Stopping hamburglars: Applying effective internal control

ABSTRACT

Understanding effective internal control is vital for accounting and business students. Examples of fraud and loss through poor internal control are widespread in practice. The learning objectives of this teaching case focus on improving students' ability to comprehensively evaluate internal control practices and suggest and justify new practices where applicable. The McDonald's Monopoly fraud is a real-life example of a situation where multiple internal control failures had substantial financial and reputational consequences for McDonald's, particularly its outsourcing partners involved in operationalizing the monopoly game. We use this factual case to illustrate control system shortcomings, allowing students to evaluate internal control and suggest internal control techniques with reference to all five components of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) *Internal Control-Integrated Framework*.

I. THE CASE

The background

What follows is the real-life case of how a trusted security head took advantage of weak internal control in the context of the McDonald's Monopoly game to steal tens of millions of dollars through a web of accomplices for over a decade.[1]

Originating in the United States in 1987, the McDonald's Monopoly game is a well-known promotion used in restaurants worldwide (O'Keeffe 2016). Game pieces are applied to meal packaging, including burger boxes and drink cups, at McDonald's packaging factories. Customers peel off the game pieces to discover if they have won a prize. The game prizes vary from small, such as free meal items, to very substantial, including cars and cash prizes, for example, a million-dollar cash prize.[2]

The McDonald's corporation had a long-running association with Simon Marketing, which initially proposed the Monopoly game idea and then subsequently managed the game (Forbes 2001). Simon Marketing worked with Dittler Brothers, in the United States, a secure print firm that produced the game pieces. Simon Marketing was a well-regarded marketing firm, and McDonald's was its most substantial customer.

Game security

As with lottery and lucrative prize-related activities, the potential for fraud is substantial, as reflected in *Occupational Fraud 2022: A Report to the Nations* (Association_of_Certified_Fraud_Examiners 2022). Therefore, the norm is extensive internal control procedures across the components of the control environment, risk assessment, control activities, information & communication, and monitoring activities (COSO 2013). As a key

[1] The case is based on information reconstructed from a vast number of media reports and documentation concerning McDonald's Monopoly fraud and associated criminal case. The various sources of information have been referenced throughout the case.
[2] The highest prizes have traditionally been in the US, for example the highest cash prize ever was US$1,000,000. The highest UK prize was £100,000.

mechanism to mitigate fraud, Dittler Brothers and Simon Marketing selected a security head. The security head, in charge of security nationwide, was responsible for overseeing the printing of game pieces and transportation of high-value game pieces to McDonald's packaging factories across the US. Packaging factories produce the packaging used to serve meals, such as burger boxes. These packages were then used at McDonald's restaurants. Given the vast number of McDonald's restaurants, the complexity of distribution networks, and the high-value prizes, hiring a trustworthy person was critically important. A former police officer, Jerome Jacobson, who had experience in private security was hired as security head. Jacobson was forced to leave the police force after developing a severe nerve condition that could lead to paralysis (Spencer 2020). His experience presumably gave the impression that Jacobson could be both trusted and was qualified to oversee game production and application of high-value game pieces to product packaging.

Delivery of high-value game pieces to packaging factories was an involved process. Jacobson was in charge of overseeing the printing of game pieces at Dittler Brothers, with high-value pieces locked in a secure safe where multiple employees were required simultaneously to open the safe, and therefore, no one individual employee could open the safe on their own. To move high-value game pieces from Dittler Brothers printing to the packaging factories, the safe was unlocked, and the game pieces were placed in an envelope sealed with a tamper-proof seal under the observation of multiple employees. The envelope was then placed in a briefcase handcuffed to Jacobson, which only he and an auditor could jointly open. The suitcase was taken by Jacobson, accompanied by a female auditor, to the packaging factories by air travel. The packaging factory destination was determined randomly by computer. The auditor supervised the whole process of transporting the high-value game pieces (Maysh 2020).

The briefcase had a pair of locking latches with different codes to open each. The security head, Jacobson, knew the code for one side, and the auditor knew the code for the other. Once the suitcase was opened at packaging factories, the high-value game pieces were taken out of the envelope and stuck randomly to different packages under the observation of multiple employees and the auditor. These were randomly placed in large batches of packages for distribution to restaurants within the packaging factory distribution catchment. It is understood that the package batches were so large that once a high-value game piece was applied to a package and put back into the batch, locating the high-value piece would be virtually impossible. This same process was undertaken for over ten years.

