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EFFECTS OF FRAUD AND FORGERY AND PERFORMANCE IN HOTELS IN NAIROBI, KENYA**MOSES MURAYA****STUDENT****SCHOOL OF TOURISM HOSPITALITY & EVENTS MANAGEMENT****MOI UNIVERSITY****ELDORET****JACQUELINE KORIR****LECTURER****SCHOOL OF TOURISM HOSPITALITY & EVENTS MANAGEMENT****MOI UNIVERSITY****ELDORET****KIMELI KORIR****STUDENT****SCHOOL OF BUSINESS & ECONOMICS****MOI UNIVERSITY****ELDORET****ABSTRACT**

Hotel managers and owners at a corporate and hotel level look for opportunities to tighten the belt in their operations as they incur hidden costs which eat not only on their revenue but affect many aspect of running the hotel. With rising incidences of fraud and forgery affecting not only clients and guests but also the processes of the business, hotels are forced to reconsider their stance in fighting the vice. The purpose of this paper was to examine the effects of fraud and forgeries perpetrated by employees, customers, and suppliers on the performance hotels. The results showed that some employee fraud and forgery do affect the performance while some do not affect like cash register fraud. Customer frauds and forgeries affect performance especially guests living the hotel without clearing their bills while suppliers' fraud and forgeries affect performance of the hotel because they occur for long periods of time increasing expenditure as the hotel has to pay. The study concluded that overall hotel performance suffers from frauds and forgeries through increased operating costs, low productivity due to reduced employee morale and absenteeism. The findings may benefit hotel managers to know the extent of the effect of fraud and forgeries on hotel performance and the cost of the vice.

KEYWORDS

Forgery, Fraud, Performance, Theft.

1. INTRODUCTION

The tourism industry has been among the leading contributor to the Kenya's economic growth with tourism recording a 19.5 percent jump in earnings from 52.7 billion in 2008 to 62.5 billion in 2009 (Kimani, M. 2010) with most of these revenues being raked in by the hospitality industry. Increase in tourism business in Kenya means that more guests visit the country for vacation, holiday business trips, conferences and safaris. These guests carry with them valuable and priceless belonging, assets, money and information which has made it them a target by fraudsters to execute their schemes and cons as it is a fertile ground for fraud and forgery.

Reed Archambault, an attorney with Newmeyer and Dillion LLP in Newport Beach says "recent studies show that employee embezzlement has become so wide spread that it accounts for majority of business loses that are suffered by employers". Some estimates indicate that more than \$600 billion is stolen annually or roughly \$4500 per employee (Passo, M. 2006). Hospitality industry exposed various forms of fraud and forgery cases which can be internal or external. Internal threats include employees in any position in the company while external threats include guests, vendors, suppliers, internet threats and even complete strangers. Fraud can manifest itself in a wide variety of ways and originate from a number of sources (Hubbard 2006)

When faced with fraud, hotels must walk a fine line between exercising the necessary controls and meeting the strong imperatives of customer service (Michael 2001). Any fraud can damage a company's reputation and it depends on how the fraud is handled by the company. If the affected company shows the competence in handling fraud cases this creates a positive image for the company but the reverse creates a poor image for the company. The type of fraud can cause a dent in revenue generation and if a hotel looks vulnerable to fraud it can taint the hard earned image thus causing a slump in business with guests opting to go to elsewhere where they feel their security is assured. Guests like to feel assured of their personal security and of their valuables (Michael, 2001).

1.1 STATEMENT OF THE PROBLEM

There has been an increase in the number of cases of fraud and forgeries reported in Kenya and the world over with many of the cases involving lots of money while others have gone undetected. Fraud and forgery can have far reaching effects to hotels and the employees both concerned with the cases and those not even concerned. What motivates employees to engage in fraud and forgery cases and the reasons that they do it is an area that has caught the eyes of scholars and managers as they wish to find ways to eliminate and to prevent these cases from happening in their establishments as they can be of detrimental value to the organization. The impacts of fraud and forgery on performance on hotels has been an interesting subject but most scholars have often researched on motivation of fraud, the types of frauds that occur, the monetary value of fraud cases but few have really definitely tried to link performance and fraud and forgery cases. Fraud and forgery can have a direct effect on profitability and the liquidity of a hotel. Fraud and forgery cases can lead to poor performance to the point of closure. It can also affect productivity and morale of employees when perpetuated as some employees may benefit on individual basis especially those with access to the means. Therefore performance can be affected in terms of reduced revenue, substandard services and products from suppliers, low motivation of employees and increase in operating costs.

