The Skim Sisters

A Case Study of Occupational Fraud in the Hotel Industry

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I. **The Perpetrators**

From an early age, Ellen Lowry and Josephine Rodriguez were inseparable. Like sisters, these two childhood friends grew up just three doors down from one another in the suburbs of Atlanta, Georgia. Both were from middle-class families. Ellen’s father was a small business owner, her mother a teacher. Josephine’s mother passed away when she was very young. Her father spent most of his time working, often picking up graveyard shifts to make ends meet. As a result, Josephine spent many nights at the Lowry dinner table, even joining the Lowry family vacations on occasion.

When the time came, Ellen went off to college and Josephine entered the workforce. Despite their differing paths in life, they remained close. The two spoke often, double-dated, and even promised each other that their own children would grow up together, just as they had. After graduation, Ellen married her college sweetheart. Josephine was, of course, the maid of honor.

After Ellen settled down, the bond between her and Josephine strengthened. A few years later, when Josephine married, Ellen arranged for the reception to be held at the hotel where she managed front desk operations. Josephine felt indebted to her friend for arranging such a beautiful location for her wedding reception, complete with catering from the hotel restaurant. Ellen had been so supportive throughout Josephine’s life; she wished she could repay the favors.

Shortly after getting married, Josephine became pregnant. With a new family on the horizon, she scoured her local community for a better-paying job — one with the health benefits every future mother needs. She wasn’t surprised when Ellen stepped up to the plate and offered her a position as a housekeeper in the Atlanta hotel where she
worked. The job didn’t pay much above minimum wage, but offered advancement opportunities and great benefits, including health insurance. Ellen also promised her that she would have a job to return to after the baby was born. Josephine was grateful; Ellen had always been more like a sister than a friend.

Several months after starting to work with Ellen, Josephine gave birth. To show appreciation to her friend for years of kindness, she and her husband named their baby girl Ellen. Six weeks later, Josephine returned to work to find her previous supervisor, the Director of Housekeeping, had quit. Ellen was on the search for a new housekeeping director — one she could count on. She offered Josephine the job, which paid significantly more than her current wage.

Josephine was again extremely appreciative, but hesitant to accept a job with so much responsibility, especially with her new family. Nonetheless, Ellen convinced her to take the position.

“I’ll be here to support you,” Ellen promised. “Just like always.”

Even Josephine was shocked by her friend’s generosity with this gesture.

“Why would she entrust me with such a huge responsibility after only a few months of being on the job?” she wondered. But Josephine was eager to help Ellen in return for her generosity in the past. She would do anything she could to repay her. After all, that’s what sisters are for.

II. The Company

The Excelsior Inn, located in Atlanta, Georgia was your typical antebellum southern hotel. It had existed in one form or another since 1859. The clientele were upper-middle class travelers coming to and from Atlanta on vacation. The Excelsior
frequently had business clients as well. A modest sales and marketing department had opened in recent years to attract convention groups and wedding receptions. The new additions were such a hit with the wedding crowd that hotel management decided to construct a new 15,000 square foot convention and reception center in 1989 to host large events.

In 1994, the Excelsior went through a massive renovation and re-organization. The Inn was acquired by Premier Properties Limited, a hotel management company headquartered in Charleston, South Carolina. Construction crews spent months restoring the inn’s vaulted ceilings, floor-to-ceiling windows, restaurant, and 215 guest rooms. When construction and restoration was complete, the hotel had regained its illustrious splendor. Upon entering the hotel lobby, guests encountered large, round mahogany columns which rose elegantly from the travertine floor fifteen feet to support the ornate gold-leaf ceilings. Crown-molding, expensive wall papers, and designer carpets were installed throughout.

Guest rooms at the Excelsior were wonderfully appointed. Most featured luxurious bedding and expensive Egyptian-cotton linens. High-end bath soaps, shampoos, and lotions were provided free of charge. Business centers with computers and fax machines were installed throughout the property so business clients could work during their stay. The hotel restaurant provided a free sit-down breakfast to each guest, and offered a sumptuous menu for both lunch and dinner.

