

# **How the Hospitality Industry Can Automate Background Screening and Tax Credits to Reduce Risk and Increase Profitability**

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A growing willingness on the part of employers in the hospitality industry – lodging, food service, cruise lines, theme parks, casinos, and resort clubs<sup>1</sup> – to apply new technology to vital business processes for competitive advantage has changed the way an increasing number of these employers are managing their administrative functions. Automated tools enable better decision-making and more multitasking. For example, by introducing applied automation into the process of pre-employment screening and employee on-boarding, hospitality industry employers have a new, thorough, and efficient means to reduce risk by making better hires and to increase profits by screening for all employment tax credits for which they are eligible.

This white paper:

- 1) Explains how effective pre-employment background screening can help avert one of the most serious risks a hospitality business can face;
- 2) Relates how employers in the hospitality industry (one of the fastest growing segments of the U.S. service economy)<sup>2</sup> can add to profits with effective employment tax credit administration beginning with the on-boarding process;
- 3) Shows how employers in the hospitality industry can derive considerable benefits when both of these areas are transformed from manual, paper-based environments to a more functional environment by automated processes, tools, and methods; and
- 4) Helps readers to examine how his/her business can best realize the advantages of automated background screening and tax credit solutions – in-house or through a third-party provider.

Two of the most crucial metrics of business success for hospitality businesses involve *reducing risk* and *increasing profitability*. As a result, focusing on how to make better hires with the aid of automated background checks and how to add to profitability through the automation-assisted administration of employment tax credits have become major pathways to better performance.

The primary role of automation in any administrative process is to help you arrive at your desired goals faster than ever before and with a much higher degree of accuracy. It transforms an operating environment by utilizing technology to eliminate inconsistencies, helping companies do more work with less human intervention.

As automation consistently elevates repetitive tasks and processes to higher levels of efficiency and fulfillment, an automated hiring management system that incorporates background checking and employment tax credit screening offers higher tangible business value than a manual solution. For example, an extensive, computer-assisted, multiple-source check of *every candidate's* background demonstrates more extensive due diligence than merely picking up a telephone and calling a few references from each candidate's resume.

Just as important, by integrating employment-based tax credit screening into an automated on-boarding process, *all eligible employees* will begin to accumulate credits for their employer. Automation helps to ensure that no opportunity to secure a credit will be left behind.

⇒ *Why is background screening fast becoming a standard feature of the pre-employment process for employers in the U.S. hospitality industry?* One report from a notable consulting firm suggests that a number of factors are driving the trend, including “heightened safety, security, and legal concerns; a better awareness of the importance of screening and testing; and a general trend toward greater turnover (both of employees and customers).”<sup>3</sup> To better quantify the magnitude of the rise in candidate background screening, a leading service provider reports a nearly 20 percent increase last year in the number of

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<sup>1</sup> “Hospitality Industry Offers Huge Opportunities for Job Seekers,” Paul Adams, [www.sfgate.com](http://www.sfgate.com), Jan. 22, 2006.

<sup>2</sup> “High Growth Industry Profile,” U.S. Department of Labor, [www.doleta.gov](http://www.doleta.gov).

<sup>3</sup> “Background Screening,” KPMG Corporate Finance, Fall 2003.

background checks they conducted for employers.<sup>4</sup> Intensifying screening efforts in the hotel segment of the hospitality industry seems imperative, given that many employees have access to customer property in guest rooms, not to mention customer credit information at the front desk, food service, and other outlets.

- ⇒ *How are hospitality businesses currently capturing their share of employment tax credits?* The problem is many are not. According to one estimate, about half of all employment tax credits and related economic incentives are going uncollected or unclaimed annually.<sup>5</sup> One reason for this, as far as employment tax credits are concerned, is that many companies do not have a comprehensive, standard on-boarding procedure that enables them to identify, apply for, and manage the administration of tax credit opportunities. While some large hospitality industry employers may have this type of solution in place, many smaller ones do not.
- ⇒ *Are background screening and the administration of employer tax credits good candidates for business process automation?* Actually, the entire pre-employment process – from applicant tracking to screening and selection – is an excellent candidate for automation. One of the last bastions of paper forms and manual tasks, the hiring process can improve its productivity metrics – time-to-hire, cost-per-hire, among other things – by automating and integrating tasks and workflow. For the hospitality industry, we are talking serious money, when you consider the average cost-per-hire to replace one desk clerk is about \$5,900 (i.e., 30% of annual salary)<sup>6</sup> and the estimated employee turnover rate averages between about 80 and 95 percent.<sup>7</sup>
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## **Gaining Savings from Risk Aversion, and Profits from Tax Credits**

One way to examine the topic of automated business processes is from the perspective of money saved and profits earned.

