

PUTTING THE SQUEEZE ON INTERNAL THEFT



Few owners or beverage managers want to acknowledge the reality that their employees might be stealing from their business. Nevertheless, the statistics clearly suggest that employees are stealing tremendous sums of money. The United States Department of Commerce estimates that losses due to employee theft in the food and beverage industry amount to 4% of annual gross sales, a dollar figure in the scores of millions.

Any comprehensive strategy aimed at reducing bar costs must include specific measures to limit, if not prevent, employee theft. The process of minimizing your operation's vulnerability to theft involves eliminating areas of weakness behind the bar; weaknesses created through lax policies and procedures, breeches in security, and ineffective cash controls.

It should be noted that not all of the following preventative measures will benefit every beverage operation equally. Each specific item should be evaluated for suitability and level of effectiveness. In some instances, implementing the wrong policy or procedure may only make matters worse.

The following are policies and procedures that may help you actually collect more of your cash proceeds.

- **“No Sale” Restrictions** — One of the more uncomplicated methods of theft involves a bartender selling a drink and depositing the proceeds into the register using the “no sale” key. Unless someone is watching the register's L.C.D. display, the act usually goes unnoticed. Since the sale wasn't rung into the register, the bartender need only remove the stolen proceeds from the cash drawer when safe to do so. The best preventative measure against this type of theft is to restrict the use of the “no sale” key. One legitimate reason a bartender would need the “no sale” key is to make change for customers. Possible alternatives include installing change machines on-premise, or providing bartenders with a “change box” for the back bar. The box has eight, \$10 rolls of quarters from which the bartenders are to make change. At the end of the shift there should still be \$80 in the box.

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- **Management To Check-Out Bar Cash Drawers** — The check-out process entails compiling the opening bank for the following shift and itemizing the remaining cash proceed onto a deposit slip. In reality the process provides bartenders with an ideal opportunity to safely withdraw stolen funds deposited into the register's cash drawer. Reconciling the registers, compiling the opening banks and itemizing deposits is something the manager or bookkeeper should do.
- **Take An Immediate "Z" Reading After "Last Call"** — Your register should be closed out and the cash drawer removed as soon as the bartenders can no longer legally sell alcohol. If the bartenders are stealing and using the cash register as a repository for the stolen funds, this procedure will force them to withdraw the money during the shift while there are still people milling about, rather than the relative security and privacy of closing.
- **Prohibit "Make-Up" Rings** — A "make-up" ring is used to correct an erroneous register entry. For instance, a bartender mistakenly enters a \$4.50 sale as \$3.50. To correct the situation the bartender enters another \$1.00 into sales and deposits the money into the cash drawer. However, the procedure can be abused. For example, a bartender could ring-in a \$10.00 sales as \$1.00 and pocket the difference of \$9.00. If later confronted with the register tape regarding a \$1.00 liquor sale, the bartender can claim it is a "make-up" ring and that the previous sale was actually understated by a dollar. Mistaken entries should require a manager void-out.
- **Ring-In Sales Prior To Service** — One method of reducing unrecorded sales is to require bartenders to ring-in a sale of a drink prior to service. The transaction is serviced and cleared only when payment has been tendered. This procedure will make it more difficult for bartenders to give away free drinks or steal unrecorded sales proceeds. To subvert the procedure, a bartender would first have to serve a drink and then go to the register, which would be contrary to standard procedure. It should be noted that this measure is not well-suited for high volume establishments as it does effectively add another step to the cash register procedures.
- **Cash Register Procedures** — The cash drawer should always remain closed between transactions. Allowing the drawer to remain ajar completely negates the primary control function of the register. While bartenders should have access to the key that turns the register on, they should not have access to the keys that activate the "x" or "z" reading function. The register's L.C.D. display should face the public; anyone seated at the bar can observe what is being entered into the register. The area around the register should remain clear of clutter — books, manuals, stacks of paper. Clutter can be used to hide money, used drink tickets or a ledger system for keeping track of how much stolen money has been deposited in the drawer.
- **Mid-Shift Register Readings** — An effective cash control is periodic mid-shift audits. Several hours into a shift, a "z" reading is taken of the bar's register and the cash drawer is replaced with a new bank. Excess cash in the drawer may indicate that the bartender was putting stolen funds in the register for safekeeping. If the sales totals appear to be far less than what the volume of business would suggest, the bartender may be giving drinks away or pocketing the stolen proceeds. For optimum results, avoid predictably timed mid-shifts. To remain totally unpredictable, a second audit should occasionally be conducted in the same shift.

