Rule Out Fraud and Theft: Controlling Your Food-Service Operation

Effective control mechanisms discourage theft and help improve your bottom line. Such procedures are always important, but in the current competitive environment, they can make the difference between survival and bankruptcy.

by A. Neal Geller

INTERNAL CONTROL deals with prevention of fraud and embezzlement. Generally thought of as an accounting function, the truth is that internal control is very much the responsibility of top management, because it deals with all aspects of the operation. Indeed, if a hotel or restaurant is to prevent theft and embezzlement through effective internal controls, top management must be thoroughly involved at all phases.

Here is an official accounting definition of internal control:

Internal control comprises the plan of organization and all of the coordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies.¹

From that definition we can extract four central points that divide into two groups:

Accounting Controls
(1) Safeguard assets, and

(2) Ensure the accuracy and reliability of accounting data.

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¹American Institute of Certified Public Accountants (AICPA), Committee on Auditing Procedure, Special Report, 1949.
Administrative Controls

(1) Promote operational efficiency, and
(2) Encourage adherence to management's policies.

In this article (and my book) I discuss accounting controls primarily. Administrative controls, particularly those that ensure adherence to managerial policy, are also important for internal control and the prevention of fraud and embezzlement. They entail the set of standard operating procedures (SOPs) that ensure that controls are properly implemented and adhered to. They must follow, however, well-developed accounting controls. The chief objective of internal control is to remove the opportunity for stealing. In this article, I will explain some of the principles to help you set up your business functions in such a way that there is no opportunity for theft. Clearly, the best way to prevent theft is to eliminate the opportunity.

Hospitality Industry Characteristics

Although hospitality businesses have the same general control weaknesses that affect all enterprises, the industry has some operating characteristics that render it relatively more vulnerable to theft, as the following list attests.
- Many cash transactions,
- Small business,
- Relatively low-skill jobs,
- Positions with low social status,
- Items having relatively high value (e.g., wine), and
- Use of commodities.

Cash. With the widespread use of credit, the amount of cash changing hands in hotel and restaurant transactions has diminished. Nevertheless, hospitality outlets still need to maintain and deal with a great deal of cash, and most hotels have numerous revenue outlets that are open for long hours over several cashier shifts and having multiple cash banks. Most restaurants have an even higher percentage of settlements in cash.

Size. Even though many properties are large and many hotels are part of a chain, a hotel operates primarily like a small business. Even large hotels are aggregations of many relatively small revenue outlets, and restaurants are the essence of small business.

Job status. The hospitality industry comprises many unskilled, low-paying jobs. The high turnover and low social status that often comes with that type of employment does little to help the internal-control environment.

Commodities. The items of inventory we use in the hospitality industry are commodities, that is, goods that our employees normally need and buy for their own consumption. At the same time, our inventory items are also of high value relative to their size and weight. Seafood, steak, good wine, and other items can have considerable cost and sales value, yet do not take up much space and are easily concealed or consumed.

Principles of Internal Control

To begin with, I will explain ten general principles of internal control, particularly pointing out the way these factors apply to the hospitality industry. In addition to these general principles, there are two mechanical processes that are important in a general way to all internal-control procedures. These are the concepts of the audit trail and accounting documentation, both of which I will also discuss.

(1) Division of Duties. Division of duties is the single most important principle of internal control. It is also the most pervasive concept, and it applies in almost every department of your operation.

Here's how it works: No one individual should have total control over any transaction. One important way to actuate the principle of division of duties would be to keep the custody of assets separate from the record-keeping or accountability for those assets. In a hotel, you keep cash handling separate from bookkeeping. Front-office cashiers, for example, have constant custody of large sums of cash. Why can't they simply take a handful? Because in a well-controlled operation they have custody of the cash, but they do not have access to or control over the accountability for that cash. Their original bank, or float, is issued by another person who records the amount and shift time of that issue. The individual banks are also recorded in the general ledger by yet another person. So, our cashier has custody and access, but cannot control the accountability. An income auditor may have access to the audit trail and accountability, but should not have access to the cash.

