

The Casino Shield



Collusion: A Serious Threat to Casinos

Strong internal control procedures are essential for any gaming operation to run successfully. The utilization of surveillance cameras, hold up alarms, and adequate barriers between the cashiers' cages and the patrons greatly help deter crime losses. Separation of banking, payroll, and vendor duties is crucial. A strong pre-employment screening process consisting of background checks and drug tests is vital. Sometimes all of these controls are in place, but something can take place that can make the best, well-oiled machine susceptible to problems...and that something is COLLUSION.

Collusion is defined as secret cooperation for an illegal or dishonest purpose.¹ One casino learned first-hand how impactful and serious collusion can be. A director of the casino's fraud control group was notified as to suspicions of possible collusion between two dealers and two patrons. A review of the surveillance video and related gaming play for the patrons revealed that both patrons often placed late call bets while the two dealers were working the game. These bets were placed or paid when the floor supervisor was busy. A review of the employee work schedules indicated a clear pattern, whereby the two patrons repeatedly played almost exclusively on the tables where the two dealers were working. A few weeks after the initial notification, the dealers were interviewed. Both admitted to colluding with the two patrons.

They indicated after the dice were rolled, and the outcome was known, they would accept late bets from the patrons. They further indicated that the winning payments were not properly booked. They confirmed the scheme had been going on for approximately three years. Between the two patrons, the total compensation received was around \$2,200,000.

All four of the parties have been arrested and are pending prosecution.

The scheme in this scenario took place for quite some time. Despite having what appeared to be very strong procedures in place, the casino lacked in one particular area: they did not operate on a rotating employee schedule basis.

¹ Per Merriam-Webster Online

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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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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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Who are the Fraudsters in Your Organization?

We know the prevalence of occupational fraud is very high, costing organizations of all kinds an average of 5% from top line revenue every year. But what this means is that the importance of preventing these human risk frauds has a high payback as well.

Owners and managers — employers generally — have a very strong incentive to discover every clue that exists within their own organizations to root out risky people, or at least to make it difficult for them to perpetrate frauds.

Occupational fraud is an intentional, hidden crime, sometimes not detected until years after it starts. Therefore, in order to know where to look within the organization for the potential perpetrators even before the frauds are discovered, it will help to know what characteristics fraudsters are likely to have. In other words, **knowing the characteristics of fraudsters can help improve the detection of hidden frauds, or prevent them in the first place.**

The 2014 update of the [Association of Certified Fraud Examiners \(ACFE\) Report on Occupational Fraud](#) includes an extensive section that describes the perpetrators in the 1,483 cases that were included in the report. For the most part, these findings have been consistent over the past three reports (2010, 2012, and 2014), meaning that occupational fraud continues to be a credible threat.

Nevertheless, the data on perpetrators does suggest some weaknesses in organizations' defenses where alert managers could improve fraud prevention or detection.

Position: Frauds are perpetrated by people at every rung of the organizational ladder. However, there are important differences between them.



❑ **Employees** committed 42% of reported frauds, compared with 36% for **managers**, and about 19% for **owners/executives**.

❑ The **median value** of a fraud committed by an owner or executive was \$500,000, or about 4 to 6 times more loss than frauds by employees (\$75,000) or managers (\$130,000).

❑ **Fraud detection** took substantially longer for owners / executives, 24 months, compared to 12 months for ordinary employees and 18 months for managers.

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Who are the Fraudsters in Your Organization?

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An obvious implication of these findings is that the higher you go in an organization, the greater your access to assets and the more you are able to deflect controls and efforts to investigate. It is imperative to have sound controls in place at all levels, but it is especially critical to avoid giving higher-level employees the ability to execute both ends of any type of transaction.

Numbers of perpetrators: An added challenge to controls occurs when two or more perpetrators collaborate / collude to defeat them. Median losses mount rapidly from a median of \$80,000 for a single perpetrator to \$550,000 where five or more are working together. Frauds committed by teams of two or more were much more likely to involve corruption or non-cash frauds because those crimes require cooperation. External third party audits should be routine and frequent.

Demographic characteristics: Fraud losses tend to rise with the age of the perpetrator, which correlates with the fact that high-level personnel within an organization tend to be older than lower level employees. Combined with the fact that the proportion of males rises as authority levels increase, and that frauds committed by men are more likely to involve the relatively more costly crimes of corruption or financial statement fraud, we find that males consistently cause larger losses, even when they occupy similar positions to females.

Tenure: Relatively few frauds are committed by people in their first year on the job, but the proportion jumps rapidly in the one to five year category. New hires will have been screened, so the number of employees with a relevant criminal history should be small. In fact, the ACFE data suggests that only a small minority of reported fraudsters had a prior record.

However, fraudsters are often people with lengthy service who have become trusted in the organization — trusted enough to gain access to assets. The highest proportion of fraudsters is in the one to five year group, but as we have seen, the longer the tenure, the higher the median loss when a fraud is committed.

Function: The highest proportion of frauds occur where people have access to assets — accounting, operations, sales — and among executives / upper management. Organizations will obviously want to ensure that these areas are carefully organized to remove opportunities for fraud to occur.

The ACFE report reinforces the persistent need for managers to develop strong internal controls and to use third party audits to complement them. These audits should be routine and frequently conducted. The best way to avoid the losses of occupational fraud is to prevent them.

*By D. Mark Lowers
President / CEO
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The \$2,200,000 was won over the course of three years when both dealers were manning the game. If the casino had controls in place to limit the amount of time any two or more employees were able to work together in the same game, this loss may have been avoided. In addition to the rotating schedules, the casino should have had procedures in place regarding how winning payments were booked, as well as protocols in place to identify abnormalities or red flags for fraud. Collusion can never be completely prevented. However, strong background checks can help casinos obtain the best quality employees.

*By Mike Marino, Sr., Acct. Executive
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The above narrative is fictional; however, it is based on situations that have been reported.

Latest Findings on Red Flag Employee Behaviors

The 2014 edition of the [Association of Certified Fraud Examiners \(ACFE\) Report on Occupational Fraud](#) confirms and extends previous findings that fraud is a persistent threat across time and borders. Extrapolating the incidence of fraud from the 1,483 cases included in the study to the estimated world GDP, the **ACFE estimates that occupational fraud cost as much as \$3.7 trillion in 2013.**

The report classifies occupational fraud into three broad categories:

- Corruption** — such as bribery, conflicts of interest, and extortion
- Asset misappropriation** — such as theft of cash, fraudulent disbursements, and inventory manipulation
- Financial statement** fraud

Of these, asset misappropriation is the most common, but results in the smallest median loss of \$130,000 per case. Financial statement fraud is relatively uncommon, but results in a median loss of over \$1 million.



The Hidden Fraudster

The pattern of results reinforces the hidden character of occupational fraud. In the cases reported to ACFE, 18 months passed between the inception of the fraud and its detection.

To read the complete article, [click here](#).

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