Revenue and Cash Handling Control

Learning Objectives

After reading this chapter, you should be able to:

- know about theft in a workplace and develop procedures to prevent it;

- know the economic impact of theft and fraud;

- establish check control and auditing procedures;

- establish cash handling policies and procedures.

In Practice

After observing bar and food service procedures that included serving food and drink that had not been rung into the POS system, Myla wrote a memo to Chef Robert and the new beverage manager, Dana. Part of the memo read as follows:

"Controlling the collection of revenue from all transactions is vital to our success. Although many of the techniques appear to be just common sense, some are not implemented reliably. All of the control techniques are worthless if we do not receive the revenue that goes with production. This requires not only collecting the money from customers, but also, very importantly, assuring by check control procedures that our employees turn over all revenue to the company."

INTRODUCTION

Cases of employee and customer theft have been reported in almost every conceivable phase of the restaurant business, from theft of restaurant meal ticket sales to petty cash purchases. Employee theft can be described as embezzlement, pilferage, inventory shrinkage, and stealing from the cash register or the customer. Whatever name is used to describe this type of theft, the fact is that in over 50 percent of restaurants, crime-related losses are caused by employees. Employee theft is growing to the extent that it is the most critical crime problem facing restaurant owners today. A study indicates that as many as one in three employees admit they have committed some form of theft. Two in ten employees indicate that they have taken food and beverage products or money. Areas that are most vulnerable for employee theft, with examples, are as follows:

- *Cash sales.* A manager is caught pocketing a meal ticket sale for $50. When confronted, she claims it was a customer tip, but the record showed otherwise.

- *Inventory.* Records show very high shrinkage percentage.

- *Receiving.* Storeroom and purchasing product processing invoices are not received and used in the company. Company property is diverted for personal use.

- *Accounts payable.* Accountants pay themselves with fictitious invoices and vendor names.

- *Cash drawer.* Revenue and cash are underreported.

- *Accounts receivable.* Customer payments are diverted to a personal account.

- *Payroll.* A clerk might pay a "ghost" employee and cash the check.

Examples of customer theft include leaving the restaurant after dining without paying, writing bad checks, credit card fraud, disputing a legitimate restaurant charge, and shoplifting in a food court.

Why Employees Steal

There are many reasons why employees steal from their employers. The available research indicates that indirect factors include economic need, a desire to own something, and drug-related problems. Some employees feel that what they are doing is illegal, while others think they deserve whatever they are stealing. In most cases they lack loyalty to the company, are dissatisfied with the job, or feel a lack of job security. This is most prevalent among younger employees who generally have less concern about the permanence of their current positions.

Management Policies and Enforcement

Although the reasons for employee theft may result, in part, from factors beyond your control, the extent of employee theft in any restaurant is also a reflection of management policies and actions. The greater the lack of control and mismanagement, the greater the likelihood of theft.

Where Would You Like to Work?

Nearly all executives claim that their companies maintain high ethical standards; however, not all executives walk the talk. Employees usually know when top executives are saying one thing and doing another, and they also know that these attitudes often spill over into other areas. Working in restaurants whose top managers pay little attention to their own ethical rules can be extremely unpleasant. Several thousand employees in many different food service organizations were asked if they would recommend their restaurants to prospective employees. Overall, 66 percent said that they would. Among those employees who believed that their top management strove to live by the restaurant's stated ethical standards, the number of recommenders jumped to 81 percent. Among those who believed top management did not follow the company's stated ethical standards, however, the number was only 21 percent.

Source: Jeffrey L. Seglin, "Good for Goodness' Sake," *CFO,* October 2002, pp. 75–78.

The answers to the following questions should give some insight into your company's vulnerability to employee theft:

- To what extent are inventory control and accountability procedures enforced?

- What happens if an employee is short or over in cash sales transactions? Is there any disciplinary action?

- Is there any accountability for taking stock items from the stockroom without signing for them?

- Do you screen job applicants thoroughly for past employment offenses before hiring them?

Similarly, if control is not maintained with invoices, purchase orders, shipments, and returned items, there may be an increase in the restaurant's inventory shrinkage as employees notice that accounting and inventory controls are not strict. The idea of strict controls must be reinforced on a regular basis. The use of proper stock controls, security checks, changes of key and combination locks, testing of alarms, and audits of the accounting systems and security procedures will help to show employees that management is not lax.

The use of spontaneous auditing of cash and inventory is another way to keep employees honest. One technique is the use of deliberate errors injected into the system to see what the employee response will be. What will employees do if more cash is delivered as a house bank or in exchange for a large bill? What will happen if more beverage items are delivered to the cash bar than are recorded on the accompanying paperwork? Will the excess cash or beverage items be noted and returned by the employee?

Methods of Stealing

Employees might work alone or with someone else; they might work within the POS system or outside of it; they might steal by misusing products or by taking cash directly. Figure 12-1 lists some possible ways your staff could be costing you money. The second column classifies each way as P, R, or T, which mean *product tricks*, *register tricks*, and *ticket tricks* respectively. It should be noted that this is not an exhaustive list.

Economic Impact of Employee Theft

As Figure 12-1 shows, the potential costs of employee theft are quite considerable. One of the largest direct impacts is the cost of insurance. The increase in today's insurance premiums—added onto the loss of money and merchandise—is one of the prime reasons that restaurants go out of business. Other costs include that of added security personnel and equipment as a deterrent to theft. In today's intensely competitive environment, most restaurant managers are afraid to pass these costs to their customers due to potential loss of customers to competitors.

The indirect costs of employee theft are damage to the company's public image, low employee morale, productivity loss, and compromised quality. How restaurant management considers any particular loss or theft is not the focus of this chapter, but it is important to pay attention to the indirect financial impact resulting from employee theft. Know where your restaurant business is most vulnerable to employee theft. Then devise a cost-effective control mechanism to minimize these areas.

