

Objective Restaurant Security and Operations Audits with Video Surveillance

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Do you have silent partners?

How are you validating consistent operational policies and procedures for cash and inventory controls across your enterprise?

Internal Theft

It has been estimated that about \$52 billion per year is lost to employee theft. Approximately 95% of all businesses experience internal theft. According to the FBI, employee theft is the fastest growing crime in America. The Association of Certified Fraud Examiners has determined that 7% of a business' gross sales revenue is lost to internal theft or shrinkage and the average organization loses more than \$9 a day per employee because of fraud and abuse. According to the U.S. Chamber of Commerce, nearly 1/3 of all business failures are directly related to employee theft¹.

There is no simple way to confront this issue. A well thought out and comprehensive plan must be developed. So, what can you do to protect your business?

Early Warning Signs of Internal Dishonesty

Personal Behavior

Signals from personal behavior can often be early warning signs of dishonesty. Below are several examples to watch for:

- Inconsistencies by a staff member explaining discrepancies or errors.
- Bad temper or unpleasant behavior that tends to discourage questions.
- Signs of substance abuse. An employee with a substance abuse problem will need extra money to finance a habit.
- Habitual borrowing of store money, product, or property without permission.
- Expensive habits (drinking, smoking, extra marital affair, etc.).
- Spending more money than earned or what their salary can support.
- Disgruntled, belligerent attitude, and frequent complaints about management, co-workers, or job to others.
- Admission of theft from a previous employer.
- Concealed family relationships or cohabitation among employees.

Employee Activities

Employees' activities are often indicative of a larger issue, possibly theft. Below is a list of employee activities to which to pay special attention:

¹ Data captured from the "Report to the Nations on Occupational Fraud and Abuse 2010," a global study by the ACFE (Association of Certified Fraud Examiners).

- Secretive conversations among employees, phone conversations, or texting that stops abruptly when you approach. Anyone engaged in sending or receiving cryptic messages.
- Excessive loitering around your business of off duty employees, ex-employees, or their friends.
- Frequent "shortcuts" in security procedures to expedite deliveries. Rapid checking in of some deliveries while others take much longer for no legitimate reason.
- Bringing large bags or wearing unusually loose clothing to work regularly.
- Attempting to distract or hold the attention of a supervisor for no good reason while another employee is in the work area or signaling by hand gestures, whistling, etc. when a supervisor approaches.
- Repeated violations of such security regulations as use of unauthorized exits or keeping personal packages in the work area. Finding an employee in an area in which he/she has no legitimate business.
- Signing another employee's name or signing illegibly on invoices or packing sheets.
- Habitually returning to the work area after others have left to retrieve something left behind.
- Complaints by employees or customers that personal effects are being lost or stolen.
- Frequent cash shortages on the same employee's shift. An unusual eagerness to "make up" the shortages rather than relinquish cash handling responsibilities.
- Frequent cash overages on the same employee's shift. This may indicate that an employee is stealing cash at the register but not "light ringing" sales enough to totally cover it.
- Unusually high number of "no sale" transactions registered on any one shift.
- Excessive undocumented voids on any one shift or voids left unrecorded until the end of an employee's shift.
- Consistently exact balances. This can indicate under-ringing and skimming.
- Numerous receipt slips held by an employee until the end of a shift or notes found in the trash indicating that the employee was keeping a secret count of transactions.
- Unusually low sales factor on any one shift (shift sales divided by number of items sold).
- Any employee who insists on ringing up his/her own employee meal after turning over cash handling responsibilities to another employee.
- Making excuses for theft. Employees who steal may condone the acts of dishonest employees; for instance by saying: "It's no big deal. It was only a few bucks. They are like family."
- Employees who violate restaurant policies and procedures should be watched.
- Overzealous work habits. Employees who work through their lunch breaks, seldom take a breather and never ask for time off may be running a game with the cash register. Also, employees who refuse to go on vacation may be afraid that their substitute will discover their dishonesty.

