# THE RESTAURANT FRAUD REPORT:

## TYPES OF FRAUD AND HOW TO PREVENT THEM

pilot
SOFTWARE

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# ABOUT THE AUTHOR:
## GLENN MILLER

Glenn Miller is the owner and managing director of Pilot Software – one of South Africa's leading point of sale companies. With over 14 years' experience in the point of sale (PoS) industry, Glenn knows the benefits that an effective and intuitive system can have for establishments of any type or size. The Pilot team shares in Glenn's belief of simplification and optimisation of both work and play through the power of technology.

Glenn has extensive experience in systems consulting and development and has overseen the implementation of internal software solutions that improve the management of customer relations and internal work processes.

Pilot is a future-facing PoS solutions provider with clients beyond South African borders. Pilot has partnered with some of the country's leading companies in the hospitality industry, and has played a crucial role in helping their clients achieve ongoing success. Pilot knows that its own success is very much reliant on that of their clients and partners – a winning recipe to help ensure longevity in the marketplace.

> "Pilot is a future-facing PoS solutions provider with clients beyond South African borders."

# FRAUD WITHIN THE
## RESTAURANT INDUSTRY

You may think those in the restaurant and hospitality industry aren't really susceptible to fraud, however your restaurant is at greater risk than you think. From credit card scams like the recent Wendy's data breach that affected more than 1 000 stores, to supplier fraud caused by external parties, there are many kinds of fraud your restaurant can fall victim to. **According to statistics by the National Restaurant Association, the staff turnover rate in this sector is 62.6% – meaning that even your employees are a risk to your restaurant.** They can easily get themselves ahead by abusing the PoS or with buddy clocking before they move onto the next establishment.

The damage done by these different types of fraud is often far-reaching and can result in serious financial and irreparable reputational damage. It is for this reason that restaurateurs should heed the age old adage of prevention is better than cure. Not only is it easier to avoid fraud in your restaurant, it is also less expensive than repairing the potential damage that can be done.

" **Credit card scams have affected more than 100 stores.** "

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# FRAUD RISKS TO RESTAURANTS AND
## HOW POS CAN PREVENT THEM

Before you can implement the necessary steps to combat fraud, you first need to be able to identify the different kinds of fraud that pose a threat to your restaurant and what the signs of each kind are.

# THEFT OF INVENTORY

It is very common for employees to steal valuable food and beverage items such as prime steaks or expensive bottles of liquor. While they can steal directly from the inventory, vendor collusion is more prevalent. This is where internal parties coordinate theft along with vendors and agree to short shipments or delivery of lower quality inventory items after which they provide kick-backs to the staff who arrange the ordering or inventory tracking process. The theft of food and beverage items also include employees providing free meals to their family and friends as well as when they themselves take advantage of staff meals.

## HOW POS CAN HELP

Sophisticated PoS systems ensure that both recipe and item costings are monitored, and can report on theoretical vs actual stock usage. In addition, prep counts mean all fast moving or high value items are reconciled daily vs sales, and that exceptions are reported.

# SKIMMING

Wherever transactions are made in cash, there is an opportunity for skimming to occur. Skimming is where employees take extra money from bills paid, charge patrons for meals or beverages without ringing up the sale then taking the money, or when they pocket the contents of a bill folder and claim the customers left without paying their bill. This category of fraud also includes reselling food orders where an order gets placed twice yet the restaurant only receives payment for one of these orders because the employee keeps the payment of the other order.

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# CREDIT CARD/
# IDENTITY FRAUD

Perhaps the most feared type of fraud across the globe, credit card and identity fraud can have devastating repercussions. Unfortunately, as the digital age has advanced fraud prevention methods, the modern day scammer has also grown more tech-savvy. These identity thieves obtain personal information of individuals such as your credit card number or home address and ID number. They then use this information to either make purchases and get cash advances with said credit card details, or apply for new credit cards with the personal information they stole. In this instance there are two kinds of victims: the person whose information was stolen and the establishment that accepts fraudulent credit card payments. When this damage is eventually rectified, it is a long and drawn out process which usually ends up with the fraudulent credit card purchases being charged to the merchants who accepted these cards in the first place.