To reduce employee theft, management must hire wisely. This includes pre-employment screening. Human resource experts claim that pre-employment personnel screening is the most important safeguard against employee theft. Types of questions to ask and not to ask an employee before hiring include:

- *Permitted question:* Have you been convicted of any of the following crimes? (The crimes listed must be reasonably related to the job–in this case, theft.)

- *Inappropriate question:* Have you ever been arrested? (This question is too broad; the law bars employers from asking certain questions at employment interviews.)

Details of questions that are permissible are covered in Chapter 14.

Figure 12-1 Employee Theft

Bartender Tricks	
Underpouring drinks, keeping track of the excess, and stealing the sales difference.	**Product Tricks**
Bringing in their own bottle, and keeping the money from selling its contents.	**Product Tricks**
Substituting lower-quality liquor for call brands, charging the guest the higher amount, and keeping the difference.[1]	**Product Tricks**
Watering down the liquor content, and stealing the sales difference.*	**Product Tricks**
Bartender and/or Cashier Tricks	
Applying discounts or coupons to non-discounted checks where cash is paid, and keeping the difference.	**Register Tricks**
Using the "training keys" on a register, which don't ring up real sales; pocketing the cash these tickets bring in.	**Register Tricks**
Real or false register breakdowns, to have manual control of cash coming in.	**Register Tricks**
Overcharging customers, either for more tips or just to pocket the difference.	**Register Tricks**
Underringing or not ringing charges, but charging the guest the full price, and keeping the difference. They may hit "No Sale" on the register to open it and appear to be acting honestly.[2]	**Register Tricks**
"Bunched" sales, or adding charges in their heads. After charging the guest full price, they only enter a partial charge on the register.[3]	**Register Tricks**
Mixing sales income with tips, and putting revenue in the tip jar.[4]	**Register Tricks**
Using another bartender's or cashier's system key to ring up sales, and pocketing the cash.[5]	**Register Tricks**
"Borrowing" from the register.[6]	**Register Tricks**
Misrepresenting sales as spilled, complimentary or returned, and keeping the revenue.[7]	**Product Tricks**
Bartender and/or Server Tricks	
Running a completion report from a POS machine before the shift is over, and only giving the company the sales from a second report.	**Register Tricks**
Reusing a guest check to charge a second guest without turning over the revenue.	**Ticket Tricks**
Giving free food or beverage in hopes of getting an increased tip.	**Product Tricks**
Putting an incorrect amount on a credit card and fooling the customer into signing it.	**Ticket Tricks**
Giving free food or drinks to a fellow employee.	**Product Tricks**
Claiming that the guest left without paying after collecting their cash.[8]	**Ticket Tricks**
Items that don't go through the kitchen, such as desserts, coffee or salads, aren't rung up and the server pockets the difference.	**Product Tricks**
Kitchen and Purchasing Staff Tricks	
Putting a steak in the garbage can, then retrieving it outside after the shift is over.	**Product Tricks**
Splitting vendor "bonuses" with chef or purchaser.	**Product Tricks**
Kickbacks for purchasing with a certain vendor.	**Product Tricks**
Making up their own false invoices, and submitting them to accounting for payment.	**Product Tricks**

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[1] *Planning and Control for Food and Beverage Operations*, 3d ed., 1991. Jack D. Ninemeier, American Hotel and Motel Association, East Lansing, Michigan.

[2] ibid.

[3] ibid.

[4] ibid.

[5] ibid.

[6] ibid.

[7] ibid.

[8] ibid.

Guest Check Controls

The sections that follow present a series of control techniques to limit employee theft through the proper and monitored use of guest checks, cover reports, and staff controls.

Guest Checks

Guest checks are used to record and collect income due for products and services sold. Some operations use duplicate or triplicate guest checks depending on the level of control desired and particular accounting requirements. One copy may be given to the guest, another copy to the manager or to the person who accounts for revenues, and a third to the kitchen or to the bartender to prepare the meals.

Most modern POS systems use paper receipts that replace traditional guest checks entirely. The printed receipt is placed in a folder and presented to the guest for payment. Restaurants can often get folders free of charge from companies such as American Express, which give them away for promotional purposes. A paper receipt can also be printed in a production area, such as the kitchen or bar, by installing the proper connections and printers. POS systems have a number of advantages over manual systems, including the following:

- Guest checks are eliminated. As you can guess, triplicate checks cost even more than duplicates, so be certain that your control costs are justified.

- Service is faster than with a manual guest check. Automated guest orders are sent immediately to the kitchen or bar for preparation. Such a system is more exact and precise, and therefore can help to avoid overproduction or mistakes.

- Missing revenues are easily identified and accounted for.

- The system produces reports that help identify problem areas, including theft.

- Cashiering functions are faster and more accurate.

- Items can usually be voided only by a manager, which reduces servers' ability to commit fraud.

Disadvantages of POS systems are as follows:

- Modern POS systems are expensive. Review the information provided in the Appendix if you are considering purchasing such a system.

- System failure may mean lost revenues if you do not have adequate contingency plans. See the Appendix under Data Base Information and Computer Systems for information on contingency plans.

No system is perfect, and no system can meet all your needs for protecting your profit. Production staff in the kitchen or bar can still give out products without a legitimate order. Servers can still claim that items were returned and then pocket the money they charge. Still, a good POS system, applied rigorously and consistently, can be very advantageous.

It is often wise to have a manual system in place in case of system failures, and many establishments still use manual guest checks. Thus it is important to understand the manual system procedures discussed here. You will need a verifiable, complete plan that follows these control measures. The check control procedures described below begin from the moment you receive guest checks until you have collected money and recorded them.

Receiving Checks from the Supplier

The manager or person designated to control checks should create a control log, which has spaces to enter the date, the number of checks received from the vendor, their numeric sequence, and an authorizing signature. All checks should remain secured in the storeroom area under the control of the manager or other designated person. Upon receipt, the order should be checked against the purchase order to see that price, quantity, quality, and sequence numbers are correct. Then the total number of checks on hand should be tabulated and entered in the log.