### ***Risk Aversion Savings from Effective Background Screening***

Effective background screening helps you to *mitigate future liabilities* from expenses associated with: 1) a loss in productivity from a bad job fit, and 2) potential lawsuits and settlements to employees and others affected by the actions in the workplace of a bad hire.

The stakes concerning the latter are perilously high. “Workplace violence costs U.S. businesses about \$36 billion a year, including medical care, counseling, and lawsuits by victims, the survivors of victims, and employees who are traumatized by witnessing the violence.”<sup>8</sup>

### ***Increased Profit Potential from Employment Tax Credits***

Effective employment tax administration enables you to *add to profitability* by tapping into one or more of the 2,000-plus federal, state, and local tax credits that are on the books. Your company can benefit from these off-line sources of profitability simply because of your location, your industry, where your employees live, or other circumstances that have nothing to do with how well you sell your products or services.

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<sup>4</sup> “New Smart Hiring Technology Helps Employers Make Consistent and Informed Hiring Decisions...”ADP Employer Services, March 22, 2007.

<sup>5</sup> “Billion\$ of Opportunities Available Nationwide,” ADP Mintax, 2007.

<sup>6</sup> “Find Out Your Cost of Turnover,” *Cornell University Hotel School Research Review*, May 23, 2006.

<sup>7</sup> “Employee engagement is good for the bottom line,” Karen Renk, *HR Management*, 2007.

<sup>8</sup> “Violence and Harassment in the Workplace: What Every Company Should Know,” McClure Associates, Inc., 2007.

Consider some of the more prevalent federal credits<sup>9</sup> (per eligible employee):

- Work Opportunity Tax Credit (WOTC) – up to \$2,400 during the first year of employment
- Welfare-to-Work (WtW, now part of WOTC) – up to \$9,000 during the first two years of employment
- Federal Empowerment Zone (EZ) and Renewal Community Employment Credit (EZ/RC) – up to \$3,000

In addition, state-based incentive programs – for job creation, point-of-hire, and targeted economic development – may exceed \$20,000 per eligible employee.

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## Item #1: Reducing Business Risk with Comprehensive Background Checks

For any employer, risk aversion begins with the employees you hire. Good hires can be one of your best assets. Bad hires can be one of your worst liabilities.

Irrespective of hiring a person with less-than-required skills to effectively do the job, making a bad hire can be a downright dangerous proposition. For example, according to the U.S. Bureau of Labor Statistics, 10 percent of all fatal occupational injuries reported in 2005 were homicides<sup>10</sup> while OSHA reports, “some 2 million American workers are victims of workplace violence each year.”<sup>11</sup> The hospitality industry is not immune from workplace violence issues. Indeed, the 24-hour operation of many hospitality industry businesses – particularly hotels and around-the-clock food service establishments – seems to enhance the possibility that violence could occur.<sup>12</sup>

One national index that charts employment screening and hiring trends highlights several specific reasons why automated pre-employment checks are such a valuable tool to help recruiters and hiring managers avoid prospective bad hires.

The 2007 report found that in the hospitality industry:

- 52% of employment, education and/or credential reference checks performed revealed a difference in information between what the applicant provided and the source reported,
- 38% of driving record checks showed “one or more violations or convictions,” and
- 10% of checks revealed at least one previous workers’ compensation claim.<sup>13</sup>

Losses due to employee theft continue to pose a serious threat to the viability and profit potential of businesses across the country. According to one estimate, approximately one-third of employees have admitted to stealing a product or money from their employer within the last three years.<sup>14</sup> However, while hotel guests are potential victims of petty theft, they are also subject to a more intense negative experience – identity theft. According to a recent estimate, “75% of all ID theft is conducted by employees in the hotel industry.”<sup>15</sup>

Clearly, the case is strong for pre-employment background checks and the most efficient way to close any “leaks” in the background screening process caused by error-prone manual methods is automated solutions:

- 1) The speed and accuracy of automated solutions may help *lower the cost-per-hire*. Automated support systems are specifically designed to “touch all the bases” by including every step and task you need to cover before you make a hire. Features such as auto-populated forms, electronic tracking of applications, and file sharing lower the administrative costs associated with the hiring process. Proper screening of

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<sup>9</sup> House Resolutions 6111 and 6408, The United States Library of Congress, December 7, 2006.

