

Loss Prevention

THE IMPORTANCE OF UNDERSTANDING THE FRAUD TRIANGLE

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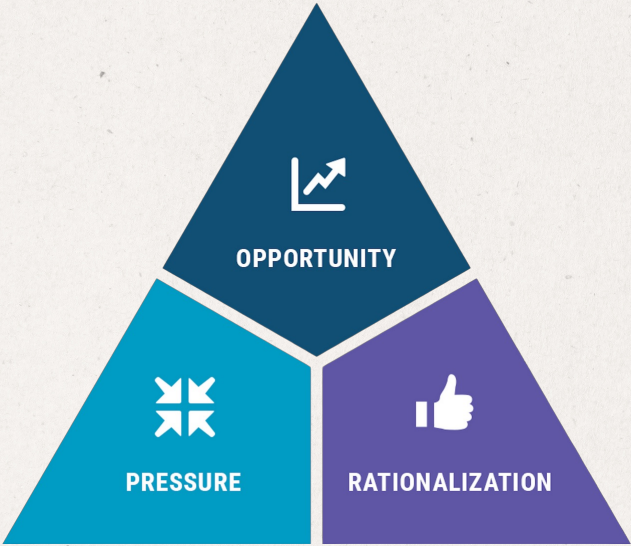
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COURSE OBJECTIVE

- Define the term “Fraud Triangle”
- Discuss how the Fraud Triangle applies to Loss Prevention
- The prevalence of fraud in our industry
- Preventing fraud
- Resources
 - IACSP 2023 Casino Surveillance Survey
 - ACFE Occupational Fraud: A Report to the Nations

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The diagram is a large triangle divided into three smaller triangles. The top triangle is dark blue with a white line graph icon and the word 'OPPORTUNITY'. The bottom-left triangle is light blue with a white icon of four arrows pointing outwards and the word 'PRESSURE'. The bottom-right triangle is purple with a white thumbs-up icon and the word 'RATIONALIZATION'.

DEFINITIONS

- **Fraud** - Any activity that relies on deception in order to achieve a gain. Fraud becomes a crime when it is a "knowing misrepresentation of the truth or concealment of a material fact to induce another to act to his or her detriment" (Black's Law Dictionary). In other words, if you lie in order to deprive a person or organization of their money or property, you're committing fraud (ACFE - Association of Certified Fraud Examiners).
- **Fraud Triangle** - Developed by Edwin Sutherland and Dr. Donald Cressy. It represents the factors that influence a person's decision to commit fraud. "Individuals are motivated to commit fraud when three elements come together: (1) some kind of perceived pressure, (2) some perceived opportunity, and (3) some way to rationalize the fraud as not being inconsistent with one's values. (Steve Albrecht)

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A photograph of a diverse group of young adults, mostly in their late 20s or early 30s, looking towards the camera. They are dressed in casual, contemporary clothing. The background is slightly blurred, suggesting an outdoor setting like a street or a public gathering.

Some Uncomfortable Truths

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The 10/80/10 Rule

- According to data collected by the National Association of State Auditors, Comptrollers, and Treasurers (NASACT)

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10%

- Of your staff will “never” commit Fraud.



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80%


Of Staff will not actively look for fraud opportunities.

But may be tempted, if the situation is right.....

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10%

- Of your staff will actively seek out Fraud opportunities.
- Fortunately they are easily identified by how they look.....
-wait....



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The Facts

- 9 in 10 Fraud offenders have no prior history of fraud.
- 55% have no history of workplace misconduct
- Only 13% have poor performance evaluations
- You can't tell by how anyone looks



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HOW CAN WE EXPLAIN FRAUD?



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COMPONENTS

- Motivation - Typically financial pressure or incentives
- Opportunity - Lack of controls or auditing procedures. Economic pressures can increase opportunities such as layoffs, lack of segregation of duties, etc.
- Rationalization - The ability for an employee to justify fraud. Poor leadership or supervision, weak internal controls, belief that employee is not compensated fairly, etc.



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Pressure / Motivation

- Almost always of a financial nature
- Often “secretive”; something that the person does not believe that they can share with others.



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Rationalization

How the fraudster justifies their fraud to themselves

No-one (typically) wants to be the villain in the narrative of their own lives; therefore, a story is needed to convince them that they are really "the good guy" still.

"I deserve this because my work is not sufficiently rewarded."