Premier Properties also brought an experienced hotel management and housekeeping team on board to take the new Excelsior to the peak of success. I was hired as Hotel General Manager in 1994 and oversaw the hiring of the remainder of the staff.
and subsequently the hotel’s renovation. To manage front desk operations, I hired a young and fresh hospitality management graduate from the area, Ellen Lowry. The hotel soon became even more popular among travelers to Atlanta. The Excelsior was even featured in a fifteen page spread in the travel magazine *Tourism Today* in the summer of 1995, just in time for the Summer Olympics held in Atlanta the next year.

By 1999, the Excelsior was posting record profits. Occupancy rates pre-renovation had approximated 53% per year. After the renovation and re-organization, the Excelsior had reached an astonishing 92% occupancy rate. At an average rate of $225 per night, the hotel was earning well over $16 million in revenues annually. Premier Properties was happy, I was happy, and our guests were happy.

I left the day to day operations of the hotel to my staff. I had the utmost trust and confidence in my team that everything would be handled while I attended primarily to sales and marketing for large groups. Premier Properties set an occupancy goal of 95% for the Excelsior by 2001. I was determined to hit the target. With such a great property and wonderful team on my side, I was sure it could be done.

### III. The Initial Discovery

As the Excelsior’s general manager, I had total responsibility for all hotel operations. Although the Excelsior was a well-oiled machine by the fall of 1999, I routinely spent one to two days a week in the office handling the usual guest complaints, staffing issues, and vendor calls. The remainder of my time was spent on marketing, sales, and the future growth of the Excelsior. Despite my erratic schedule, I always phoned my department heads each morning I was away for a status update. One Thursday
morning in October of 1999, I phoned the Excelsior’s front desk while I was traveling to a marketing opportunity.

My call was answered by one of my best desk agents, Edgar Riley, a young man who worked the morning shift so he could attend night classes at the local university. When I asked for Ellen Lowry, still the Front Desk Operations Manager, Edgar informed me she was out sick. Concerned about Ellen, I went on to inquire about the hotel’s status. Edgar informed me that a gentleman had been calling the front desk all morning demanding to speak to Ellen. He had been screaming something about his refund and demanding a call back from management. When Edgar had tried to access his records on the hotel computer, they were nowhere to be found. According to hotel records, the gentleman had never been an Excelsior guest.

I decided to return the call. Obviously the man had an issue that needed to be resolved. I had always striven to make guest satisfaction my highest priority. I took the gentleman’s name and number down and hung up with Edgar. I pulled over to a local gas station to refuel. Atlanta was very cold that October; it felt as if the frost would never melt from my windshield. I could still see my breath as I exhaled inside the car. The gas station attendant ran out and began to fill up my car. I picked up the phone and dialed the gentleman.

A sharp but soft-spoken voice answered and I identified myself as the Excelsior Inn’s general manager. “My front desk agent informs me that you had an issue with your recent stay at our Inn,” I said. I went on to ask, “Can you tell me about your experience?”
“Well,” the man began, “I checked in your hotel with that front desk manager, Ellen, paid her $760 cash for three nights, and didn’t see a housekeeper for two days! It was like I wasn’t even there!”

Disturbed that one of the Excelsior’s guests would go without important housekeeping service for over half of their stay, I inquired further. “Sir, did you inform the front desk of this issue,” I asked. “You bet I did — every day — but they kept saying they didn’t show me in the computer and would have the manager to call me back.”

“Did she?” I asked.

“Yea, finally. Then the housekeeping manager, Josephine, showed up and cleaned my room. I was promised some sort of refund that I haven’t received. I think I deserve at least partial compensation,” he said. I hung up with the gentleman, promising to get to the bottom of the situation and resolve his issues.

While the gas station attendant finished filling up my car, I made another call — this time, to cancel my marketing appointment. Several things about my discussion with the mystery guest just didn’t make sense. Why wasn’t he documented as a guest in the hotel computer? Why wasn’t his room cleaned until the third day of his stay? And why did the housekeeping manager clean his room herself? The housekeeping manager rarely cleaned rooms unless the department was extremely shorthanded, which hadn’t been the case at the Excelsior since I took over.

I drove back across town to the hotel. When I arrived I went straight to my office and began accessing the hotel’s accounting records. Indeed, records failed to show the gentleman as having been a guest of the Excelsior. Furthermore, the cash accounting
system showed no cash transactions taking place on the day in question. I was perplexed. Could this guy be crazy?