1.2 RESEARCH QUESTIONS

1. How do fraud and forgeries perpetrated by employees affect hotel performance?
2. Do fraud and forgeries perpetrated by customers affect performance of hotels?
3. How do fraud and forgeries perpetrated by suppliers affect performance of hotels?

2. LITERATURE REVIEW

2.1 CONCEPT OF FRAUD AND FORGERY

Association of Certified Fraud Examiners (ACFE) classify fraud into asset misappropriation, corruption and financial statement fraud (www.acfe.com). Asset misappropriation covers stealing or "borrowing" resources for personal use without permission for example, check forging skimming cash from registers and using company vehicle for personal gain. Corruption occurs when an employee inappropriately uses their positions in the organization to benefit themselves for example accepting bribes from a potential vendor or accepting kickbacks from customer in the exchange for offering unwarranted discounts. Financial statement fraud involves the intentional misstatement or omission of material information in the organizational financial reports. This may occur to cover up incompetent decision by managers or to hide other existence of fraud or both for example recording fictitious revenues hiding expenses or artificially inflating assets (www.acfe.com).

2.2 MOTIVATION FOR FRAUD AND FORGERIES

With millions of people facing financial hardships, the odds that someone at a company may steal increases (Michael, 2010). Fraud often starts small and as the fraudster finds that they can get away with it gets bigger and bigger. Recent cases have involved very large amounts of money (Parker, 2010). In Nairobi's Fairmount Norfolk hotel a customer skipped without paying a hotel bill estimated at 3.4 million Kenya Shillings (Miana, 2010). The most common underlying causes of fraud are to feed an addiction such as gambling, drugs or alcohol. Fraud can also be triggered by a period of financial distress such as divorce (Parker, 2010). Also broad economic conditions have an insignificant effect on fraud levels. It goes up following a boom period; people want to maintain their standards of living even if it means criminal activity (Parker, 2010).

Criminologists have identified three elements that are often present when fraud occurs that is opportunity, pressures of incentives, rationalization (Hubbard, 2006). Opportunity refers to the situations and circumstances that make it possible for fraud to take place such as an employee with uncontrolled company access to company funds has the opportunity to misappropriate those funds (Hubbard, 2006). Pressures and incentives to commit fraud are often associated with lifestyle issues that are living beyond one's means, personal debt which involves excessive credit card use, gambling losses, uses of drugs or alcohol and lastly business results that are shown by poor operating results, the desire to avoid business failure and also to meet requirements of lenders. Lastly, rationalization refers to the need for the people to somehow justify their fraudulent actions in their own minds. People involved in fraud attempt to physiologically accept their own actions and emotionally "shift blame" to anyone other than him/herself. Common rationalizations are entitlements which include thoughts such as "they don't pay me what is worth". "I have this money coming to me"; anger or revenge "the company has treated me poorly, now they are going to pay"; minimization "I am not taking much". The company can easily afford it"; moral justification, "everyone is doing it, so it must not be so bad to do this. Rationalization is not generally known to others and therefore is usually difficult to detect. In addition, persons with low moral integrity may feel little need to rationalize their behavior (Hubbard, 2006).

2.3 EXECUTION OF FRAUD AND FORGERY

In the area of financial reporting staff may be involved in any number of common methods of financial statement manipulation, "cooking books" these include manipulation of revenue recognition, overstatement of inventory, failure to keep necessary write offs capitalization of expenses and use of reserves to "create" income. Financial reporting fraud cases contain certain recurring themes (Andrew et al., 1999). Common red flags include inadequate leadership at the top, weak internal controls, autocratic senior management, collusion among accounting employees and aggressive accounting policies.

