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Overcoming Fraud & Dishonesty in the Hospitality Industry

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Hospitality EXPO – The Irish Industries Exhibition 2016

Overcoming Fraud & Dishonesty in the Hospitality Industry



James Murphy, Lecturer & Author – Dublin Institute of Technology (DIT)



Presentation Overview

Introduction: initial considerations.

Why do staff commit fraud? :real issues and variables involved.

Vetting and security screening: first line of defense, initial applications.

Internal culture in your premises: organisational culture, openness and trust, zero tolerance, company policies.

Monitoring staff – early warning signs.

Fraud and Dishonesty: some common techniques employed by dishonest staff (cash register, on your customers, bar and restaurant).

Conclusion / Further Reading & Resources.

References / Questions.

Introduction - initial considerations



- The hospitality industry is an **increasingly competitive market place**, many establishments (hotels, bars, restaurants) have responded by **empowering staff** and undertaking **structural and management reforms** in recent years.
- These changes have significantly raised the levels of **customer service and enhanced customer satisfaction**.
- **Paradoxically these changes**, combined with the responsibilities allocated to bar staff and management to supervise and manage bars with **autonomous control** have created **more fertile conditions, scope and opportunity for dishonest actions by some staff members**.
- The way some establishments approach the **issue of staff fraud is changing** in response to the **increased risk**.
- Many establishments have historically been **anxious to play down the threat** from within their premises or group and have been reluctant to admit to the scale of the problem or the associated financial losses (**reputational damage, bad publicity**).
- However, for many establishments, the days when the publican or general manager would **handle most staff fraud cases quietly** with no publicity, allowing the dishonest employee either to resign discreetly or be dismissed inconspicuously, **are long gone**.
- Indeed, most establishments are now taking this a step further by **sharing data actively** with each other on **incidences of staff fraud** within their groups and **amongst their industry colleagues and trade associations**.
- The purposes of this presentation is to **raise awareness of the potential threat posed by staff fraud and dishonesty** and to **provide examples of generic best practice** that can help businesses manage and mitigate the related risks.

Why do staff commit Fraud ?

'Nearly two-thirds of staff frauds where a motive was reported have been as a result of greed and the desire to lead a lavish lifestyle. Further staff frauds were linked to gambling and paying off existing debts.'

The real issue: in many cases where staff have committed fraud in order to pay off debts, they will continue to undertake fraud after the arrears have been successfully cleared. The continuation of fraudulent activity would indicate that greed is the primary driver.

Employees of the hospitality industry are known to commit fraud according to three variables:

1. **Opportunity:** organisational changes (more responsibility) give staff that more opportunity to commit fraud and, conversely, more opportunities to act ethically.
2. **Motivation/pressure:** growth in personal debt levels, desire for financial gain, targeting and infiltration by organised criminals.
- **Integrity/rationalisation: (integrity and ethics is challenged) with** high staff turnover, reduced loyalty, low pay, perception of fraud being a 'victimless' crime (no change of being caught) drives staff to rationalise the crime they're committing.

Vetting and Security Screening

- Screening is a **first line of defence**, successfully implemented screening **reduces the risk to establishments** from potentially fraudulent employees.
- Unfortunately the **lack of employee recruitment checks and controls** in some organisations lies at the heart of the employee fraud problem (*some hospitality employees work only at new establishments because they know they are usually not fully prepared therefore they take advantage of the ignorance and confusion*).
- **The primary purpose of pre-employment vetting** should be to verify the identity of applicants, confirm their previous performance and ascertain their integrity by reference to their previous conduct.

There are **numerous types of pre-employment vetting checks** that can be undertaken. Employers should consider using the following;

- **Initial applications:**

Accept only a fully completed *generic corporate application* and a *CV*, compare both for possible discrepancies. Ensure the application form includes specific relevant questions to provide information unlikely to appear on their CV (a comprehensive picture, suitability for the post and your establishment).

This information should include: Full accounts of gaps in employment, including unemployment, inability to work (injury, illness), reasons for leaving previous job, permission to work in Ireland, involvement in external businesses, details of any convictions, civil or criminal proceedings pending, court judgements, suspensions from professional bodies, days absent in last 12 months.

Vetting and Security Screening

Initial Applications (Continued)

- The **form should make it clear to the candidate that they must answer the questions truthfully**; that providing what they consider to be a detrimental response to the question set won't necessarily prevent them from being appointed; and that each case is considered on its own merits.
- The application form should also request full details of the **candidate's qualifications and employment history** – these details can be used later in the recruitment process.
- It's crucial that the **application form is signed by the candidate and includes a declaration confirming that all the details given on the form are correct.**
- In addition, **the declaration should confirm the candidate's understanding that any material falsehoods in the application may constitute misconduct and could result in the termination of any contract of employment entered into following this application and/or could mean that this data is consequently shared with fraud prevention databases.**



APPLICATION FOR EMPLOYMENT

LAST NAME _____

STREET ADDRESS _____

POSITION DESIRED? _____

HAVE YOU APPLIED FOR EMPLOYMENT?