Issuing Checks to the Outlets

All checks issued to a supervisor or outlet manager should be noted in the check control log as well. All checks should be issued in numeric order, and the log entry should consist of the date, the amount issued, the numeric sequence, the outlet's total checks on hand, the outlet representative's signature, and an authorizing signature. Checks should be issued only to an outlet manager or supervisor as designated in your establishment.

The purpose of the check control log is to monitor and account for all guest checks received and issued to outlets. A designated person maintains this log using the procedures outlined in this chapter. This log should be kept in the storeroom at all times. It should be divided into sections by outlet if more than one outlet exists.

The Outlet's Record of Checks Issued

Each outlet will also need a record to control all checks issued. The outlet manager should issue checks, in numeric order and in controlled quantities, to the servers and/or the cashier at the beginning of each shift. The number of checks issued to each staff member should be determined by the outlet manager depending on past usage and forecasted business. The outlet manager should note beginning and ending numbers for the checks issued. Cashiers or servers should sign for all checks issued. Additional checks should be issued as needed and duly noted on the record. The following entries should be noted when issuing checks to a server or cashier:

- Date

- Cashier's or server's name

- Meal period

- Beginning and ending check numbers

- Total number of checks issued

- Cashier's signature

- Outlet manager's signature

Companies with a POS system should prepare such a log in advance and lock it up, with a supply of checks, in a safe area in the restaurant. When the system breaks down, the manager can then quickly retrieve the checks and assign them to servers or cashiers. Such a contingency plan can be crucial to controlling checks and revenue during a system failure—especially when the system goes down during a busy meal period.

All issued checks, including voided and unused checks, should be turned in after the meal period, without exception. Checks should be spot-checked continually by the outlet manager.

A server might use the same check twice, collect double payment, and pocket the difference. Each check should be verified and marked off by the manager at the end of the shift. Unused checks, including any open checks, should be signed over to an incoming cashier or server, or to the closing supervisor, at the end of each shift.

Only a limited reserve supply of checks should be kept by the outlet manager. Boxes of checks should only be ordered as required. Any reserve supply should be kept in a locked compartment controlled by the outlet manager.

Check Control Summary Sheet

This sheet provides a record of all checks issued, breaks down individual checks for review and control, and highlights missing checks. Cashiers, servers, and bartenders should prepare this sheet according to the description below:

Heading	Beginning and ending check numbers, shift time, date, cashier name, meal period, outlet
Column 1	All checks listed in numeric order
Column 2	Number of covers per check
Column 3	Total cash collected for the check, if any
Column 4	Net credit card charge, if any (excluding any tip)
Column 5	Net promotional account charge, if any (excluding any tip)
Column 6	Net room charge, if any (excluding any tip)
Column 7	Total of Columns 3 through 6

From this information the manager can tell how each check was settled, whether by cash, credit card, promotional charge, or room charge. Any check not accounted for should be traced to the production area (kitchen or bar) to determine if any food or beverage was produced. If the duplicate of the missing check is found in the production area with a handwritten order that indicates that the server may have collected payment for the missing check, the company should investigate this anomaly. If necessary, you can then take steps to collect the value of what is written on the duplicate check from the server or cashier, depending on company policies and procedures and the employment law governing your state.

Audit of Check Control

An audit of check control log is prepared to control all checks issued and used by the outlets. It is also used to prepare a missing check report in a timely manner. The manager or the person designated should verify check control using the following information:

- List of check numbers

- Outlet

- Date issued

- Total number of checks issued

- Manager's or designated person's signature

- Outlet manager's signature

You can see how this works in Figure 12-2. The blank column can be used for other methods of payment, such as gift certificates or expense account or tab charges, if these are used at your

company. The auditor marks off each check in the right-hand column to indicate that the check has been verified. All missing and voided checks should be accompanied by an explanation, as in our example, or such an explanation can be written by the outlet manager and attached to this sheet.

Figure 12-2 Cover Reporting

Outlet:		Total # of checks:		Date issued:			Audited?
check #		cash	credit card	promo. chg	room chg		
12714	/	$37.50					√
12715	/		$18.71				√
12716	/				$41.02		√
12717	V	(checkfell	in thesoup)				√
12718	0	(server	found check	in pocket)			√
12719	/		$24.18				√
12720	*	(will be	transferred	to next shift)			√
Signatures:							
Auditor:							
Outlet mgr:							

The marks in the second column are standard marks used to denote the following circumstances:

/   *Used:* used by staff and settled by one or more methods of payment

0   *Missing check:* these should be investigated to determine if fraud was committed (see the section on cash handling in this chapter to read about the many ways employees might steal)

*   *Check being held:* applies to unused checks that will be transferred to an incoming server and noted on the check issuing log

V   *Voided check:* might indicate a soiled check or a problem with a guest order; the manager should verify and sign for all voided checks with a written explanation

All checks should be forwarded to the manager or person designated to monitor check control procedures, along with the check control summary sheet discussed earlier. Checks should be reconciled with the audit check control log. All checks not accounted for should be listed on a missing check report.

It is important to stress that no system is totally adequate if the production staff are preparing and giving out food and beverage without guest checks or POS order receipts.

Cover Reporting

Just as the server writes the order for the kitchen to prepare the meal, he or she must also indicate the number of guests to be served on the check. These guest numbers are called covers. When four people sit down to a meal, you often have four covers. The number of covers is not always the same as the number of guests at a table, however. For your reporting data, covers are counted as the number of guests who order a meal, usually including an entrée item.

If these numbers are tallied accurately, they can be used for forecasting, budgeting, and menu analysis. The number of covers multiplied by the average food check gives you total food sales; multiply the number of covers by average beverage sales to get total beverage sales.

You may also count covers in special situations that are less clear-cut than meals or entrées. Use the guidelines below for these situations.