Fraud in its traditional form involves the theft or misappropriation of assets. Frequently, individual's thefts in the hospitality industry are immaterial. However, procurement and related fraud deserve special mention because they can have significant "bottom line" impact. The most common form of procurement fraud involves collusion with outside vendors, which is difficult to detect. No internal control system can prevent collusion between employee and an outside vendor acting as a partner in the fraud. In this type of scenario the vendor usually pays a "kickback" or commission to the employee. The employer rather than the vendor usually bears this additional cost. Often the schemes are varied over time and may involve significant gifts or benefits in-kind like construction of an employee home by the vendor (Flaig and Chang 1999).

Simply put asset misappropriation can be thought of as a theft of something of value that belongs to a business. When it comes to asset misappropriation "cash is king". In other words cash is the most frequently targeted asset because cash has a clearly known value, is easily transferable and transportable, is difficult to trace and may even be diverted before any record exists in a company books. Cash targets include currency and coins, checks, electronic funds, financial instruments, rebates, credits discounts and virtually any other devices or means of financial exchange or enrichment (Hubbard, 2006). According to ACFE national survey 2004, 93% of the asset misappropriation cases studied involved cash, and a median loss was \$93000. Cash may be targeted by external or internal perpetrators or even by both via collusion (Hubbard 2006). Cash diversion schemes ranges from simple skimming of sales receipt to complex frauds involving billing, payroll, expenses reimbursement, checks including alteration and diversion of legitimately issued checks, sales and remittances including point of sale till tapping (Hubbard, 2006)

Other common targets of assets misappropriation include merchandise and or other inventory, equipment and supplies and even waste, scrap, salvage, or surplus property. Generally high value assets that are easy to transport and to dispose of are at highest risk. Prime examples of high risk assets include laptop computers, which pose the additional risks of confidential data disclosure and possible facilitation of unauthorized information system intrusion experience indicates that virtually any type of assets can be targeted (Hubbard, 2006). Corrupt or prohibited business practices include side agreements involving undisclosed rebated or kickbacks, bid rigging, bribery and extortion. These practices often involve hidden arrangements with customers and suppliers of goods and services to a company. In many cases these arrangements directly and dishonestly benefit the individual employee(s) involved (Hubbard, 2006).

Computer related crimes may be committed by persons with or without authorized access, including user and or physical access. Of particular concern is the potential risk associated with disgruntled employees, contractors, or other insiders who may have high level computer access, authority, knowledge, and familiarity. Computers can serve as targets for of criminal activity but more often they serve as a "tool" or the means to accomplish a crime. Also computers may be used to produce false documentation (Hubbard, 2006). An employee can gain access to a company "check books" in several ways. Trusted employees are often allowed to bypass internal control to "assist" others. However these trusted employees can take advantage of the controls they are routinely allowed to circumvent. Circumvention of existing internal controls, even by exception is a common theme in employee fraud (Hubbard, 2006).

It is often impossible for a company management to know every employee and their pay status. Furthermore, payroll process can often make it possible for payments to be made. Common payroll fraud schemes include among others payments to nonexistent (ghost employees) added to the company payroll by someone with the authority to add new employees, employees falsifying time reports for hours not worked, and also where employees get unauthorized salary /pay rates, overtimes, or bonuses. Payroll fraud may also involve collusion between employees for example between an employee that receives the fraudulent pay and an "insider" with the ability to facilitate the payment (Hubbard, 2006).

Payment to outside vendors represents a significant outflow for most companies. Therefore it is important to understand vendor fraud risks. "Ghost" vendors represent a common fraud device used by company insiders who have the abilities to approve new vendors to receive payments and to authorize such payments. In these types of schemes a dishonest employee may establish a phony vendor account(s) that he or she controls and then direct fraudulent payments to that account(s) (Hubbard, 2006). In many companies, vendor payments above a certain dollar amount are subject to closer scrutiny, higher level approvals, or special reporting. In these cases to avoid detection an employee may set up multiple ghost vendors and make only one or two smaller fraudulent payments to each (Hubbard, 2006). Companies should be alert to suspicious patterns of vendor payments, including those that are "just under the radar" in terms of requires approvals, reporting or other company procedures. Similar to a ghost vendor schemes is the dishonest employee who "takes over" a legitimate vendor account. In that case, the employee may simply change the mailing address shown in the vendor profile for an inactive company to one the employees controls. Of course, invoices begin to arrive from the formerly inactive company. Ghost vendor schemes may also utilize company names that are intended to be similar to well known, established vendors (e.g. a legitimate vendor named "Robert Smith and Co" may be reestablished as a ghost vendor under the name "Bob Smith" or "R. Smith"). A perpetrators goal for establishing ghost vendors is to use name alignment as a tactic to reduce the chances of detection (Hubbard, 2006).