I almost abandoned the issue all together until I decided to look at the housekeeping records for the room. I accessed the hotel’s housekeeping system and discovered that one hundred and ninety-eight sets of linens and bath towels had been washed and signed out of the laundry for housekeeping’s daily rotation, thirteen by Josephine herself. But hotel accounting showed only one hundred and eighty-five suites had guests on the same day. Where could the additional linens have gone? Either laundry had made a mistake or there were additional guests which had not been accounted for. Either way, I was determined to get to the bottom of it.

IV. The Investigation

I have never been a person to start in the past and work my way forward. I knew that the best place to begin to understand this situation was to see if it was currently taking place. The quickest way to determine if the Excelsior had unregistered guests was to pull a list of vacant rooms per the hotel accounting records and personally inspect each room. From my tiny office on the Excelsior’s second floor, I accessed the hotel’s active inventory. From my terminal, I generated a report which listed each unoccupied unit.

Out of the two hundred and fifteen guest rooms at the Excelsior, one hundred and seventy-nine were listed as occupied that Thursday. Another five rooms had been taken out of service by the Inn’s maintenance staff, which was routine for carpet cleaning, painting, and other repairs, leaving thirty-one guest rooms vacant. I journeyed down the hallway from my office to the stairwell and then around a corner on the ground floor to the first room on my list: 106. I inserted my master key and opened the door. The room
was vacant. The bed was made. The carpet still had vacuum marks from the last
housekeeping service.

I moved on to the next room: 110. Same process, same result. I continued to
inspect all of the remaining vacant rooms with no sign of occupation. I wasn’t surprised;
my team was top-notch. Perhaps they had just made a mistake in the linen count that day.
I was sure now that the guest who had complained was just wrong. Maybe he had called
the wrong hotel, or perhaps he was trying to swindle the Excelsior. People tried that all
the time, calling up with crackpot complaints demanding a refund or cash payment.

“Yes, that’s it,” I thought. “This guy is lying and he’s trying to de-fraud the
hotel.” I couldn’t believe I had been duped by this person! How could I have cancelled
such an important marketing appointment to participate in some wild goose chase after a
guest that had never even stepped foot in the Excelsior? “Oh well,” I thought. I suppose it
was better to be safe than sorry.

“Maybe I can re-schedule my marketing meeting for this afternoon,” I pondered,
returning to my office. Rounding the corner from the second floor elevator bay, I spotted
Josephine Rodriguez, the Director of Housekeeping. She reached down to the bottom of
her service cart to retrieve a set of bed linens. Her vacuum cleaner was sat off to the side.
The vacuum’s cord was lying in a bundled mess on the floor, as if it had just been used. I
noticed the room number next to the open door: 218.

I thought quickly. I just knew I had seen 218 somewhere recently, “on a report
maybe?” I thought. I passed by Josephine and we exchanged the usual pleasantries. I
inquired as to why she was cleaning rooms that day.
“Are you shorthanded?” I asked. “Oh, yes sir, several girls have been out sick recently, and I’m picking up the extra slack,” She replied.

“Great work, Josephine! You’re a great team player.” I remarked. She was visibly nervous. I dismissed her behavior as simply a result of her demanding workload. I continued on to my office.

The bright, warm sun began peeking through my window which overlooked the hotel’s courtyard, gardens, and pool. These were the days I really enjoyed making sales calls, when the sky was clear and the sun was shining. I couldn’t wait to re-schedule my meeting and get out of the office, forgetting all this worry about someone stealing from the Excelsior. I sat down at my desk and reached for my Rolodex. The business card I needed was neatly tucked away there.

As I pulled the business card out with my right hand, I reached my left hand over to begin dialing the telephone. Just as I placed the phone receiver to my ear, I glanced down at my desktop. Directly in front of me was a maintenance request. In order to take a room out of active inventory, a maintenance request must be completed and submitted to the front desk for processing. The request form required several things, namely a valid reason, and two signatures from management.

This particular maintenance request was signed by Ellen Lowry and Josephine Rodriguez. The reason for taking the room out of service was “routine deep cleaning.” This was a common reason, actually. Deep cleaning usually included a carpet and bedding shampoo, fresh paint, and a service of the room’s air conditioner. Premier Properties required each room to undergo a deep cleaning annually. Because the
Excelsior’s inventory included over two hundred rooms, several rooms were out of service at any one time for deep cleaning.

