



The Five letter F Word: Fraud in the Hospitality Industry

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*Presented by:
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Topics for Discussion



- Occupational Fraud
 - Defining Occupational Fraud
 - How does it affect you?
 - Why do they do it?
 - Case Studies
 - What can you do?
- Other Fraud in Hospitality
 - What can you do?



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Greed



“The point is...that greed...is good. Greed is right. Greed works. Greed clarifies, cuts through and captures the essence of the evolutionary spirit. Greed, in all of it's forms - greed for life, for money, knowledge - has marked the upward surge of mankind and greed - you mark my words – will...save...that other malfunctioning corporation called the USA. Thank you.”



Gordon Gekko
Wall Street

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Defining Occupational Fraud



Occupational Fraud:

“The use of one’s occupation for personal enrichment through deliberate misuse or misapplication of the employing organization’s resources or assets”



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Defining Occupational Fraud



- All occupational fraud schemes have four common elements
 - Clandestine
 - Violate perpetrator's fiduciary duties to employer
 - Committed for the financial benefit of perpetrator
 - Costs employer assets, revenue or reserves

"The truth of the matter is that you always know the right thing to do. The hard part is doing it"

Norman Schwarzkopf

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Defining Occupational Fraud



- Corruption
- Asset Misappropriation
- Fraudulent Statements

"There is no twilight zone of honesty in business. A thing is right or it's wrong. It's black or it's white."

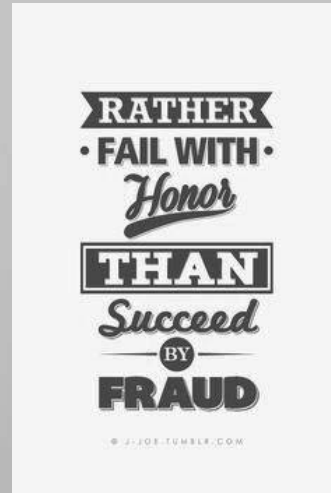
John F. Dodge

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Defining Occupational Fraud



- Corruption
 - Conflicts of interest
 - Bribery
 - Illegal gratuities
 - Economic extortion

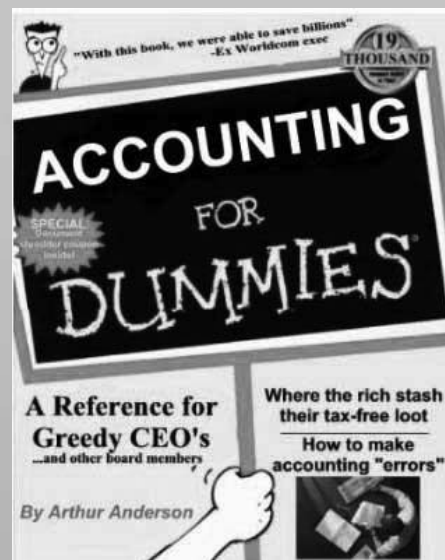


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Defining Occupational Fraud



- Asset Misappropriation
 - Cash
 - Larceny
 - Skimming
 - Fraudulent disbursements
 - Inventory / other assets
 - Misuse
 - Larceny

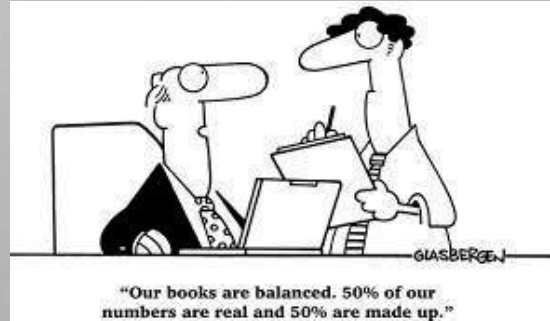


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Defining Occupational Fraud



- Fraudulent statements
 - Financial misstatements
 - Bogus revenues
 - Concealed liabilities & expenses
 - Improper disclosures
 - Improper valuations
 - Non-financial
 - Employment credentials
 - Internal documents
 - External documents



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Defining Occupational Fraud



- Cash –skimming
- Cash – check tampering
- Cash – check theft / unauthorized withdrawals / forged checks
- Cash – false expense reports
- Cash – false bank reconciliations – what's not on there?



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How does it affect you?



- Size of Problem: 2014 Report to the Nation
www.afce.com
- 1,483 cases - \$210 million in losses
- Median loss \$145,000
- Estimated typical organization loses 5% of revenues annually. Applied to World Gross Product = \$3.7 trillion
- 85% of cases involved asset misappropriation
- Fraudulent financial statements - only 9% of cases but had a median loss of over \$1 million



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How does it affect you?



