

Austin Area Chapter Association of Certified Fraud Examiners

President's Corner

Shari Daffern, CFE, CIA, CPA

The Board would like to thank everyone who attended the Annual Spring Fraud Seminar. The accommodations at the new Gattitown were clean and bright. We received good reviews on the speakers. The income from the 38 attendees will help fund our scholarships for the coming year.

It has been my pleasure to serve the Chapter as President these past two years. I have enjoyed networking with the members and speakers at the meetings and the seminars, strong-arming members to complete the "Spotlight" form, and working with the Chapter Board members. Our Board members have been working well together, and each has provided the time, expertise, and unique prospective that has enabled our Chapter to have another successful year.

Some of our accomplishments for the past year:

- Enhanced the Chapter website
- Afforded the President and a Board member with the opportunity to attend the Chapter leadership meeting at the ACFE Annual Fraud Conference
- Obtained an audit on the Chapter accounting records
- Hosted two fraud seminars

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Chapter Meeting Schedule

Time: 12:00 to 12:50 p.m.
Lunch served promptly at 11:45 a.m.

Location: Nuevo Leon Restaurant
1501 East, 6th Street

Cost: \$11.00 – Chapter Member
\$13.00 – Non-Chapter Member

This Month's Meeting

Date: May 5, 2008

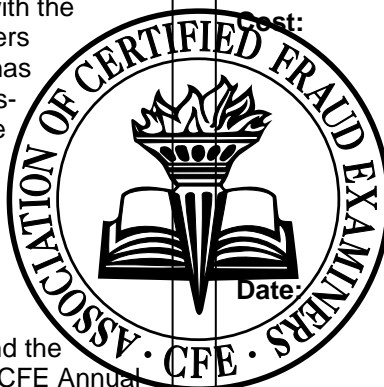
Speaker: John J. D'Amato, CPA
Director – Internal Audit
FIC Insurance Group, Inc. – Austin, TX

Topic: Financial Statement Fraud - Trends and Considerations

register on line: www.austinacfe.com
or
call 512/389-4813

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- Awarded scholarships to five outstanding students
- Provided membership with nine monthly opportunities for networking and fraud training
- Produced monthly newsletters containing information and recaps of speaker presentations
- Continued the "Spotlight on a Member" section of the newsletter

The Board will remain the same, but some of us are switching jobs. I'll continue to do the Spotlight and answer the info link on the web site. We often receive interesting inquiries and requests from members and non members throughout the country.

The continued participation of our members is what really drives the success of our Chapter. At about 60-65 %, the percentage of attendance by our members at our monthly luncheons is phenomenal! It is always interesting to find out what colleagues are involved in.

May's meeting will be the last until September. The Board will continue to meet during the summer make plans for next year. Hope you all have a great summer!

What You Missed

Mike Garner, CFE, CIA

If you were not able to attend the April 7, 2008 chapter meeting, you missed a presentation on "Fraud Prevention at Texas Lottery" by Ms. Brenda C. Pisana, Security Director, Texas Lottery Commission. After retiring from the US Army as a Special Agent with the Army Criminal Investigation Command, she held a number of investigator positions at three different state agencies prior to accepting her current position. Ms. Pisana's presentation focused on the difference between the enforcement responsibilities and the security responsibilities; the online and instant games currently available to play; the fraud methods used by retailers and those used by players; and the tools that they have available and utilize to combat fraud.

The Texas Lottery is the third largest in dollars (behind Massachusetts and New York) and the 16th largest per

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AUSTIN AREA CHAPTER OF
THE ASSOCIATION OF CERTIFIED FRAUD EXAMINERS
PO Box 13462, AUSTIN, TEXAS 78711

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FISCAL YEAR 2006

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capita. In Fiscal Year 2007 the lottery had \$3.8 Billion in sales of which \$2.6 Billion was in scratch off tickets. Over \$1 Billion of these sales were sent to the Foundation School Fund (FSF) in contrast the Permanent School Fund only allocated \$843 Million to the Available School Fund. Since September 1, 1997 the Texas Lottery has transferred over \$10 Billion to the state's FSF. Unclaimed prizes go into another state fund that supports teaching Universities.

In 2004 the Lottery Commission reorganized in an effort to better define the scope and services of the security function. As a result of these efforts the functions of the Security Division were enhanced and transferred to four separate areas including the Enforcement Division; the Administration Division (took over building security); the Security Department (now focused on overseeing the ticket validation and lottery drawings processes); and the addition of a drawings function.

