



## 'Tis the Season More Than Just Shoplifting



Article contributed by Bill Cafferty,  
Retail Loss Prevention Consultant

In last month's LP Corner article *'TIS THE SEASON—ALMOST*, we presented an overview of those policy, hardware and associate issues that should be addressed and functioning prior to the beginning of the holiday season in order to reduce your risk of increased shoplifting losses during this timeframe. Hopefully you beefed up your defenses, and now your team's increased awareness of the problem is paying dividends.

This article will discuss other risks that increase during and immediately following the Christmas holiday—primarily the increased potential for theft by associates *prior* to Christmas, the inevitable upsurge in refunds, and the increased risk of refund fraud *after* Christmas.

### ASSOCIATE THEFT—*TRUST BUT VERIFY*

Like customers, retail associates are suffering from the same negative effects of the economic morass our country is currently experiencing. The dollar doesn't stretch as far as it used to, but we don't want to disappoint the relatives and friends on our Christmas gift list.

Depending on the strength of an associate's moral character and integrity—coupled with the opportunities that present themselves during the performance of their duties—this is the time of year when certain associates who are basically honest will succumb to the temptation to get something for nothing and commit a dishonest act. These thefts can only occur, however, if there is no control in place, or an existing control is ignored.

Rather than attempt to address all of the scenarios and modus operandi associated with employee theft, we will concentrate on those two that are the most prevalent in Ace Hardware stores—*theft at the POS terminal and theft through an uncontrolled rear (or side) door. If you can get a handle on those two areas of loss, you will stop the majority of associate thefts.*

### POINT OF SALE:

(See article entitled "POS Controls" at <http://www.ancelossprevention.com>. Go to the PUBLICATIONS tab and click on LP ARTICLES.)

**Fact:** Fraudulent refunds are the #1 method of embezzlement at the POS. It is *imperative* that adequate controls are implemented—and enforced—to limit the capability of associates to independently process refunds (particularly cash refunds) above a reasonable dollar threshold, and when there is no receipt (regardless of the amount). The controls should not be limited to those based solely on a policy that a manager be called to approve them. Your controls should also include applicable Epicor options and security bits that DEMAND a manager is present and provide his/her override before the transaction can continue. It is also imperative that a detailed review of all refunds take place by the owner or a manager to confirm that store policies are being followed.

Reasonable controls include, but are not necessarily limited to, the following:

- Establishing one POS terminal for refunds and limiting the number of associates who have the authority to ring refunds (if feasible).
- Establishing a dollar threshold for manager override (we recommend \$25).

### Announcements & Upcoming Events

#### Retailer Team Meetings:

- Please contact us to be a guest presenter at your next retailer team meeting!

#### CONTACT US:

Phone:  
(630) 972-2670  
[www.ancelossprevention.com](http://www.ancelossprevention.com)



# 'Tis the Season

## More Than Just Shoplifting

- Enabling the *RETURNS VALIDATION* feature to assist in deterring fraudulent returns by dishonest customers. (See *DISHONEST ASSOCIATES* later in this article.)
- Recording the customer's name and telephone number (at a minimum) on a hard copy document (*Ace Merchandise Return* form or the Epicor refund receipt) that is turned in at end-of-shift.
- Requiring manager involvement/approval in all refunds in which the customer cannot provide proof of purchase.
- Providing a store credit in lieu of a cash refund in all cases in which the customer cannot provide proof of purchase.
- Ensuring that when accepting a store credit as tender for a purchase, that it is so identified on the sales receipt, thus preventing a subsequent cash refund with that receipt.
- Not combining refunds and purchases in the same transaction. While this is convenient, it lends itself to abuse by a dishonest cashier and has the potential of excluding certain refund/purchase transactions from the refund tabulation in the RDS report (only transactions with a negative balance are posted/tabulated as refunds in the RDS report).
- Not allowing cashiers to return refunded items to stock. There should be a distinct separation of duties.
- Reconciling refunds at end-of-shift before the cashier leaves. The DCD report can be modified to include the number and dollar value of refunds in its totals.
- Detailed reconciliation of all refunds by office personnel (manager level or above) the next day, using the RDS report and, if necessary, the CRV (Customer Returns Viewer). Deviations from policy and unexplainable occurrences should be investigated. If CCTV is available, review the related video in all such cases.
- Telephonically following up, on a weekly basis, of at least 10% of cash refund customers, ensuring that all associates who process refunds are included in the sampling. *NOTE: A form for this purpose is available under the FORMS tab at <http://www.ancelossprevention.com>.*

**Fact: Fraudulent voids are the #2 method of embezzlement at the POS.** As you know, there are two types of voids; those conducted before the transaction is completed and those conducted after the transaction is completed.