- U.S. – 172 cases with a median loss of \$261,000
- Represented 27% of the cases studied
- 30% involved two or more of the three primary fraud schemes.
- Average scheme lasted 18 months

“There is no silver bullet. You have to recognize you have a problem, and manage your business to address it. Nothing will eliminate fraud altogether.”

Alan Jost

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How does it affect you?



- Over 40% of all frauds are detected initially by a tip from an employee or a customer
- 7% are detected by accident!
- 16% detected by management review
- Organizations with fraud hotlines cut their fraud losses by 41% per scheme and detected them 50% quicker.
- www.ethicsline.com



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Why do they do it?



Non-shareable Financial
Problem/Pressure

Rationalization

The
Fraud
Triangle

Opportunity

"The point is that you can't be too greedy."
- Donald Trump, Presidential Candidate

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Why do they do it?



- Red Flags
 - Employee lifestyle changes
 - Employee debt/credit problems
 - Behavior changes?
Substance abuse?
Gambling?
 - High employee turnover
 - Refusal to take vacation or sick leave

Behavioural Red Flags Displayed by Perpetrators per Case

LIVING BEYOND MEANS 43.8%
FINANCIAL DIFFICULTIES 33.8%
UNUSUALLY CLOSE ASSOCIATION
WITH VENDOR/CUSTOMER 21.8%
CONTROL ISSUES, UNWILLINGNESS
TO SHARE DUTIES 21.8% "WHEELER-DEALER"
ATTITUDE 18.6% DIVORCE/FAMILY PROBLEMS 16.8%
IRRITABILITY, SUSPICIOUSNESS OR DEFENSIVENESS 15.0%
ADDICTION PROBLEMS 11.5% COMPLAINED ABOUT INADEQUATE
PAY 9.4% PAST EMPLOYMENT-RELATED PROBLEMS 8.9% REFUSAL
TO TAKE VACATIONS 8.6% SOCIAL ISOLATION 7.4% COMPLAINED
ABOUT LACK OF AUTHORITY 6.5% PAST EMPLOYMENT-RELATED
PROBLEMS 8.9% REFUSAL TO TAKE VACATIONS 8.6% SOCIAL
ISOLATION 7.4% COMPLAINED ABOUT LACK OF AUTHORITY 6.5%

Source: Association of Certified Fraud Examiners, Inc

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Why do they do it?



- Analyzing Red Flags
 - Unusual circumstances that vary from normal activity
 - Do not ignore
 - Sometimes it is just an error
 - The Fraud Triangle

“There is far more opportunity than there is ability.”
- Thomas A. Edison

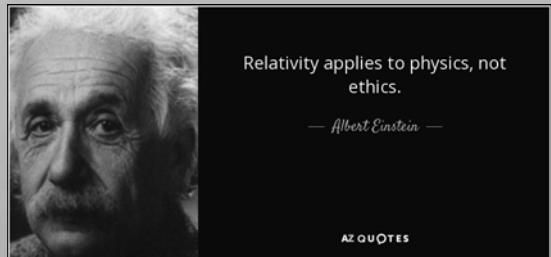
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Case Studies



Controller embezzles funds over a three year period

- Writes extra checks to self
- Paid personal credit card expenses from Club's books.
- Started over in another location
- Left country when caught



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Case Studies



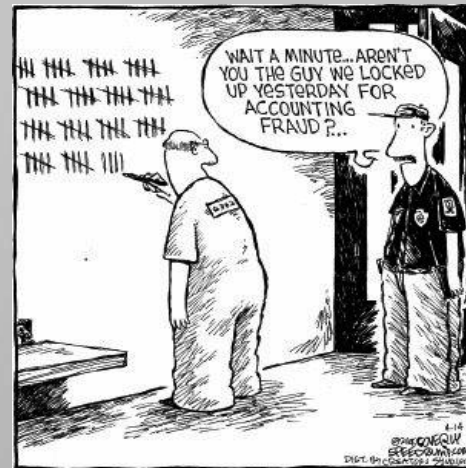
- Country Club manager pleads guilty to embezzling over \$500,000.
 - Financial pressure – gambling problem
 - Opportunity - Control of kitchen, dining, lounge, meeting rooms and golf course
 - 255 false expense reimbursements, 168 fictitious invoicing
 - Four schemes
 - Fictitious expenses
 - Created checks for a person not affiliated
 - Fraudulent invoices
 - Checks for actual vendors he forged and deposited
- Prior arrest for stealing from PTA



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Case Studies

- Golf Club GM steals 250K
- Lasted 5 years
- Created a shell company
- Billed for false services



Case Studies

Former golf exec charged in theft

\$1 million missing at San Jose club

By Tia Mitchell

Times-Union staff writer

The former comptroller of an exclusive Jacksonville country club is charged with stealing nearly \$1 million from the organization over a four-year period, authorities said.

