

CASH AND CREDIT CONTROL

Objectives of this lesson: *After completion of this lesson, the learner will be able to:*

- ✓ Explain the **various ways of obtaining effective control in general.**
- ✓ Explain the **importance** of maintaining credit control for the hotel.
- ✓ Explain the importance of setting a **credit policy by the hotel.**
- ✓ Explain the various **methods of ensuring credit control** that can be employed by hotels- at the different stages of the guest cycle.
- ✓ Explain the different **means of preventing occurrence of skippers and walk outs.**
- ✓ Explain the various **methods** that can be employed to ensure **cash control.**

Any hotel business will be handling cash and credit transactions that will involve some element of risk. It is important that some effective measures of control be devised and implemented in order that the risk is reduced or eliminated completely and the hotel is able to operate as a profitable venture.

In general, **control** can be managed thus:

1. **Organisation:** the **organisation charts** devised and circulated by the management give a clear picture to employees about the various levels of operation in the organisation. They help in knowing and understanding the reporting patterns and the responsibilities of each employee, whichever level **they are placed at.**
2. **Responsibilities:** **job** descriptions also help as control measures as they clearly inform the staff of their responsibilities in a particular job designation. They clarify the limits of their responsibilities and the scope of their authority, the staff they report to or supervise, and ensuring that there is no overlap of duties and the resulting confusion is avoided.
3. **Supervision:** **good supervision** results in reduction in mistakes and avoidance of shortcuts often taken by employees to reduce time and effort and which results in grave and serious mistakes that cost the hotel dearly.
4. **Security measures:** **physical security** of the premises also helps in avoiding losses to the hotel. Safety and security equipment, personnel and procedures need to be carefully planned and implemented- safe deposit lockers, key handling, use of cctvs, designing of the public spaces, etc.
5. **Procedures:** all **procedures** for handling cash and credit situations should be clear cut and communicated to the relevant levels of employees. Comprehension, training and follow up should be the main consideration.

CREDIT CONTROL

A guest room is the most **perishable** article sold in any type of business. The income from today's vacant room is lost forever. Often a hotel must accept business, whether for a guestroom or a banquet even though it may involve a credit risk. Credit limits depend on the operation, the level of charges and the type of guest.

The increased use of credit, the longer time taken by guests to pay their bills and the cash requirements of the operation also contribute to the greater stringency of the credit procedures now in effect in most hotels.

WHY IS CREDIT CONTROL NECESSARY?

Hotels need to have a healthy cash flow in order to survive and succeed and they try to achieve this by exercising control over the credit given to guests. To achieve a balance between the needs and convenience of the hotel guest (credit facilities) and the needs of the hotel (cash flow), every organisation will need to have an effective credit policy in place.

FUNCTIONS OF THE CREDIT DEPARTMENT

Credit control refers to the various measures taken by a hotel to ensure that guests settle their accounts in full at an agreed time. Controlling credit is the responsibility of the credit department. In larger hotels, the credit department consists of a credit manager, a secretary and a few assistants. They are members of the accounting department and the credit manager reports directly to the Controller.

The credit dept. has **two primary functions**:

- **To investigate the financial standing of and approve limits of credit for each prospective client; and**
- **To try to collect the amount due** if the customer fails to live up to the terms established for payment of the account.

Individual credit limits are impossible to establish, so an attempt must be made to control credit while charges are accumulating, with no idea as to what the final total will be. Bad debts can be prevented or kept within reasonable limits, only while the guest is still in the hotel; after check out, it is too late.

CREDIT POLICY OF A HOTEL

Elements of a credit policy:

- A hotel chain's general credit policy rules may be interpreted, changed, or modified by the management to fit their own particular hotel.
- A **credit policy** must take into account the marketing objectives of the organisation. A liberal policy tends to expand the market, but it entails a certain amount of risk. The tighter the policy, the more restricted the market. A new hotel has a greater need to solicit and attract business than does a well-established hotel, which can depend on its reputation to attract new guests and repeat business from former guests.
- **In-house guests** are those who occupy sleeping rooms; **non-guests** are those who do not occupy rooms but who use one or more of the hotel's other facilities-banquet rooms, restaurants, bars, etc.
- **Credit privileges** extended to in-house guests are for room charges, food, beverages, laundry, telephone services, entertainment, and cash.
- Since hotels normally allow guests to charge their hotel expenses to their room account, they have to make certain that the guests are able to pay their bills in full before they extend credit.
- The **credit limit or house limit** refers to the maximum level to which a guest's bill can amount before some form of settlement is required. These limits vary according to the guest's reservation status and method of payment.