Counting Banquet Reception Covers

Cover counts for banquet receptions should be obtained directly from guest checks or from the catering order. Included in such counts are receptions that immediately precede a meal function, which often have the same host as the meal function and are recorded on a single banquet check.

Counting Snack Bar Covers

All food covers are obtained directly from guest checks or POS systems for the three meal periods (breakfast, lunch, and dinner). Coffee sales alone are not counted in the total food cover count. At points of sale, such as poolside bars, golf or tennis snack stands, or service carts, only the sale of entrée-type items such as sandwiches, hot dogs, or hamburgers are to be counted as covers; each of these items should be counted as one. Snack items, such as candy bars, chips, ice cream cones, and fruit, are not considered entrée items and should not be recognized as covers. Similarly, covers are not counted in connection with in-room minibar sales.

Counting Hospitality Suite Covers

To determine room service hospitality suite average checks, divide sales from the hospitality function by the number of guests expected to be served. For example, if the hospitality order indicates 125 people flowing through and the total sales associated with the suite are $850, then the average check is $6.50. Hospitality covers are to be included in the room service department and total food cover counts.

To illustrate the value of this cover information, Figure 12-3 shows how these counts are used in forecasting.

Following are the uses and meanings of the numbers in Figure 12-3:

- *A. Actual occupied rooms:* The number of guest rooms sold for the reporting period. This only pertains to lodging establishments with food and beverage operations. This information could be used to determine sales per occupied room. If documented consistently and for a long period of time, the manager can use this information to forecast future results.

- *B. Actual occupied room percentage:* This is the number of occupied rooms divided by the total available rooms for the reporting period. In our example in Chapter 1, we assume a hotel with 1,120 rooms, multiplied by 31 days in July; this means we have a room availability of 34,720. Thus, the equation looks like this: $\frac{17,855}{34,720} = 51.4$ percent.

- *C. Number of days in a month.* In our example, it is 31 days.

- *D. Number of days opened per month.* This refers to the number of days each meal period was open for business in the month of July. This may be different from one restaurant to another and from one meal period to another. This information is relevant to determine the actual performance of each meal period in terms of revenue generated per day.

- *E. Number of seats.* This number is usually posted inside the restaurant or bar; it is the legal, certified occupancy number of a restaurant. This information establishes the number of customers the restaurant can hold, and it is part of the calculation for turning over the tables.

	#a		#b					#c						
Actual occupied rooms		17,855	Actual occupied %		51.4%			# of days in a month =					31	

OUTLET & meal periods	#d Number of days opened per month	#e Number of seats capacity	#f Turnover per seat $\frac{\#g}{\#e}$	#g Total covers	#h Covers per day $\frac{\#g}{\#d}$	#I Sales per occupied room $\frac{\#o}{\#a}$	#j Food sales	#k Food average check $\frac{\#j}{\#g}$	#l Beverage sales	#m Beverage average check $\frac{\#i}{\#g}$	#n Beverage average per day $\frac{\#i}{\#d}$	#o Combined F&B revenues #j + #l	#p Combined average check $\frac{\#o}{\#g}$
ROOM SERVICE													
Break fast	31	100	30.00	3,000	97	3.36	40,000	13.33	20,000	6.67	645	60,000	20.00
Lunch	31	100	9.00	900	29	1.40	15,000	16.67	10,000	11.11	323	25,000	27.78
Dinner	31	100	11.00	1,100	35	2.30	26,000	23.64	15,000	13.64	484	41,000	37.27
Nite owl	31	100	5.00	500	16	0.84	10,000	20.00	5,000	10.00	161	15,000	30.00
Hospitality	31	100	6.00	600	19	1.12	15,000	25.00	5,000	8.33	161	20,000	33.33
TOTAL	31	100	61.00	6,100	197	9.02	106,000	17.38	55,000	9.02	1,774	161,000	26.39
FINE DINING													
Dinner	20	100	25.00	2,500	125	13.16	185,000	74.00	50,000	20.00	2,500	235,000	94.00
TOTAL	20	100	25.00	2,500	125	13.16	185,000	74.00	50,000	20.00	2,500	235,000	94.00
CAFÉ													
Break fast	31	200	32.50	6,500	210	3.16	54,000	8.31	2,500	0.38	81	56,500	8.69
Lunch	31	200	27.50	5,500	177	4.77	74,250	13.50	11,000	2.00	355	85,250	15.50
Dinner	31	200	35.00	7,000	226	7.28	105,000	15.00	25,000	3.57	806	130,000	18.57
TOTAL	31	200	95.00	19,000	613	15.22	233,250	12.28	38,500	2.03	1,242	271,750	14.30
BAR													
Lunch	31	120	5.00	600	19	1.12	5,000	8.33	15,000	25.00	484	20,000	33.33
Dinner	31	120	29.17	3,500	113	7.56	35,000	10.00	100,000	28.57	3,226	135,000	38.57
TOTAL	31	120	34.17	4,100	132	8.68	40,000	9.76	115,000	28.05	3,710	155,000	37.80

Figure 12-3 Monthly Food and Beverage Cover Reporting

- *F. Turnover per seat*. This figure is derived by dividing the number of covers by the number of seats. It refers to the average number of times during a meal period that a given seat is occupied. This information is used to judge the efficiency of seat capacity. You could also use it to compare your establishment with competing restaurants to determine what percentage of the target dining population you are capturing.

- *G. Total covers*. This is a tally of guests who purchased meals. If this information is collected for two or more years, you may be able to use it to forecast future sales levels. In Figure 12-4, we offer an example of how this can be applied, using the information in Columns A, B, and C to represent the cover totals in your restaurant for 2007, 2008, and 2009.

	#a 2007	#b 2008	#c 2009	#d Variance #b - #a	#e Variance #c - #b	#f % difference #d / #a	#g % difference #e / #b
October	2,820	3,000	3,200	180	200	6.38%	6.67%
November	2,750	3,100	3,500	350	400	12.73%	12.90%
December	3,060	3,500	4,000	440	500	14.38%	14.29%
	8,630	9,600	10,700	970	1,100	11.24%	11.46%

Figure 12-4 Fine Dining Covers

Columns D and E show the variance from 2007 to 2008 and from 2008 to 2009, respectively. Columns F and G turn those variances into percentages for comparison purposes. Assuming every indication shows the same trends and you do not foresee any new variables, Figure 12-5 could be your outlook for 2010.