Limitations. Division of duties is not sufficient by itself to prevent internal-control problems. The division must be an effective one. Division of duties also can be expensive, and I generally do not recommend adding staff strictly for the sake of accomplishing it. When operations are small and effective division of duties may be difficult to cost justify, management must assume more of the duties. If duties must be combined, moreover, such combination should involve management personnel. Finally, division of duties must be combined with other principles to yield effective internal controls.

(2) Fix Responsibility with One Individual. Where practical, responsibility for a given activity should always be designated to a single individual. In that way, the person can be informed of his or
her responsibilities, be given a set of standard operating procedures, and be expected to adhere to them. For example, a cashier should be solely and fully responsible for his or her bank. Consequently, no one but that individual should have access to that bank. No sharing of banks. No sharing of custody. It is unfair to make a person responsible for a bank and then give others access to it.

(3) **Limit the Number of Employees with Access to Assets.** The more people with access to cash or merchandise inventories the greater the risk of losses—whether by actual theft or simple mismanagement. This principle is common sense. The principle also fits well with fixing responsibility.

(4) **Keep Cash Banks and Stores to a Minimum.** Keeping banks and inventories to a minimum lowers the risk of theft and also fits well with the modern management tools of cash management and inventory management. Those concepts help lower costs and increase profits by the scientific management of cash and other assets.2

Minimizing cash banks and stores and limiting access to them, however, will force management to make operational trade-offs. I call these “control/policy trade-offs.” A conflict or trade-off often exists between good internal controls and operating policy. While limiting access and minimizing stores provide better control, those procedures may make it more difficult or complicated to provide excellent and fast service. For example, we are more likely to run out of a guest’s favorite brandy if we minimize stock. And then we’ll compound the problem by requiring several signatures, including that of the general manager, to gain entry to the liquor storeroom for another bottle.

(5) **Make Internal Control Preventive—Not Detective.** The nature of internal control and the fact that it deals with fraud and embezzlement—crimes for sure—lead a lot of managers to want to play detective. While you will certainly want to ferret out and punish thieves, it is far more effective to prevent thefts in the first place. With the proper prevention, there will be nothing to detect.

(6) **Perform Surprise Counts by Independent Employees.** Surprise counts of cashier shifts, merchandise, storeroom inventories, and bars should be performed frequently enough so that they become expected. The word “surprise” refers to the exact timing and location of the counts. The fact that surprise counts are made frequently and are written up in job descriptions and SOPs is what turns a normally detective endeavor into a preventive one. Random counts for cash-handling, inventory-handling, and accounting employees should be performed by independent employees who do not normally count that cash or take that inventory. Top management should occasionally get involved with this important part of the internal-control program.

(7) **Bond Employees with Access to Cash, Records, and Stores.** All accounting, cash-handling, inventory-handling, and top-management employees should be bonded through an insurance policy called a “fidelity bond,” which protects the hotel against losses from employee dishonesty. When the hotel experiences a loss, the bonding company reimburses it for the amount of the loss (up to the limits of the policy).

(8) **Schedule Mandatory Vacations and Rotate Employees.** Establish mandatory vacations as part of your personnel policies. Aside from the human-resources

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issues, this policy has important internal-control implications. Particularly for accounting, cash-handling, and other clerical employees, the idea that at some time in the year they must relinquish their work to someone else is a healthy one. It allows fresh perspectives to surface, and sometimes uncovers unhealthy or weak situations. In many of the cases of actual frauds and embezzlements that I am familiar with, the fraud’s discovery took place when someone unexpectedly left his or her duties. A comparable procedure involves the rotation of employees where it is feasible.

(9) Conduct Frequent External Audits. It is essential to have frequent independent audits performed by an external audit firm. The independence and objectivity brought to the audit process by an outside auditor are extremely valuable. It is also important for the top management of the hotel—the general manager and the controller, for example—to discuss the state of the hotel’s internal controls with the outside auditors. Having external audits means neither that the hotel is fraud-proof nor that all frauds and embezzlements will be discovered, but an auditor may uncover untoward activities.