YES NO -- IF YES...

DATE _____

Internal Culture in your Premises

Management must promote a **organisational culture** (actions and words) of their expectations of integrity for all employees in conducting business.

Stress the **need for openness and trust between staff and managers** (includes not just reporting suspicions of staff fraud but also staff personal issues which can increase their propensity to commit fraud) – i.e. gambling (an offer of an employee assistance programme), a caring environment for staff.

Vital that staff are fully aware that, if they committed fraud, there would be **absolute zero tolerance**. It should also be clear that if staff have concerns about co-workers, they have an **obligation and a duty to report this** (whistle blowing policy, independent and confidential).

Employers should provide incentives for complying with the rules and deterrents for breaking them.

When seeking to create an internal culture, it's important that **clear and direct policies are formulated and always consistently and fairly followed by HR and others**.

Policies are the core educational and awareness requirement for all employees and should support an **overall business approach to staff fraud, setting the parameters and risk exposure for the business**. They should ensure **clarity, transparency and fairness** when dealing with incidences of staff fraud.

Monitoring staff : early warning signs



The vast majority of establishments rely on *reactive investigations to detect and identify staff fraud*. Your *basic stance must shift from assuming all members of staff are honest to assuming all to be dishonest until they prove otherwise*. **There are many early-warning signs that can help you in proactively targeting fraudulent employees or delivering awareness training to staff**, for example if your existing staff:

- showing evidence of a **sudden change of lifestyle**
- undergoing noticeable **personality changes**
- having **unexplained wealth or living beyond** their apparent means
- refusing promotion
- **being reluctant to take annual leave**
- **always choosing the areas in your establishment that are difficult to monitor**
- **taking frequent cigarette breaks or trips to the toilet**
- being in **frequent communication with external parties** this could take the form of telephone conversations, text messages or dubious emails
- while at work or on breaks **having too much control or authority** without checks
- **showing stress** without having a high workload
- being known by others to be under **external pressure**
- **making enquiries** that are unnecessary or **inconsistent with their designated role**
- having **cosy relationships with suppliers/ contractors** or customers/suppliers insisting on dealing with just one individual

Fraud and Dishonesty

Common techniques employed by fraudulent and dishonest staff

The Cash Register

1. Serving *drinks and/or food and collecting the money while the **register is being closed out*** at the end of a shift or at night or **when the ribbon or tape is being changed**.
2. **Phony walk out** - keep the cash and claim that the customer left without paying.
3. **Short ring** - charge the customer the actual price, under register the sale on the cash register, and pocket the difference.
4. **No sale** - charges the customer the actual price but did not ring up the sale. Hospitality staff often put the cash into their tip jar, their pocket, or leave it in the cash drawer.
5. **Voided sales** - the cashier voids the check or some of the items on the check and keeps the proceeds.
6. **Over-rings** - the cashier records an "over-ring" to reverse an actual sale.
7. **Fictitious paid-outs** (paid outs are amounts taken from the till to pay for beer and food deliveries, petty cash payouts).
8. **Alter the breakdown** of tip and check amounts on credit card receipts to overstate the tips and understate the sales.
9. Charge the customer full price, but **ring up the sale at the discounted** child or senior citizen price.
10. **Jam the cash drawer during critical trading hours** so that the cash drawer must be left open.

Fraud and Dishonesty

Common techniques employed by fraudulent and dishonest staff

The Customer

11. **Short-change the customer** (for example, by giving change for a €10 instead a €20).
12. Have the customer **sign their credit card slip in advance** and is overcharged for food or drinks.
13. **Short-pour** - bartender pours less than a standard measure to cover up drinks given away or sold on the side. Be careful of measures which are not the government official standards for Ireland in use around your bar.
14. **Omit most of the spirit or liqueur** from cocktails or mixed drinks (especially if several drinks have been served to the customer).
15. **Pouring a lesser quality spirit or liquor** after the first few drinks and charge for the more expensive premium brand.
16. **Overcharging** the customer for more drinks or food than actually served.
17. **Reselling returned beverages**, if the customer leaves an expensive spirit or liqueur the bartender may resell it to the next customer.
18. **Stealing the customer's change** left on the bar, some employees wet the bottom of their drink trays and set them down on top of the customer's change. The cash sticks to the bottom of the tray.