Last quarter Forcast Fine Dining Covers -- 2009

	2009 Covers	% Increase	Cover Increase	2010 Forecast Covers
October	3,200	7.00%	224	3,424
November	3,500	13.00%	455	3,955
December	4,000	14.30%	572	4,572
	10,700		1,251	11,951

Figure 12-5 Last Quarter Fine Dining Covers

- *H. Covers per day*. This is an average calculated by dividing the number of covers by the number of days the restaurant was open for business.

- *I. Sales per occupied room*. This is derived by dividing the combined food and beverage revenues by the actual occupied room total. This figure gives you an indication of average revenue generated per occupied room, and it may also be helpful in future forecasting efforts.

- *J. Food sales*. This is the revenue reported from your guest check summary report. You could also multiply your average check amount by the number of covers, or by forecast data, to derive actual or predicted sales totals.

- *K. Average food check*. This is obtained by dividing the food sales per meal period by the number of food covers during that period. Be sure to subtract voided and promotional covers from period totals to determine this average.

- *L. and M*. Columns L and M are just like Columns J and K, but for beverages.

- *N. Average beverage per day*. This is the average beverage revenue per day. Divide the beverage sales total in Column L by the number of days the outlet was open in Column D.

- *O. Combined food and beverage revenues.* This is the food and beverage revenues added together.

- *P. Combined average check.* The combined food and beverage check for the outlet is obtained by dividing the total food and beverage sales for the outlets by the food and beverage covers for the outlets, or by adding together the average food check and the average beverage check.

Again, it is important to stress that cover reporting must be consistent. If this report is to be meaningful and useful, the server will have to follow the cover guidelines you establish. Once you have maintained a consistent, reliable database on sales and covers, you can use this information to forecast future sales income and cost per cover.

Cash Handling Controls

To this point we have been discussing procedures to monitor guest checks and to use the information they provide. The next step is to establish cash handling standards. The development and implementation of these control procedures stems from two types of income-collection systems: server banking and cashier banking. Both concepts originated from the establishment of company policies and procedures of accounting for house bank funds. A **house bank** is the amount of money given to a cashier or server for the purpose of giving out change to customers. The controller should see that this amount is balanced to the company's general ledger.

house bank The amount of money given to a cashier or server for the purpose of giving out change to customers.

House banks may be obtained by placing a request at least one to three days prior to the date that the bank is needed. This request should include the amount, outlet and staff member information, and the signature of the person responsible for the bank. All house banks should be approved by the person performing accounting functions or by the manager. House banks should be subject to the cash handling measures detailed below.

A numbered cash vault and key, often using a safety deposit box, should be assigned with each bank. The employee is solely responsible for the safekeeping of the key. If the key is lost, stolen, or broken, it should be reported to the manager immediately so that the money may be removed to prevent further loss. Depending on your company's policies and procedures, the employee may be held accountable for the replacement of the key and the lock. Furthermore, all house banks must be locked securely in the assigned vault when not in use. Failure to secure house funds should result in strict disciplinary action. When stored, all house banks must contain a signed and dated count sheet that shows the total amount in the bank. Currency should be arranged face up, and loose coins should be placed in individual bags by denomination. No personal money or items should ever be stored in the house bank bag or the safety deposit box. Failure to follow these guidelines should be considered negligence.

At the end of each shift, house banks must be counted and balanced to the original issued amount. All checks and traveler's checks must be deposited daily. A house bank should consist only of currency, coin, and due-back slips totaling the amount of funds issued. This requirement should be stated in the signed cash handling acknowledgment or house bank contract.

Every precaution should be taken to secure house funds. Locking the cash drawer, restricting access to the bank, and counting change as it is given to the guest will all help in maintaining the security of the bank. All overages and shortages should result in disciplinary action, as should any violation of the cash handling acknowledgment.

Another commonly used control method is called a floating house bank. This procedure enables a shift manager to audit a server at the end of one shift and then pass the bank to an incoming server. While all control procedures mentioned above apply, variances must be reconciled immediately in order to maintain both a consistent bank amount and the accountability of shift personnel.

Server Banking

Server banking is a system whereby servers or bartenders are issued a house bank to collect payment and to give out change to guests. They keep these banks until they check out at the end of the shift. The server or bartender actually closes or settles the checks, and he or she is held accountable for each transaction. The server or bartender in this case will fill out a check control summary, as discussed above, which states what amount is due to the company. As previously mentioned, computerized POS systems provide a faster and more efficient manner of conducting these transactions. Each server's POS report will indicate how much is owed and by which method of payment—cash, credit card, gift certificate, or room or promotional charge. It will also list the server's table numbers, outstanding or open checks, voids, taxes, tips, and cover information.

server banking A system wherein the server or bartender also carries out the responsibilities of a cashier.

Cashier Banking

Cashier banking is similar to server banking, except that a cashier actually settles each check by one or more payment methods. The cashier in this case is responsible for each transaction, as well as for the deposit at the end of the shift. The guest may pay the cashier directly, depending on the restaurant setup, or may pay the server or bartender, who then pays the cashier. The bartender may, in some cases, be the cashier. Ultimately, it is the responsibility of the outlet manager to oversee all banking functions with either server or cashier banking systems.

cashier banking A system where a cashier settles each check and is responsible for the transaction.

