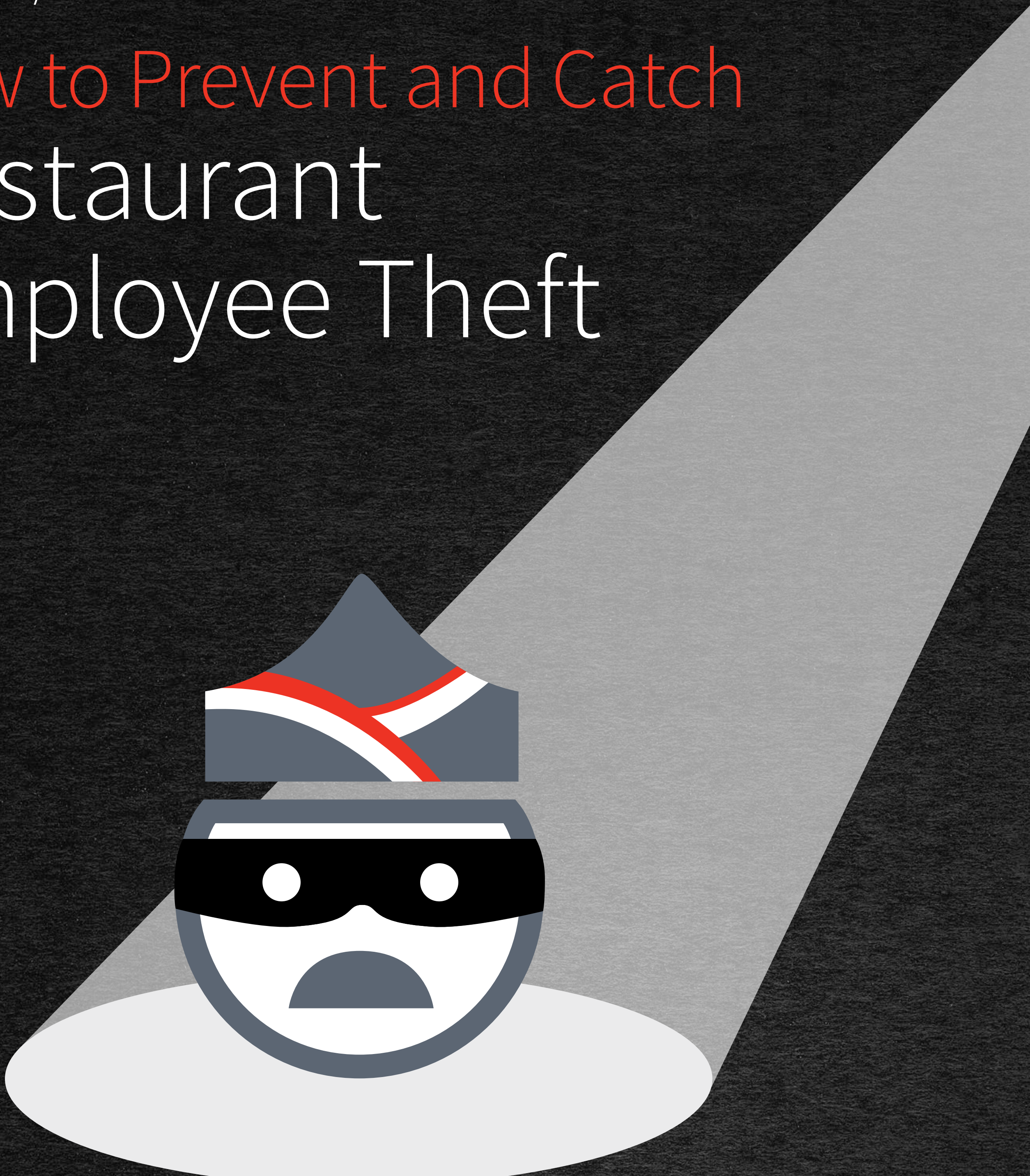
EBOOK /

How to Prevent and Catch Restaurant Employee Theft



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Introduction

Employee theft is a big problem in the restaurant industry. According to the National Restaurant Association, it is estimated to be the equivalent of about 4% of a restaurant's bottom line, in QSRs it may be as high as 7%. A staggering amount in such a thin margin industry.

