Employee Theft, Fraud and How Hotels Can Manage the Risks

Gallagher Hospitality Practice
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The United States economy remains fragile after the worst economic period since the Great Depression. The hospitality industry has been hit particularly hard, experiencing decreasing occupancy and steeply declining REVPAR. 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. According to Bill McShane, President of WJM Enterprises, these factors are creating “the perfect storm.” Indeed, with continuing industry layoffs (and the threats of more to come) hotel employees are apprehensive and concerned about their job security, according to McShane. This uncertainty, coupled with personal financial strains such as high credit card balances, rising mortgage rates and the overall weak labor market, is resulting in the prevalence of numerous fraud triangles.

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When confronted with these financial pressures and job insecurities, employees may disconnect from the organization’s culture and philosophies. In addition, staffing has been reduced, impacting oversight and separation of duties, which gives a dishonest employee opportunity. Employees encountering these mounting pressures and perhaps believing that management does not care about them may rationalize their illegal behavior.

There has been a sharp uptick recently in employee fraud and theft, using different methods to steal, for example:

- One client, undergoing a renovation, had over $50,000 in FF&E stolen from a locked storeroom by two long-time employees. This storage room was a catch-all for unused items at the property and was poorly organized. Additionally, the room was adjacent to a service elevator which opened just steps from the back dock. These factors combined with two disgruntled employees, led to the perfect circumstances for theft.

- A client employed a trusted controller, who embezzled $150,000 over the course of a few months. This long-time, seemingly dedicated employee (rarely took any time off, worked numerous weekends) worked at an upscale resort property which generated large amounts of cash in the spa, restaurants, and retail outlets on property. The controller was responsible for placing the change orders and picked up the cash himself and also reconciled the bank account. This mix of responsibilities with no real checks or balances 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 only discovered after the controller left the company and the country. As a result, the hotel company implemented procedures requiring strict separation of duties, and now also conducts monthly bank
reconciliations. New measures were also implemented that require management review of all reconciliations and every open transaction is investigated. All cashiers must submit a daily shift audit and are subject to random audits. The audit standard is once per month, but the employee is unaware of when during the month it may occur.

Identity Theft

Another concerning trend, not only affecting the hospitality industry, is a surge in credit card theft among our clients. One well-known upscale resort estimates its fraud from the theft of credit card information to be over $500,000 in the past year. What once used to be primarily a guest services issue has now grown into a big financial problem. With the adoption of the new Payment Card Industry security standards (PCI), hotels not in compliance with these security standards risk processing fee surcharges that can amount to thousands of dollars in additional expenses.

In order to reduce the occurrence of theft of credit card data, the following best practices should be reviewed and implemented:

• **Purge excess/unneeded credit card data.**
  Previous guest folios with credit card information should be placed in secure, offsite storage or shredded. 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. Unnecessary risk is assumed with the imprint of credit cards.

• **Ensure your property management systems do not display the entire credit card number.**
  Displaying the last four digits of the credit card number, is adequate for all routine transactions.

• **Establish procedures for monitoring credits, chargebacks, etc.**
  One of the main reasons for a chargeback is fraud. It is important to monitor chargebacks, and the reason codes, and implement procedures to reduce the number of chargebacks occurring.

• **Centralize records storage.**
  Store all guest credit card data in one secure location. This site be monitored by closed circuit television system and have an electronic lock to provide an audit trail.

• **Eliminate using fax machines for credit card data.**
  Use efax programs that can only be accessed via secure, password-protected computer.

• **Reduce the number of people who have access to guest data.**
  Restrict access to guest data to a limited number of trusted employees will help reduce employee theft of this information.

• **Ensure all employees who handle credit cards, checks, and cash undergo credit checks at least twice per year.**
  As discussed earlier in this article, an employee pressured by personal financial situation may feel pressure to steal. This is not to assume that all employees with poor credit will steal from their employer, but it is important to be proactive and be aware of which employees are experiencing financial troubles, especially those handling your money.
• Post the federal penalty for identity theft at the property.

The penalties for identity theft under federal law are severe. For a first-time offender, there is no probation and the mandatory minimum sentence is two years in prison for each case of identity theft. While these laws were initially promulgated as anti-terrorism measures, federal prosecutors will pursue credit card theft via this statute if all the evidence is presented to them.

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.

Fraud, identity theft and other financial crimes by employees are always a concern to employers. Implementing procedures and safeguards will help to reduce the instance of employee theft at your property and protect your hotel from the liability resulting from the theft of guest information.
About the author

Jim Stover is a veteran hospitality loss control expert who was formerly the Vice President of Loss Prevention for Bristol Hotels & Resorts. A principal in the Loss Prevention Practice Group, he also manages loss control for Gallagher’s Hospitality Niche.