<sup>10</sup> “Workplace Violence,” U.S. Bureau of Labor Statistics, [www.osha.gov](http://www.osha.gov).

<sup>11</sup> *OSHA Fact Sheet – Workplace Violence*, U.S. Department of Labor, OSHA, 2002.

<sup>12</sup> “Workplace Violence and Employer Liability,” Norman D. Bates, Esq., *Crime Victim*.

<sup>13</sup> “ADP Annual Screening Index,” ADP Employer Services Division, March 2007.

<sup>14</sup> “Pre-Employment Background Investigations: Due Diligence Based,” Alliance Worldwide Investigative Group, LLC, [www.allianceinvestigative.com](http://www.allianceinvestigative.com), September 2006.

<sup>15</sup> “How Secure Is Your Stored Data?” Bettina Marks, *Hotel Interactive*, February 9, 2006.

candidates can help to reduce future hard-dollar liabilities from employee theft, damages that result from false credentials, and violence in the workplace.

- 2) Automated solutions have the capacity to *interface with multiple databases*. This key feature, for example, can help an employer quickly and efficiently review an array of pertinent information about a candidate – not just rely on checking out references on a candidate’s resume. These “screens” should typically include:
    - a. Social Security Number (SSN) Validation – Was the number issued prior to a candidate’s date of birth? If so, it’s likely the number was that of a deceased person.
    - b. Address Verification – Checking a candidate’s county of residence allows you to compare residence information presented in a resume and helps you to build your criminal court record search.
    - c. Criminal Court Record – Search records in all U.S. counties as well as Canada.
    - d. Reference Check – Verifies the information on a candidate’s written or posted resume.
    - e. Credit Record – Check a candidate’s credit history with all three credit-reporting bureaus.
    - f. Driving Record – This is especially important if a candidate will be using a company vehicle as part of his/her job.
    - g. Workers’ Compensation Claims – Allows you to evaluate a candidate as permitted by law.
  - 3) Employers that leverage the benefits of automated tools to conduct due-diligent background checks are *less likely to be the victim of making a bad hire*. Automated results provide thorough snapshots of vital information. Collectively, automated tools enable the creation of an effective, consolidated body of knowledge regarding candidates that can be easily shared by multiple functions (HR, recruiters, legal, et.al.). This standardized approach helps to assure thorough vetting of all candidates, decreasing the risk that a bad hire will somehow be on-boarded.
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## Item #2: Adding to Profitability with Employment Tax Credits

### *What are employment tax credits?*

You can describe them as being equivalent to a payment toward what an employer owes a specific tax agency or jurisdiction. It is important not to confuse tax credits with tax *deductions*, which reduce a company’s taxable income and tax *liability*.

Federal, state, and local tax jurisdictions issue tax credits to employers for any number of reasons. Some of the most prevalent *federal* employment credits include: Work Opportunity Tax Credit (includes Welfare-to-Work), Empowerment Zone Employment Credit, and Renewal Community Employment Credit.

- ⇒ *Work Opportunity Tax Credit (WOTC)* – encourages employers to hire candidates from “targeted” groups including social assistance recipients, veterans, and qualified youth.
- ⇒ *Welfare-to-Work (WtW)* – now part of WOTC, provides employers with an incentive to hire extended-term family assistance recipients, and is a two-year credit that carries a value of up to \$9,000 per eligible employee.
- ⇒ *Federal Empowerment Zone (EZ) and Renewal Community Employment Credit (EZ/RC)* – provides businesses with an incentive to hire individuals who live and work within designated empowerment zones. There are currently over 80 such zones throughout the country. New, existing, or relocated businesses in an EZ/RC may claim a credit.

Hotels, resorts, restaurants, and other employers in the hospitality industry, are among the major beneficiaries of one or more of the above employment tax credits. The economic assistance helps them to boost their bottom lines with tax credits, enabling them to be more economically viable.

## ***How do you identify, apply for, and capture employment-based tax credits?***

There is a defined cycle for administering employment tax credits, which demands consistent management of an array of tasks.

The WOTC administrative cycle, for example, includes: 1) identifying the credits that are available to a business; 2) screening employees at the time of hire to determine if they are a member of an eligible target group; 3) completing and forwarding appropriate documentation to the tax jurisdiction that processes and approves the tax credit; and 4) obtaining certification so the tax credit can be legally claimed on a specific tax form. As is the case with most tax credit applications, it is the responsibility of the employer to file the necessary forms within given time frames.

The key WOTC filing document is Form 8850 of the Internal Revenue Service. Completing a Form 8850 for each new hire is an essential milestone toward tax credit certification. It is a formal request to a tax authority to certify an individual as a member of a targeted WOTC group.

