



## Security responses for hoteliers to combat internal fraud and credit card theft

Another great article from *The Rooms Chronicle*®, the #1 journal for hotel rooms management®! \*\*\*Important notice: This article may not be reproduced without permission of the publisher or the author.\*\*\* College of Hospitality and Tourism Management, Niagara University, P.O. Box 2036, Niagara University, NY 14109-2036. Phone: 866-Read TRC. E-mail: editor@roomschronicle.com

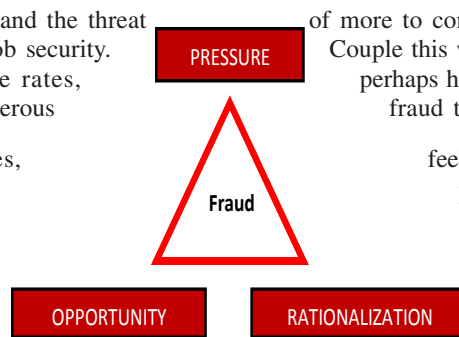
Notice: The ideas, opinions, recommendations, and interpretations presented herein are those of the author(s). The College of Hospitality and Tourism Management, Niagara University/The Rooms Chronicle assume no responsibility for the validity of claims in items reported.

Admittedly, these are incredibly trying times for the hospitality industry with decreasing occupancy and steeply declining RevPAR levels. Capital projects are being deferred, staffing levels and staff hours reduced, and employees are being asked to forgo pay raises while their workloads are increasing. These factors are combining to produce what Bill McShane, President of WJM Enterprises, states: “the perfect storm.” We are asking our employees to work harder, faster, and receive no extra compensation.

### The potential for fraud and theft

Indeed, with continuing industry layoffs (and the threat apprehensive and concerned about their job security. credit card balances, resetting mortgage rates, hotels are seeing the development of numerous

We run the real risk that our employees, jobs, may disconnect from our culture and overworked, and they have their own PRESSURE. Along with this, we have impacts oversight and separation of Employees, faced with mounting Management does not care about them, RATIONALIZE their illegal behavior.



of more to come) most lodging industry employees are Couple this with personal financial issues such as high perhaps health issues, and it is no small wonder that fraud triangles.

feeling the pressures and insecurities of their philosophies. They may feel they are financial problems. This adds up to reduced staffing which severely duties, hence the OPPORTUNITY. pressure, perhaps the opinion that and ample opportunity, may

### Recent examples

We have recently seen a sharp uptick in employee fraud and theft. One client, undergoing a renovation, had over \$50,000 in FF&E stolen from a locked storeroom by two long-term employees. Unfortunately, the storage room was a catch-all for unused items at the property and was poorly organized. Add to this scenario that both individuals were disgruntled employees, and the storage room was located adjacent to a service elevator which opened just steps from the back loading dock, and it was no great surprise that this theft occurred.

Another client had a trusted controller embezzle over \$150,000 in the space of just a few months. This long-term, dedicated employee, who rarely took any time off and worked numerous weekends, was employed at an upscale resort property which generated large amounts of cash in the spa, restaurants, and retail outlets. The controller not only placed the change orders and picked up the cash himself, he also reconciled the bank account – a blurring of the “checks and balances” responsibilities that left the hotel vulnerable.

The controller was carrying the cash deposit as a receivable and floated it for a period of time. He was using “new” money to pay for “old” money, and then rolling it over for a period of 60 days. There were always deposits outstanding, but it appeared through Corporate’s reconciliation, even during an audit, that those reconciliations were fairly current. The theft was discovered only when the controller left the company and the country.

Now the hotel company not only ensures strict separation of duties, but also conducts more reconciliations. Management reviews all reconciliations and every open transaction is investigated. All have to submit a daily shift audit and are subject to un-scheduled bank audits. The audit standard is once per month, but they do not know when during the month the random audit may occur.



### Steps to prevent credit card fraud internally

Lastly, we have noted a surge in credit card theft among our clients. One upscale resort estimates the fraud at over \$500,000. What once used to be primarily a guest services issue has now grown to be a severe financial problem. With the advent of the new PCI (Payment Card Industry) security standards, hotels not in compliance risk processing fee surcharges that can amount to thousands of dollars in additional expenses. While conducting security audits for our clients, I noted several physical security issues. I now strongly urge all our clients, and other hotels, to adopt these simple procedures:

- **Purge excess/unneeded credit card data.** Old guest folios with credit card information should be either placed in secure, offsite storage or shredded. Additionally, 30 days after an event, shred BEO's etc. Never put guest credit card information on internal documents.
- **Do not imprint credit cards.** Swiping the credit card will transfer the required data to the property management system. Only imprint a credit card if it can't be swiped due to a damaged magnetic strip. Never imprint a credit card onto the back of a registration card or guest check.
- **Ensure your property management systems, reservation files, printed guest folios, and credit card receipts do not display the entire credit card number.** The last four digits are adequate for all routine transactions.
- **Establish standard procedures for monitoring credits, chargebacks, paid outs, and cash disbursements.** Any time that cash is being paid out or credit cards are being refunded the potential for theft is far greater and opportune, absent appropriate safeguards. Emplace control mechanisms so employees will not be tempted to "stray" and embark on illegal or deceptive exploits or acts of collusion.
- **Centralize records storage.** Store all guest credit card data in one secure location. This site should be monitored by a closed circuit television system that records to a digital file and has an electronic lock to provide an audit trail. It must be kept locked at all times.
- **Eliminate using fax machines for credit card data.** Use efax programs that can only be accessed via a secure, password-protected computer.
- **Reduce the number of people who have access to guest data.** It goes without saying that the fewer number of individuals who have access to guests' personal information the less likely that inappropriate activity will occur and the easier it is to conduct investigations and identify the offenders.
- **Ensure that all employees who handle credit cards, checks, and cash undergo credit checks at least twice per year.** This will enable Management to pro-actively identify potential threats to company assets.
- **Post the federal penalty for identity theft at the property.** Under this statute, there is no probation and the mandatory federal penalty is two years per each case of identity theft. One stolen ID = 2 years in prison; 10 stolen ID's = 20 years, etc. A Deputy United States Attorney stated that although these laws were enacted as anti-terrorism measures, federal prosecutors will pursue credit card theft via this statute if all the evidence is presented to them. Please see the inset box to see how the federal statute reads. ✧

*(Jim Stover is vice president of hospitality loss prevention for Gallagher Hospitality Services, a division of Arthur J. Gallagher & Co., the world's fourth largest insurance brokerage and risk management services firm. Jim may be reached at 713-358-5216 or via E-mail: jim\_stover@ajg.com)*

#### TITLE 18—CRIMES AND CRIMINAL PROCEDURE

#### PART I—CRIMES

#### CHAPTER 47—FRAUD AND FALSE STATEMENTS

#### Sec. 1028A. Aggravated identity theft

##### (a) Offenses.—

(1) In general.—Whoever, during and in relation to any felony violation enumerated in subsection (c), knowingly transfers, possesses, or uses, without lawful authority, a means of identification of another person shall, in addition to the punishment provided for such felony, be sentenced to a term of imprisonment of 2 years.