The Enforcement Division investigates and prosecutes administrative violations of the Lottery Act and the Bingo Enabling Act. The Enforcement Division's commissioned peace officers and administrative investigators work closely with local law enforcement agencies, district and county attorneys, and the Lottery Operations Security Department and claims office staffs.

In 2005, investigators and background specialists conducted 1,123 investigations, including 332 alleged violations of the Lottery Act and 26 alleged violations of the Charitable Bingo Act, plus background investigations of 647 license applicants and 118 Texas Lottery Commission applicants. In addition, enforcement attorneys and legal support staff conducted 66 bingo hearings, 70 lottery hearings, and 297 lottery summary suspension hearings, and participated in the settlement of numerous other cases. The Enforcement Division is managed by a Director, who reports to the Executive Director.

The Security Department's primary role is to ensure the security and integrity of lottery drawings and ticket validations. In accomplishing this function, Security Department personnel work closely with personnel from other Texas Lottery Commission divisions and departments. The Security Department monitors lottery drawings and validation processes to ensure that they are conducted in compliance with the applicable laws, rules, regulations, and policies and procedures. In addition to the regular daily lottery drawings, the Security Department works with the

Products Department in providing security at all second-chance drawings conducted throughout the year.

The Security Department works with the Austin Claim Center to validate legitimate winning on-line lottery tickets with a prize payment of \$1 million or more and winning Mega Millions tickets valued at \$250,000 or more. Claims involving questionable lottery tickets (tickets reported stolen, altered, damaged or previously paid) are submitted to the Security Department. Security personnel conduct a preliminary investigation to determine the true status of the ticket. Based on the findings of the preliminary investigation, the claim is either forwarded to the Enforcement Division for further investigation or returned to the Austin Claim Center for a payment determination.

The Security Department houses a forensic laboratory which is used to perform forensic analysis on questionable tickets. The forensic analysts, through the use of laboratory equipment, examine tickets with suspected alterations to the game play data and claimant signatures to determine the legitimacy of ticket claims. Those tickets found to have been altered are routed to Enforcement for further investigation.

The Security Department works closely with the instant ticket manufacturers, the instant ticket testing vendor, and the Products Department to ensure that all Texas Lottery tickets sold to the public are fully tested to ensure that they are secure and of the highest quality. The Security Department is involved with instant ticket games throughout their existence. The department works with the Products Department in the production and introduction of new games, with the claim centers and Enforcement while the instant ticket games are being offered for sale and with Retailer Services in the destruction of instant ticket games that have ended.

The Texas Lottery's current on-line game offerings include Mega Millions with the add on Megaplier, Lotto Texas, Pick 3, Cash Five, and the Texas Two Step and a new game Daily 4. There are also 50 to 70 scratch-off games going on at any one time with about 100 games a year. Scratch off tickets range from \$1 to \$50. The addition of a \$50 ticket is very popular and a great success overcoming lagging scratch-off sales in its first two months and then exceeding previous records. There are also second chance drawing where players will send in their losing tickets for a second chance to win. They have noticed that a lot of the tickets that are sent in for this game are actually winners that have not been redeemed.

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Retailer Fraud – Fraud committed by retailers includes micro-scratching (the use of small pin pricks to identify winners – this is normally used on \$50 tickets); tell the customer that the winning ticket is a loser and then keep the ticket for themselves; pay the customer less than the full amount of the winner (pay \$10 for a \$50 winner); and decoding game data (use of both chemical and mechanical means to determine if ticket is a winner – again it is usually the \$50 tickets that the retailer attacks with the most sophisticated tools and means that they can devise).

Player Fraud – Fraud committed by players includes altering tickets (turn 4 into 14, paste two tickets together, cut square out and insert another square, etc.); have another person claim the winnings for them – reasons for this include reduce taxes, owe money to government, owe child support, education loans (one \$1,000 scratch-off winner owned \$30k in education loans and the \$1K was applied to this loan balance and he then only owed \$29K), child support (a \$30k winner in pick 3 didn't have a valid DL and asked his boss to claim the prize for him; his boss owed child support and the winnings were going to be applied to what he owed but after investigation the winnings were distributed to the original winner), etc.; and the use of white-out on a ticket. In second chance drawings you can play if you are 18 or over but you cannot receive the promotional prizes unless you are at least 21. If you are between 18 and 21 you will receive the value of the prizes instead. A number of second chance winners claim that it was their son or daughter that was the winner so that they can receive the value of the prizes instead of the prizes.