> ***"If you have employees, you have an employee theft problem."***

At Livelenz, we sometimes joke that as a restaurant owner, if you have employees, you have an employee theft problem. It sounds harsh, but if you are running a busy restaurant, have dozens of employees, and industry standard level turn-over, it is almost a mathematical certainty that you are losing money to employee theft.

Eliminating all employee theft is not a realistic goal, but in this ebook we will cover three common methods of employee theft: theft at the Point of Sale (POS), theft of inventory (liquor, food, etc) and theft of time (wages). Then we provide real world examples, based on decades of experience, on how it occurs and provide advice on how to reduce the chances that they occur at your operation.

Theft at the Point of Sale

Theft at the POS is the most discussed and studied type of employee theft. It gets more attention, because unlike theft of time or inventory, there is the opportunity to steal cash directly. The fact of the matter is that while you might know your Point of Sale (POS) intimately, your staff use it 8 hours a day and if they are motivated to do so, they have far more time than your management team to think up ways to beat the system.

Reducing Theft with Better Cash Management

Employees abusing the “No Sale” key (if you allow one), running early Z-tapes while continuing to ring items in, short-ringing and other practices are easier to catch when your organization is following a good set of protocols for cash management. While employees should and do need to be trusted, good cash management practices help reduce temptation.

7 TIPS
for Better Cash Management at the Point of Sale

1. **Create accountability:** Employees should understand that they, and only they, are accountable for what happens with the cash in their till. At the beginning of the shift, a new till should be provided to them, they should count it and then initial a piece of paper with the agreed upon amount on it.

2. **Avoid having employees share tills:** When you allow (or force) employees to use shared tills, you make it easier for a thief to hide their activities in with those of honest staff. Even busy, traditionally single POS terminal concepts, like Subway can implement a "one till per employee" system. But this does require extra work (more on this later in the ebook).

3. **Skim or swap tills frequently:** Swapping or skimming tills frequently and configuring the POS to warn employees and managers when too much cash is on hand is one of the most straight-forward methods of reducing theft. Skims should be done when the employee is present, with the appropriate amount being removed from the till and sealed in a safe drop bag, along with a signed register reading slip.

4. **Track both under and over till counts:** Frequent till swaps and skims make it harder for dishonest employees to track how much stolen money they've accumulated in a till. Managers often think tills that are "under" are indications of theft, but tills that are "over" can be as well. They may be a sign of an employee who loses count of how much cash they have taken for items that were not rung in.

5. **Contain risk:** It is not only counter employees that need to be made accountable. Temptation to steal can also exist at the shift manager level. Shift manager's should not be allowed to handle tills alone, unsupervised. Procedures need to be in place to ensure they cannot (or are not be perceived to be able to) take money out of an employee's till after it has been pulled from the register.

6. **Do frequent x-readings:** If you must use a shared till, reduce risk by always taking an "x-reading" and having both employees count the till before cutting over. While you aren't inserting a new till, this still makes both parties using the register accountable for the cash in it.

7. **Keep till counts fast:** Don't open rolls of change until they are needed (fewer coins to count) and be aggressive on how often cash drops happen (keeping the amount that needs to be counted in the till lower).

The Argument Against Shared Tills

At Livelenz, our experience has taught us that the benefits of sharing tills is almost always outweighed by the reduction in accountability it creates for those that are handling cash.

In the end, the decision on whether or not to use shared tills is with the restaurant owner. Implementing a “one till per employee” system does require work. Extra floats have to be ready for till swaps and only one employee can use the cash at a time. So, does the ability to reduce employee theft at the POS outweigh some inconvenience? We think so.

Spotting Counting Strategies to Deter Theft

Employees who can’t remember how much they have taken in cash, but not rung in, risk being caught; so they utilize “counting” strategies. As the POS reports managers use have improved, the methodologies employees require to successfully steal have evolved as well.

Common Counting Methods

Placing pennies in the dime drawer

Placing bills upside down in the drawer

Using small scraps of paper in the till

Moving items (like straws, bar garnishes, napkins or cups) from one side of the POS to the other

An Example of What Counting Looks Like

Here is a common theft scenario at a QSR: A cashier decides they will be using Combo #1's to steal during a shift. When someone orders that combo, they ring it up on the POS and subtotal it so the customer can see the amount owed. Once the customer has paid for their combo in cash, the employee doesn’t complete the sale. Instead they clear the order, open the till to provide change (if needed) and place the cash in the drawer. At the same time, they take a single penny and put it with their dimes.