## HOW POS CAN HELP

Mobile payments obviate the need to hand over a credit card and use secure tokens to verify payment. In addition, where credit card terminals are integrated at PoS, only real PoS transactions can be displayed and paid on the credit card terminal. So there's no chance of skimming or double swipes. In South Africa strict EMV compliance legislation means local PoS systems may not, by law, store any credit card details.

# BUDDY CLOCKING

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> " These identity thieves obtain personal information of individuals. "

# HOW POS CAN HELP

By utilising integrated time and attendance at the PoS, existing biometric readers can identify staff clock-in. In addition, schedules can be set to disallow early log-in or late log-off, reducing fraudulent overtime claims. Furthermore, absent owners can be notified via SMS should staff not arrive on time. In the best systems, time records can be integrated to the payroll system, meaning no duplication of record capturing.

# ABUSING THE POS

As employees learn how systems work, they also figure out ways to leverage these systems to their advantage. Theft at the PoS can occur in a variety of ways, such as taking cash from the register, using a manager's pin to void items that have been paid for, or improperly ringing up items. Bar staff may charge patrons for premium drinks yet serve them standard liquor and pocket the difference while servers take advantage of loyalty programs or discounts to still charge full price and keep the discounted amount.

## HOW POS CAN HELP

Daily cashup and float monitoring, biometric identification and authentication, setting relevant security levels, and performing daily high-value prep counts will resolve most theft attempts. More advanced online loyalty programs will alert owners and senior managers of suspected fraudulent activity, and 'ghost' loyalty members can be blacklisted easily.

# POS DATA BREACHES

Another kind of restaurant fraud that strikes fear into the hearts of restaurateurs is PoS data breaches and, given the far-reaching consequences discussed under credit card and identity theft, this is understandable. Despite ransomware and sophisticated phishing attacks dominating cyber security-related threats, having your PoS systems affected by malware and your customers' information compromised is still a very real threat in the restaurant and hospitality industry.

## HOW POS CAN HELP

Ensure your PoS system uses only recognised, stable and secure database platforms, such as Microsoft SQL. No flat-file, DOS-based or proprietary databases should be used. In addition, ensure that database access is locked and restricted to only those applications that can communicate via the vendor's Applications Programing Interface (API). Be wary of vendors who cannot lock or restrict database access – without this, even your tech-savvy staff will have access to your transactional data.

# PILOT POS:
## A VALUABLE WEAPON IN THE FIGHT AGAINST FRAUD

Since its introduction, point of sale systems have innovated the way restaurants operate, from automating orders right through to helping you implement effective inventory control. What most restaurant owners don't know, however, is that these same PoS systems are also your biggest and most valuable weapon to combat fraud.

While a weak PoS system could leave you vulnerable or more susceptible to several kinds of restaurant fraud, the right PoS will be able to make your establishment more resilient to fraud and even help you avoid it while simultaneously streamlining operations and boosting overall efficiency. At Pilot, we have more than 25 years' experience in the restaurant and hospitality industry and we consistently invest in research and development, ensuring that we are at the forefront of technology in bringing our clients a comprehensive, optimised point of sale solution.

Our PoS systems can help your restaurant steer clear of inventory theft by assisting you exercise thorough and accurate inventory control and giving you a holistic view of the establishment. According to research, employers can save up to 10% of their gross annual payroll expenses by eliminating buddy clocking, and Pilot's intelligent biometric readers help you to do this, while also significantly decreasing the likelihood of employees abusing the PoS.

In addition, our systems collect valuable data which is presented in easy-to-understand reports that help you not only gain a better understanding of your financial operations, but also identify PoS abuse by monitoring your profit margins and identifying where sales don't correlate. We also keep your proprietary information safe with the help of IronTree so there really is no reason for you not to use the most intelligent restaurant software available. Contact us for a free quote or demo today.

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