Responsibilities of Cash Handlers

All cash handlers should be required to sign a statement acknowledging their responsibilities regarding cash and other forms of payment; this form should include your company's policies for when their banks come up short. The original is placed in the employee's personnel file and a copy is given to the employee. This form should include all applicable measures listed below, as well as the server's agreement to follow these rules and a place for him or her to sign and date the document. These responsibilities should include training on detecting and reporting counterfeit bills. Figure 12-6 illustrates some of the key points to look for in a U.S. $100 bill.
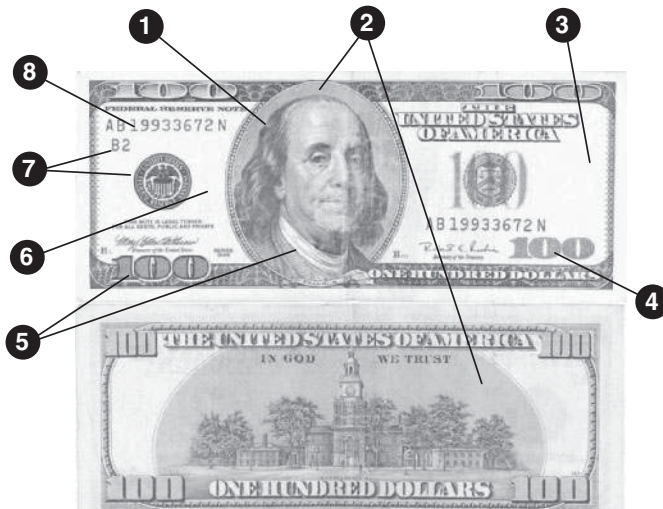

Figure 12-6 Money

Legend

1. *Portrait.* The enlarged portrait of Benjamin Franklin is easier to recognize, while the added detail is harder to duplicate. The portrait is now off-center, providing room for a watermark and reducing wear and tear on the portrait.

2. *Concentric Fine Lines.* The fine lines printed behind both Benjamin Franklin's portrait and Independence Hall are difficult to replicate.

3. *Watermark.* A watermark depicting Benjamin Franklin is visible from both sides when held up to a light.

4. *Color-Shifting Ink.* The number in the lower-right corner on the front of the note looks green when viewed straight on, but it appears black when viewed at an angle.

5. *Microprinting.* Because they're so small, microprinted words are hard to replicate. On the front of the note, USA 100 is within the number in the lower-left corner, and United States of America is on Benjamin Franklin's coat.

6. *Security Thread.* A polymer thread embedded vertically in the paper indicates, by its unique position, the note's denomination. The words USA 100 on the thread can be seen from both sides of the note when held up to a bright light. Additionally, the thread glows red when held under an ultraviolet light.

7. *Federal Reserve Indicators.* A new universal seal represents the entire Federal Reserve System. A letter and number beneath the left serial number identify the issuing Federal Reserve Bank.

8. *Serial Numbers.* An additional letter is added to the serial number. The unique combination of eleven numbers and letters appears twice on the front of the note.

Note: Some of the counterfeit bills in current circulation do not have the security thread mentioned in Number 6. The appearance of a security thread is only a copy.

Deposit of Daily Receipts

Deposits of the day's transactions are to be made daily at the end of each employee's shift. Work should be handled and completed in a designated cash-out area in each department, and the appropriate monies should be "dropped" before the employee leaves the premises. Drops are deposits that are placed in the company safe. These include deposit orders, due backs, money that is reimbursed to the employee's bank, or any transaction affecting the amount in a house bank. The person making the drop is accountable for the balance and content of his or her drop envelope. All drops should be made in the drop safe in a designated area and must be properly witnessed and logged prior to the drop. Failure to make a drop of the day's receipts should be subject to disciplinary action.

Cashier Drop Record

It is the responsibility of the employee who is making the drop to properly fill out a cashier drop record, which includes his or her name, his or her department, the date and time, and the amount of all forms of payment contained in the envelope. All drops must be witnessed. The witness should verify that the amount written on the envelope matches the amount on

the drop record. The employee then places the completed and sealed envelope in the drop safe and turns the handle until the deposit drops into the safe. The witness must visually verify this step and then sign the drop record to acknowledge that the drop has been made.

The witness serves to verify only that the drop has been made. This is not a verification of the amount actually in the envelope. It is the responsibility of the cashier to locate a witness who has a moment to verify the drop and to ask for assistance in a professional and pleasant manner. Failure to follow the above procedures should be considered negligence and should be subject to disciplinary action. Whenever the accounting department cannot account for an envelope, the witness who verified the drop should be issued a written warning. The employee responsible for making the drop, whether witnessed or not, may be held accountable for the amount of the drop.

Cash Variances

All cash variances (overages and shortages) must be deposited at the end of each shift. Cash over or short should be reported to the manager to serve as a tracking tool for such variances. When disciplinary action is necessary, a discrepancy report will also be submitted to managers. It is the responsibility of managers to work with the human resources department when handling counseling and disciplinary action. All cash discrepancies should result in disciplinary actions. The server can be disciplined, penalized, or even terminated for improper cash handling procedures.

Personal Check Procedures

All checks, both personal and business, must have check approval prior to being accepted. All information required by the company with regard to personal checks must be included on the front of the check. This includes the name of the department, the type and number of identification card used, and the cashier's initials. All checks must be dropped to the general cashier daily for immediate deposit in the bank. Checks may be dropped as part of a cash drop, or they may be dropped in exchange for cash. Whichever method is used, they must be dropped the day they are received.

Any check that is dropped without the correct approval or that does not clear through the bank will be considered a shortage. Disciplinary action may be taken according to the amount due on an unapproved check. All checks, including traveler's checks, must be made payable to the company, and they must be stamped with a FOR DEPOSIT ONLY stamp on the back of the check at the left-hand end.

The total amount of all checks must be recorded on the front of the deposit envelope under the Vouchers and Checks heading. Traveler's checks also must be totaled and recorded on the front of the envelope on a separate line marked Traveler's Checks. If the total amount of checks being dropped is higher than the total amount due, include a due-back slip equal to the excess amount.