Routine deep cleanings were always performed by an outside contractor hired by Premier Properties. None of the Excelsior’s staff were allowed to participate in the deep cleaning of any room. This was a way for the parent company to have an independent annual inspection of each unit to ensure the hotel was being properly maintained. The unusual thing about this particular maintenance request was that it was for room 218. And I had just seen Josephine Rodriguez, an Excelsior employee, working in 218.

The pieces were coming together. I stood up from my desk, walked towards my office door and exited into the second floor hallway. I stared down towards the end of the corridor, where I had seen Rodriguez cleaning room 218 just ten minutes earlier. My heart was racing; I suddenly realized I had walked right by and didn’t even notice what was happening. “How many times have I walked by and not noticed?” I wondered. Josephine was gone now. I walked down the hallway, towards 218. I approached the door and inserted my key.

A red light flashed, a sign my key wasn’t going to open the door. Only two things could prevent my key from working: either it had been deactivated by the front desk or someone in the room had locked the door from the inside. My key had worked just ten minutes earlier when I was inspecting rooms, leaving the obvious choice for why it suddenly stopped working. Someone was on the other side of the door, occupying room 218.
I knocked. No response. I knocked again, this time harder, louder and faster.

Someone shouted from behind the door. “Hold on a moment, I will be right there,” a female voice called out. I waited.

“Who is that?” I thought to myself. I heard the door latch swing back, the handle turn. The door opened in front of me. A tall, young woman in her early-thirties stood before me. I looked around her; a laptop sat on the bed and papers were strewn about the table and floor. The smell of fresh deodorizer emanated from the room.

“Excuse my interruption ma’am,” I said politely. “I am the hotel’s general manager and I’d like to personally inquire about how your stay has been so far.”

“Oh, just wonderful,” She exclaimed. “I have just been so pleased with the accommodations. I will definitely visit again when I return to Atlanta.” I began to inquire about the specifics of the young woman’s trip. She had checked into the Excelsior without a reservation on Monday evening, was staying for four nights, and had paid cash at check-in. Ellen Lowry had assisted her in the check-in process. Josephine Rodriguez had cleaned her room every day since she checked in.

I thanked the woman for her comments, apologized for interrupting her, and went on my way. I paid a visit to each of the four other rooms listed as out of service in the hotel accounting system. In each room, I found a guest or guests occupying them. In each case, I introduced myself as the hotel manager, gathered information about their stay, and thanked them for their patronage. I didn’t want to let on that my visit was anymore than a courtesy call.

My conversations with these guests had similar dialogue. Every guest had checked in over the past week with Ellen Lowry, and had paid cash at check-in. They
were each paying an average of $115 per night, about $100 less per night than the
Excelsior’s standard rates. Not only was the hotel being cheated on the revenue from the
skimmed cash, but these guests were getting great deals. I hypothesized that the
discounted price contributed to the slim likelihood for complaints for sub-par service in
the way of housekeeping and other typical guest amenities.

I now had enough information to report my concerns to Premier Properties and
await further guidance on the investigation. Within days, an internal audit team and fraud
investigator from the company’s home office reported to the Excelsior. Ironically, Ellen
escorted them to my office. The look on her face when I welcomed them said it all: time
to face the music.

V. The Outcome of the Investigation

Once the initial meeting with Premier’s auditors was complete, the team set out
to comb through the hotel’s accounting and housekeeping records. The goal of their
analysis was to uncover how the fraud had been perpetrated and approximately how
much had been compromised. Another goal was to estimate how deep inside the
organization the fraud extended. How much was lost? How many people were involved?
Who was involved? These were all questions the investigation attempted to uncover.

After the auditors’ first day at the Excelsior, Ellen and Josephine were aware their
scheme had been discovered. Nonetheless, the investigation continued as every hotel
employee was interviewed by investigators. Because evidence pointed to Ellen as the
lead fraudster in the scheme, Josephine was interviewed first. Shortly after the discussion
began, she broke down in tears and divulged the details of the plot.
Ellen had pressured her into going along with the scam. Josephine claimed to have been compensated an extra $100 a week in cash by Ellen to continue cleaning the unregistered rooms. Ellen used Josephine’s personal feelings of indebtedness for her wedding and job promotion to pressure her into assisting with the fraud. Josephine wanted to give her daughter the home she, herself, had always dreamed of as a child. She didn’t want to spend her nights away at work to provide for her family, as her father had done.