Tools Used – Ms. Pisana discussed a number of the tools they use to deter and detect fraudulent activities. Background investigations are conducted on everyone at the Lottery and all vendors hired by the Lottery; these investigations include fingerprinting and a review of FBI records. No Lottery Commission employee can play any games that the Texas Lottery Commission has involvement; they can play out of state games that are not played in Texas. Other tools discussed included the Compliance Activity Monitoring Process (CAMP), the contract with G-Tech, the design of the game for better forensic analysis, rigorous ticket testing, etc.

CAMP - On December 1, 2004 the Texas Lottery Commission implemented an automated system to monitor all lottery and Bingo jurisdictional complaints received by the agency. The process tracks and monitors the status of the complaints from the time they are received until the final disposition. This help enables rapid identification of problem areas of compliance activity or complaint trends. Complaints must be in writing and complainants are encouraged to

submit complaints on the official Texas Lottery Commission complaint form. Complainants are informed of the status of their complaints.

Texas Model – The Texas Model of doing lottery business is a multifaceted business model that includes responsibilities both inside the agency and outside the agency through outsourcing. The Lottery Commission does a lot of outsourcing but vigorously oversees, monitors, and investigates these major contracts. This model is being used as a benchmark for other state lotteries.

In closing Ms. Pisana answered a number of questions regarding both security and enforcement.

Speaker's Biography

John J. D'Amato, CPA
Director – Internal Audit
FIC Insurance Group, Inc. – Austin, TX

Mr. D'Amato joined FIC Insurance Group, Inc. (FIC) in June 2007. He has more than 17 years of experience in the insurance and insurance-regulatory fields. John was instrumental in driving FIC's Sarbanes-Oxley processes and remediating all six of the 2006 10-K reported material weaknesses (Section 9A). He developed a risk-based internal control audit function and implemented appropriate audit cycle plans. John provided guidance to the Senior Management Team for their development of a fraud risk management plan and an SEC disclosure control committee/process. Finally, John delivers training programs and performs ad-hoc projects and fraud investigations.

Prior to joining FIC, John spent seven years at KPMG LLP's (KPMG) advisory practice in Hartford, CT and New York, NY. Most recently serving as a Director in their forensic advisory practice. While at KPMG, John served primarily insurance companies and U.S. insurance regulators.

Prior to joining KPMG, John held accounting and auditing positions at The Hartford, CIGNA HealthCare and Aetna. Some of these roles involved assignments with international operations. He also served as an accredited financial examiner with the Connecticut Department of Insurance during the merger mania of the early-1990s.

John graduated magna cum laude from the University of Hartford, receiving his Bachelor of Science in Business Administration with a major in Accounting. He is a Certified Public Accountant licensed in the State of Connecticut and a member of American Institute of Certified Public Accountants. He is a Certified Independent Assessor by IMSA (Insurance Marketplace Standards Association), an Associate Certified Fraud Examiner, and a member of The Institute of Internal Auditors.

The Spotlight's On You!

A special feature focusing on members of the Austin Area Chapter of ACFEs



Bill Atwood has been a member of the Chapter
for the past 10 years
But maybe you didn't know...

Job Description:

Fraud, Accounting, Accounting Information Systems, Teaching – UT GSB

What I'm working on now:

Audit, Fraud, tax, teaching

Best part of my job:

Variety & measurable, useful productive results

Ambition and/or Goals:

See my daughters thru graduate level college

Years of State service:

None

My first job:

Mowing yards

Hobbies:

Underwater Archeology

Favorite Movie:

Hang'em High

Last book I Read:

The Secret Architecture of our Nation's Capital

Favorite foods:

Fish

Favorite Restaurants:

Aquarelle

My pet(s):

My bull – Studly Hungwell

It's a good day when:

67 degrees, low humidity

Pet Peeves:

Not-for-profits reporting on a "Trust me" cash basis

What I would do with a surprise afternoon off:

Go to the Ranch

I'm most proud of:

My daughters

Most people probably don't realize:

Keep it simple