(10) Use Cost-Benefit Analysis. Internal-control programs must be subject to the same cost-benefit analysis as any other investment or part of the hotel operation. To be feasible, the cost of internal-control procedures should be lower than their benefits. The costs are usually fairly cut and dried, but the benefits—in terms of possible or anticipated losses prevented—can be hard to measure. If all works well, we will experience no losses, yet we must estimate what fraud or embezzlement exposure we face so as to project anticipated benefits of internal control. Cost-benefit analysis is essential because it is easy for internal-control programs to run up high costs—particularly for the labor required to obtain proper division of duties and to maintain checks and balances.

Building Blocks of Internal Control

Internal control is based on the concept of the audit trail. The audit trail is the history of accounting transactions that can be followed, mapped, recreated, or traced. It consists of all of the evidence of the transactions including their source documents. Source documents can be documents dealing with external parties (e.g., invoices, guest checks) or strictly internal documents (e.g., vouchers, journals, ledgers).

It is convenient to think of an audit trail schematically as a circular path that traces all transactions from their inception to their conclusion. In an accounting sense, the trail leads from the point of occurrence to the financial statements. It consists of processes as well as source documents.

Accounting documents. Internal control depends upon accounting documents. The following are the key characteristics that describe most accounting documents:

- They are numbered serially;
- They have multiple parts or copies;
- Their distribution is controlled by the accounting department; and
- They must be accounted for periodically by serial number.

Each accounting document is printed with a serial number, a number one step higher than the one preceding it, so that the individual documents can be accounted for. This critical attribute of the audit trail and the audit process is particularly important for revenue documents.

Most accounting documents have multiple parts or copies—usually duplicate or triplicate. Some, like banquet contracts, may have as many as six or seven copies. The number of copies necessary will vary with the process.

Accounting documents are controlled by the accounting department, regardless of the fact that they are used by other departments. The accounting department orders the documents, specifies their design (in consultation, of course, with the users), assigns numbers, receives them, inventories them, stores them, and issues them to user departments. The documents should be issued to user departments in blocks with a permanent record of the serial numbers issued. Final copies ("back copies" or "hard copies"), in most cases, will be returned to accounting for audit and filing.

The accounting department, then, is charged with the cradle-to-grave responsibility for these documents, which it accounts for periodically by serial number.

Controlling Food & Beverage Revenue

Effective internal control in food and beverage operations is complicated and difficult to achieve. While internal-control failure is only one of the many issues that make operating restaurants difficult, it is a critical one. In the remainder of this article, I will help you construct a program for internal control in your food and beverage operation—regardless of its size.

Poor natural division. In most restaurant situations, there is a poor natural division of duties, because the wait staff is involved with or controls virtually every aspect of the transaction of selling food and beverages to the guest. There are few players and almost no division of duties. To make
matters worse, incidents of collusion appear to occur more frequently in restaurant operations than in rooms-only businesses.

The following are the key ingredients for internal control of food and beverage revenue:

- Checking,
- Document control,
- Division of duties,
- Independent revenue sources, and
- Auditing.

**F&B checking.** Checking is a foundation of food and beverage internal control. Checking is a comparison of the recorded cash receipts and charges of food and beverage sales against a separately created record of the food and beverages actually served. In other words, the checker compares the products leaving the kitchen with the bills that will be presented to the customers (guest checks). If it leaves the kitchen or service bar, it should be billed to someone’s account. A checking system that makes cooks and preparers part of the actual revenue-audit trail plays an important role in a deliberate attempt to increase the division of duties in these operations. You will also want to have independent revenue sources, as I’ll explain shortly.

With a full duplicate-checking system, the wait person records the guests’ orders on a duplicate check or voucher. The dupes can be produced in one of two ways. The guest checks themselves can be multi-part documents or you can have a separate “book” or voucher pad for the dupes. Regardless of how the dupes are created, the best way to guarantee that duplicate checks are identical to guest checks is to employ a checker.

