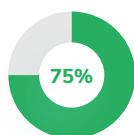




How to Catch Theft and Fraud at Your Restaurant

Restaurant fraud is dangerously common.

Some schemes are simple, like giving free food to friends. Others are more brazen, like pocketing cash payments. And some are downright complex, like creating fake vendor accounts and taking payments for services that were definitely not rendered.



Fraud takes a big bite out of restaurants' bottom lines. In fact, internal employee theft accounts for a whopping **75 percent of restaurant inventory losses.**¹

Across all industries, three-quarters of employees will steal from their workplace at least once, and half will steal repeatedly.² It's costing U.S. businesses \$50 billion annually.³ And if you think employees just steal from large, faceless corporations (and restaurants), think again. **More than half (55%) of all fraudulent activity occurs at small businesses with fewer than 100 employees.**⁴

The restaurant industry is particularly susceptible to employee theft because of its perfect storm of high turnover, cash payments, and fast pace. There are **15.3 million** people employed by restaurants, representing **10% of the U.S. workforce.**⁵ Employee **turnover rates** hover around **80%**⁶ and can rise as high as **150%**⁷ — meaning there is a constant flow of new workers who may or may not be trustworthy. Those here-today-gone-tomorrow workers regularly handle cash, poke around in your point of sale system and could see stealing as a means to an end. Other times, management has sticky fingers because they know ownership isn't watching operations closely.

1. National Restaurant Association
2. U.S. Chamber of Commerce
3. Statistic Brain
4. Hiscox Insurance
5. National Restaurant Association
6. QSR Magazine
7. Bureau of Labor Statistics

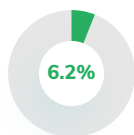


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Restaurant Theft is Contagious

Many restaurant operators aren't savvy enough to catch fraud on the fly. They're busy focusing on guest experiences, lowering costs, reducing ticket times, and delivering quality food. They simply don't have the time to check for fraudulent activity too.

Restaurant theft is particularly contagious, as employees learn fraud schemes from their peers. Researchers at the Olin Business School at Washington University in St. Louis found that new restaurant workers exposed to stealing within the first five months of their employment are likely to become habitual thieves themselves. Because workers copy stealing patterns from one another, **doubling just one single worker's average theft amount will increase total theft in a restaurant by 76%.**⁸



In an industry with **6.2% profit margins**⁹ — which are getting even slimmer due to rising rent costs and increased labor costs — it's more important than ever for restaurants to get diligent about fighting fraud.

Read on to learn about some common restaurant fraud schemes, why you could be missing fraudulent activity, and how to prevent it from happening at your restaurant.



New restaurant workers exposed to peers who steal within the first five months of their employment are likely to become habitual thieves themselves.

8. Insurance Journal
9. Modern Restaurant Management

Why You Might Miss Fraud in Your Restaurant

You're not a detective, you're a restaurant operator. You're on a mission to serve the best food possible and provide an incredible guest experience. But don't let the busy day-to-day operations keep you from catching employees who are stealing.

Here are some reasons fraud might fall through the cracks.



Too trusting. Every employer wants to empower workers to make critical decisions and create a family atmosphere. But being too trusting may lead you to miss theft happening right under your nose.



Too inexperienced. Some restaurant operators are not seasoned in the business, or haven't seen theft first-hand — so they simply don't know the warning signs.



Too busy. It's a fast-paced environment with workers going a mile-a-minute. Don't let yourself get too in the weeds and miss the big picture.



Your tech is too open. If you use restaurant tech solutions without proper safeguards, you may be exposing sensitive data to your employees.

THE CASE FOR VETTING YOUR VENDORS

Vendors commit fraud too. Some scams are subtle, like creeping up prices or conveniently “forgetting” to factor in spoilage, spills, or breakage from the delivery process. Others may be more brazen, like charging you for more product than you actually received. The solution? Deploy restaurant technology that provides alerts whenever vendor prices fluctuate. That helps you vet vendors, keep them honest, and even negotiate with them from a position of power.



BEWARE OF PERMISSIONS

The digital age has ushered in an era of restaurant management systems designed to make operations easier and data analysis more strategic. With POS, accounting, and inventory all connected, these systems could unknowingly give operations and store-level employees access to sensitive information. That's a major security risk. For example, a worker could change a vendor's payment information and route money to their own bank accounts. They could even create a phony vendor account and pay themselves for services that weren't actually rendered. (Would leaders back at HQ really raise red flags about a one-time bill from a “plumber” last month? Probably not.)

But shutting people out of your digital management systems altogether isn't the answer. You want employees to be able to perform important tasks, like uploading invoices, but prevent them from having enough access to manipulate data. Bottom line: You don't want your operations and store-level employees messing around in your systems, so make sure they have the correct permissions that restrict access to any sensitive information.