Once their shift is over and they need to turn their till in, the employee quickly counts their misplaced pennies to calculate how many combos worth of cash they’ve made for themselves. They then pocket that ‘overage’, ensuring that the cash in their till will match the tape from the POS.

How to Spot Counting

- Watch for instances in a cashier's till where they are combining change, keeping certain things separate, or placing bills facing opposite ways.
- As a deterrent, spot audit cashiers during their shift. Be wary of those who ask to be audited at specific times (the moments they know they've got a clean till).
- Regularly run reports that track abnormal amounts of cleared or subtotaled orders that are never completed.
- Track cashiers who want items voided after they've learned their cash doesn't balance or who conveniently 'find' the $20 bill they are short.

Employee Theft of Gift Cards

Gift cards are convenient, make popular gifts, are easy to purchase, and can drive new customers to your locations. But, with any new technology, comes new opportunities to abuse the system, and gift cards are no exception.

Why is Gift Card Theft Hard to Track?

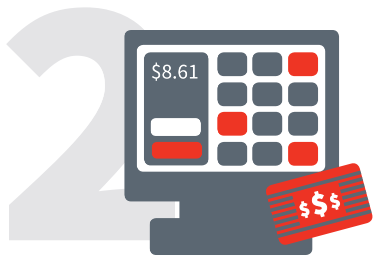
Gift card theft can be difficult to track for three reasons:

1. Unloaded cards are freely available, often on the counter, to drive impulse purchases. That means that common inventory methods for deterring theft cannot be used (more on these best practices in the Inventory Theft chapter).
2. They are a currency that the customer doesn't control. If someone steals from a customer (takes too much cash, returns wrong change, overcharges a credit card etc), they may notice, making it risky. If someone alters funds on a gift card, the only party that may notice is management. In fact, in some cases, the "customer" may be party to the theft.
3. Point of Sale (POS) and payment systems have not adapted as quickly as the gift card industry has evolved and restaurant managers tend to be more focused on preventing traditional means of theft. In many cases, gift card loading and payments aren't integrated with the POS, making it even more difficult to catch, because two separate systems have to be reconciled for the issue to become apparent.

How Does An Employee Steal Using Gift Cards?

Here is one simple example (of which there are many variations):

STEP 1
Customer requests a combo #1 for $8.61



STEP 2
Instead of ringing in the combo, the cashier rings in and loads a gift card for $8.61

STEP 3
The patron still sees the correct price on the customer display screen and pays the correct amount

STEP 4
The cashier serves the customer their combo as per normal

STEP 5
The cashier pockets the newly loaded gift card

In an alternate version of this, some cashiers may ring up the combo properly, but quickly clear and load a gift card once customer presents payment. This process can be done with any payment tender (as long a customer doesn't request a receipt), and if you don't have gift card loading integrated with your POS, the cashier's till will balance.

How Do They Get Redeemed?

Pocketed gift cards can be sold, given to friends, or some may attempt to redeem the cards and pocket the cash. In this scenario, an employee's friend poses as a customer and purchases a Combo 1 for $8.61. The cashier rings in the combo, processes the gift card for the same amount and then pockets $8.61 in cash. With a little more finesse, an employee could swipe the card to pay for any customer's purchase, pocket the cash and swipe the stolen card to process payment.

LESSONS

If you know what to look for, there are signals that this is occurring:

- Most customers purchase gift cards for rounded dollar amounts. Watch for gift card reloads/purchases that aren't round amounts, especially those transactions that aren't accompanied by an item sale. Similarly, watch for redemptions on gift cards that use the whole amount of the card. A gift card loaded for $8.61 is odd. One redeemed for the full amount on the card, which happens to be $8.61 is even more suspicious.
- Tracking inventory is key. Counting cups, protein (hamburger patties for example) and other methods for preventing more traditional types of theft help here as well.

Using Integrated Payment Processing to Prevent Employee Theft

What are integrated payment solutions?

An integrated payment solution is one where card payments (credit cards, debit cards and gift cards) are swiped at the Point of Sale (POS) terminal or at a separate console that is linked to the POS. If, when an employee totals a transaction and selects the payment type as being a card, the value due appears automatically on the payment terminal where the card is swiped, then the system is integrated. If it has to be keyed in manually by an employee before a card is swiped, then it is not integrated.