Due-Back Slips

Due-back slips are necessary when the total amount of cash and/or checks in a drop exceeds the amount due. The server should print his or her first and last name, the date, his or her vault or safety deposit box number, and the amount due back on the slip. The server should place the first copy in his or her drop envelope and record the amount due back in brackets (that is, [ ]) on the front of the envelope. He or she should also record the amount in brackets on the drop record. The server should then place the second copy in his or her bank so that all money and due-back slips, when totaled, will equal the issued amount.

When the server needs to exchange checks or large bills for small bills or coins, he or she should fill out the due-back slip in the normal manner and print the word *exchange* on the bottom of the slip. He or she should also print the word *exchange* on the front of the drop envelope and attach a change order form, which specifies what kind of change is requested. To retrieve a due-back slip, servers should go to the accounting or manager's office during business hours to present the second copy of the due-back slip. Servers need to count the amount given to them before leaving the accounting office. In addition, servers must sign the accounting control log to verify that they received the money. Not all companies reimburse due-back slips like this; whatever method you use, be consistent, keep complete records, and follow verifiable procedures.

Credit Card Procedures

All credit card sales must have an approval code, a signature, and an imprint of the credit card. Exceptions in the case of the signature include express checkouts and telephone sales. In addition, the staff member should verify the information while taking the card's imprint or running it through the card system. In a hotel setting, any time the guest's total charges exceed the total amount of their prior approval, an additional approval must be obtained with a written code. The total approved amount must also be written on the voucher at checkout.

Telephone credit card sales must include the following information for credit companies to recognize them as legitimate:

- Credit card number

- Expiration date

- Cardholder's name

- Cardholder's billing address

- Cardholder's daytime phone number

- Total amount of sale

- Approval code

An employee who handles an uncollectable credit card sale may be subject to disciplinary action for any of the following mishandling:

- Lost or illegible imprint

- Credit card approval not obtained

- Credit card approval or guarantee limits not adhered to

- No signature on voucher, excluding hotel express checkouts (an authorized signature should be faxed for telephone sales)

Charges that are deemed not collectable should be considered a shortage and should be treated the same as cash variances—with disciplinary action. Tips paid out on noncollectable credit card sales also should be returned by the servers who received them.

Gift Certificates

Gift certificates are coupons purchased by customers to use in the place of cash at a later date. Many times these certificates are hard plastic gift cards. They can be a good source of revenue, but they require special handling. A gift certificate sold but not yet redeemed is treated as a liability in the general ledger account. The controls are similar to cash, but care

must be taken to maintain adequate record-keeping of all transactions, from printing to storing to issuing.

Gift certificates are issued from the accounting office. All certificates issued must be logged and signed for by the employee receiving them. Gift certificates should be handled with the same security procedures as cash. The amount printed on the gift certificate is its value whether it is sold, lost, or stolen. Lost or stolen gift certificates will be recorded as a shortage and should be treated the same as cash variances—with disciplinary action.

When a gift certificate is sold, the amount must be rung through the POS system as "gift certificate sold." The completed stub from the gift certificate, along with a copy of the check or POS report showing that the gift certificate was sold, should be turned in to the accounting office before certificates are replenished. When a gift certificate is redeemed, it must be rung through the POS system as a method of payment. If the gift certificate is higher than the amount due, change should not be given in cash. Gift certificates should also not be redeemable for cash. This policy may vary from one company to another, however.

Failure to process the gift certificate correctly will result in an apparent cash variance. This could be considered negligence on the part of the cashier, who would be subject to disciplinary action. Redeemed gift certificates should be dropped with the cash deposit at the end of the shift. Gift certificates and their totals should be listed on the front of the envelope, but the amount should not be included on the Total Amount Enclosed line.

Be sure to include this information, as well as your entire gift certificate policy, in the cash handling acknowledgment that each server signs. Your staff needs to know that they are responsible for mistakes in this area as in any other.

Petty Cash Receipts

When your outlet needs something in a hurry, you may issue an amount of petty cash. This is a common practice to handle impromptu needs for cash in many establishments. In a busy restaurant environment, however, these monies might not be returned. You will need to establish and uphold the following procedures to ensure that the petty cash privilege is not abused.

A "received of petty cash" voucher must be completed before a request for petty cash is submitted to the accounting office. This petty cash request must include the following:

- Name and department of the individual to receive payment

- Date

- Brief explanation

- Total dollar amount

- Original receipts or other backup attached

- Appropriate approval

- Signature to acknowledge payment received

Approvals for petty cash requests are only valid with an appropriate signature from a manager, or perhaps an executive chef. If the appropriate signature cannot be obtained, the approval of the accountant or the general manager will be accepted. Any petty cash receipts that are turned in without being filled in correctly or without proper receipts and approval should be considered incomplete. This should be subject to disciplinary action if it is not resolved within a reasonable time period, at the discretion of the accounting office manager.

Travel Vouchers

Travel vouchers from guests are treated as cash. Any questions should be directed to the accounting department. At checkout, settle the **folio**, or itemized guest-lodging bill, with the room and tax balance. Drop all vouchers with a copy of the folio at the accounting office with the daily deposit. Front desk agents should be held responsible for all vouchers lost or settled incorrectly. Lost vouchers will be considered a shortage and should be treated the same as cash variances—with disciplinary action.

folio An itemized guest-lodging bill.

NEGLIGENCE

Negligence is defined as failure to perform properly, especially through carelessness. The following should be considered acts of negligence:

- Improper preparation of the deposit envelope, drop record, shift reconciliation, guest checks, vouchers, or other reporting materials used by your company

- Improper endorsement of checks and traveler's checks

- Lack of proper approval on checks and credit cards

- Ringing in any amount under a POS number belonging to someone else and not including that amount in your reconciliation

- Ringing in any amount on your own number after having run the tape for the end of your shift and not including that amount in your reconciliation (deception or intent to deceive are crucial in determining fraud)

- Closing a check to a payment method incorrectly and not correcting it before completing your reconciliation

- Committing mathematical errors resulting in a variance, then leaving the variance until the next scheduled shift

- Failing to perform properly in any other areas of the cash handling procedures referenced in this section

Honesty and controls are the responsibility of everyone at any establishment. The manager should use the "fresh set of eyes" approach any time he or she is observing an outlet's operations. The use of "spotters" or "shoppers" (people hired to observe the bartender and server while posing as guests) can help uncover procedural problems or even theft. In the meantime, you should make sure that controls are in place and are sufficient to minimize these kinds of losses.