However, if you think filing a tax credit application is all you need to do to secure a tax credit, you need to think again. *Filers have the responsibility to track every credit for which they apply, from filing to certification.* Without an official notice of certification from the government agency you have applied to, you cannot claim an employment tax credit.

While circumstances vary from employer to employer, all businesses share a common administrative burden when it comes to tax credits: keeping abreast of changes to applicable laws and regulations. Like many other rules and regulations established by government agencies, employment tax credits are the proverbial moving target, subject to renewal and amendment.<sup>16</sup>

Employers that have an automated solution in place to track their tax credit applications are far more likely to see results from their credit submissions than those that do not.

Central to any management solution are: 1) a database to identify available employment tax credits; 2) an automated process to track the progress of pending credits; and 3) a staff of professionals to make it all work. The question is: How many hospitality industry employers can afford the investment – and among those that can, does an increased investment in overhead, hardware, and software make good business sense?

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## **Is It More Beneficial to “Build” or “Buy” the Solution You Need?**

While more employers in the hospitality industry are recognizing that automation of the background screening process and administration of employment tax credits is a wise, strategic business decision, *how to access the benefits of automation* can be a real sticking point.

Before making a decision to manage an in-house system or use an outsourced solution, it is important to first review the strategic and day-to-day responsibilities of operating an automated pre-employment screening solution. General responsibilities might include:

- Who creates the solution? Who makes sure it works? Whom do you call if it doesn't?
- How do you deploy the solution?
- Who are the users of the solution? How do you train them? Do they need special security clearance?
- Who maintains the system and software? Who monitors the applicable laws and regulations, and any changes to them?
- Who is responsible for system and data security?
- Who shoulders the risk of technology changes?

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<sup>16</sup> “Congress’s Last Acts Include Tax Breaks,” *The Washington Post*, Jonathan Weisman and Stephen Barr, December 10, 2006.

- What safeguards must you put in place to secure candidate and employee data?
- What tax credits are available to your business? Who determines if you are eligible?
- Do you have a solution in place to administer employment tax credits for which your business is eligible?
- Are you screening *all* new hires? Do you conduct prescreening as part of the job application process?
- Who determines if an employee meets the eligibility requirements for a tax credit?
- Who completes and submits the IRS Form 8850? Who tracks each tax credit from screening and submission to certification? Who works to reverse improper denials by a tax agency?
- How do you build and update your database of tax credit information, and identify new tax credit opportunities in the coming year?

Review your responses to this sampling of questions, and then compare your preferences with the in-house ownership and outsourcing options outlined below.

### ***Build and Maintain an In-house Solution?***

Employers that insist on owning total control of a function are more likely to prefer an in-house solution. However, ownership is a sharp, two-edged sword that harbors not only considerable benefits but also significant risks.

With the *benefits* of utilizing your own systems, software, and people resources come the *risks* intrinsically associated with utilizing your own systems, software, and people resources. The challenges of ownership are daunting. Systems age and need to be replaced. Software may need to be updated to comply with changes in the marketplace and regulatory arena. People who develop, manage, maintain, and upgrade internal systems add to the expensive fixed burden of headcount. In addition, maintaining an up-to-date tax credit database is a huge undertaking that demands constant attention.

Perhaps the greatest risk associated with conducting background checks in-house is *the risk of omission*. What if you hire a person without a thorough and efficient review of qualifications and personal background? What if the person you hire then becomes a detriment in the workplace? What if your system, software, and staff do not remain up-to-date with compliance laws, rules, and regulations? The results can bring punitive government action and lawsuits from your other employees who were adversely affected in the workplace by a negligent hire. Out-of-court settlements are averaging \$500,000 while jury awards are averaging about \$3 million.<sup>17</sup>

### ***Or Do You Use a Solution from a Service Provider?***

Employers that prefer minimal investment in hardware, software, and staffing tend to be the best candidates for outsourcing. They want to purchase a *service* rather than a system to avoid maintenance, upgrading, and overhead costs. Many employers in the hospitality industry are among this group, because outsourcing helps to minimize operational and compliance burdens on small administrative staffs.

In most service arrangements, the burden of system ownership – system operation and security, technology changes, and compliance updates – belongs to the provider. The recipient of the service typically pays a monthly subscription or a per-candidate fee.

Web-based solutions also include a variation of outsourcing whereby the service provider “hosts” outsourced applications for its clients. Using the hosted model, clients access data from the service provider’s secured data facility. Hosting eliminates the need for client IT resources to support any aspect of the service provider’s applications.