With a separate checker, the wait person records the guest’s order on the duplicate and then stops at the checker’s station where the checker quickly verifies that the dupe and the guest check are the same (unnecessary with multi-part forms or with well-designed carbons), hands the dupe back to the wait person, and then proceeds to enter the items, by price, in the checking machine with concurrent indelible printing on the guest check. The wait person, meanwhile, takes the dupe to the preparers in the kitchen or bar.

The preparers use the dupes to produce the orders. This part of the process is the key to food and beverage revenue control. The preparers must be trained to produce no orders without a dupe. Thus, the preparer becomes part of the revenue recording cycle—part of the audit trail. When the food is finished, the preparers should put the dupes in a lock-box, which only the accounting department can open.

When the guest’s meal is complete, the wait person retrieves the guest check from the checker and takes it to the cashier. The cashier totals the check on his or her ECR and gives it back to the wait person to present to the guest. The guest then settles the check with the cashier. While it is customary for the guest to settle the check with the wait person in many restaurants, it is far better for division of duties and internal control for the customers to pay the cashier directly.

With this cycle of food and beverage sales, there’s a four-way division of duties, with four separate sets of documents, each recording the same food and beverage items:

<table>
<thead>
<tr>
<th>Person</th>
<th>Document</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waitstaff</td>
<td>Guest check</td>
</tr>
<tr>
<td>Checker</td>
<td>Checking-machine tape</td>
</tr>
<tr>
<td>Preparer</td>
<td>Duplicates</td>
</tr>
<tr>
<td>Cashier</td>
<td>Cash-register tape</td>
</tr>
</tbody>
</table>

The four sets of documents can be separately audited to verify the food and beverage sales, and sum-

ming each of the four should yield the same totals. More important, you have changed a situation with poor natural division of duties into one with a four-way separation.

**Variations.** Many operations would prefer to save both an employee and a machine by combining the checker and cashier. The weaknesses of this combination are that one audit trail is eliminated and the customer must pay the wait person. With modern electronic systems, however, that combination is more feasible than, say, 20 years ago. Another variation is to eliminate duplicates and rely on the checker to verify that all food and beverages leaving the kitchen or service bar are actually on the guest checks. In that variation, the wait persons take orders directly on the guest checks, leave the guest checks with the checker, and orally order items from the preparers. The checker, meanwhile, enters the items in the checking machine and prints the prices on the guest check. When the wait persons deliver the food items to the dining room, the checker compares what is on the tray against the guest check. The wait persons total the checks or, preferably, give them to a separate cashier to total and then present them to the customers. The customers pay the cashier.

While this variation seems elegant, I cannot recommend it. The whole process of comparing written record with product relies solely on the visual skills of the checker. The job would become a super-human task in a busy operation. Second, the preparers simply fill oral orders. They are not part of the audit trail and do not contribute to division of duties. Finally, there are fewer documented parts of the audit trail—only the guest checks and the checking or cash-register tapes.

The procedures without dupes
came into favor in the '60s when costs of labor and cash registers skyrocketed. Today's point-of-sale devices have negated the cost issue and permit a return to a full duplicate-checking system.

**Document control.** If customers settle bills with the wait staff, precise control of the revenue documents—the guest checks—becomes even more imperative. Good control of the documents will make it difficult for employees to embezzle cash payments—whether directly or by substitution with charge-card settlement. The guest check is the primary revenue document in food and beverage income. Guest checks should be serially numbered accounting documents, and should be given the same care and control afforded all such documents. The numerical control used for guest checks, in fact, goes beyond that used for other revenue documents in that there is a "dual level" of control.

The accounting department issues a block of guest checks each day (or meal shift) to each of the various outlets, by serial number. Accounting should issue enough so the outlet does not run out of checks during a shift. The outlet cashiers will then issue checks to the individual wait persons, again by serial number. At the end of each shift, the wait persons turn in their checks to the cashier, who accounts for each one by serial number. Cashier "shift-report sheets" are useful for this control. They can be photocopied, purchased as stock items, or custom designed and printed.

