CREDIT CONTROL

In many hotels, guests are allowed to enjoy hotel services and facilities on credit. In other words, hotels will receive payment only on or after a guest's departure. In these cases, the hotels must take some measures to ensure that guests' accounts will be settled in full and at the agreed time. Otherwise a lot of revenue will be lost and cash flow problem will arise.

The Meaning of Credit Control

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 manager or clerk, who is a member of the accounts department. However, the process also necessitates that specific measures be taken by various departments of a hotel at different phases of the guest cycle. A credit manager cannot fulfill his or her role unless all hotel staff cooperate and perform their own credit control duties.

Why Credit Control is Necessary?

Hotels, like any other businesses, need to have a healthy cash flow in order to survive and succeed, and try to achieve this by exercising control over the credit given to guests. The cash flow of a hotel is the money which moves in and out of the business.

Objectives of Credit Control Measures:

The main objectives of credit control measures are:

- ***To prevent walk out (skips):*** Walk outs are guests who leave a hotel without settling their accounts. They include guests who deliberately intend to leave the hotel without paying their accounts as well as those who do not realize that they have to check out with the cashier. This is because they know that their companies have agreed to settle their accounts.
- ***To reduce the problems caused by walk-out guests*** as well as the lost revenue, they cause a great deal of inconvenience to a variety of people, such as the cashier, who will not have verification of bills, the housekeeper, who will not know the room status, the management, who may decide to instigate legal proceedings, and the police, who would have to alert other properties in their search for the guest.
- ***To prevent late settlement of accounts.*** Since most accounts are settled by the guests on departure, there are few problems of late settlement for these accounts. But corporate or travel agent accounts are sent to the companies or travel agents after the guests have departed. While hotels usually expect that a cheque for settlement should be received within 30 days, in some cases they may have to wait a long time before a cheque is actually received. In some instances the agent or company may go out of business before settling the invoice, in which case the hotel does not receive any payment.

  Delay in payments can cause cash flow problems for a hotel. When companies or travel agents take time to settle their accounts, the threat of a bad debt should be considered. Bad debts are incurred when a debtor (a person who owes the hotel money) does not settle the account. Therefore, the account has to be written off, resulting in lost revenue to the hotel. It is, therefore, important that the accountant carefully checks the debtor's collection period, and any accounts which have not been paid within a certain time period must be followed up.

- ***To avoid guests' dissatisfaction***. Guests feel embarrassed and annoyed if, on checking out, they discover that they cannot satisfactorily settle their accounts for reasons such as a credit card not being accepted by the hotel, possession of insufficient cash to pay at the account, refusal by the hotel to accept certain foreign currency, or their account balance being over the hotel's house limit. The credit card organization refuses to approve a charge if the guest has crossed the floor limit.

Many of the possible causes for skippers, late payments and guests' dissatisfaction when settling their accounts are the responsibility of the front office cashier and accounts department. Common causes for these problems may include:

- unclear instructions to the guest at check-in (e.g. not informing the guest which credit card or foreign currency is or is not acceptable.)
- lack of communication between departments (e.g. the credit manager not notifying the cashier when a guests' account is over the hotel's credit limit.)
- Breakdown in front office procedures (e.g. the front desk or reservations clerk not checking the blacklist for previous walk outs)

Various procedures are necessary to ensure that these problems are minimized, and can include the following;

- 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 on matters relating to guests' charges.
- Ensure that guests with company accounts have been notified that the account has to be verified and signed before check out.

Non settlement and delayed payment of accounts seriously hamper the cash flow of a hotel. However, most of these problems can be avoided or minimized if credit control policies are set up by a hotel, and if all the staff concerned takes great care in following credit control procedures.

Hotel Credit Control Policy:

Hotel will normally allow guests to charge their hotel expenses to their room account. To ensure that final settlement is paid, hotels must be certain that the guests are able to pay their bills in full before they are given credit. The credit limit (sometimes called the house limit) refers to the maximum level to which a guest's bill can amount before some form of settlement is required. Credit limits may vary, and often depend on the guest's reservation status and the method of payment.

In general, hotels tend to allow credit to three types of guest (although this depends very much on a hotels' policy):

- those who have guaranteed bookings with the hotel
- those whose accounts will be settled by their companies
- those who will settle their accounts by credit cards.

Guests with guaranteed bookings:

Most hotels give credit to guests who have guaranteed their bookings (either by a credit card or a deposit). These guests are allowed to enjoy the hotel facilities and services on credit, and to settle their accounts personally at check out.