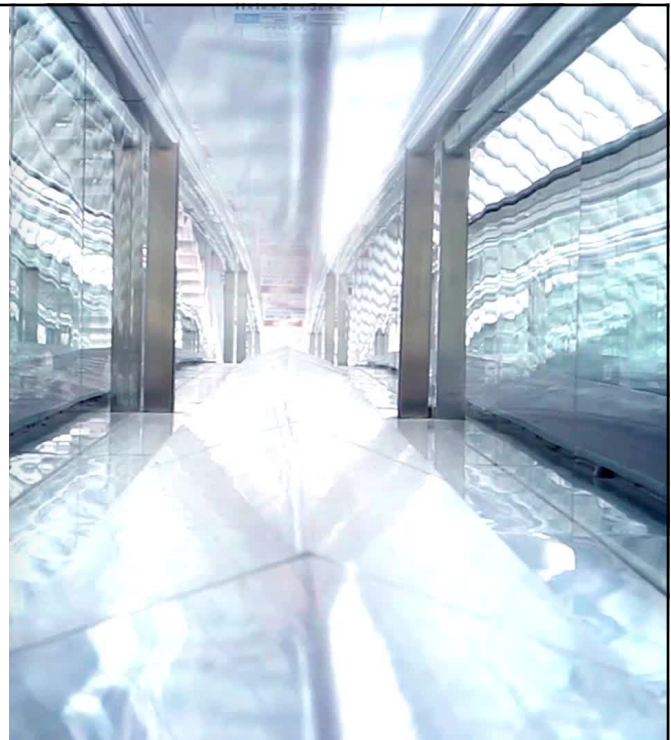
"It is only temporary. Once I am over this hump, I will pay it back."

"This is just the bonus I should have received."

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Opportunity

- Internal controls are weak
- Discovery of vulnerabilities in the system
- Inadequate oversight
- Poor segregation of duties
- Lax monitoring



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What can we do to mitigate Fraud Risk?

- Accept that **Pressure** and **Rationalization** are primarily internal to the fraudster. There isn't much you can do about them.
- Concentrate on **Opportunity**.



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Prevention and Detection

There is no doubt that strong **and adhered to** internal controls, policies and procedures, are one of the primary tools that should be used to prevent fraud.

A proactive surveillance department is key for the detection of internal theft and fraud in every department.

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Factors driving the 80% to Fraud

- Workplace culture: “If everyone is doing it, why shouldn’t I?”
- Perceived risk of detection: “I’ll never be caught.”
- Peer influence: “Everyone is at it, just join in.”
- Job dissatisfaction: “I hate my job, all pressure and no reward.”

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Prevention of Fraud: Address the Drivers

- A strong ethical workplace culture is a strong deterrent to fraud.
- If you raise the perceived risk of detection and lower the perceived reward of the fraud, you deter fraud.
- You cannot control peers, but you CAN deter them from committing fraud.
- Not all jobs are going to be entirely satisfying, but obvious job dissatisfaction can be addressed.

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Risk Vs Reward

Heighten the Risk of Detection

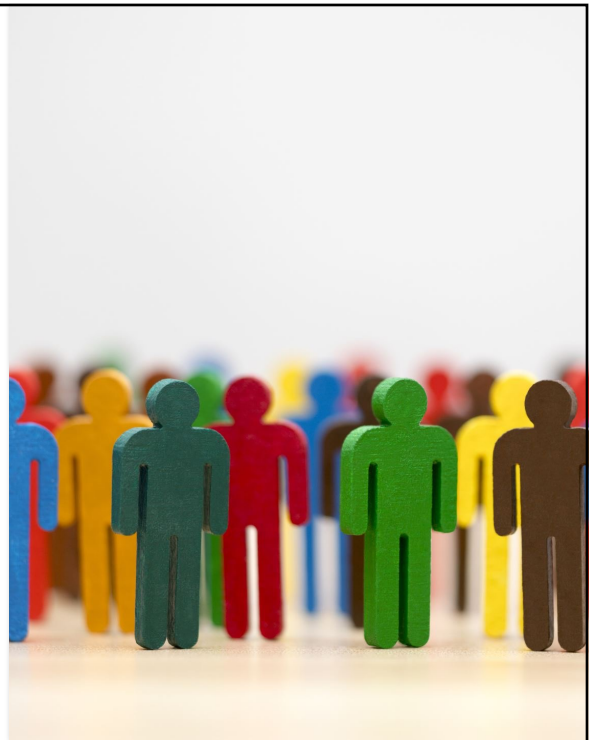
Lower the Reward that can be obtained



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Well Written, and Enforced, Policies and Procedures, Work Wonders

- You can reduce the risk of fraud by making fraud harder to carry out.
- Separation of roles and responsibilities.
- Adequate supervision of activities.