Also at the the end of each shift, the outlet cashiers turn in all used and unused guest checks to the head cashier, along with their cash. For guest checks that may have been sent to the front office for posting, a receipt portion should be retained and included in the turn-in so that the serial numbers can

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**CASE STUDY**

**Beat the checks**

The checking system in the restaurant of a full-service hotel was considered impossible to beat because it was a full, duplicate-check system. The system required two duplicates for each order—one left with the checker and the other going to the order clerk in the kitchen. Not only that, but the hotel's controller carefully compared all checks and corresponding duplicates, kept a detailed record for all checks he issued to the wait persons, and was able to account for each check by its serial number. In short, the hotel's system seemed to offer no opportunity for fraud.

Yet, the food-cost accounting report indicated that something was wrong. Managers observed the checker, but at all times a check and corresponding dupe were presented when the wait person took a tray out of the kitchen, and each item was correctly checked. The fact was verified that the order clerk in the kitchen demanded and received a dupe for every order.

Finally, the food-cost accountant suggested that the head waiter keep an independent record of the actual number of guests served at each meal. A comparison of the head waiter's count with that shown by the restaurant checks showed a shortage of four to ten guests each day.

The accountant then checked the series of checks and duplicates in stock. He found that an entire numerical series of checks and duplicates was missing. After a severe grilling, the checker confessed that he had a key to the cabinet where the checks and duplicates were stored. He admitted that at different times he removed checks and dupes, and he named the order clerk and one of the waiters as his accomplices.

The modus operandi was as follows: Knowing which of his steady customers would pay cash, the waiter would have ready in his pocket a stolen check and dupe that the checker gave him. He would make out the order on the stolen check and, as usual, give the dupe to the checker, who would proceed to check the items as usual. Before leaving for the day, the checker and order clerk would remove and destroy the illegitimate dupes. Hoping to avoid detection, the three conspirators were always careful not to steal more than $40 or $50 per day. Since the restaurant's sales amounted to about $2,000 per day, such amounts would normally not be noticed, they hoped.

**Discussion**

Despite its use of a full duplicate-checking system, the hotel management in this case did not fully understand many important principles of internal control. Thus, some large loopholes allowed this embezzlement to occur.

The chief loophole was that the accounting department evidently failed to audit the inventory of unused checks by serial number each month. Such a monthly count, in the present case, would have prevented this fraud.

The second problem was that the restaurant resorted to head counts only after the food-cost ratio showed a possible problem. Head counts should be made regularly so that they could become preventive rather than detective. Chef counts of entrees items and surprise counts should also be used.

The final mistake that allowed this fraud to occur was that the dupes were not deposited in lock boxes after being collected by the food and beverage preparers. Only the accounting department should have access to the used dupes so they can be audited against the checks and the POS readings.—A.N.G.
be accounted for. The accounting department audits the checks daily for serial-number integrity. Unused checks should be re-issued to the next shift along with new checks, as necessary. Thus, two levels of numerical control exist: the accounting department to outlet level, and the outlet cashier to wait-staff level.

Having a POS machine can change the role of serially numbered guest checks. Some of the systems use an unnumbered form and print a serial number on each check. Many of the systems eliminate guest checks altogether by using a strip of paper tape from the printer. That approach saves cost in both checks and labor, but suffers in both guest appeal and internal control. Even in the case where unique serial or account numbers are issued by the system, I prefer that the process of using pre-numbered checks be retained. Both document control and division of duties will be enhanced by maintaining traditional guest-check control.

Another important document subject to numerical control is the dupe. Dupes should also be serially numbered, controlled, and audited. A wait person who might have access to dupes not numbered or not controlled could conceivably give such a dupe to a preparer and obtain an entrée or bottle of wine without a corresponding entry on a guest check. The product could then be consumed or sold fraudulently. That type of fraud is especially prevalent with "add-on" items such as wine, after-dinner drinks, and desserts.

The advent of electronic systems also changes the game plan somewhat for duplicate checks. Most POSs automatically issue paper receipts that replace traditional dupes. They work quite well and eliminate the need for numerical control of dupes.

Division of Duties

The four key separations of duties provided by the implementation of the full duplicate-checking system described here greatly enhance internal control in the food and beverage area. The wait staff, the checker, the cashier, and all of the preparation people all have separate duties. Inclusion of all of the preparers into the revenue audit-trail cycle, whether by the old fashioned dupes or the new electronic receipts, adds an immeasurable amount of control.