Hotels are easy targets because they are all credit card-based. And hotels themselves certainly aren't fortresses designed to keep bad guys out. The root of the issue is the hotel industry's insufficient security measures to prevent data breaches. Many rely on older point of sale terminals and outdated operating systems, which are more vulnerable to hackers (Siciliano, 2010). Credit card fraud strikes millions of times every year and is one of the fastest growing white collar crimes. Credit card fraud happens whenever someone obtains another's credit card account number and then uses it to make fraudulent purchases. This can happen if a dishonest front office clerk makes an imprint of someone's credit card, a thief gets the account number and expiration date from a discarded receipt or a restaurant cashier swipes the credit card in order to make a counterfeit copy of the credit card. This method is called "skimming". Once thieves have accessed this data, they can clone cards with the stolen numbers and use them to make unauthorized charges (Siciliano, 2010).

Fraud experts say that hackers often steal personal data and make multiple small charges to validate of a card holder before making bigger charges (Sharkey, 2010). Results from a research that included 218 investigations, coming from 24 countries indicated that once a scam has been perpetrated, it takes about 156 days for the victimized establishment to realize that they have been hit. The sad part here is that, by the time both the hotel and victim realize what has happened, the hackers would be miles away reaping on the rewards of their actions (Kong, 2010)

3. RESEARCH METHODOLOGY

The research was carried out in 3 selected hotels in Nairobi, Kenya. The research employed a descriptive survey research design whereby it was concerned with the investigation and understanding of various fraud and forgeries that take place in hotels in Nairobi central business district. Target population was 312 hotel employees out of which 93 formed the sample. Data was collected using closed-ended questionnaires. Purposive sampling was used to select the hotels after which the employees were stratified in stratas of departments before simple random sampling was used to select the actual respondents for the study. Data was coded and analyzed using Statistical Package for Social Sciences (SPSS) and presented using frequency tables, bar graphs and pie charts.

4. RESULTS AND DISCUSSIONS

4.1 EMPLOYEE FRAUD AND FORGERIES

30.6% of the respondents agreed that employee fraud takes place in their hotel while the majority of 45.6% disagreed that employee fraud was prevalent in their hotel. Financial record manipulation leads to lots of lost revenue and in some cases can cause the company to suffer litigation due to doctoring of financial statements. From the research a majority of respondents agreed that financial manipulation fraud does take place. Financial fraud can cover all forms of records from accounting records, sales reports, cash collection reports, guest folio records, food cost records among others. The frauds could be happening because of lack of proper audit controls, use of manual records and no computerized records. Manual records can be misplaced or even the paper trail can be forged or eliminated. This is as a result of loopholes that exist in the policies, procedures and implementation of these policies.

A majority of respondents disagreed that assets misuse usually occurs maybe because of the procedures that have been put in place like passwords for computers and photocopiers, and logbooks, security when entering and leaving the building. Though a high percentage of respondents 41.17% agreed that company assets are misused or even used for personal gain, company assets cost the hotel a lot of money on investment. Hence, when these assets are used means they are used to recover this cost and make revenue or assist in making of revenue. Any slight misuse means that a cost has been incurred by the hotel. However, despite procedures that have been put in place for use of these assets, some employees have found a way to by-pass these policies or they use their positions to gain access to the assets. Personal use exposes the assets to wear and tear, and even the risk of theft or loss i.e. for laptops.