Why aren't payment systems integrated?

Credit, debit and gift card processing fees can be costly for merchants. Often, a new provider becomes available that has lower transaction or monthly subscription fees, but does not integrate with a restaurant's existing POS. Similarly, a restaurant owner may purchase a new POS, but have a pre-existing relationship with a credit, debit or gift card processor. Alternatively, but perhaps as common, restaurants may simply have long term contracts that can't be broken. Or they have thousands of gift cards in the market with one provider and now isn't the right time to have to run two systems (one for already issued gift cards and one for all the new ones).

How do integrated solutions prevent theft?

Having your payment processing solution integrated with your POS is a key step to preventing theft. The fact that employees know this is the case is often a strong deterrent in itself. Many types of employee theft at the POS rely on burying a single suspicious transaction, within many legitimate ones. Simply put, integration makes it much harder to do.

A Real World Example

A company discovered, the hard way, why integrated systems are important. In this case the theft took a long time to catch, because the employee was a janitor, not someone who would have normally been considered for suspicious activity. At this organization, managers printed end-of-shift reports from the payment processing machine. When this was done, the machine was reset to a $0 total for the next cashier's shift, but was not consolidated.

The thief would go to the credit card machine at night, print a consolidation report, see what was sold, and refund purchases directly to their (anonymous) credit card. Then they would run the end of shift report, ensuring the next cashier using the machine would be starting at $0.

Print consolidation report to review sales

Refund purchases to their credit card

Run end of shift report (resetting machine to $0 for next cashier)

This type of theft is easy to do and often not noticed until a month or more later when the bank begins questioning the refunds. Even once this happens, there are no slips or records of the refunds, making it hard to determine what occurred. A smart thief will do this with smaller amounts, reducing the likelihood they'll be noticed.

How to prevent theft when you don't have an integrated solution

If you cannot implement an integrated solution, consider using products like LiveAnalytics and LiveCashOut (http://bit.ly/livecashout), which are designed to make it easier to spot suspicious behavior. Products like this include pre-made reports that you can run to show transactions that should be investigated. Here are some other simple steps to take:

- Enforce the use of the "Tender Type" button. If each transaction is not recorded as the proper tender type, it makes theft much more difficult to track
- Ensure each merchant copy of a card payment slip is stapled to a receipt for the corresponding transaction and placed in the till.
- Ensure that payment processing machines are batched off at the end of the day and the total amounts for the day are recorded.
- Use all the safety features payment processing machines have to offer. Lock the machine with a pin when not in use, especially overnight.
- Make it mandatory for a manager to approve all refunded purchases.

Counting Cups to Prevent Theft

Counting cups is a theft prevention strategy that people tend to believe in strongly or dismiss entirely. It is a tried and true method, it doesn't consume a lot of time and everyone can easily understand the concept of why it is occurring. It is important because if employees know that they are being monitored for theft, they are much less likely to commit it.

We strongly recommend that you track and count all inventory, at least on a weekly basis, but counting cups takes it to a new level. At its simplest, you begin issuing and tracking cups to cashiers, the way you would a float. For more on inventory best practices read this post (http://bit.ly/10inventory).

Why Cups?

1. They are easy and fast to count, especially in a sleeve.
2. They are a part of most combo meals, meaning if they have to balance, it is harder to steal.
3. Fountain pop beverages are one of the only food items that cashiers prep for themselves. So, if cups are not counted, employees can easily give drinks away with no one else noticing.

By issuing cups and tracking them like a float, you can run a report at the end of a shift (the way you do a float) and determine exactly how many fewer cups an employee should have on hand. For this to work, sleeves of cups must be kept in a locked store room and if an employees wastes a cup, by pouring the wrong type of drink for example, they need to keep it near their cash until it can be marked on a waste sheet. But those steps aside, it is a very effective method of reducing theft at the POS.

Theft of Inventory

Inventory theft is a common problem at restaurants, and one that can be difficult to trace. In a retail environment, shrinkage of inventory is most often caused by theft. However, in restaurants things like food wastage, spoilage and poor portioning can also be factors. Additionally, while many restaurants are very good at tracking inventory, overall the industry does not give it the same scrutiny that Retail does.