William Bradley Dietz, 47, of the 1400 block of Tiber Avenue was arrested yesterday and charged with grand theft and forgery. Dietz became the target of a State Attorney's Office investigation last month after an audit by San Jose Country Club officials found \$999,473 was illegally funneled from the organization, said Rick Beseler, chief investigator for the State Attorney's Office.

"This is the largest embezzlement theft that I ever remember with my 25 years in the State Attorney's office," Beseler said. Bank statements show unauthorized wire transfers to investment accounts in the man's name, according to a police arrest report.

The audit came shortly after club officials forced Dietz to resign from his position, according to a police incident report.

"Brad was let go due to performance issues and his



Hospitality Case Studies



Country club calls meeting over former employee embezzlement

video 56K | High Speed

JACKSONVILLE, FL -- The San Jose Country Club called a meeting for its members Friday night to explain why a former employee had just been arrested for embezzling.

Investigators say William Dietz embezzled nearly a million dollars using club credit cards, forged checks and a credit account to funnel stolen money. The Special Prosecution Unit (SPU) is calling it the largest embezzlement case they've ever worked.

A judge set Dietz's bond at \$125,000 on Friday.

Related article:

- Former Controller for Country Club Accused of Embezzling has Criminal Past



William Dietz

- E-mail This Article
- Printable Version
- Discuss your opinion on this

Former Controller for Country Club Accused of Embezzling has Criminal Past

video 56K | High Speed

By Roger Weeder and Karen Salajko
First Coast News Staff

JACKSONVILLE, FL -- The former San Jose Country Club Controller accused of stealing from the club, was charged with grand theft 12 years ago.

"This is not Mr. Dietz's first time having a problem like this," said Rick Beseler, Chief Investigator for the State Attorney's Office.

First Coast News found William Bradley Dietz's charge of grand theft involved his role as a book keeper for a group of Arlington architects. Court records show Dietz entered a plea of "no contest" and was ordered to repay nearly 72-thousand- dollars. Dietz also was sentenced to 10 years probation.

Dietz is being held in the Duval County jail after an arraignment Friday morning. Dietz is charged with



47-year-old William Bradley Dietz



San Jose Country Club

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Hospitality Case Studies



Hotel reservation clerk in Washington, DC embezzles a substantial amount of money by establishing fictitious company and crediting travel agent fees on those reservations that book directly.



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Hospitality Case Studies



- Longtime employees steal \$50,000 in FF&E
- Stolen from locked storage room
- Catch all room that was poorly organized
- Adjacent to service elevator

“In a way, fraud in business is no different from infidelity in marriage or plagiarism in scholarly work. Even people of high moral standards succumb.”

Miroslav Volf

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Case Studies



- Trusted Controller embezzles \$150,000
- Long-time employee
- Rarely took time off
- Picked up change orders and reconciled bank account
- Cash deposit as receivable
- Wasn't discovered until controller left company and country

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Case Studies



- **Bartender steals \$600 in three days**
- **Ring up regular drinks and charge for premium**
- **Alter tip amount on credit card**
- **Overcharging to increase tips**
- **Undercharging to increase tips**

What I found is there's a group of new people that work only at new restaurants because they know they are not in good shape and the owners aren't ready, they take advantage of the ignorance and confusion

*-Eric van Merkensteijn
Former professor, Wharton School of Business*

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What can you do?



- Defining internal control
 - Can we safeguard assets?
 - Can we check accuracy and reliability of accounting data?
 - Can we promote operational efficiency?
 - Can we encourage adherence to prescribed managerial policies?

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What can you do?



- Limitations on internal control
 - No matter how strong
 - Human error
 - Management override
 - Circumvented through collusion
 - Implemented only when costs < benefits
 - Not updated to reflect changes in operations or circumstances

“Small businesses don’t have the security department enjoyed by large corporations, so if the bookkeeper doesn’t spot the fraud, the business takes a hit”

Steve Sahlein

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What can you do?