Additional division of duties is provided by the accounting department, in its document-control and auditing functions, and the head cashier, by interaction with the shift cashiers and control over pick-up and turn-in.

Management has a critical role in ensuring the division of duties in the food and beverage area. Each F&B outlet should have a room manager who is responsible for preparing a "restaurant report" for each shift. The restaurant reports should contain whatever information you feel is useful to analyze the operation and make decisions about its conduct. In addition, the daily reports should contain a summary of the various revenues by type, the total of charges sent to the front office for posting, the number of and names of the shift wait staff, cashiers, and checkers, and a "head count" for the shift. This head count of customers should be taken by the floor manager, as it must be independent of the wait staff, cashiers, and checkers.

Independent Revenue Sources

For some inexplicable reason, food and beverage operations suffer far more collusion than most other hospitality operations. For that reason, independent sources of revenue estimation are vital for
food-service outlets.

An independent source of revenue is a document or observation used to estimate your revenue or sales from a given restaurant shift. The estimate is made separately from the documents used to account for that revenue. The correct way to use independent sources is to make estimates of revenue, compare the estimates to the sales recorded by the regular accounting sources, and track the differences. Those differences should present predictable patterns. When you spot a change in the pattern, you should investigate further before taking drastic action.

The following is a list of independent sources of revenue information for food and beverage operations. The sources are presented in an order of increasing independence:

- Restaurant reports,
- Head counts,
- Chef counts, and
- F&B cost-accounting statistics.

Restaurant reports are not particularly independent, since the revenue data on them usually comes from register and POS readings. They are useful, however, to see whether the income being read and recorded is the same as the room manager saw it.

Head counts are the most important of the independent sources of F&B revenue. To ensure that they are independent, the counts must be taken by someone outside of the group involved in the basic food transaction, usually the room manager or a captain. The head count should be kept confidential, particularly from wait staff, cashiers, and checkers.

The counts are used by the accounting department in its audit function to make estimates for comparative purposes. The estimate cannot be expected to be precise. The head count can be compared to the cover counts or party-size counts that are produced by the POS device or are written on guest checks by the wait staff. The head count can simply be multiplied by the average check for the room to estimate sales volume. That estimate can then be compared with the actual sales recorded through the regular accounting cycle. The long-term trends and especially changes in those trends are important. For example, if the estimated lunch revenue in the coffee shop is usually within plus or minus 5 percent of the recorded amount, a sudden drop to minus 15 percent might well indicate a problem.

Chef counts or consumption counts tally the various entrée and popular appetizer items that are prepared each meal, less what is left over. These counts, which are fairly crude, should be turned in independently to the accounting office, where they can be compared with sales information from the POS or they can be used to estimate revenue by extending them out by their menu prices.

F&B cost-accounting statistics are prepared by the accounting department for managers to use in analyzing the operations. They are prepared historically (usually monthly or quarterly) from purchases and other cost data rather than from revenue data. Unexplained changes in food or beverage cost may be symptomatic of internal-control problems.

Accounting Department’s Role

Auditing food and beverage income involves tasks that need to be performed daily and those that can be handled periodically, usually monthly.

Daily. All guest checks must be audited daily for numerical sequence to determine whether any are missing. Clerks can handle a numerical-sequence audit quickly with simple aids such as a numbering sheet. Then they file the used checks in order and replenish the outlet issue with new checks.

The accounting department must read registers or POSs for each shift daily and record them indelibly. Fully automated POS devices make this process easier, and some send readings automatically through an established interface with the general accounting system. Those readings must be audited for accuracy and reliability, however. In cases where that automatic link proves very reliable over time (few or no errors), this audit can be made periodically instead of daily. As I mentioned above, accounting for the dupes is also a daily responsibility.