The fraud

With complete oversight of the printing of game pieces and sole responsibility for transporting high-value game pieces, Jacobson was acutely aware of internal control flaws. The independent female acted in a supervisory capacity only and was therefore not jointly responsible for transporting the game pieces. Accordingly, Jacobson carried the suitcase containing the game pieces at all times during transportation. Given that the auditor was female, he was not supervised in the bathroom at airports. Given that such bathroom visits were only for a short time, the perceived risk of suspicious behavior was low. However, Jacobson had watched the auditor enter the briefcase combination code and knew both lock codes. This allowed Jacobson to open the briefcase and envelope in the airport bathroom. Jacobson removed the high-value game pieces from the sealed envelope and substituted them with ordinary ones. In theory, it should not have been possible for Jacobson to reseal the tamper-proof envelope. However, Jacobson received a page of tamper-proof stickers from the supplier, allegedly sent to him by mistake (Huddleston 2020). Jacobson used a new seal to reseal the envelope, thus providing no evidence that the envelope had been previously opened.

Perhaps most shockingly, Jacobson continued switching the game pieces in the airport restrooms from 1989 to 2001 (Reily 2020). McDonald’s introduced far more lucrative prizes from 1995, providing further financial incentive for Jacobson. His role as security head appeared to provide him with control of the whole process of creating, transporting, and delivering high-value game pieces.

It is unusual that the process of storing and transporting high-value game pieces never materially changed across 13 years. One can only guess that Jacobson maintained the same process with no one challenging the integrity of this process. Perhaps Jacobson was an imposing figure or perceived as trustworthy thus discouraging interference. According to former colleagues he was very authoritative in implementing control to prevent theft. Former colleagues reported that he would check staffs' shoes and was critical of female employees' clothing choices at Dittler Brothers printing. Former colleagues reported that they couldn't even use the bathroom without being monitored (Hernandez and Lazarte 2020). They also claim Jacobson was interested in get-rich-quick schemes. According to Jacobson's ex-wives (he had been married seven times and was recently divorced when appointed as security head) and son, he was abusive, ill-tempered, would snap easily, and wanted people to look up to him (Hernandez and Lazarte 2020). One of Jacobson's ex-wives was a security auditor (Coleman 2020), however, it is unclear if this gave him insight into devising his fraudulent scheme.

Jacobson could not claim the stolen game pieces without raising the suspicion. Games often have strict rules about employees and their immediate family members participating. Instead, he first sold the game pieces to close associates or, from a legal perspective, accomplices, such as his brother-in-law in 1989 and close friends. From 1995, as the value of prizes increased substantially, he expanded his network to include accomplices such as Jerry Colombo, a well-known Mafia figure (Hanbury 2018). Earlier accomplices, including his brother-in-law, seemed uncomfortable with the scale of the fraud and were unwilling to be further involved. Accomplices, including Colombo, would sell the game pieces to people who would ultimately claim the prizes, often large cash prizes. Jacobson required that the people claiming the prizes should be in other states so as not to arouse suspicion of winning clusters living in the same area and connected in some way to Jacobson. From 1995 to 2001, it appears that Jacobson, his accomplices, and individuals who ultimately claimed the tickets stole approximately US$24 million in prize value (Horton 2020). This figure represented nearly all the major prizes available. It is reported that Jacobson received up to US$50,000 for million-dollar winning tickets, with accomplices also taking a cut (Harris 2001).

Despite Jacobson's requirement that prize winners be from other states, clusters of prize winners began to emerge. This went unnoticed by both the McDonald's corporation and Simon Marketing (Smith 2020). They did not appear to be monitoring where the high-value game pieces were claimed.

Investigation and Convictions

The FBI was tipped off about the fraud in 2000. The FBI's initial investigation identified that it was virtually impossible for so many people who were associated and in close relative proximity to win substantial value prizes. During 2001, FBI detectives contacted suspicious winners, claiming they were filming a promotional feature for McDonald's on how winners had come to find the game pieces. They tapped the phone lines of these winners to hear whom they contacted and what they discussed post-filming of the fictitious feature, providing further information on the scam (Chilton 2020).