- Key control concepts
 - Prevent before you detect
 - Divide the duties
 - Fix responsibility
 - Limit the accessibility of assets
 - Surprise your employees!
 - Use cost-benefit analysis
 - Communicate the control ethos
 - Don’t overlook the obvious

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What can you do?



- Cash controls

- Lock up the checks
- Limit the number of authorized signers
- Involve the officers, not the employees
- Destroy the stamps
- Bank deposits agreed to G/L postings
- Bank accounts reconciled timely
- Positive Pay



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What can you do



- Credit Card Controls

- PCI compliance
- Credit card chips (EMV)
- Purge data
- No imprinting
- Credit checks for all who handle credit cards
- Procedures

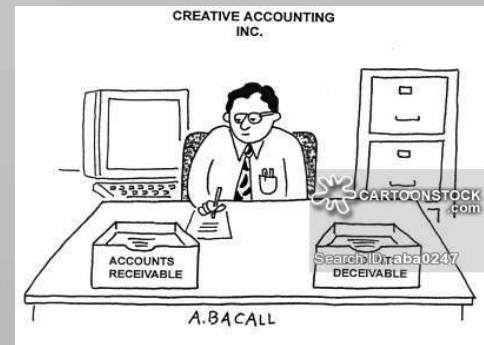


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What can you do?



- Accounts Receivable Controls
 - Review aging for old balances
 - Investigate member complaints about payments not being processed
 - Segregation of duties – no access to receipts
 - Lockbox
 - Require proper approval for write offs



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What can you do?



- Inventory controls
 - Who let the inventory out?
 - Lock it down; Control the keys;
 - Keep inventory to a minimum
 - Big brother is watching - cameras!
 - Count once, twice, then start again!
 - No packages please
 - Watch the trash and the garbage cans

“It is difficult, but not impossible to conduct strictly honest business

Mahatma Gandhi

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What can you do?



- Inventory controls – cont'd
 - Don't let delivery personnel into the storeroom
 - Limit liquor stores access to managers
 - Keep perpetual beverage inventories
 - Empty bottle in – full bottle out
 - Use standard drink recipes
 - No free pour shots

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What can you do?



- Purchasing Controls
 - Train A/P staff to be alert for:
 - Invoices with PO Boxes but no phone number
 - Multiple companies with same address
 - Vendor names similar to reputable businesses
 - Delivery address not the property's
 - Invoice addresses the same as employee's
 - Audit the master vendor list regularly
 - Investigate questionable companies
 - Who approved payment to them?

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What can you do?



- Purchasing Controls – cont'd
 - Ordering does not equal receiving
 - Cameras
 - Everyone needs a break
 - Force vacations!
 - The show must go on!
 - Audit - and let them know it!
 - Budgetary analysis
 - Ratio and trend analysis

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What can you do?



- Purchasing Controls – cont'd
 - Be alert for:
 - Dept. Heads purchasing outside their normal duties
 - Invoices consistently below higher review threshold
 - Unreasonably high vendor prices
 - Quality down = member/guest complaints up
 - Prices up + suppliers down
 - Inventory build up
 - Is a new supplier getting all the business?

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What can you do?



- Payroll Controls
 - Payroll audits – surprise!
 - Well documented termination procedures
 - Thorough background checks on all new hires
 - Written approvals of hours worked
 - Inconsistent overtime hours – in a slack period?
 - Well maintained employee files

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What can you do?



- Payroll controls – cont'd
 - Review of payroll registers and checks
 - Review of cancelled checks for endorsement
 - Employees with few or no deductions
 - Employees with duplicate SSN/names/addresses
 - Segregation of duties-payroll processing and check issuance
 - Budget variations for payroll

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What can you do?



- Overall control environment
 - Review organizational structure
 - Define lines of authority for acting on behalf of business
 - Establish environment to support controls
 - Be committed to sound business practices
 - Adopt written policies to clarify procedures
 - Review periodically (annually) to maintain effectiveness.
 - Review management letter from audit and address any weaknesses identified.

“Ethics must begin at the top of every organization. It is a leadership issue and CEO must be the example.”

Edward Hennessy

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The customer is always right?



- The 10 most common scams hotel guests use
 - Credit card fraud
 - Check fraud
 - Check switching
 - Gum Buy
 - Dine-n-Dash
 - Fraudulent room theft
 - Dry cleaning scam
 - Wake up call?
 - Frivolous lawsuits
 - Outright theft

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Greed



- “Greed” is Not
“good”... “Money” IS
“evil”



Gordon Gekko
Wall Street, Money Never
Sleeps
15 years later

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