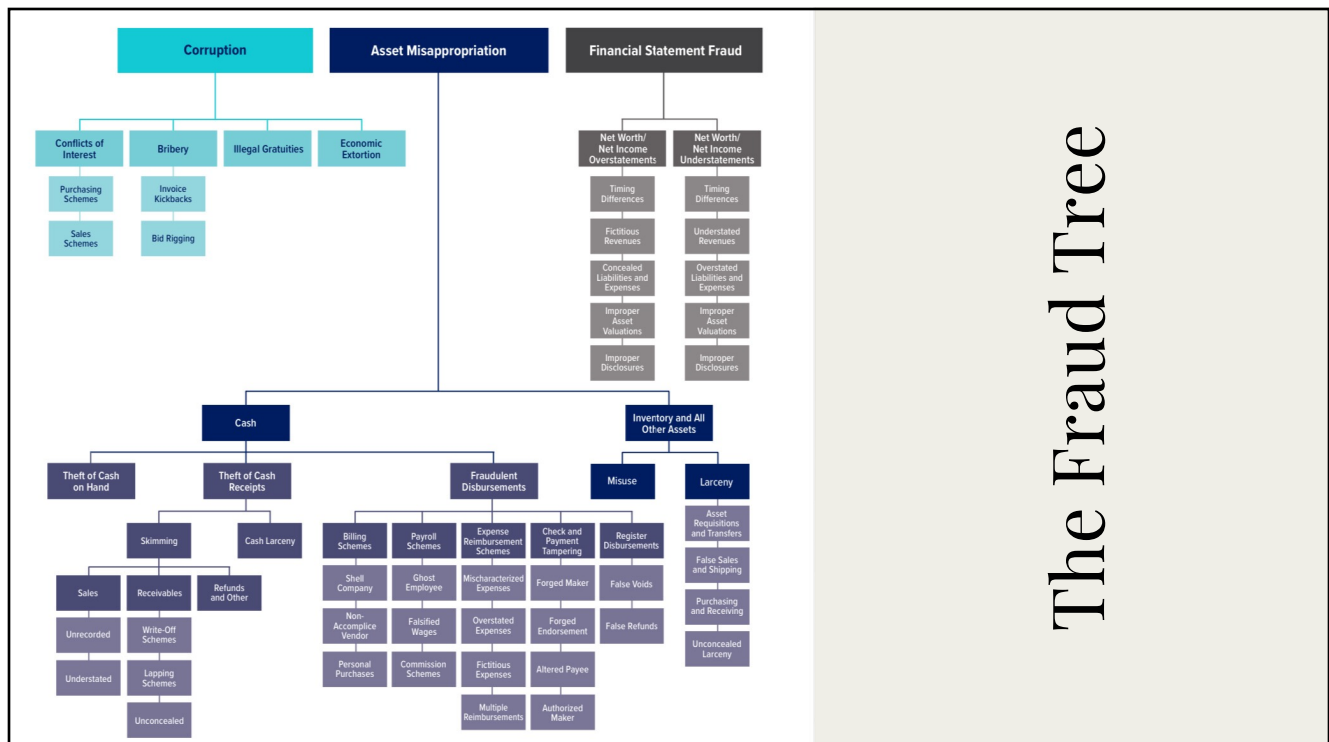
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Best Practices for Detecting Fraud

- Employee Hotline
- Know your numbers!
- Monitor/audit each department on a regular and continuing basis.
- Work closely with internal audit, accounting, compliance, etc.
- Use data monitoring and analysis technology and tools:
 - Retail POS
 - Player Ratings
 - Exception reporting



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Internal Theft and Fraud in Hotel / Casinos

- According to the IACSP 2023 Casino Surveillance Survey, internal theft and fraud are the top threats to hotel casinos worldwide.
- Over 50% of the participants reported they had one to five cases during the year, resulting in losses of less than \$1,000 to hundreds of thousands or even in the millions in one case. These cases typically continue for up to 12 months prior to detection. Many go on longer, and as they do, so does the cost.
- Food and Beverage had the highest level of fraud. Players Clubs pose a significant threat. ALL departments are vulnerable to internal theft and fraud and must be monitored.
- According the the ACFE Report to the Nations, in the foodservice and hospitality industry, the median loss to fraud is \$55,000.



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Case History

Discount
Double Check

Pay to Play

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Best Practices for Detecting Fraud: From a Surveillance Perspective

- Employee Hotline (by far the most effective)
- Know your numbers!
- Monitor/Audit each department on a regular and continuing basis.
- Work closely with internal audit, accounting, compliance, etc.
- Form a Surveillance Investigations Unit
- Use data monitoring and analysis technology and tools:
 - Retail POS
 - Player Ratings
 - Exception reporting



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