SUMMARY

To control checks, the process must include receiving the checks from the supplier, storing them securely, issuing them to outlets and individual servers under strict guidelines, and verifying that all checks are properly accounted for.

There is a plethora of ways that employees can steal from a food service outlet. While it is virtually impossible to eliminate theft, it can be minimized via control procedures. First, all managers should be trained in proper control procedures and randomly checked to verify that they are following these procedures. Collusion between a manager and cash handler can result

in significant losses. Second, all cash handlers should be trained in correct cash handling procedures and should sign a form promising that they will adhere to the procedures. In addition, they should be trained to detect and report counterfeit money.

House bank funds must be closely controlled and issued only to authorized personnel who take responsibility for adhering to all control procedures. A floating house bank permits managers to issue the bank to a server for a shift, reconcile any discrepancies, and issue the bank to a new server when the next shift begins. Deposits of all the day's transactions should be made after each shift. Drops must be signed and witnessed. Disciplinary action should be taken for any significant variances. Credit cards, gift certificates, petty cash, and travel vouchers are also subject to strict controls. Because every dollar missing directly affects the bottom line, it is vital that these controls be implemented and closely monitored.

CHAPTER QUESTIONS

Discussion Questions

1. What are the advantages and disadvantages of POS systems relative to manual systems?

2. How are guest checks controlled in the storeroom?

3. How should check controls be monitored at each outlet?

4. Why and how should guest checks be audited?

5. Why and how should cover reports be conducted?

6. How should a check control log be established?

7. What are the responsibilities of cash handlers?

8. How can a counterfeit U.S. $100 bill be identified?

Critical Thinking Questions

1. What information should be recorded in a control log?

2. Which guests should be counted as covers?

3. How might employees steal from a food service operation?

4. If a server is issued checks 1156 through 1178, and returns 20 checks, how many checks are missing?

5. If a restaurant has 200 seats and serves 520 covers during a night, what is the turnover rate per seat?

6. If a restaurant has 150 seats and serves 500 covers at lunch, what is the turnover rate per seat?

7. If 500 covers are served at lunch and food and beverage revenue is $3,000, what is the combined average check?

8. If 400 covers are served at dinner and the combined food and beverage revenue is $6,000, what is the combined average check?

9. If a restaurant is open 31 days during the month, and produced 6,000 covers, what was the average number of covers per day?

10. If a restaurant is open 24 days per month and produced 6,000 covers, what was the average number of covers per day?

Objective Questions

1. Check control procedures begin when checks are issued to servers. True or False?

2. When a server voids a check, he or she should immediately tear it up and dispose of it so that it cannot be reused. True or False?

3. To determine the actual occupied rooms percentage, divide the number of occupied rooms by the number of available rooms. True or False?

4. When calculating average food check, promotional covers should not be included in the cover count. True or False?

5. Drops are deposits that are placed in the company's safe. True or False?

6. Unless dishonest intent can be demonstrated, it is illegal to take disciplinary action against an employee whose drop is short. True or False?

7. Credit card charges that are not collectable should be treated the same as a cash variance—with disciplinary action. True or False?

Multiple Choice Questions

1. Which of the following is NOT an innovation incorporated into the new U.S. currency to deter counterfeiting?
    A. A watermark visible from both sides
    B. A security thread
    C. Color-shifting ink
    D.   The signature of the person whose portrait appears on the bill

2. When a manager audits a server at the end of one shift, then passes the bank to an incoming server, it is referred to as a
    A. floating house bank.
    B. house bank.
    C. sequential house bank.
    D. house bank transfer.

3. A witness to a drop should verify which of the following?
    A. The actual amount of money in the drop envelope and the fact that the drop has been made
    B. That the amount of money written on the envelope equals the amount on the drop record, and that the drop has been deposited in the safe

C. That all checks are properly accounted for, that the drop equals the amount recorded on the checks and the drop record, and that the drop has been deposited in the safe

D. Only that the drop has been deposited in the safe

4. Due-back slips are issued when

A. an employee works a split shift and is required to return on the same day.

B. the amount of cash and/or checks in a drop exceeds the amount due.

C. an employee is disciplined for cash shortages and receives an unpaid leave until the due-back date.

D. employees have cash overages.

5. A gift certificate sold but not yet redeemed is treated on the general ledger as a(n)

A. asset.

B. liability.

C. equity.

D. income.

Case Study

Case Study: Theft or Not?

Holiday Resort has one restaurant that caters to all guests during three meal periods (breakfast, lunch, and dinner). The restaurant's operating hours are from 7 to 9 A.M. for breakfast, from noon to 2 P.M. for lunch, and from 6 to 9 P.M. for dinner. Breakfast meals are complimentary for in-house guests. Guests visiting from outside can only eat lunch or dinner in the restaurant if they have a prepaid meal ticket, which can only be purchased from the guest registration attendant at the front desk.

One Tuesday afternoon, a guest walks into the front desk area. Mary, the front desk employee, observes Alicia, the manager, handing the guest some meal tickets and receiving money in exchange. Alicia has a reputation of being very friendly with a good sense of humor. Alicia does not ring up the sale, so Mary reports her to a senior manager. When Alicia is confronted, she claims it was a tip given to her by the guest.

Your task:

1. Determine if Alicia can be fired for stealing. If so, what evidence does the company have?

2. Explain how check control can prevent Alicia from defrauding the company.

3. Determine under what circumstances Alicia could be rehired in the future.

4. Describe precautionary steps the company should take to prevent this type of hire.