In the area of revenue collection, controls are very important so as to ensure all the cash is collected and no losses occur. Being a sensitive area this areas attract various forms of fraud and forgeries that seek to direct cash flow away from the hotel. One way is where employees keep a separate personal check book to collect cash and this does not find its way to the cash box. This fraud is even executed with the collusion of teller. From the research a majority of the respondents disagreed that this fraud takes place. This could be the result of adoption of technology in billing and in the revenue areas of the hotel. by adoption of systems of pay, Like MACROS, opera among others. A percentage of 27.27% of those that agreed could mean that the hotels that were researched on had not fully adopted these systems while others used the manual billing method of billing. A summary of employee frauds and forgeries are as shown in table 1.

TABLE 1: EMPLOYEE FRAUDS AND FORGERIES

| Fraud | Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree |
|--------------------------------|----------------|-------|---------|----------|-------------------|
| Company assets misuse | 12 | 29 | 15 | 24 | 21 |
| Pocketing of payments | 3 | 35 | 32 | 15 | 15 |
| Expense inflation | 9 | 15 | 32 | 32 | 12 |
| Separate billing of check | 3 | 24 | 35 | 21 | 15 |
| Retain payment check | 6 | 18 | 29 | 18 | 29 |
| Taking home hotel supplies | 27 | 15 | 9 | 21 | 29 |
| Working register fraud | 9 | 24 | 29 | 9 | 27 |
| Financial records manipulation | 0 | 35 | 27 | 24 | 15 |
| Credit card fraud | 6 | 12 | 18 | 44 | 21 |
| Selling of personal stock | 12 | 12 | 12 | 29 | 35 |

Source: Data Analysis

4.2 CUSTOMER FRAUDS AND FORGERIES

Hotels experienced a high number of guests who go without clearing all their bills when they check out of the hotel. This was shown by the high percentage of 41.2% of respondents agreeing that fraud forgeries occur. Most bills that are not cleared mostly consists of additional services or drinks that are bought when the guest are taking breakfast. This results as some guests clear with the front office before going for breakfast. If this guest buys any drinks and this is charged to the room account, after breakfast they can walk out without pay either purposefully or forgetting to pay.

Hotel guest can also con the hotel, staff or even other guests. This happens when the guest convincingly comes in as a high profile guest and they can even claim that they are good friends of the manager or owner of the hotel and then they demand complimentary services. They can be very convincing wit even them clearing their first bills then move later for the kill. They later leave the hotel before the checkout day with a huge accumulated bill to their name. Others con staff that they can be able to get them a better paying job abroad and all they need is their details and later ask for some money as a fee for processing their documents for a visa etc. Other guest find a fancy in taking items and gadgetry placed in their rooms with them upon check out. These items include hotel branded towels, small mats, cups, vases, paintings and pictures, sculptures remotes and even cable or DSTV cables. Computers viruses and hackers are dangerous as they can access or even crash hotel company databases. Viruses offer hackers avenues to access a computer remotely and even send data that is very secret like key-loggers can be able to get passwords and pin used in the company. As regards to computer hack and virus frauds, recorded a majority of respondents that disagreed that they happen or have ever happened. This could be as a result of the lack of integration and adoption of technology in the running of the hotel. Also another reason could be the use if standalone databases and computer systems that have not been directly linked to the internet.

TABLE 2: CUSTOMER FRAUDS

| Fraud | Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree |
|---------------------------------|----------------|-------|---------|----------|-------------------|
| Skippers without clearing bills | 6 | 35 | 20 | 24 | 15 |
| Stranger cons | 6 | 22 | 18 | 27 | 27 |
| Taking room items | 29 | 29 | 21 | 15 | 6 |
| Computer hacks and viruses | 12 | 15 | 33 | 10 | 30 |

Source: Data Analysis

4.3 SUPPLIER FRAUDS AND FORGERIES

Under supplier frauds recorded among the highest percentages that the respondents agreed with. 60.6% agreed that suppliers offer rewards of money or kind to the employees who are paid in forms of tokens, gratuity and pricey presents. This is done so that the suppliers are given a priority to supply goods and services in future and also to cut the supplier some slack on the quality and quantity delivered. Other suppliers bribe to attain contracts (48.5%) or theirs is given priority of award with the hotel. This leads to price inflation (41.7%) by the supplier in order to cover the cost incurred in paying the employees. This happens with the collusion of the employees for they are necessary for the success of this fraud. Also another way of covering the cost of the supplier is delivering cheap substandard goods and services (50%) and charging them the same price as quality products.