CASH AND INVENTORY CONTROLS

- **Tip Jar Policies** — As a matter of policy, the bar's tip jar should be situated well away from your cash register. If located close to the register, it is easy for bartenders to divert funds away from the cash drawer and into the tip jar. In addition, bartenders should be prohibited from making change out of their tip jar or taking

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change from their tip jar and exchanging it for currency out of the register. Both are useful ploys for getting stolen proceeds out of the register's cash drawer.

- **Mandatory Use Of A Drop Box** — One way to rip-off the house is to present a patron with a previously used drink check under the pretense that it is his or her tab. Once the customer pays the total on the check, the bartender pockets the proceeds and the sale remains unrecorded. The bartender will select a previously rung-in check that reflects the appropriate number of drinks and the correct dollar amount. The most likely scenario is to reuse a ticket reflecting the sale of two rounds of two well drinks, which is statistically the most frequent transaction. A drop box is a lockable box with a slot in the hinged top through which drink tickets are deposited. Once a drink ticket has been imprinted it should be inserted into the drop box, thereby preventing it from being fraudulently reused.
- **No Underpouring Allowed** — Bartenders should be expressly forbidden from purposely underpouring the liquor portion in a customer's drink. Techniques such as "top-pouring" or "ghosting" are used to rip off the clientele by underpouring the liquor in a series of drinks. That will create a surplus of inventory that can then be sold, the proceeds pocketed and leave the pour cost unaffected.
- **Cash Drawer Count Verification** — Bartenders should be required to verify the amount of money used to compile the register's opening bank. This practice will prevent bartenders from claiming their opening bank was either "over" or "under" the established amount to explain a cash shortage or overage in the drawer.

INTERNAL OPERATING PROCEDURES

- **Bartenders Not Involved In The Physical Inventory Process** — A bartender who is stealing can alter the results of a physical inventory, effectively off-setting previous theft.

It is accomplished by overstating the liquor inventory, thereby making it appear that there is more inventory on-hand than there actually is. Overstating the ending inventory will have the same net effect as if the thefts had never occurred and the stolen inventory was still on-hand.

- **Physical Inventory And Pour Cost Analysis** — Conducting a physical inventory on a regular basis is essential to your anti-theft efforts. The end result of the inventory process is the operation's cost percentage for each of the operation's inventories and for the beverage operation as a whole. The bar's liquor pour cost, for instance, is adversely effected by each overpour, free drink or unrecorded sale. It is responsive to any depletion of inventory without a corresponding sale. If pour cost rises, one plausible explanation is employee theft.
- **Bartender Productivity** — If a bartender's sales per hour are consistently lower than the staff average, one explanation could be that he or she may be stealing unrecorded sales or giving away free drinks. There are several scams that won't affect the bar's pour cost percentages but will adversely impact productivity. Monitoring productivity and pour cost is an effective combination in spotting signs of internal theft.
- **Perpetual Inventory System** — The perpetual inventory system tracks the changes in the liquor room inventory. You can continually monitor against internal theft by comparing the last entry on a product's perpetual inventory sheet with the actual number of bottles on-hand in the liquor room. The more inventory you store in the liquor room, the more reasons you have to implement a perpetual system.
- **Bar Par Readings** — The operation's bar par sheets will detail how many bottles of each product should be stocked behind the bar at any one point in time. Bartenders should be required to conduct a bar par reading prior to opening and again at closing. Any discrepancy in the bar par should be investigated immediately as it may indicate that a full bottle of liquor has been stolen from behind the bar.

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