With Josephine’s signed confession in-hand and a mountain of evidence to support it, Ellen Lowry was called in for her interview. The interviewer from Premier confronted her with tough questions about the out of service rooms and unregistered guests.

“I don’t know anything about this!” she exclaimed.

When the interviewer provided a copy of Josephine’s signed confession, Ellen claimed she had been working undercover for the hotel, gathering evidence to support terminating Josephine for stealing. Of course, the evidence showed otherwise. Ellen ultimately admitted to the fraud and signed a confession of her own.

“I feel as if the world has been lifted off my shoulders,” she sighed.

Ellen Lowry provided investigators with a detailed journal she had maintained which accounted for almost every dollar of skimmed funds. For over a year, she had perpetrated a fraud, which began shortly before the Excelsior’s previous housekeeping director had been fired. According to her confession, the prior director had refused to go along with the scheme, which led Ellen to find an excuse to terminate her. When Josephine was hired as director by Ellen Lowry, all the pieces of her plot came together.
For fourteen months, Ellen had defrauded the Excelsior out of approximately $95,000 in revenue. To entice guests to pay cash for their stay, instead of the more popular credit card used by frequent travelers, she offered them a special discount. The substantial discount, almost 50% in most cases, resulted in more guests paying cash than would have usually, giving her even more opportunities to skim.

When the corporate office or I analyzed key front desk ratios as part of our internal controls, we noticed that the level of actual cash inflow at the front desk remained steady. Because sales for the Excelsior were rising so rapidly during that time, Ellen was able to combine her discount scheme with increasing business to defraud the hotel without raising suspicions. Because her theft was small at first, usually only one to two guests a week, she was able to fly under the radar.

In the end, Ellen just got greedy. When her fraud was uncovered, she was up to over ten guests a week. This number of rooms exceeded Josephine’s capacity to clean and service on her own. Ellen’s greed did her accomplice in. When Josephine was unable to keep up with all the unregistered rooms, guests started complaining. And they were complaining to more people than just the Skim Sisters.

Both women were terminated from their positions at the Excelsior and the fraud was turned over to legal counsel and ultimately the authorities. Before trial, Josephine cut a deal with the District Attorney. In exchange for no jail time, she testified against Ellen at her trial. Josephine served three years of probation and repaid over $10,000 in restitution to Premier Properties. Ellen was convicted and spent five years in state prison. She was also ordered to pay over $100,000 in fines and restitution.

VI. Lessons Learned
I learned a great deal about methods to prevent and/or detect fraudulent activities throughout the investigation. Most importantly, I now have a better understanding of the importance of employee background checks. During her trial, it was uncovered that Ellen had been terminated from a prior position with another hotel due to suspicions of fraud. This was a very important fact that, if I had known, would have prevented me from hiring her as the Excelsior front-desk manager.

I also realized that a significant number of frauds take place in environments where strong fiduciary relationships exist. As the Excelsior’s general manager, I was preoccupied with sales and marketing calls. Even though I spent two days a week in the office, I left the lion’s share of responsibilities for the hotel’s operation on Ellen’s shoulders. She was able to use, or misuse, my trust to perpetrate her fraud. The one or two days per week I spent in the office weren’t enough to address all the issues of a large hotel. Ellen knew that and used it to her advantage.

Properly implemented segregated duties are vital to prevent frauds of this kind from occurring. Because Ellen was managing the front desk, she had the responsibility of filling in when a clerk called in. This often left her working two shifts a day, five or more days a week. With that kind of exposure to incoming guests, she had ample opportunity to perpetrate and cover up her crime. Because only one clerk worked the front desk at a given time, Ellen had no other hotel employees to contend with.

Mandatory vacations and time off are essential to ensuring fraud is detected early. Ellen’s scam was uncovered when she was home sick; a rare occurrence given her dedication to working uncovered shifts. If she had been required to take vacation, or had
rotating days off each week, it would have been easier to detect her fraud. Employees should be required to take suitable time off.

