



Risk Management

by Loss Prevention Management Institute

Preventing on-the-job theft: Tips for reducing employee theft and credit card fraud

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

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Question: How can we avoid employee theft at my hotel?

Answer: In the April 1, 2007, Loss Prevention Management Bulletin, the following guidelines were provided to assist managers with avoiding employee theft and fraud.

In the classic comic strip "Pogo," the muskrat Pogo was quite the philosopher and would frequently note: "We have met the enemy and it is us!"

Lesson One: Be aware of any change in normal pattern of activity in the day-to-day flow of business.

The U.S. Small Business Administration reports employee theft as the major cause of business failures for the small business enterprise. And while random acts of theft, in whatever guise, will unlikely bring down the larger corporation or one of its facilities, an insider scam can do significant damage to the bottom line.

A critical management tool to assist in controlling the insider scam is an ongoing audit and review. In your role as manager or at any other responsible and accountable level within the organization, be constantly aware of trends in the day-to-day operation.

Some years ago, a young computer-savvy applicant was hired for the reservation function. He had not been on the job very long before he noted that there were a number of reservations that were direct and, therefore, not subject to an agency commission. He developed his own agency within the system and would occasionally move a direct reservation into his dummy agency and thus receive a commission.

After a few months, senior management realized there had been a shift in the number of direct versus commissioned reservations and began an investigation. The new employee was several thousands of dollars into the corporation.

Lesson Two: Be sensitive to certain operations where there is an opportunity for collusion.

Your purchasing agent is in a particularly vulnerable position if he or she takes an opportunistic approach to the job. In casual conversation with the vendor, the purchasing agent notes the desire to really celebrate his 10th wedding anniversary with a cruise. One thing leads to

another, and for placement of the purchasing contract, a cruise is quickly and secretly arranged. Intercept this scam with the practice of meeting quarterly or semi-annually with the major participants in a significant purchasing function for the hotel. For example, bring together the food & beverage director, the executive chef and the purchasing agent to review food and equipment purchases and to arrange to put them out for bid. It will most likely enhance the quality and cost of the materials being purchased. In collusion, the vendor is going to "cut corners" on quality and cost to make up for any benefits being provided "off the record."



Lesson Three: Check for the apparently minor acts that can add up to a significant loss from the bottom line.

The theft of time by the employee may occur through “goofing off” and from theft at the time clock. An employee has a project and would like to get away an hour or two early. A “buddy” clocks the other out at the proper time. Stolen: two hours. One solution is monitoring of the clocks by a security office which is located at the employee entrance and with visual control of the time clock. If missing, add a new dimension to a job analysis. Include a column: “Estimated time for completion.”

Conduct an occasional audit of outgoing, long-distance phone calls. A challenge as it is difficult to determine the legitimacy of a given call. However, the realization an audit may be conducted might ward off the “faint-of-heart.”

Review laundry and dry cleaning operations to be sure you have not introduced an “off the books” service for special friends of the laundry/dry cleaning services.

Lesson Four: Account for every complimentary service.

Was it due to poor product or poor service? Log it by department so a pattern will be easily discerned. It will also include the name of the individual authorizing the “comped” incident.

Occasionally bring in a shopper or spotter to evaluate your food service and beverage operations. The trained individual will quickly determine where collusion exists between bartenders and servers, or where the bartender is running a personal benefits program within your operations.

This review is especially important where you have empowered specific employees. For example, a guest has a legitimate complaint at check-out and the front desk staff can compliment the room without trying to find an authorizing supervisor or manager for an early morning departure.

Question: How can I prevent credit card fraud at my establishment?

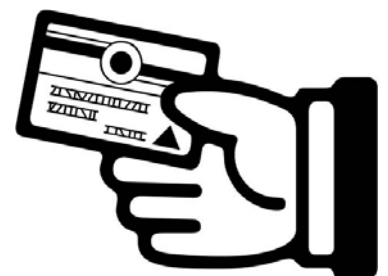
Answer: In the November 1, 2001, Loss Prevention Management Bulletin, the following guidelines were provided to assist managers with avoiding credit card fraud. Some things have changed since the original printing of this article back in 2001, such as removing all but the last four digits of a credit card’s numbers from receipts, but the information is still relevant to the present date.

When was the last time you looked closely at the credit card slip that was presented by the server at your favorite restaurant? If you are like most Americans, you probably just looked at the dollar amount. This oversight could cost you more than the price of your dinner; it could cost you your identity.

This experience got me thinking about my experiences with hotels involving credit card fraud over the past few years. In the last four years, Hospitality Safeguards, Inc. had uncovered and investigated \$300,000 in credit card fraud that was committed by employees of the hotels. Many of these frauds occurred over a period of three to 12 months before they were detected. However, not only could they have been prevented, they could have been detected sooner if the proper controls were in place.

Unless your property management system does not allow a credit to be issued to a card that hasn’t been charged, you are susceptible to fraud. The following actions should be taken:

1. Review the current procedures as to the person allowed to issue credit card credits. This should be restricted to one person in accounting. An alternate person should be designated for when the primary individual is sick or on vacation.
2. Review the security clearances in your property management system. Unfortunately, most systems do not allow you to restrict a person’s access by name, but only by job title. In these tough economic times this does a disservice to the property. I investigated one fraud in which the director of sales had the ability to issue credits. You have to ask yourself, does this person need to be able to perform this function?
3. Someone who does not issue the credit, regardless of the amount, should review all credit card credits. This should be done at least once a month. Our investigations have shown that most frauds occurred when a credit was issued to a card as Guaranteed No Show credit.
4. Develop a procedure in which the hotel can detect if a card has been issued more than one credit during a month.
5. Review your hotel’s procedure for providing copies of folios to guests who use their credit cards as a form of payment. First, ensure that your folio does not print the entire credit card number. Second, the property should verify the information recorded on the folio. History tells us that our front line employees are not trained in what information not to give over the phone. If you are unsure, request that the guest fax a copy of the front and back of their credit card to the property with all but the last four numbers of the card blacked out.



History has shown that as the economy slows, thefts tend to rise in hotels. This type of theft is one of the easiest to commit, but it is also one of the easiest to prevent if the proper controls are in place.

Sources

- Loss Prevention Management Bulletin (April, 2007). Raymond Ellis, Editor. Published by the Loss Prevention Management Institute, Conrad N. Hilton College, University of Houston. Funding provided in part by American Hotel & Lodging Educational Foundation and Hotel Association Group Trust.
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