

# HOTEL SECURITY: FOOD AND BEVERAGE FRAUD AND LOSS PREVENTION

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Industry experts estimate that up to five cents of every dollar of revenue in a restaurant or bar is stolen. Of the five cents, it is estimated that four cents is stolen by employees. Pretax net income for successful restaurants and bars is generally between four and ten percent. Therefore, by merely preventing one-half of a business's fraud, pretax income would be significantly improved.

For a hotel food-and-beverage operation generating, say, \$1 million a year in revenue, that 5% or \$50,000 represents a significant loss. For large chains, the math can easily produce some fairly staggering loss figures. The major reasons for this high rate of fraud loss include:

- Vulnerability of assets. Restaurant and bar food and liquor are "out in the open" for long periods of time in an environment where the level of activity is high, making it difficult for even the most experienced manager or executive chef to detect the occasional "missing" bottle of premium whiskey or case of T-bone steaks. Moreover, liquor bottles, lobster tails, steaks and other high-value items are easily concealed and misappropriated by dishonest employees.
- Cash is king. In hotel restaurants and bars, large amounts of cash are in play, even with the widespread use of room charges, comps and credit card payments. Whenever cash is exchanged between customers and employees, skimming is inevitable.
- Anti-theft and fraud controls are notoriously lax in many hotel bars, restaurants and banquet facilities. Examples of common food-and-beverage control weaknesses include:
  - Failure to require disclosure of relationships with vendors
  - Failure to maintain accurate personnel records of disciplinary actions
  - Absence of explicit and uniformly applied internal control policies.
  - Weak internal physical security
  - Continuous high level of physical activity, making it difficult to focus on illegal acts

According to Derk Boss, vice president of surveillance at the Stratosphere Casino Hotel in Las Vegas, "The key to deterring and detecting food and beverage theft is effective implementation of controls, policies and procedures... and routine monitoring by

department management to make sure that employees are adhering to required practices."

## **Common Frauds in Hotel Bars**

With this backdrop of easy employee access to food and liquor inventory, combined with the all-too-common lack of tight anti-fraud controls, it is easy to see why the following bartender frauds are draining liquor profits in most hotel lounges:

- Serving drinks without ringing up sales at the POS register. This means the bartender is either giving away the drink for free, expecting a generous tip from the patron or accepting cash in payment for the drink and pocketing it.
- Charging customers the regular price for a drink but ringing it up for less on the POS register and pocketing the difference.
- Bringing in personal "phantom" bottles and using them to pour drinks, pocketing the cash "earned" from those sales.
- Voiding guest checks after drinks are served and paid for and later removing the cash from the register.
- Collecting cash from the customer, attaching a discount coupon or comp ticket to the receipt and pocketing the cash.

These are just a few of the seemingly limitless varieties of fraud that hotel bars everywhere are vulnerable to.

## **Mitigating the Risk**

Though time-consuming, regular monthly two-person inventory counts of liquor inventory are among the most effective ways to screen for fraud.

According to David Bleser, vice president for operations at Hospitality Safeguards, Inc in Orlando, Florida, "If such monitoring reveals a sudden, significant increase in the monthly bar cost percentage, you've got good reason to suspect one or more of the many different bartender scams. Hiring a mystery shopper or beefing up surveillance can reveal the illegal activity."

Equally important, though, is that conducting regular inventory checks acts as a strong deterrent to employees. When they know that usage is being inventoried on a regular basis, bartenders are often less likely to risk getting caught.

## **Void Vulnerabilities**

Another essential control for day-to-day liquor loss prevention is requiring all voids to be approved by a supervisor or manager. To cut down on the various void-related scams that bartenders perpetrate, this control should be strictly enforced. Unless a supervisor

is in collusion with a bartender, this will significantly reduce many of the fraudulent sales that otherwise might be made at the bar.

Here are additional policy measures that can substantially reduce food and beverage frauds related to voids:

- Require all voids to be accompanied by a receipt in order to receive supervisor approval.
- In restaurants, ensure that the supervisor who signs and approves a void is not also the cashier.
- Never allow POS access cards to be given to unauthorized employees in the absence of a supervisor.

Important: At the accounting level, if monthly analyses of liquor profit margins suddenly drop, this is a potential indicator of excessive voiding, theft of cash or other employee schemes.

