

HOSPITALITYLAWYER.COM PRESENTS

2013 THE **HOSPITALITY LAW**
CONFERENCE
FOCUSING ON LEGAL, SAFETY & SECURITY SOLUTIONS

FEBRUARY 11-13, 2013 • HOUSTON, TEXAS

TRENDS IN TRAVEL INDUSTRY FRAUD

Scams,
Schemes and
Shenanigans

PRESENTER



- Brad Bonnell, Director, Security – Fraud Risk Management, InterContinental Hotels Group (IHG)
- 20 Years in Risk Management with IHG
- Served as:
 - Chief of Staff, Georgia State Patrol
 - Special Agent, Georgia Bureau of Investigation
 - Special Agent, US Army Criminal Investigation Command

OBJECTIVES

To raise awareness of the risks associated with fraud in the hospitality industry

To review recent investigations into incidents of travel industry fraud

To enable the development of a pro-active, coordinated and consistent fraud risk management program

WHAT IS FRAUD?

“A SKIN OF TRUTH STUFFED WITH A LIE.”



FRAUD DEFINED

Crime for gain that uses deception as its principal method of commission.

Intentional or deliberate act to deprive another of property or money by guile, deception or other unfair means.

FRAUD DEFINED

Intentional act or omission designed to deceive others, resulting in the victim suffering a loss and/or the perpetrator achieving a gain.

Use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the organization's resources or assets.

CATAGORIES OF FRAUD

ASSET MISAPPROPRIATION – The most frequently occurring but on a per incident basis the least costly form of fraud

FALSE STATEMENT – The least occurring type of fraud but on a per incident basis the most costly

CORRUPTION – Defined as the abuse of power for personal gain: Kickbacks, Bid Rigging, Billing Schemes

WHAT ARE WE LOSING TO FRAUD?

5% OF GROSS ANNUAL REVENUE

Research by the Association of Certified Fraud Examiners and the University of Portsmouth has consistently revealed that an organization will lose on average approximately 5% of its gross annual revenue to fraud.*

- **the 2010 and 2012 Global Fraud Study, Report To The Nations prepared by the Association of Certified Fraud Examiners**
- **“Resilience to Fraud of the UK Hotel Sector”, University of Portsmouth**

WHAT MOTIVATES FRAUD?

The “FRAUD TRIANGLE” of:

- NEED
- RATIONALIZATION
- THE PERCEPTION OF A RISK FREE OPPORTUNITY TO STEAL

VULNERABILITIES

- Virtual Travel Agencies and Commission Fraud
 - Frequency Marketing Program Fraud
 - Money Laundering
 - Direct Billing Fraud
 - Refund Fraud

FREQUENCY MARKETING PROGRAM FRAUD

Using the computers in a public library, Mr. Giddens accessed legitimate Priority Club Reward accounts from which he depleted and transferred points that he then redeemed for airline tickets that were sold over the internet.

The loss to IHG was
Exceeded \$198K.



FREQUENCY MARKETING FRAUD – FALSE REPORTING

It was discovered that several hotels were routinely falsifying their occupancy rates in order to collect a higher rate of compensation from IHG for Priority Club Reward Redemptions.

Losses exceeded \$2.2M

TRAVEL AGENCY COMMISSION FRAUD

The owner of an obscure travel agency operating in a remote region of the Middle East collected \$1.1M in fraudulent travel agency commissions through fraudulent “no-show” reservations.

ASSET MISAPPROPRIATION

**The Front Office Manager at a Crowne Plaza in Japan
confesses to theft of \$198K in cash over a period of 5
years.**



VIRTUAL TRAVEL AGENCIES

InterContinental Voyages, LTD, LLC



VIRTUAL TRAVEL AGENCIES

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VIRTUAL TRAVEL AGENCIES

InterContinental Voyages, LTD, LLC generated a loss in excess of \$500K through fraudulently obtained travel agency commissions.

VIRTUAL TRAVEL AGENCIES

“Joystar Travel” collected \$163K in fraudulent commissions through their “agent” who was adding the “Joystar” IATA to existing reservations.

THE INDONESIAN MONEY LAUNDERING SCHEME

- With no notice, \$75K is electronically deposited into the bank account of a London hotel by an individual claiming to be an event manager for the Indonesian Embassy.
- The event is then canceled and a refund requested.

A COMMON SENSE APPROACH TO MANAGING FRAUD

**The Association of Certified Fraud Examiners recommends a
Fraud Risk Management Program consisting of:**

- **Governance – Counter Fraud Policy Statement**
 - **Prevention**
 - **Detection**
 - **Investigation**
- **Threat Assessment**

FRAUD GOVERNANCE

- **A policy statement detailing the expectations of the senior executive concerning the management of fraud:**
 - **Define and describe fraud**
 - **Articulate a “Zero Tolerance” position concerning fraud**
 - **Require that all fraud be reported to a single organization within the business**
 - **That “Whistle Blowers” will be protected from retaliation**
 - **Require affirmation of compliance**

PREVENTION

Prevention encompasses policies, procedures and training that will MINIMIZE the likelihood of fraud occurring while MAXIMIZING the possibility of detecting any fraudulent activity that may transpire.

PREVENTION

- **Pre-employment Background Investigations**
 - **Mandatory job rotation**
 - **Mandatory vacation**
- **Regularly scheduled change of all information management system passwords and property access codes**

PREVENTION



PREVENTION

- **Proper Segregation of Financial Duties**
 - **Spending Authorization Limits**
- **Regularly scheduled audits, inventories & inspections**
 - **The “unannounced” audit**
- **Re-keying of all electronic locks to establish the integrity of your “master” card keys**

DETECTION

Detection involves activities and programs designed to identify fraud or misconduct that is occurring or has occurred when preventive measures fail or unmitigated risks are realized.

DETECTION

- **Recognition of the indicators of fraud**
 - **Data mining of your “top tens”**
 - **“Mystery Shoppers”**
- **Systematic and on-going analysis programs of large data bases**
- **A confidential fraud “whistle blower hot line”**

INVESTIGATION & CORRECTION

A coherent fraud risk management program requires a system for prompt, competent and confidential review, investigation and resolution of allegations involving potential fraud or misconduct.

INVESTIGATION & CORRECTION

**Legislation in the form of the UK Bribery Act,
FCPA, and Dodd-Frank now require that
management of fraud be transparent and
auditable.**

INVESTIGATION & CORRECTION

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"We're prepared to offer you a deal...immunity from prosecution in exchange for some hot stock tips."

FRAUD THREAT ASSESSMENT

Essentially the process of identifying known and potential loss to fraud in order to determine how much to invest in a counter fraud strategy.



QUESTIONS, COMMENTS OR COMPLAINTS?

“The difference between genius and stupidity
is that genius has its limits.” – Albert Einstein