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<sup>17</sup> “Workplace Violence: An Employer’s Guide,” Steve Kaufer, CPP and Jurg Mattman, CPP, Workplace Violence Research Institute, 2001.

ADP<sup>18</sup> is one of the market's major providers of hosted, outsourced pre-employment screening services, including candidate background checks and employment tax credit screening.

Candidate background screening can include validation of Social Security Numbers, criminal court searches, and reviews of driving records, credit reports, government registries, workers' compensation claims reports, and reference verifications. In the event a client decides to not hire a candidate based upon background screening results, ADP takes care of adverse action correspondence with the job candidate as specified by the Fair Credit Reporting Act.

(ADP's *Select 3.0* online ordering system provides a cost-effective process to conduct precise searches enabling employers to score and rate candidates according to their company hiring policy, helping to drive informed hiring decisions with the assurance that the online solution is more accurate and more compliant.)

ADP's automated solution to screen for employment-based tax credits also features increased accuracy and compliance. Utilizing intelligent screening tools to automatically track over 1,000 types of tax credits in its database, ADP offers clients several screening options available 24x7x365 to identify WOTC/WtW eligible employees – online, by phone, and by mail. The online method even prints out pre-populated forms that only require the signature of the eligible employee.

Whether the decision is to outsource or build a solution internally, by utilizing the power, flexibility, speed, and accuracy of automation to enhance candidate background screening and employment tax credit screening, hospitality industry employers not only can protect their bottom line – they can also add to it.

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## Is Your Business a Likely Candidate for an Automated Solution?

*Can I improve my business with an automated solution to manage background screening and employment tax credit administration?* If after reading this white paper you are still not sure, consider these specific follow-up questions:

- 1) Is my hiring process currently realizing the benefits of automation?
- 2) Am I confident that my business is not at risk because of negligent hiring?
- 3) Are we safe from suffering a serious workplace incident due to making a bad hire?
- 4) Has a past error in my background screening system put my business at risk?
- 5) Can I improve my average cost-per-hire?
- 6) Have I really had great success attracting, hiring, and retaining high-quality, productive employees?
- 7) Do I have a tax credit screening system that enables me to identify all eligible employment tax credits from federal, state, and local government agencies?

If you responded “no” to just one of these questions, your business might well be a candidate for a solution that automates background screening and employment tax credit screening. Responding “no” to more than one question increases the likelihood that your business can benefit from an automated solution.

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## Points to Consider

Here is a recap of key points that you should take away from reading this white paper:

- A) Business functions are migrating from manual, paper-based processes to automated solutions that increase the level of due diligence and eliminate inconsistencies associated with a high level of human intervention.

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<sup>18</sup> ADP provides market-leading payroll, HR, benefits administration, and other services to employers in the United States and globally.



- B) Heightened safety, security, and legal concerns are driving a strong trend toward pre-employment background screening for a wide range of businesses, including those in the hospitality industry.
- C) More than half of all employment tax credits go unclaimed or uncollected because employment tax credit administration is lacking at many companies.
- D) Over half of employment, education, and/or credential reference checks performed revealed a difference in information between what hospitality industry job applicants provided and the source reported.<sup>19</sup>
- E) Automated background screening enables employers to mitigate the risk of future liabilities due to productivity losses and lawsuit settlements resulting from bad hiring.
- F) Automated screening for employment tax credits helps companies identify eligible employees from among all new hires, adding to increased profitability from maximum allowable tax credits.
- G) Employers can choose to build and manage automated screening and administrative solutions internally, or purchase the solutions from a third-party service provider. Hospitality industry businesses frequently opt for third-party solutions, rather than build a solution themselves.
- H) The emergence of Web-based solutions hosted by service providers adds extensive value to an outsourcing option by virtually eliminating the cost of system ownership – from system operation and security to software and compliance upgrades, ongoing system maintenance, and management of the burden of technology changes.

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### **About ADP**

ADP has more than 50 years of experience providing employers with business solutions such as Payroll, HR and Benefits Administration. ADP solutions focus on making businesses more productive by reducing costs, increasing productivity, and most importantly, standing ready to grow with your business. With the widest range of powerful, cost-effective solutions, only ADP can offer your business the flexibility it demands to grow and prosper – whether you have one employee or hundreds of thousands. And you can count on ADP for unparalleled compliance support and the most qualified and accessible customer service in our industry.

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<sup>19</sup> “ADP Annual Screening Index,” ADP Employer Services Division, March 2007.