## **Food Fraud at the Front of the House**

Food and beverage schemes occur either at the front of the house or in the kitchen, storerooms or warehouses, also known as "back of the house". Here are several common ways in which servers or cashiers commit front-of-the-house food fraud:

- A server serves food and beverages from the kitchen or bar without recording items on the original sales check. This means the serving is either giving the product away for free or pocketing the customer's cash payment.
- A server or cashier collects cash from the customer without a sales check and fails to record the sale.
- A server or cashier collects cash with the correct sales check and records the sales check as cancelled or void, pocketing the money.
- A cashier collects cash with the correct sales check and records it as a charge, with a false signature, to a room number or credit card number and pockets the cash.
- A cashier collects cash, but records the sale as a "customer walkout".

Scenario: A hotel restaurant runs a promotional ad in the local newspaper with a 15% discount coupon for lunch. A customer pays cash for her meal but does not have a coupon. The server gives the check and the customer's cash to the cashier. The cashier, who has been waiting for this opportunity, uses a coupon he has clipped from the newspaper, attaches it to the guest check and pockets the 15% difference.

Scenario, "comp" fraud: Multiple servers in a casino coffee shop stole cash by switching underused comp slips with separate high-dollar guest checks that had been paid in cash when settling the guest checks. They then applied the cash payments to the smaller (comp) check and pocketed the difference.

Preventive strategy: The best way to prevent this type of fraud is to pre-number comp slips and require restaurant hostesses to write the comp slip number on the guest check and the check number on the comp slip and then staple the two together. Unless the hostess is dishonest, it will be hard for servers to get away with this form of comp fraud.

Here are several other common server scams that hotel food and beverage managers must be tuned into:

### Reselling Orders

Another all-too-common front-of-the-house food scam occurs like this:

1. The server brings a first customer his order and presents him the check.
2. The customer leaves cash and the check on the table.
3. The server pockets the funds and holds on to the check.
4. When a new customer orders exactly the same thing as the first, the server intentionally avoids entering the order in the POS system.
5. The server asks the kitchen staff to make the order without a receipt or takes the same order that is intended to go to a different customer.
6. The server presents the original check to the second customer, collects payment and submits it to the cashier.

The result: The order got filled twice, but the restaurant got paid only once. The server held on to the cash from the first sale. This scheme is especially common at hotels offering breakfast buffets.

### Mitigating the Risk

To detect food and beverage fraud, it is imperative that management monitor computer generated reports and exception reports in order to identify suspicious activities. Variance reports should be monitored on a daily basis in order to detect anomalies in the cash handling of the cashiers. Any significant variance should be investigated for possible fraud.

## **Food Fraud: Back of the House**

Theft of, or fraud involving, food inventory occurs in innumerable ways. A few common examples:

- Wrapping meat or seafood in paper and placing it in the trash, putting the trash outside and retrieving the stolen food after closing time.
- Stealing boxes of meat from the freezer or refrigerator after hours.
- Serving family members or friends in the kitchen without having them pay.

- Conspiring with food service vendors to steal high-priced inventory.
- Serving kitchen staff full-course meals and accepting cash payments for allowing employees to stay on the clock while eating.
- Preparing excess food and taking it home.
- Accepting kickbacks from vendors...such as when the chef takes a "commission" and accepts a lower quality of meat or seafood.

### Mitigating the Risk

Unusual patterns in the cost-of-sales numbers for food should be immediately investigated. If a pattern of fraud or theft is found, such as unusual meat and/or seafood inventory numbers, etc., management should determine why existing fraud control procedures are not being followed. If control procedures are well-designed and tough to break, investigations will be infrequent. Such controls should include, at the minimum:

- Always store expensive food in locked refrigerators or freezers.
- Count expensive and frequently used inventory daily—mainly steak and seafood.
- Ensure that transfers from one storage location to another are fully accounted for.
- Never allow employees to remove food from the premises without a backdoor pass.
- Keep all storage areas locked and secure.
- Issue food inventory only with proper authorization and management approval.
- Never allow food to be prepared unless a guest check or written request accompanies the order.
- Conduct systematic physical food inventories—at least twice per year, and ideally every month.
- Maintain an active inventory management system, including a perpetual inventory analysis for the warehouse and for each and every restaurant, café, coffee shop, bar, buffet and room service operation.
- Ensure that quantity and quality of all products delivered match the requisition.

One final note of caution: If a food or liquor vendor is permitted direct access to the food and beverage storage areas, have one or two employees escort the vendor and verify the vendor delivery prior to storage.



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