Matching-up the revenue sources. An auditor matches up the day’s on-line revenue sources and notes any discrepancies. Where separate checking and cashiering machines are used, the totals from the two should match. If POS systems are used, the total settlement should match the sales-mix totals. In either case, the revenue readings must be matched against turn-in information from the head cashier. Thus, the total of cash, checks, credit cards, room charges—the total settlement—is matched daily with the revenue recorded.

Periodic auditing. The appropriate interval for most of the periodic auditing is monthly. Some items—for example, comparing the dupes with the checks or the tapes—can be done less frequently. The accounting department must be careful to keep confidential the timing and frequency of such auditing. The guest checks also should occasionally be audited in detail—checking for errors in prices and math and auditing them against the summary documents.
Finally, all of the revenue documents must be audited monthly for numerical sequence.

**Officer's checks.** Officer's checks are used when executives of a hotel make charges in any of the hotel's outlets. The chief fraud involved with the administration of officer's checks is where wait staff and others substitute the officer's check for a cash customer's order or otherwise use the officer's charges as a way to receive goods fraudulently. The fraud then gets buried in the pile of the officer’s charges. The best defense is to set up a system that forces officers to check their charges carefully each month.

The best approach is to set up an account receivable for each officer. If there are several different types of charges that each officer may make, sub-accounts will be needed for each type. Officers should be compelled to sign for their charges in the same way that guests do, and they should be asked to produce identification.Officers should scrutinize their charges before they sign them and they should retain a receipt copy or stub for their files. As with a business meal, officers should write on the receipt the names of the people they entertained and the purpose of the meal. Each officer should be sent a monthly account-receivable statement with a breakdown of each category of charges. The officer should be required to check that the statement is correct, sign it, and return it to the accounting department. The receipts each officer has kept will be helpful to them in checking the statement. The accounting department should investigate any discrepancies and prepare a summary of total officer charges by category and by officer for top management to review.

**Control of Bar Revenue**
A food-service operation’s two kinds of bars present different control issues. The service bar presents no special problems. That type of beverage service should be handled in the exact same manner as dining-room or restaurant service. Pre-checking or “dupes” should be used, and there should be a separate cashier.

In your customers’ sit-down bar, however, division of duties is nearly nonexistent. The bartender has nearly complete control of the entire transaction. Some operations attempt to solve the problem by taking a daily inventory of all alcoholic products in the bar (right down to the tenth of a bottle!), calculating the daily consumption, and then estimating sales, which are compared to the actual sales. These so-called “sales-value” systems are expensive to operate because taking daily inventory requires a lot of labor, and they can encourage frauds through such bad practices as watering the drinks or having the bartenders bring in and sell their own liquor.

I prefer that bar service be treated as much like any other food and beverage service as is practical. If there is enough bar business or if a wait staff is being used, a separate cashier should be brought in to add some division of duties to the transaction. Checks should be issued to all customers, with settlement handled the same way it is in the restaurants. Management should also do its part by being visible and walking into the bar frequently.

For the retail sales or full-bottle segments of bar operations (e.g., wine and beer), a perpetual-inventory system is highly recommended. In fact, perpetual inventories should be used for all stored beverages. Additionally, bottle-identification programs, such as stamping the hotel’s name or a serial number on each bottle, are useful. Bottle identification makes it easier to document consumption and exchange stock on a bottle-for-bottle basis.

**Standard Price Schedules**
In the same manner as room rates, food and beverage prices have to be fixed and published in standard schedules (i.e., menus). Price changes should be made only with management’s approval. When the accounting department audits revenue or audits the individual checks, it should verify that prices are in agreement with the schedules. Any deviations should be accompanied by a duly authorized allowance voucher. Your hotel should develop a procedure for making price changes. In manual environments, a form should be used to list the old and new prices and to record a manager’s signature. The key issues are that we do not want service-level employees or cashiers to have the right to make changes without proper written authorization, including a solid audit trail.

**Cafeterias and Buffets**
The major control problem in a cafeteria involves division of duties. There is no convenient way to bring the preparers (food servers) into the transaction. Generally, the operation must rely on the visual skills of the checker or cashier—usually the sole point of revenue recording—to ensure that all items taken by the customers are recorded and paid for. A POS with pre-set item keys helps reduce errors, but the process is, at best, a poor one. The checker-cashier must observe the tray, record all the items, and settle the bill with the customer.