Common Schemes

And the Solutions You Can Implement Today to Prevent Them

Stealing comes in all shapes and sizes — especially in restaurants. Sometimes it's a simple sleight-of-hand. Sometimes it's an elaborate scheme involving multiple people working together. Catching fraud takes a combination of common sense, wit, and data. Here are the most common ways employees commit fraud in restaurants — and some helpful solutions to prevent them.

Free product

Giving out free food or drinks to friends — or over-pouring drinks.



SOLUTION

Use a restaurant management solution to find inconsistencies between inventory and sales. Lock freezers and alcohol. Also, install video cameras inside your restaurant so you can watch people you suspect of wrongdoing.

Food loss

Eating or drinking without paying, or failing to report food waste. It sounds small but adds up quickly.



SOLUTION

Provide a staff meal and make sure kitchen management, and staff don't let workers graze while on the job.

Management Mischief

Coding switches

With some creative coding, employees can shift expenses from one part of the business to another. For example a chef can code limes to the bar — despite adding key lime pie to the menu. It keeps the chef's food costs down but drives bar costs higher. Most importantly, it doesn't give a clear picture of why you're suddenly buying more limes.



SOLUTION

Make sure all food purchasers know how management wants inventory coded. Also, remind them that management will be analyzing food purchases at granular levels.

Pocket veto

A chef or manager fails to report an invoice until the following reporting period. This scheme makes food costs look more favorable and could increase the chance that they qualify for a bonus. They might also pocket an invoice to keep profits consistent month to month. For example, if a chef's expenses are ballooning one month, they might hold a large invoice because they know they can offset it with a big event next month.



SOLUTION

Require statements from vendors on a weekly or monthly basis to ensure no invoices fall through the cracks. Or have vendors send invoices directly to your digital restaurant management system.

Pocketing cash

Failing to ring in cash orders then pocketing the money. For example, an employee sells a grab-and-go sandwich, then pockets the cash without ever keying it into the POS system.



SOLUTION

Have a secret shopper or trusted friend watch employees closely to catch them in the act.

Phony dine-and-dash

This one is definitely more creative. A server pretends that a party walked out without paying the bill, but they really paid appropriately in cash. Then the server keeps the money.



SOLUTION

This one is hard to catch. If it happens more than once to the same server, they're likely the mastermind.

The short ring

Changing the price of an item then pocketing the remainder. For example, a bartender can charge \$12 for a Grey Goose martini, ring it in as a \$6 well drink, and keep the remaining \$6.



SOLUTION

Institute blind closeouts so servers and bartenders don't know exactly how much money the house is expecting. And watch your inventory closely, preferably with a digital restaurant management tool for quick and easy insights. If Grey Goose counts are much lower than anticipated, it could be a sign of fraud.

Register skimming

Simply taking small amounts of cash from the cash register.



SOLUTION

Institute blind closeouts and install surveillance cameras at the register. When someone is skimming the register or stealing cash some other way, they typically try to keep track in their head — but that's not always easy, so thieves may actually add too much to the blind drop! Employees who repeatedly close out with overages may be stealing (and bad at math).

Blind closeout

/blīnd/ /klōzout/
noun

A money-counting system requiring employees to reconcile cash at the end of their shifts without notifying them of the exact amount they are expected to return. It's a fraud deterrent because employees can't artificially deflate sales then keep the remainder.

Voiding

Voiding items after they've been paid then pocketing the cash. In this situation, a server or employee notices that a patron is paying cash, then voids their entire order and keeps the money.



SOLUTION

Analyze void reports in your POS system to see which servers/ bartenders do it frequently.

Fraudulent tip adjustment

Inflating tips on credit card purchases when manually entering them into the credit card reader. If a patron tipped \$2, the server may change it to \$2.99 simply by adding the 99 cents to the receipt and keying the extra tip into the POS.



SOLUTION

See which server frequently has handwriting that's "too difficult to read" or which server's checks frequently lead to complaints from customers who claim they didn't leave such high tips.

The wagon wheel

Using the POS to move orders from one check to another. Let's say a customer orders a shrimp cocktail appetizer and pays cash, then another customer orders a shrimp cocktail appetizer later in the evening. The server can simply move the order from one check to another and pocket the money.



SOLUTION

Keep an eye on the average time tabs are open and which servers are frequently reprinting receipts. If you notice that a tab is open for a few hours, something may be wrong.

Fake vendor fraud

Creating phony invoices for services that are never rendered. For example, a manager could begin submitting invoices for “pest control” — even though there is no pest control problem — and filter the cash to their own bank account. This is only possible if there’s a big disconnect between the managers submitting invoices and the bookkeepers or owners processing them.



SOLUTION

Vet your vendors and have an approval process for accepting new ones. Also, Google them. Do they have a legitimate website? Consider a restaurant management system that can notify stakeholders anytime a new vendor is added to the system so they can be reviewed and vetted.