Policy for establishing in-house credit:

To minimise bad debts it is important to establish clear guidelines for operation of in-house credit provisions. These guidelines should cover:

- a. Who is going to be provided with credit?
- b. What references or security is required before extending credit facilities?
- c. What are the credit limits for individual debtors and within what time span will they be allowed to pay?
- d. What processes are going to be undertaken in the event of default?
- e. Establishment of a credit sales journal, and debtors' contract accounts should be maintained up-to-date and regularly reconciled by preparing and aged listing for further review and action.

In general, hotels tend to **allow credit to three types of guests:**

- Those who have guaranteed bookings
 - Those whose accounts will be settled by their companies
 - Those who will settle their accounts by credit or charge cards.
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- **Guests with guaranteed bookings:** Most guests give credit to guests with guaranteed bookings on credit cards or advance deposits. On the other hand, walk-in guests and guests with non-guaranteed bookings are usually not given any credit if they settle their bills by cash or cheque. These guests are usually required to prepay their room rate, together with a deposit for incidental expenses, at check in.
 - **Settlement by corporate accounts:** When a company wishes to have credit facilities at a particular hotel, the hotel will have to check to ensure that the company is solvent and able to pay their bills. If the company's bank gives a favourable reference, it is approved to receive services on credit. The list of approved companies is circulated to the reservations, reception and sales office so that all concerned departments are aware which companies are entitled to credits at the hotel and the different credit limits applicable to them.
 - **Accounts settled by credit or charge card:** The types of credit cards or charge cards accepted by the hotel vary. Reasons for this may be the popularity or otherwise of the card, the fee the hotel pays on accepting a particular charge or credit card and the time period taken by the company to settle the account. Signs may be displayed at the front desk showing which credit card or charge cards are accepted by the hotel. Also, the different companies may agree for different floor limits and the staff must be aware of these.

OBJECTIVES OF CREDIT CONTROL MEASURES

The main **objectives** are:

- **To prevent walkouts or skippers.** This includes guests who forget to check out or think that the billing will be done to their credit card accounts or their company.
- **To prevent late settlement of accounts.** Accounts that have not been paid within a certain time period must be followed up.
- **To avoid guests dissatisfaction.** Guests feel embarrassed and annoyed if they discover, at check out, that their credit card is not being accepted by the hotel, refusal by the hotel to accept certain foreign currency or their account being over the hotel's house limit or the floor limit authorized by the credit card company.

Common causes for these problems may include:

- **Unclear instructions** to the guest at check-in (not informing the guest which credit card or foreign currency is or is not acceptable)
- **Lack of communication** between departments (the credit manager not notifying the cashier when a guest's account is over the hotel's credit limit)
- **Breakdown** in front office procedures (the front desk or reservations clerk not checking the blacklist for previous skippers)

These can be **solved by**:

- Give the guest **clear instructions** at check-in regarding account settlement.
- **Notify the guest** when their account has reached the hotel's credit limit.
- Provide **a list of previous skips** to all relevant departments.
- Ensure **good coordination and communication** between all departments in matters relating to guest charges.
- Ensure that guests with company accounts have been notified that the account has to be **verified** and signed before check out.

CREDIT CONTROL MEASURES DURING THE STAGES OF THE GUEST CYCLE

I. CREDIT CONTROL MEASURES AT RESERVATIONS

- **Check the type of reservation**----- guaranteed bookings are allowed credit; non-guaranteed have restricted credit.
- **Inform guests with non-guaranteed bookings that they are required to pre-pay at check in.**
- **Ensure that correct room rate is quoted**----- to prevent any revenue loss to the hotel in quoting a lower rate and to prevent later disputes.
- **Request prepayments for group bookings or special packages and inform guests of cancellation terms and charges**----to avoid loss of revenue in the event of cancellation and to guarantee group bookings.
- **Check the method of settlement**-----to avoid misunderstandings and ensure the guests will pay cancellation charges.
- **Check the corporate account details for those whose company settles their account**----only companies on the approved companies list are to be allowed credit.