How is inventory stolen at restaurants?

There are three main types of inventory theft at restaurants:

1. Employees stealing inventory to convert to cash

2. Employees giving free items to friends

3. Employees stealing inventory for their own consumption

Stealing Inventory to Convert to Cash

This type of theft is particularly bad, because it often involves management. While you can generally bank on good managers deterring employee theft, when they start to steal it can be hard to detect and even harder to determine who is at fault.

A Real World Example

One type of management theft is the sale of spoiled goods. Here is a real world example of a QSR that often had Limited Time Offers (LTO's), which included plastic promotional cups. The franchise head office sent an email reminding all locations to record the remaining cups as spoiled and dispose of them. However, an enterprising restaurant manager, whose store rooms were not audited frequently, recorded the cups as spoiled, but kept some on hand to sell.

As an example, the inventory at this restaurant might initially have been:

Official Inventory Count	Actual Inventory Count
50 Cups Total	**60 Cups Total**
60 cups - 10 spoiled promotional cups	50 generic cups + 10 spoiled promotional cups

The manager encouraged employees to use the promotional cups first, to deplete the final stock and at the end of the day they had sold them all. That night, the cashiers' tills balanced, as all items had been rung in, but now inventory was off.

Once the manager checked the inventory and saw the count for regular cups was over (in this example by 10 cups), they would then do a cash refund for 10 regular drinks on a till. Refunding these items "puts" 10 cups back into inventory:

Official Inventory Count	Actual Inventory Count
50 Cups Total	**50 Cups Total**
40 remaining cups + 10 refunded cups	50 generic cups + 0 spoiled promotional cups

Now the safe would have extra cash for the 10 refunded cups. The manager would then pocket that amount, which balanced the actual cash on hand with the total indicated on the back office system.

This method can be used for any type of inventory that a manager has the ability to record as spoilage, but LTO's are one of the easiest ways to do this, as no one questions when large quantities of promotional items are disposed of.

LESSONS

- Look for excessive or consistent spoilage of items in inventory counts.
- Track after-hours refunds by individual managers.

Giving Away Inventory to Friends

The hardest part of preventing instances where employees give food away to friends is actually convincing them it is wrong to do. Many people simply don't understand that anything that is given away has a cost and that providing free or discounted food to friends is a form of theft.

There are two common ways (with many variations) that employees provide free or discounted food for friends:

1. Using the employee, or other discount button when a friend places an order. This is difficult to detect, but fairly common. One way to track this is to use a product like LiveAnalytics to compare the volume of employee discounts that are occurring across multiple shifts or locations and look for outliers.

2. Creating a fake transaction for show, by ringing in, then clearing an order. As an example; a cashier rings up combo, clears it and opens the till. They then take a twenty from their friend and hand back two fives and a ten as change with the food. The transaction looks real on the video surveillance and their till is still balanced. This type of theft often involves one employee serving another who is on break.

LESSONS

- Check for irregular numbers of cleared items or voids from cash.
- A supervisor should be near cashiers during times when their friends are most likely to be present. For example, just after school ends.
- A supervisor should be required to approve the usage of the employee discount button.

Stealing Inventory to Eat

There are a number of reasons that an employee might steal inventory; they may simply not be able to afford the type of food they want to eat, they may feel they are “owed” or perhaps they just don’t internalize it as theft. All that aside, direct theft of inventory; food walking out the back door, is hard to catch because it often isn’t noticed until long after it has occurred. If an employee leaves a restaurant with a box of chicken breasts, it may be another five days before inventory is taken.

The first step in preventing this type of theft is having proper inventory taking practices and tracking actual and theoretical food costs (check out our ebook on inventory best practices here http://bit.ly/inventoryebook). Here are a few items to consider:

1. Explain to employees on a regular basis that your restaurant has a zero tolerance policy for inventory theft and discuss explicitly what this includes.
2. If you allow employees to take some food home, for example prepped food that will expire overnight, require the signature of a manager or the chef.
3. Reduce opportunities for theft by not permitting backpacks in prep and inventory areas and keeping sealed containers (like tight lidded garbage cans), where inventory can be secreted away from staff exits.