Customers and Outsiders

Often times, customers are your first indication that you have a problem. The list below includes several customer/outsider behaviors of which to be wary:

- Frequent customer complaints of shortages or substitutions in orders.
- Unusually large or frequent credits or refunds by one employee.
- Anonymous phone calls or letters concerning theft.
- Unusually friendly relationships or loyalty between employees and outsiders.
- Insistence that only a certain employee handles a sale.
- Gifts or favors given to an employee from suppliers or customers.
- Presence of delivery drivers, repairmen, etc. in restricted areas.
- Customers who visit your business an unusual number of times daily, or who loiter in your business for an excessive amount of time.
- Customers who meet with employees regularly at unusual times, such as at closing.

Types of Theft

- (1) **Under-Ringing/Skimming** of sales is one of the most common scams in the QSR and hospitality industries. There are several techniques a dishonest employee may employ to accomplish this. One of the most common is to ring up all the items in the customer's order to get a total, announce the total and collect cash from the customer, then void some or all of the items from the sale. Often, the employee will ring up a small item, less than \$1.00 for instance, to open the drawer and place the cash received inside. In most cases the employee does not take the cash at the time the fraudulent transaction takes place. The employee will want to maintain the appearance of a normal transaction. Other techniques include ringing some but not all of the items in an order, ringing none of the items and announcing a total from memory, or refunding/adjusting the sale after it has been completed.
- (2) **Sweetheart Deals** are a very common type of theft but often overlooked. Management tends to minimize the cost of sweetheart deals while in fact when left undeterred they can lead to costly and serious fraud.
- (3) **Food Theft or Taking Home Supplies** can greatly impact a restaurant's gross profit. Too often, management will offer free meals to their employees while on duty. While this is generous, it can often lead to the perception by the employees that the food has little or no value, which can lead to employees giving away items to their friends/family, "sweathearting," or taking much more home than was originally intended through the offer of a free meal while on duty.
- (4) **Time Clock Violations** are the most common type of employee theft not only in the QSR and hospitality industries but across a wide range of others as well. Employees often feel justified falsifying their time cards and likely do not consider it to be theft at all though it surely is since they end up being paid for more hours than they actually worked. This requires consistent vigilance on the part of the management team.

What You Can Do

Inform employees about internal security measures such as surveillance, inventory checks, POS, audits, etc. Make sure that employees understand the likelihood and consequences of being caught stealing. Most employees who steal believe they will get away with it. Nearly all justify to themselves that theft is alright. Making the employees aware of the controls and procedures in place to deter theft will educate them to the fact that it is being monitored. Rather than hiding the systems you have in place and trying to catch thieves after they have stolen from you, a transparent method that shows employees you are aware and on the lookout is preferred. The goal being to prevent the theft from taking place at all is ideal.

Some other ideas include:

- (1) **Cash Control:** Make your customers part of your Loss Prevention team. Provide a receipt for every transaction and encourage customers to expect one by posting signs at each register. Offering customers an incentive like a free item can often lead to tips.

Assigning an individual to a cash drawer is an excellent way to create accountability. This also has the added benefit of reducing the amount of investigative time required in case a shortage does occur. At the end of each shift all cash drawers should be balanced by the assigned employee and double-checked by the

employee taking over the drawer. No other employee should at any time (during lunch, breaks, etc.) be allowed to open or use another's cash drawer.

Have employees make a cash-in sheet for every shift. This would be a control sheet where the employee would take the gross sales, subtract paid outs, adjustments, and credit sales (adjusted gross sales). Count down the cash drawer, leaving the change fund amount. Subtract this from the adjusted gross sales and this will give you your over and shorts. This should always be within 90 cents. Too much money could mean a customer was short-changed and being short money could mean a customer was given too much change; either could indicate employee theft. Have them place the money in an envelope, date and sign it, and place it in the safe. It is very important that this be preformed after the shift is closed. Performing cash-ins prior to closing the shift is an excellent way for a thief to calculate the amount of cash they can take without causing an over/short drawer.

