7, 2014 — A man who lost $500,000 gambling during Super Bowl weekend in Las Vegas is suing the casino claiming he shouldn't have to pay the debt because he was over-served and allowed to gamble. Mark Johnston's attorney, Sean Lyttle, stated that his client was staying at the Downtown Grand, and the establishment began serving his client alcohol as soon as he landed in Las Vegas.

From what they've come up with so far, Lyttle says it appears Johnston gambled for around 17 hours uninterrupted during which time he was served anywhere from 25 to 30 additional alcoholic beverages and was issued markers totaling $500,000, which could be a problem for the casino.

"The basis of our lawsuit is that Nevada gaming regulations prohibit a casino, a gaming licensee, from serving complimentary alcoholic beverages to someone who is visibly intoxicated, and the regulations also prohibit casinos from dealing cards, or allowing a patron who is visibly intoxicated to gamble," says Lyttle.

"In this instance, the Downtown Grand not only served Mr. Johnston comped drinks and dealt him cards while he was visibly intoxicated, but they also issued him half a million dollars in markers during this period of time that he was visibly intoxicated."

By Michael Martinez & Kyung Lah
CNN Cable News Network