After I contacted the corporate office to report my suspicions, I was advised to discuss my discoveries with no one. I later understood why this was important. Fraud investigators spent significant time in the Excelsior case to determine how and where Ellen was placing the skimmed cash. An analysis of bank records showed that she had set up a separate checking account at her bank where she was depositing the cash proceeds from her fraud. She was then transferring the cash to several investment and personal loan accounts she had opened.

If Ellen had been tipped off earlier in the investigation, she could have potentially moved the cash, making it difficult for investigators to track down. Luckily, she had only spent approximately half of her take. Premier was able to recover the remaining amount, in addition to Lowry’s restitution.

I also learned the importance of establishing a concern hotline for guests and employees. Unregistered guests who had complaints about their stay and service were reporting their concerns to the Excelsior’s front desk — in essence, to Ellen. If an outside line, a third-party concerns system, had been established, then perhaps the fraud could have been detected sooner.

**VII. Recommendations to Prevent Future Occurrences**

Based on the lessons we learned from Ellen and Josephine, the Excelsior changed their policies and procedures to include the following:

**Background Checks**
The Excelsior now conducts background screenings prior to hiring employees in sensitive positions. Even though the cost of these screenings can be prohibitive for some organizations, the potential savings in fraud and other losses is often more than enough to compensate.

**Segregation of Duties**

Effectively segregating certain duties among personnel is vital. Now at the Excelsior, two clerks always occupy the front desk. The desk clerks work on a rotating schedule, so the same two rarely work together twice in seven-day period. When a guest checks in and pays cash with one desk clerk, the other desk clerk must verify the cash amount received, as well. When each shift ends, both front desk clerks independently count the cash proceeds from their shift and deposit them in the hotel’s safe together.

Additionally, management at the Excelsior is now prohibited from working more than one shift per week in a fill-in capacity. First, any shift left open by a sick or vacationing employee must be offered to another existing front desk clerk before being taken on by management. In the event that a manager does have to fill in for a desk clerk, the general manager verifies all cash activity the following business day.

**Surveillance**

Premier Properties also invested in a small, in-house surveillance system for the Excelsior’s front desk area. This type of system is a must-have at many hotels to ensure any instances of robbery are caught on tape. Furthermore, the surveillance system, which was relatively inexpensive, monitors each guest as they check-in. The videotapes provide an independent resource for management to verify certain transactions, should the need arise.
Mandatory Vacation

It is essential that employees be required to take frequent time off and use their vacation time. The Excelsior now requires employees to take time off. A cross-training program has also begun where, for two weeks prior to taking vacation, an employee will train another hotel employee in their job responsibilities. Not only does this practice better prepare existing employees to take on other roles at the hotel, it also puts a fresh set of eyes on each position which contributes to fraud prevention and detection.

Hotlines

Every company should have a hotline number for employees or customers to report concerns. Since the Excelsior’s fraud, Premier Properties has contracted with an outside agency to provide employee and guest concern hotline services. All reports of fraud are forwarded to the corporate office, not the individual property, to ensure each report is appropriately investigated.

Other Measures

Premier Properties still requires the Excelsior to take each room out of service once during a twelve-month period for deep cleaning. Now, however, the corporate office reviews the Excelsior’s inventory records via a remote internet connection and selects the rooms that will be taken out of service and when. This level of independence regarding out of service rooms has helped to prevent a recurrence of the Skim Sisters fraud.

Hotels and other lodging establishments face unique risks regarding vacant inventory. Astute fraudsters realize that with hotels, there is no missing merchandise to count when theft has occurred. Therefore, it is incredibly easy to fill a vacant room, pocket the proceeds, and clean the room without being detected. Now at the Excelsior, a
manager independent of the front desk must personally inspect every room which is out of service for maintenance reasons. Additionally, a random sample of vacant rooms must also be inspected weekly.

The best recommendation for managers to prevent fraud in the future is to always be visible, attentive and involved. Businesses that have managers who espouse ethical behaviors throughout the organization will have less occurrences of fraud than organizations that do not have these individuals. Potential fraudsters are less inclined to act on fraud opportunities in organizations where management emphasizes and enforces ethical behavior standards both internally and externally.