II. CREDIT CONTROL MEASURES AT CHECK-IN

- Check **reservation status**: collect pre-payments from walk-ins and non-guaranteed bookings
- Check **type of accounts**:
 1. **Travel agent voucher**- ask for voucher and check what charges are covered. Check with guest for method of settlement of incidental charges.
 2. **Tour groups** - check with tour leader about the billing arrangements (say, master account to the travel agent and incidentals to the tour members)
 3. **Corporate accounts** - check whether the full account is to be settled by the company. If not, agree with the guest on the methods of settlement for incidentals. Inform the guest that he needs to sign the bill at departure.

➤ Check **methods of settlements:**

1. For cash settlement, record the room rate on the registration card and key card, and remind the guest of the room rates; inform the guest of house policy on house limits.
2. For charge or credit card settlement, check that the card is accepted by the hotel. Take an imprint of the card to check the validity of the card; to seek authorization, to guide against walkouts.

II. CREDIT CONTROL MEASURES DURING OCCUPANCY

Most transactions between a guest and a hotel take place during a guest's occupancy. So, during this phase of a guest's stay the hotel needs to monitor the credit given to guests closely.

- ✓ Bills with **high balances** are **monitored** closely.
- ✓ The cashier will monitor all the bill totals **against** the hotel's set **credit limit**.
- ✓ Each day a **high balance report** will be produced which lists all the accounts whose totals are near to or in excess of the limit.
- ✓ The front office cashier, **night auditor or the credit manager** is usually responsible for handling accounts with high balances.
- ✓ The guests will be asked to **settle their account to date**, and a **fresh account** will be started for the rest of the stay.
- ✓ The credit manager will send the bill together with an accompanying **letter** to the guest room, **asking the guest to settle the account with the cashier**.
- ✓ If guests fail to do the needful, their room will be **double-locked** and now, the guests will have to contact the manager before they can access their room.

CREDIT CONTROL MEASURES BY OTHER POS during occupancy

When a guest wishes to charge his purchase of goods or services to his room number at any POS the staff there must check his credit status carefully. They must check that:

- The guest is a **resident** and or has an **account** at the hotel
- The guest is **allowed to charge services** to their account
- A **walk-in** may not be allowed to charge services to their account and so will have to settle the incidentals by cash or credit at the sales outlet.
- If the guest is part of a tour, their package may allow a meal in the hotel but only up to a certain value. Any **excess on the bill** must be settled at the POS.
- Often the front office will issue these group guests with **vouchers**, which the guest will hand to the restaurant captain upon entering the restaurant.

Advantages of a PMS in controlling credit:

- Computers can automatically **monitor bill** totals and produce **high balance reports**, thereby **notifying** the cashier when to seek higher approval on credit cards.
- The computer can also **be programmed to prevent** charges from being added from other departments when the guest is not allowed credit.

IV. CREDIT CONTROL MEASURES AT CHECKOUT

This is the last time that the guest will be physically accessible to the hotel and great care should be taken during the checkout time. All procedures should be carefully followed up according to the profile or status of the guest. The key to guest satisfaction and hotel profitability is **consistency**. Irrespective of the guest in front, the front office must **follow all the required procedures (SOPs)** in detail (for every type and method of settlement allowed by the hotel-cash payments, credit card settlements, etc.) and in the manner informed during training. Hurried shortcuts to save time or please the guest usually result in losses. *Obviously, the steps taken at registration will help in reducing mistakes and misunderstandings now.*

- a. **Cash payments:** confirm the currency and amount taken from the guest and ensure accuracy of conversion of foreign currency. Always hand over the required receipt and take guest signatures on the guest bill and encashment certificates.
- b. **Credit card payment:** ensure all the precautions that need to be taken- signature matching, expiry dates, authorisation, etc. give a copy of the signed voucher to guest and retain one copy for the hotel.
- c. **Travel agent vouchers:** ensure that the guest pays for his incidental folio in the manner confirmed at registration. He need not sign the bill as that is to be paid by the travel agent.
- d. **Direct billing/corporate account:** ensure that the guest settles the incidental folio in the manner confirmed at registration. Ensure his signature on the bill that is required by his company.

Always confirm with the guest about any **recent charges** he may have incurred that may not have been posted to his folio. This avoids the occurrence of **late charges** that will need to be followed up later by Accounts and possible losses later on.

Also, the return of the room key and any safe deposit or other facilities he may have availed during his stay must be confirmed.