Theft of Wages

Theft of wages is likely the most overlooked type of theft in the restaurant industry. Unlike theft at the POS, which often involves cash being stolen, theft of wages is more difficult to imagine as an owner and therefore it does not always get the attention it deserves.

Essentially, theft of wages encompasses any attempt by an employee(s) to earn more in wages then the a restaurant owner would intentionally pay them for. As an example, some employees, especially during slow seasons, may try to trade and pick up shifts outside of what they were scheduled for. This might be done by trading a shift in next week's pay period for the one a day before (in the current pay period) so they push themselves into a state of overtime. This can not only result in an increase in labor costs, but also has implications in terms of other benefits that a restaurant may be obligated to cover. A shift manager might not realize this is happening and welcome the extra hands on deck. Especially because the employees who do this are often a businesses' hardest workers.

Types of Wage Theft

Keeping labor costs in check means ensuring that staff are working effectively and generating value when they are present and "on the clock". Let's look at three common, negative behaviors that increase labor costs: Buddy Punching, Early Clock-ins, and Late Clock-outs.

Buddy Punching

Buddy punching refers to when an employee has a co-worker punch them in early (often so they don't appear to be late) or punches them out after they leave. In a busy restaurant, Buddy Punching can be hard to detect. The first step to reducing this behavior is to remind employees during staff meetings that it is a serious offence by both parties, is a form of theft and can be cause for suspension or dismissal.

An increasingly common way to eliminate Buddy Punching entirely, is the installation of a fingerprint reader. This allows employees to scan their finger to clock-in and out, rather than using an ID that they might share with their friends. These readers are not prohibitively expensive and when used in combination with a product like LiveHR (learn more here http://bit.ly/livehr), they can dramatically reduce wasted labor.

Early Clock-ins

Often companies have a policy that employees must arrive 15 minutes before a shift. In some areas, that can mean the company is obligated to allow the employee to clock-in and be paid for this prep-time. Instead, consider enforcing a policy where employees must be fully outfitted, clean and completely ready to begin their shift at the time it is set to start. Otherwise, it may be the case that your organization is paying employees to get into their uniforms and in general finish up items they should be doing before they begin their shift.

In addition, some employees who arrive early consistently, for example because their bus arrives 30 minutes before their shift, may repeatedly clock-in earlier than they should, but not have anything productive to do. Or, even if they are being productive, they may be completing work that could be done later, during a slower part of the day. Some payroll and HR systems can require an employee receive a manager override in order to clock-in before a shift is scheduled to begin. Enabling a simple feature like this can have a big impact on labor costs.

Late Clock-outs

Many employees forget to punch out at the end of their shift; most times this isn't intentional. But in their excitement to leave work, rush to catch a ride home or general tiredness they just forget. In other cases, they may stand around chatting socially before clocking out.

In both the case of employees who are simply forgetting to clock-out and those that are intentionally riding the clock, technology can help spot and reduce this behavior. For example, try running a report that shows employees who were not clocked-out until the end of the day. Many systems will automatically force a clock-out of all employees before end-of-day reports are run. Looking at which employees this is occurring with and then cross-referencing their schedules can show if this is an ongoing problem at your restaurant.

LESSONS

The type of behaviors described in this section can make up to 4% of a restaurant's labor costs. Reducing a large amount of that waste can be as simple as running regular reports and taking advantage of all the features that your payroll or HR system has to offer.

If your HR platform has automatic alerts, set it to notify the shift manager via text message if an employee is approaching a state of overtime. These sophisticated systems can also notify managers if an employee is still clocked in a set period (say 15 minutes) after their shift has ended. This provides a busy manager the reminders they need to keep shift labor costs down, decreasing the overtime accumulated in the run of a week. Some systems, can also notify a manager if their shift is in a labor overage because there are too many staff present and not enough sales occurring. Again, giving them the opportunity to correct the problem in when it is occurring, rather than only being able to note it after the fact.

Conclusion

Unfortunately, a fraction of employees are dishonest and given the chance, will try to devise one or many methods for theft. Additionally, there are those that are primarily honest people, but get put in tempting situations. The best way to help honest people stay honest, is to remove temptation and opportunity. This takes time and there is a cost associated, but the difference between a profitable restaurant and a restaurant that fails can be the extra amount of inventory, labor and other costs that result from a theft problem.

We hope this ebook has provided concrete ways to do this and in the end, to help improve your bottom line.