Fraud and Dishonesty

Common techniques employed by fraudulent and dishonest staff

Bar / Restaurant

19. **Returned drinks** – staff member claims that a drink was returned when in fact it was sold.
20. **Give-aways** - if no detailed internal controls exist, the staff member might give away free drinks to friends from the trade or sometimes in anticipation of receiving larger tips from customers.
21. **Phantom bottle** – staff member brings his or her own bottle of liquor and pockets the cash earned from its sale. This scheme is much more devastating than merely stealing a bottle of spirits because even though the cost of the bottle is nominal the lost margin on sales from the bottle is significant.
22. **Collusion between the bartender and waiter or lounge staff** to overcome the dual inventory control system.
23. **Barter** – hospitality staff trade (i.e. bartender and the chef/ cook free drinks for free dinners.
24. **After-shift drinks provided to staff** but not consumed by employees are sold to customers.
25. **Cook requests a beverage for use in the kitchen** (such as brandy, wine, vermouth, sherry, or other cooking spirits) but drinks it instead.
26. **Steal bottles of liquor or food** easy access to the food and beverage stores can encourage this activity.
27. **Keep funds** from the vending machine.
28. **Steal bar supplies** (measures, detergents, and cocktail equipment), *silverware*, glassware, napkins or table cloths for example,
29. **Give away or sell artefacts** from the restaurant (such as pictures or statuary).
30. **Revisit the bar or restaurant** during closed hours and steal whatever is available.
31. When obtaining **change from another cash register** don't reimburse it fully and pocket the difference.
32. **Misuse of the manager's cash register keys** (for example voiding actual sales)

Overcoming Fraud & Dishonesty in the Hospitality Industry: James Murphy, Lecturer & Author - DIT

Conclusion / Further Reading & Resources

Conclusions

Staff fraud has a reputational, financial, internal and customer service impact on your business.

Adopt a common approach that includes zero tolerance of all types of staff fraud

Apply a rigorously anti-fraud internal culture that promotes honesty, openness, integrity and vigilance throughout the workforce.

The challenge lies not simply in ensuring that the correct policies are in place to facilitate such an approach and culture, but also to ensure that such

policies must be consistently followed, rather than being compromised for convenience or expediency.

Don't underestimate the intensity and extremeness of fraudulent and dishonest members of staff.

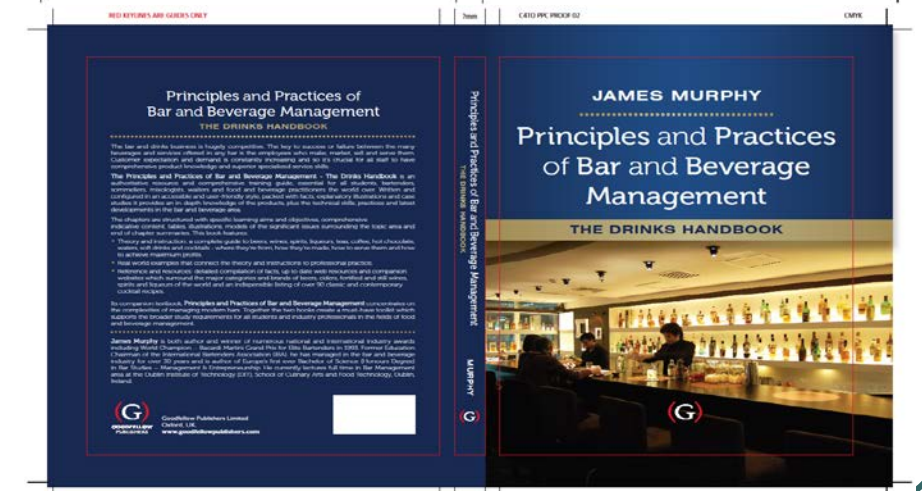
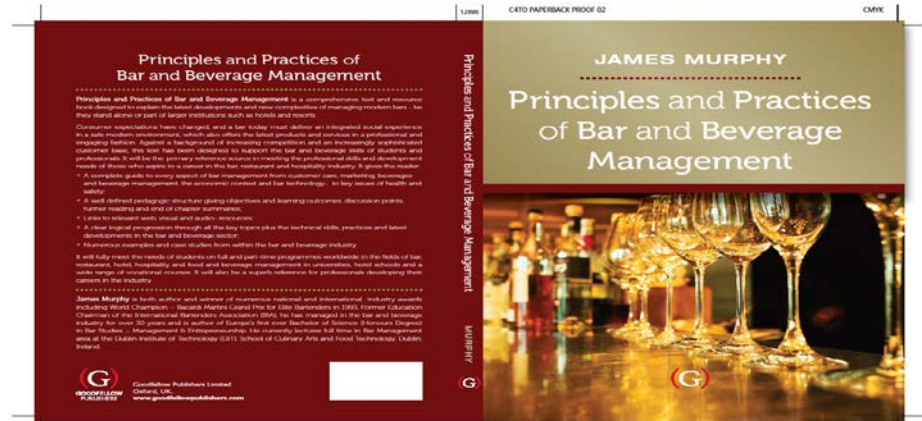
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<http://www.goodfellowpublishers.com/academic-publishing.php?promoCode=&partnerID=&content=story&storyID=316&fixedmetadataID=211> P.P.B.B.M – D.H Book

Training & Skills Development

The Dublin Institute of Technology, School of Culinary Arts & Food Technology, Cathal Brugha Street, Dublin 1. (Full / Part-time courses)



References / Questions Please

- Murphy, J (2015) Responsible sale and service of alcohol for the tourism, hospitality and retail industries, Goodfellow Publishing Ltd, Oxford: England.
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- Murphy, J. (2008). 'Overcoming Fraud and Dishonesty', pp. 34-36, December Issue, Licensing World, Jemma Publications Ltd: Dublin.

Questions??