V. CREDIT CONTROL MEASURES AFTER GUEST DEPARTURE

- ✓ After the guest checks out, all guest accounts that are not settled by cash will be transferred to the **city ledger** held by the accounts department.
- ✓ At the end of each month, the accounts department will **send statements** of these accounts to the companies for settlement and payment is usually expected within 30 days (**account aging**).
- ✓ However, some companies may be late in settling their accounts in which case follow-up measures will be needed to be taken to speed up the payment.
- ✓ The following could be done:
 1. After having failed to receive payment within 30 days, telephone the company as a reminder.
 2. After 45 days, write officially to the company, requesting immediate payment.
 3. After 60 days send a strongly worded letter. Possibly threaten legal action.
 4. If nothing has been received after 90 days, proceed with legal action through the company's solicitor. The bill may have to be written off as a bad debt.

Ideally, each guest's bill should be under constant surveillance by the credit dept. However, this is not always practicable and other departments are required to be aware of their role in helping in the control of losses to the hotel's revenue.

Some of the ways in which other departments can help the credit department succeed in its job of credit monitoring are given here:

Interdepartmental cooperation required for effective credit control in the hotel:

- ✓ **The bellboy** who rooms the guests should note on every rooming slip the number and condition of the bags such as poor or light luggage. If such comment appears, a member of the credit dept. can look into the matter more deeply.

- ✓ The **room-service cashiers** should immediately alert the credit dept. of any unusually large orders of food and beverages. The **room service waiter** should report **unusual activity** in a room- a large number of people, a party, many bottles of liquor not ordered from the hotel, etc. as well as unusually large tips. Skippers usually prefer room service to restaurants, order the finest food and beverages available and **are generous tippers!**

- ✓ **The maid** indicates the **status of the room** in her morning report, but should be trained to recognise and report any conditions that might indicate that the guest has departed without notice.
A favourite trick of skippers is to remove all personal toilet articles except perhaps a half-empty can of shaving cream or hair spray and to leave an old trouser or dress or an old bag in the room.
The maids report will not stop the skipper, but can help reduce the accumulation of additional charges and even the loss of revenue if the room could be re-rented that day.

- ✓ **Restaurant, nightclub and bar cashiers** should also alert credit personnel of any unusually large tips authorised by guests on their checks.

So, preventing skippers or walk-outs can be achieved thus:

A **skipper** costs the hotel money not only in room revenue but also in actual food and drink costs. Therefore, front office staff should take great care when dealing with newly arrived guests. It may be possible for staff to identify potential skippers by paying closer attention to the behaviour of guests.

1. **On arrival**---- the bell staff should check the number of bags and assess their weight. People intending to walk out often have very little luggage or carry empty suitcases that they leave behind.
2. **During the stay**----- extravagant purchasing patterns can be a feature of skippers so the cashier must monitor the guest's account carefully. Skippers are likely to order expensive meals and eat and drink from room service. Housekeeping can keep an eye open for rooms with little or no luggage and warn the front office to take timely steps.

3. **On the day of departure**---- the bell staff may contact a departing guest to request the time to collect the luggage and will keep the bags in store until the guest has paid their account. Some hotels have a system of luggage passes. When the guest has checked out with the cashier they are issued a receipt or luggage pass. The guest will then show the receipt to the porter who will release the luggage.
4. The most important aid to the credit manager is the **actual activity on a guest account**. **The front desk staff and the night auditors** are continually looking at guest folios. They are in the best positions to spot unusual activity, both in the number of charges and the amount involved.
5. If guests, immediately after arrival, start ordering from room service, incur charges in the restaurant or bars, send out clothes to the valet or laundry, they are suspect and someone in credit should be advised to review their bill. Of all charges, long distance calls are the only ones which may be used to trace a former guest when the hotel does not have a valid address.
6. The **night auditors** should be instructed to monitor the **high balance report**- a list of guest balances exceeding pre-determined limits- and ensure that copies go to the credit manager, front office manager and controller.

Credit-department billing procedures:

- ✓ Most policies require the credit manager or his staff to **review each day every guest bill** especially those listed for special attention, or for those accounts that exceed a specified amount or even those that have no charges other than room and tax (the guest may have checked out but for some reason the bill was not settled and the room continues to show occupancy even when, in fact, it is unoccupied).
- ✓ The policy should also specify the **number of days** the guest can remain as a resident before receiving a bill for all charges to date. Today, most guests are billed at end of each **seven-day period (guest weekly bill)**.
- ✓ The night auditor should bring the total balance forward to a new bill, and forward all copies, except the guest's, to Accounts.
- ✓ The guest copy is left for the credit manger who should review the account, and if it is a personal charge (bill paid by the guest himself), see that it is placed in the guest's box, and be responsible for following through for payment.
- ✓ If the account is to be charged to a company, the credit manager should determine the requirements for billing, and if they are in order, give the bill to the city ledger clerk with proper mailing instructions.