In the final stages of the investigation, the FBI monitored several of Jacobson's accomplices, anticipating they would steal the largest prizes while the Monopoly promotion was in play. After this surveillance, the FBI made a series of arrests and went public with their investigation. Over 50 people were convicted, many of whom were accomplices and, thereby, distributors of the game pieces sold to them by Jacobson. Those convicted received a range of sentences depending on their degree of involvement. Jacobson received the longest sentence of 37 months in prison and was ordered to pay US$12.5 million in restitution (Lord 2018).

In November 1995, a one-million-dollar winning McDonald’s game piece was mailed to St. Jude Children’s Research Hospital (Scassellati 2021), and there was no information on who had sent the game piece. During the trial, Jacobson claimed he mailed this ticket to the hospital, hoping that this “donation” would lead to a more lenient sentence if he were ever caught.

While Jacobson’s motive to commit the crime appeared to be financial, he claimed otherwise. He claimed the Monopoly game was rigged such that no large prizes were distributed to Canada but only to the United States (Shelton 2021). One of Jacobson’s accomplices, Andrew Glomb, who distributed tickets from Jacobson, provided further justification. He claimed that the fraud was not “hurting anybody”, winning tickets were often not peeled from packaging before disposal and that he was helping people in need by giving them the winning tickets (Hernandez and Lazarte 2020).

See Figure 1 for a timeline associated with the McDonald’s Monopoly fraud.

Costs of Fraud

There were many victims, some of whom suffered substantially. From a reputation perspective, McDonald’s suffered with customers playing the game from 1989 to 2001, particularly from 1995 onwards, having virtually no chance of winning substantial prizes. Over 1,000 Burger King franchises filed a class-action suit against McDonald’s for promoting prizes customers couldn’t genuinely win (Kubs 2020). The suit was dropped but was reputationally damaging for McDonald’s and its franchisees. As a result of the fraud, McDonald’s terminated all dealings with Simon Marketing, causing the firm’s worldwide closure and job losses (Forbes 2001). In addition, the integrity of Dittler Brothers printing security was damaged, a company that specialized in printing items such as lottery tickets and post stamps. As a result of their losses Dittler Brothers also closed down. McDonald’s corporation incurred tens of millions of dollars in legal costs related to events following the discovery of the fraud and ran another campaign to give large prizes in an attempt to recover reputationally (Reily 2020). In the end the fraud's cost was substantial from the perspective of job losses and financial losses incurred by Simon Marketing and Dittler Brothers.

Epilogue

The McDonald's Monopoly game, in various forms, continues to be used across McDonald's restaurants around the world. It is almost certain that the trial of Jacobson would have attracted further media attention if it wasn't for the September 11 attacks that occurred a day after Jacobson's trial commenced. The McDonald's fraud case was followed closely by the collapse of Arthur Andersen and Enron and other financial scandals in late 2001 and 2002, leading to the passing of the Sarbanes-Oxley Act and similar legislation around the world.

The *McMillions* documentary, produced by HBO, brought the fraud to the public's attention. It is understood that Jacobson, now in his eighties, is living a quiet life in Atlanta, Georgia, and doesn't like to discuss his fraudulent scheme with close friends, some of whom were accomplices, including Andrew Glomb. In contrast, Glomb is more than happy to share the details of his involvement and said, "I would do it all again", despite receiving jail time for the fraud (Hernandez and Lazarte 2020).

Assignment questions

This case has been developed to improve your understanding of internal control, which is important in all businesses and organizations. Once you have read the case and the required readings, address the following questions:

1. Explain the role of internal control and what it is intended to prevent.
2. Explain how the fraud triangle, or a similar framework, provides insight into why the fraud occurred.

3. Critique and determine the deficiencies in internal control relating to the McDonald's Monopoly promotion before the fraud was uncovered. Make sure to read the COSO *Internal Control-Integrated Framework* before answering this question.
4. Propose and justify a set of internal controls to mitigate fraud in the McDonald's Monopoly promotion. Make sure to justify the proposed set in the context of balancing the costs and benefits of internal controls.
5. Explain a real-life example of internal control that you are aware of in a context where there is a high risk of fraud in the absence of control. Critique the internal control. Propose and justify any modifications that are appropriate.

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