Require that the cash register drawer be closed after each transaction. Never leave a register drawer open when not being attended to. Require the assigned employees to log out before leaving the register unattended. Register keys should never be left with the registers. Access to the keys should be strictly controlled. Managers should sign off all voids, over-rings, refunds, adjustments, etc. Ensure the signatures are those of your managers.

Limiting the amount of cash in the register drawers is an excellent robbery deterrent. Require your employees to make cash drops often; drop safes should be utilized. Ensure that the drops are rung in the registers and the receipts are attached to the cash being dropped. Train employees to allow customers to see that your employees make frequent cash drops. This educates the customers and prospective thieves, that there is a limited amount of cash in the drawer at any given time. The use of time released safes for vending change to replenish the register drawers are also recommended.

Keep tendered bills on the register until the transaction is concluded. Short-change artists frequently use large bills to pay unsuspecting employees.

Conduct only one transaction at a time. Do not be intimidated into rushing. Check for counterfeit currency. The look and feel of the paper are usually the most obvious signs. Inexpensive devices are available to aid detection of counterfeit bills.

(2) Employee Buy In: Offer rewards to employees who report theft. Ask your staff for their suggestions on how to eliminate theft.

(3) Background Checks: Contact previous employers to ask about theft problem before hiring. When employees are not screened properly, you spend more time and money training new employees to replace dishonest ones.

(4) Video Surveillance: Often, just installing cameras will cause employees to think twice before stealing. But, in order for them to be effective, you need to let your employees know you check them by offering feedback (positive or negative) on their performance.

(5) Regular Unannounced Audits: Unannounced audits are a highly effective way to find out what is truly happening in your operation. A comprehensive audit should be developed that covers customer service, speed

of service, suggestive selling, cleanliness, safety, employee productivity, transactional integrity, and security. Internal audits in conjunction with external audits have proven to be an effective means of control and early detection of fraud.

Utilizing a modern surveillance system to audit your locations is an excellent alternative to physically visiting each location. You are able to increase the frequency of visits and reduce time spent traveling from location to location. Surveillance also offers you the ability to audit your locations without alerting employees to an auditor's presence. The presence of an auditor will change the employees 'normal' behavior resulting in inaccurate perceptions of the operation. It is also important to use an unbiased auditor. Employees often know each other personally, which may result in bias. Utilizing a third party can provide an impartial opinion, which may be more difficult, if not impossible, to achieve with internal staff.

(6) Survey Cards: Give your customers a short survey card to complete (in-store or online). Offer recognition and rewards to employees who consistently provide exceptional customer service.

(7) Product Inventory and Usage Sheet: Conduct inventory checks often and at irregular intervals. Also make routine spot checks. Inspect records of purchases and sales at the beginning and end of each shift. Define individual employee responsibilities for inventory control. This establishes a climate of accountability and a perception of control. Post signs to indicate areas that are open to the public and those that are for employees only. Install locks on all doors to interior work areas to control public and employee access. Doors to storage and supply rooms, and individual offices should be locked to limit access.

(8) Trash Control: Keep trash dumpsters inside during business hours. Check bins at random times for pilfered goods that might have been placed in them for pick-up after the trash is taken out. Use clear plastic trash bags. Keep lids of outside trash dumpsters locked during non-business hours. If practical, keep the lids locked whenever the dumpsters are not being filled or emptied. Have employees work in pairs when emptying trash or have different employees empty the trash from day to day.

If You Suspect Theft

Despite your best efforts, dishonest employees can find ways to steal. If you suspect theft, involve your loss prevention staff or partner. Do not jump to unwarranted conclusions. A false accusation could result in serious civil liability and damage the perception of control in your operation.