Group and convention billing:

- ✓ Every hotel, according to its needs, should establish a *credit policy* for **billing a company or corporation hosting banquet functions, etc.**
- ✓ Sales people make the contracts, sell and supervise the functions, and are usually the only people knowing details of the billing instructions.
- ✓ Therefore, management should require that **all billing instructions**, written or verbal, be immediately turned over **to the Controller**, who then issues the proper instructions to his staff. In fact, because the sales person may misunderstand the billing instructions, it is suggested that the **Controller meet with the group's representative**

to review the billing procedure personally, especially in the case of large companies and groups.

- ✓ Since group billing- the master bill as well as the individual member charges (incidental folio)- must be closely monitored and frequently reviewed, the billing instructions should be updated daily, if necessary, **while the guests are in residence**, rather than after the function is over or the group has checked out.

As can be seen from the above details, in a hotel, **credit control should be made every one's business**. Only then, can the hotel be assured of a profitable business and the assurance of a healthy cash movement for its operations.

CASH CONTROL

Many transactions in the hotel, both at the front desk and the other points-of-sale involve handling cash. This is a major function of the cashier and great care needs to be taken by management in ensuring that the cash is accurately and safely handled and deposited for safekeeping. The following measures may be used by the management to control cash on the premises:

1. **Training** all cashiers in the correct methods of cash handling.
2. **Implementation** of proper cash handling procedures.
3. Use of **cash vouchers** to support cash payments received.
4. Use of **paid out vouchers** for payments made on behalf of the guests.
5. The **use of correct procedures and formats for handling foreign currency**.
6. The use of a **cash bank** assigned to a cashier so he can handle various transactions that occur in a shift and its accountability lies with him alone.
7. The use of **cash drawer** that contains separate space for all denominations of currency handled, usually with clips to hold the notes in place. An orderly drawer avoids confusion in handling various denominations when dealing with the guest.
8. At shift end, the cashier returns the cash bank and places the balance of cash, cheques and other forms of payment in a cash deposit envelope, itemizing its contents, in the hotel **safe for depositing** in the bank (**cash drop with cashiers report**).
9. The **cashier's report and front office cash sheet** are daily cash control reports that list each receipt or disbursement of cash and the cashier's activity of cash and credit cards and machine totals by end of the cashier's shift.
 - ✓ The opening balance of the cash received on the second shift is the closing balance for the first shift.

- ✓ At the end of the second shift, the front desk cashier takes a closing reading to determine the amount of cash received.
 - ✓ This is the amount of money that the cashier is responsible for depositing. Each shift must fill out the cashier's report. This report is used with a mechanical posting machine.
10. Besides the above, **alertness of the cashier** when handling transactions and guests is very important. Noting and interpreting the body language of the guest in front can also help identify situations where greater care and check is needed, thus avoiding losses.
11. Careful **screening** of employees recruited for the cash or account handling activities or jobs would also enable the management in controlling losses due to careless or deliberate losses.

(In the next chapter of 'Night Audit we will discuss the importance of the night audit as a tool of control and the methods used by hotels to achieve this control)

Assignment:

- Q1. What can be done by hotel management to obtain control in hotel operations?
- Q2. Why is credit control necessary?
- Q3. What are two important functions of the Credit Department?
- Q4. What do you understand by "Credit Policy" of a hotel? Explain with examples.
- Q5. List the main advantages of credit control procedures employed by a hotel.
- Q6. What are the reasons for poor credit control in hotels and how can these be solved?
- Q7. What can be done to control credit at:
- a. Reservations
 - b. At registration
 - c. During in-house stage
 - d. At Check out
- Q8. Can the Front Office and Accounts alone ensure effective credit control to avoid hotel losses? Justify your answer.
- Q9. What can be done to prevent skippers and walk outs from causing loss to the hotel?
- Q10. Explain the steps taken to handle credit billing for conventions and group bookings.
- Q11. List the steps taken in the hotel to ensure safety and control of cash.