On the other hand, walk in guests and guests with non-guaranteed bookings or late bookings are usually not given any credit if they settle their bills by cash. They are usually required to prepay their room rate, together with a deposit for incidental expenses, at check in. If a walk in guest pays an advance deposit or gives a credit card for imprint in order to cover accommodation and incidental expenses, then credit status may be allowed.

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, ie., that it is capable of paying its accounts. The hotel will need a reference from the company's bank; if the reference is favorable, the company is approved to receive services on credit. The company will then be listed on the list of credit approved companies prepared by the accounts department. This list will be distributed to the reservations department, reception and sales office so that other sections or departments can know clearly which companies are entitled to credits at the hotel. However, a hotel often approves different credit limits for different companies. For example:

- A large local firm which regularly reserves a large number of rooms at the hotel and which has a good record of settling bills promptly will have a high credit rating. It may be allowed to have a large balance outstanding on individual accounts and the company's total account before payment is asked for.
- A new company, a small company, or a company which has been late in settling its account may be given a low credit rating. The company will be required to settle the bill once the account has reached a certain limit.

Accounts Settled by Credit Card:

In most hotels, credit is also given to guests who settle their accounts by credit cards that are accepted by the hotel.

To ensure that guests and hotel personnel are aware of which credit cards can be used, signs are displayed at the front desk and relevant payment areas, showing which credit cards are acceptable. This policy can be emphasized to hotel personnel during training sessions and their induction programs, so as to ensure that guests are not embarrassed at check out. It is important that they and all hotel personnel are fully aware of which cards are accepted. Credit cards may have different floor limits agreed by the card issuing company.

Credit Control Measures During Occupancy:

Most transactions between a guest and a hotel take place during a guest's occupancy. Therefore, during this phase of a guest's stay the hotel needs to monitor the credit given to guests very closely. This is achieved by monitoring bills with *high balances.*

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 reception, 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 new account will be started for the rest of their stay. The credit manager will send the bill, together with an accompanying letter, to the guest's room, asking the guest to settle the account with the reception. If the guest has any queries about their account or the credit policy, the reception or the Assistant Manager should explain them to the guest.

Sometimes, guests may fail to call at the reception desk as requested. In this case, the Assistant Manager has to contact the guest personally. They may telephone the guest in their room, or contact them when they next collect their keys from the front desk. In serious cases, where the guest cannot be reached and has made no attempt to see management or the front desk staff, their room will be double-locked. This means that the guest has to contact the assistant manager before they can be let into their room.

Credit Control Measures By Other Sales Departments:

Whenever a guest wants to charge a service from a sales outlet to their account, the staff in that outlet must check the credit status of the guest 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.

Remember:

- A walk in may not be allowed to charge services to their account and consequently will have to settle the incidentals by cash or credit card 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 (e.g.$10.00). Any excess on the bill must be settled at the sales outlet. Often the front desk will issue these guests with vouchers, which the guest will hand to the restaurant captain or head waiter upon entering the hotel restaurant.

The Advantages of Using Computers:

Computerization speeds up the transfer of guest information and is useful, for the same reason, in transferring charge information from different departments. Computers, therefore, help to ensure that guests' accounts are always accurate and up to date.

A computerized accounting system is also useful 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.

Activity: Explain using a flow chart the various credit control measures at check out, and the reasons for such measures.

Credit Control Measures After Guest Departure:

Corporate accounts or travel agents' accounts are not settled at check out. Therefore, after a guests' departure these forms of account will be transferred to the city ledger held by the accounts department, which holds an individual account for each company. At the end of each month, the accounts department will send statements of these accounts to the companies for settlement. It is expected that payment will be made within 30 days.

However, some companies may be late in setting their accounts. In such cases, follow up measures need to be taken by the accounts department to speed up the payment. An example of the procedure is as follows, however, the time frame may be reduced in many hotels.

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 60days send a strongly worded letter. Possibly threaten legal action.
4. If nothing has been received after 90 days, proceed with legal action through the hotel's solicitor. At this point the hotel accountant may have to consider writing off the bill as a bad debt.

Preventing Walk Outs (Skips)

Because a walk out cost the hotel not only in lost revenue, but also in actual food and drink costs, much is done to prevent this type of occurrence. Front office staff should take great care when dealing with newly arrived guests. It may be possible for staff to identify potential walk outs by paying closer attention to the behavior of the guest, and to thus take measures to guard against them.

On Arrival:

When guests arrive, the bell staff should check the number of bags, and assess their weight. People who intend to walk out sometimes have very little luggage, or carry empty suitcases which they will leave behind in the room when they walk out.