I strongly recommend that these functions be separated. A checker should observe the trays, enter the items into the POS, and produce a receipt or guest-check. The customer would take the receipt to a
settlement cashier. If your operation tries this approach, you will find that internal control is better, errors are reduced, and the line actually moves faster. In small cafeterias, the separation of checking and settlement may require adding labor—a decision that will have to be made on the usual cost-benefit basis.

Buffets generally entail the same control problem as cafeterias—namely, division of duties by bringing the preparers into the transaction is difficult. Unlike cafeterias, however, the buffet customer is usually charged a single fixed price, and that fact makes control easier. On the other hand, some hotels and restaurants run mixed operations—where customers can either purchase the buffet meal or order from a menu. That arrangement can make control difficult, indeed.

The most effective technique for controlling buffets is to have a manager take an accurate head count for each meal period. At the same time, the regular checking system should be used with dupes for the buffet turned in by the wait staff to the manager or chef. The system used by some operations of having a cashier sell tickets that are collected by the wait staff brings some division of duties, but it inconveniences the guests and fails to address the problems of mixed use or customers' purchasing such extras as beverages or dessert. A strong management presence remains the best control device for buffets.

The Effects of Automation

Over the last decade, the effects of automation on the control of F&B operations has been substantial. The new POS devices make it easy and inexpensive to return to the full duplicate-checking systems long since abandoned by many hotels and restaurants. Not only is the equipment affordable, but the peripheral needs (i.e., forms, pads, captain's books) have been greatly reduced. More important, because the processing is electronic, much more data can be stored and many more functions can be performed.

With a POS, the wait person or checker need only open a check for a customer and enter the orders. The machine will permanently record the order and the customer’s account number, enter the pre-set price, print a guest check, and produce a machine-printed paper receipt for use as the dupe to be given to the preparers. When the time for paying the bill comes, the machine will print a completed check and record the settlement. When the POS machine records the order and prints a receipt, it creates a permanent audit trail. There is no uncertainty to the fact that when an order is on the receipt, it is charged to an account.

The new printed dupes are far easier to read than old-fashioned hand-written ones, and the dupes can contain a great deal more information. For example, condiments, cooking preferences, time the order is needed, table number, and special requests can all be printed on the dupe, making the cooks’ and other preparers’ jobs much easier. With the advent of checking receipts that truly help cooks prepare the food, they have become much more willing partners in the internal-control process.

Also available are multiple terminals that allow the wait staff to enter orders from various locations around the dining room. That procedure, usually referred to as “pre-checking,” accomplishes the same functions as duplicate checking through a checker, but does so faster and more efficiently. The retention of a separate checker, however, creates better division of duties and hence better control. Base your decision regarding which to use on your position on the control versus policy trade-offs, and on cost-benefit analysis.

Some systems eliminate the need for pre-numbered checks, and some eliminate checks altogether. But again, I caution you that better internal control is usually achieved by using pre-numbered documents, although some systems have audit trails that are sufficiently robust and easy to check to be acceptable.

Another advantage of automated food and beverage systems lies in their ability to produce managerial data. Sales mixes, menu prices, average checks, and even inventory control are routine functions for most of these systems. The increased availability of data, especially information on sales, is very useful to management.

A final advantage of many automated food and beverage systems is their ability to connect with such other systems as a hotel’s front-office system or general accounting system. An interface with the front-office system allows food and beverage charges to be posted directly from the F&B outlet to the guest’s folio. With this connection, the outlet’s cashiers can also check on the authenticity and credit-worthiness of the guest. With an interface to the general accounting system, the process of revenue recording becomes easier and less subject to human error.

Last, a cautionary note: Electronic data processing must be carefully audited even when it has automatic interface. The procedures that ensure that revenue sources, settlements, and guest charges all balance must be maintained in the electronic environment. We may lose fewer charges because the speedy machines post them to the guest’s account before he or she checks out, but the electronic era is far from being error or trouble free.