TABLE 3: SUPPLIER FRAUDS

| Fraud | Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree |
|--------------------------------|----------------|-------|---------|----------|-------------------|
| Money rewards to employees | 6 | 55 | 18 | 9 | 12 |
| Contract bribing | 30 | 18 | 30 | 12 | 10 |
| Goods price inflation | 15 | 32 | 24 | 24 | 5 |
| Substandard goods and services | 21 | 29 | 20 | 18 | 12 |

Source: Data Analysis

4.4 FRAUD AND FORGERIES AND HOTEL PERFORMANCE

Service consistency is affected by high employee turnover. This is because standardization of services becomes difficult with the high labor turnover. The high labor turnover is caused by the dismissal of frauding employees. Also high levels of fraud affect the hotel revenue generation which can lead to low income or loss leading to laying off of employees or low wages and salaries. Another aspect that is affected is the expenditure of the hotel that goes high (46%). This is because of the cost incurred because of fraud like asset repairs, maintenance, replacements, room supply replacements and supplier frauds among others. Fraud and forgery affect the morale of the employees. When employees feel that they earn good money even if they need not to work hard because they know that they have other avenues of getting money not only salaries alone. Also people who fraud form cartels that seem to dictate what they do which is usually little work as they delegate themselves to areas where there is an avenue for committing frauds thus personalizing duties and departments to be worked in. Absenteeism cases can rise due to the employee feeling that they have enough money that they do not need to come to work often or on time. This gets worse when they know that there is somebody to cover up for them when they do not report to work as register can be forged or indicate that they came to work so at last get full wages for time not worked for. Because of these frauds customer complains can arise and become frequent as guest will complain that they do not have various items in their rooms like hair dryers, also poor service from un motivated employee, theft in rooms or by fellow guests, over billing, service quality among others.

TABLE 4: FRAUD & PERFORMANCE

| Fraud | Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree |
|------------------------------|----------------|-------|---------|----------|-------------------|
| Service consistency | 12 | 44 | 26 | 9 | 9 |
| Employee turnover | 3 | 52 | 27 | 9 | 9 |
| Hotel expenditure | 21 | 25 | 24 | 21 | 9 |
| Low employee morale | 27 | 41 | 27 | 0 | 5 |
| Frequent customer complaints | 21 | 32 | 29 | 9 | 9 |
| Employee absenteeism | 8 | 27 | 31 | 18 | 15 |

Source: Data Analysis

5. CONCLUSION

Employee frauds and forgeries sometimes affect performance of a hotel. Frauds like financial records manipulation and misuse of company assets greatly affect while separate billing checks and credit card fraud do not greatly affect performance of hotels. Customer frauds and forgeries affect performance of a hotel in various ways especially guests living the hotel without clearing their bills and also taking away room items with them. Fraud and forgeries perpetrated by suppliers affect performance as they occur for long periods of time and therefore increases hotel expenditure since the hotel has to pay for it. Overall hotel performance suffers from frauds and forgeries through increased operating costs, low productivity due to reduced employee morale and absenteeism.

6. RECOMMENDATIONS

There is need for adoption of technology to be integrated in the daily operations of hotels which include management information system software like opera, abacer, QuickBooks, micros and salary management systems that reduce loopholes and minimize avenues for fraud. CCTV surveillance can be used in areas that are fraud prone like restaurants, bars, front office kitchen stores, receiving bay etc., implementation of a double check system on guests before they check out of the hotel to reduce instances of guest going with unpaid bills and room items can be done in collaboration with other departments. Better pay and incentives for employee can motivate them not to fraud as they are paid money that can sustain them. Hotels and police should collaborate with each other to share information on known offenders and blacklisted guest. Also there should be random check by qualified personnel like executive chef for kitchen deliveries which should be rotational to reduce biasness. Job rotation in cash collection areas or fraud prone areas and it should be randomized so that to reduce employees becoming confident to commit fraud or form connections for frauds. Random and regular audit of financial records, reports assets by a qualified internal and external auditor as well as regular upgrade of the software like antiviruses and antimalware to help in integrating new features like self-checking and correcting which goes through records and data.

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