During the stay

Extravagant purchasing patterns can be a feature of walk outs, so the cashier should monitor the guests' account carefully. A person who intends to walk out is more likely to order expensive meals, and eat and drink form room service. The hotel credit limit can be reached quickly.

On the day of departure:

The hall porter may contact a departing guest to request the time to collect the luggage. By doing this, the porter 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, knowing that the account has been settled, will release the luggage.

The Right of Lien:

On some occasions, a guest may be unable to pay the account, and in this case the hotel can exercise right of lien. The right of lien means that a hotel has the legal right to detain a guest's suitcase, and the belongings which they bring into the hotel, if they are unable to settle the account. However, the hotel is not allowed to keep the clothes which the guest is wearing.

If a guest cannot pay the account (e.g. if they have lost their travelers' cheques) then the hotel may keep some of the luggage as security until the account is settled. This means that the guest could leave he hotel to arrange finance and then return to pay the bill and have the luggage returned.

If the guest cannot pay the bill and the luggage has to be held, the hotel does have the right to sell that luggage to recover the debt. However, there are various conditions attached to the sale:

- The luggage or belongings must be held by the hotel for a t least six weeks and then sold by public auction.
- The sale must be advertised in the press.
- After the sale any surplus of cash (after deducting the amount of the guest's account) has to be returned to the guest.

CASH CONTROL

Internal Control:

• In the hotel industry, the main purpose of internal control is to:

- track transaction documentation,
- verify account entries and account balances, and
- to identify vulnerabilities in the accounting system.

The keyword to internal control is **auditing**, which is the process of verifying front office accounting records for accuracy and completeness.

• The front office is responsible for a variety of cash transactions which may affect both guest and non-guest accounts. Proper cash handling procedures and controls must be established, implemented and enforced. Below are some forms that are of extreme importance to internally control, one of the most vital assets in the hotel i.e. cash:

1- **Front office cash sheet:**

• The front office cash sheet lists each cash receipt or disbursement of cash. The information contained on a front office cash sheet is used to reconcile cash on hand at the end of a cashier's shift with the documented transaction that occurred during the same shift. The most common entry on a front office cash sheet is the money collected from departing guests during check-outs.

The front office cash sheet also provides space for itemizing cash disbursements. This may include paid outs or server's tips included in the total transaction charge by the guest.

Activity: Draw the format of a front office cash sheet

2- **Cash Bank, House Banks, Float, Imprest or Petty Cash**:

- Cash Bank is the amount of cash assigned to a cashier so that he/she can handle the various transactions that occur in a particular work shift.
- At the beginning of each shift, all cashiers must sign their cash banks and at the end of the shift, shall deposit all cash, checks, and other negotiable instruments in the general cashier's safe deposit box. Good control procedures require that only the person who signed for the bank have access to it during the shift. Moreover, at the end of each shift, cashiers should watch out for cash discrepancies (i.e. any difference between front office cash sheet and the actual amounts in their cash drawers). Cash discrepancies might have the form of **cash overages or shortages**.
- Lastly, cashiers might come up with the **net cash receipt**, which is:

Amount of all cash, cheques, and other negotiable instruments in cashier's drawer – amount of the initial cash bank

Net Cash Receipts are the amount of cash, cheques and other negotiable items in the cashier's drawer, minus the amount of the initial cash bank, plus the paid outs.

An **overage** occurs when, after the initial bank is removed, the total of the cash, cheques, negotiables and paid-outs in the cash drawer is greater than the net cash receipts.

A **shortage** occurs when the total of the contents of the drawer is less than the net cash receipts.

Neither an overage nor a shortage is typically considered “good” by front office management when evaluating the job performance of a front office cashiers.

A **due back** occurs when a cashier pays out more than what he or she receives, in other words, there is not enough cash in the drawer to restore the initial bank. Due backs do not reflect positively or negatively on the cashier’s job performance, and may occur when net cash receipts are in or out of balance.

Each cashier begins the shift of each day with an exact amount of bank and everything in excess of the bank is ***turned into*** the accounting office at the close of the day.

3- *Audit control:*

• Along with the fact that hotels might employ internal control auditors, at least once in a year, (especially for hotels traded in the stock market), they use the services of an external certified public accountants responsible for approving hotel's accounts.

VI- **Settlement of Accounts**:

• One of the responsibilities of front office agents is to settle guest accounts, which means the eventual collection of payment for outstanding account balances (i.e.: bringing account balances to zero). This is usually ensured either by full cash payment, transfer to an approved credit card, special program, or direct billing account.