Ghost employees

This con could take two forms: A fake employee who has never actually worked for your restaurant, or another employee clocking in for a friend who isn’t on the schedule for the day. Lax management might miss ghost employees because they don’t keep track of schedules for labor dollar differences.



SOLUTION

Require social security numbers and W2 or 1099 forms for all workers. Do a monthly scan of all paid workers to see if anything feels off, and have a proper labor solution in place to alert management when labor dollars or staffing is higher than scheduled.

Banking scams

Someone pretending to be a vendor can notify the business of a change in the bank account where they’ll be accepting payments. Then you end up sending payments to a thief, not your vendor. This can be done by phone or via email phishing scams.



SOLUTION

Make sure that only the highest-level employees have the permissions and ability to change payment data in your restaurant management or accounting tools. Also, have a standard operating procedure for all banking changes, like requiring a bank letter on official letterhead.

Email phishing scam

/ēmə/ /fīSHiNG/ /skam/
noun

A scammer who is masquerading as a trusted entity like a financial institution or vendor dupes a victim into opening an email, text, or other digital message. That message convinces them to submit their login credentials, credit card information, or banking information.

The Cash Dilemma

Going cashless has been a big topic in the restaurant industry recently. We're in the digital age after all, and an increasing number of consumers are paying for things with credit cards, debit cards, or mobile payments. **In fact, 29% of U.S. adults say they make zero cash purchases during a typical week** — an increase of 5% from 2015.¹⁰

It's not hard to understand why a restaurant operator would be enticed by going cashless. It can seriously reduce fraud: If there's no cash exchanging hands, then there's a paper trail for every purchase, making it much harder for sticky-handed employees to steal. Skimming from the register or "forgetting" to ring in an order when someone pays cash simply aren't options in a cashless restaurant.

It would also reduce the time-consuming and mistake-ridden tasks of collecting and counting bills, dropping cash into safes, and depositing transactions. In quick-service restaurants particularly, going cashless can seriously expedite the payment process, reduce bottlenecks at the register, and improve overall order times.

But cashless restaurants leave some consumers behind. In fact, **6.5% of American households don't have a bank account**, representing more than 20 million people.¹¹ Many of them are adults with checkered financial histories, children, or senior citizens living on very tight budgets. Plus, a cashless restaurant may appear elitist and discriminatory. That "no cash" sign can look very much like a "not welcome" sign. Cash payments are also practical for many consumers. In fact, **60% of all transactions under \$10 are paid in cash.**¹²

In February 2019, Philadelphia became the first major city to ban cashless retail locations outright. Similar laws have since passed in New Jersey and San Francisco, while legislation is progressing in places like Washington, New York, and Chicago. Massachusetts has been requiring retailers to accept cash since 1978.¹³ As the cashless trend continues to make headlines, it'll be a hot topic for restaurateurs to watch.

10. Pew Research Center

11. FDIC

12. Federal Reserve Bank of San Francisco

13. Philadelphia Inquirer

14. Pew Research Center



6.5% of American households (20 million people) don't have a bank account.



60% of all transactions under \$10 are paid in cash.



29% of U.S. adults say they make zero cash purchases during a typical week.

Knowledge is Power

Whether you're a seasoned restaurateur or brand-new to the industry, fraud prevention should be top-of-mind. Profit margins are already slim, so sticky-fingered employees and scammers can make the difference between keeping your doors open and closing them for good.

Identifying fraud in your restaurant starts with understanding the threat you're facing. Sometimes it's servers stealing cash; sometimes it's managers delaying invoice collection to inflate bonuses; sometimes it's outrageous schemes like ghost employees and fake vendors. In any case, putting processes in place to catch and prevent fraud is a must for the modern restaurant operator.





xtraCHEF is a cloud-based restaurant management platform that gives your team — from kitchen staff to the accountant — tools and insights to improve productivity and maximize profits. Leveraging a combination of machine learning, data science, and quality control, xtraCHEF combines business intelligence, operations, and automation in one easy-to-use platform.

By automating time-consuming tasks related to ordering, accounts payable, budgets, and cost management, xtraCHEF helps restaurant groups build back-of-house operations that scale.

With detailed data reports from xtraCHEF, restaurant operators can more easily catch and prevent fraud.



Notifications: xtraCHEF will notify stakeholders anytime a new vendor is added to the system or if any banking information has been changed. That allows for any new information to be reviewed and vetted.



Inconsistencies: Use xtraCHEF to do a deep dive into specific inventory categories and find inconsistencies between inventory and sales figures.



Vendor portal: Vendors can upload invoices directly into xtraCHEF so management is automatically notified and no invoices fall through the cracks (or get “pocket vetoed” by a chef waiting for a bonus).



Permission control: In xtraCHEF, only the highest-level employees have the permissions and ability to change payment data or add vendors.



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