The *SALE VOID*, as it is identified in the RDS report, is a void that a cashier processes *before a transaction is completed*. Embezzling through this MO requires that the dishonest cashier open the cash drawer (or work from an open drawer) after voiding the sale in order to make change for the customer. To avoid this, follow the steps outlined below.

- Set Epicor Option 5434 to NO, preventing cashiers from working from an open cash drawer.
- Set Security Bit 534 to NO to prevent cashiers from voiding a sale prior to its completion without a manager override.
- Set Security Bit 549 to NO to prevent cashiers from ringing a NO SALE to get the drawer open.
- Require (1) manager, in addition to entering his/her override authorization code, to sign/initial the "Transaction Voided" receipt; and (2) the cashier to write the reason on the reverse side of the receipt and turn it in with other paperwork.
- Reconcile sale voids at end-of-shift before the cashier leaves. The DCD report can be modified to include the number and dollar value of sale voids in its totals.
- The following day, conduct a detailed reconciliation of sale voids totals in the RDS report against documentation turned in by cashiers. If necessary, access the RVT (Void Transactions Report) for detailed data. All deviations from policy, as well as unexplainable occurrences, should be investigated. If CCTV is available, review the related video in all such cases.

The *POST-VOID*, or the void processed after a sale is completed, is also used by dishonest cashiers to embezzle cash—simply use a receipt not taken by a customer to support the void and then remove the exact amount from the till.

- If the refund process is used to void a previous sale, consider changing that policy and using the *REVERSE TRANSACTION*. The reverse transaction requires identification (within



# 'Tis the Season

## *More Than Just Shoplifting*

the Epicor system) of the specific transaction being voided and can be stringently controlled electronically, regardless of the dollar amount of the void. Set Security Bits 596 and 604 to NO, and 712 to YES, thus allowing a cashier to begin a reversal under his/her ID, but requiring a manager override to complete the transaction. This precludes the need for the cashier to log out of the system and a manager to log-in in order to process the transaction (and keep the funds straight).

- Set Option 8945 to “0”—this will restrict the capability to reverse transactions to the same day they were rung.
- Set Security Bit 878 to NO. This will prevent the repeated reversal of the same transaction number without a manager override.
- Require (1) manager (in addition to entering his/her override authorization code) to sign/initial the transaction reversal receipt; (2) the cashier to write the reason on the reverse side of the receipt; and (3) the reverse transaction receipt to be stapled to the receipt of the transaction that was reversed and turned in with other paperwork.
- The following day, during the cash and sales reconciliation, office personnel should reconcile the reverse transactions receipts turned in against the number of reverse transactions shown in the Customer Returns Viewer (CRV). Transaction reversals listed in the CRV, but for which receipts have not been turned in, should be investigated. If CCTV is available, review the related video in all such cases. (NOTE: Reverse transactions are not shown in the RVT report.)

### AFTER CHRISTMAS REFUNDS

There is always an uptick in refunds after Christmas. And while the majority of these refund requests are righteous, it's not unusual for the customer to not have proof of purchase – or for a dishonest customer to attempt to refund an item that has been stolen or possibly purchased elsewhere; and it's also a time when dishonest cashiers will take advantage of the increase and attempt to slip in one or two (or more) totally bogus refunds and pocket the proceeds.

*In fact, the National Retail Federation predicts that 2011 holiday season return fraud will reach nearly \$3.5 billion in losses to the nation's retailers. And be assured, hardware stores are not immune to this annual phenomenon.*

DISHONEST ASSOCIATES - The defense is the same as any other time of the year for deterring/detecting bogus refunds by cashiers.

- See comments above in POINT OF SALE regarding fraudulent refunds by dishonest associates.
- See articles entitled *POS Controls* and *Refund Scams* at <http://www.ancellossprevention.com>. Go to the PUBLICATIONS tab and click on LP ARTICLES.
- Contact Retail Loss Prevention and request a copy of LP document *EPICOR OPTIONS AND BITS*, an in-depth report that addresses Epicor features that are designed to provide control and oversight over those functions that are known to be high risk of being abused if not controlled.

DISHONEST CUSTOMERS - The Epicor feature known as *RETURNS VALIDATION* is an excellent tool for controlling and documenting customer refunds. And, while its use is highly recommended for this purpose, it should be understood that it cannot and will not deter/prevent bogus refunds by associates. The basic deterrents discussed above and in the referenced documents must be in place in order to achieve that goal. Take the following actions to activate the Returns Validation feature.

- Set Option 8305 (Merchandise Returns Validation on System) to YES.
- Set Option 8307 (# of months activity to use in Returns Validation) to the number of months consistent with your refund policy (e.g., 3). This sets the time frame for which past sales will appear in the Returns Validation window lookup file.
- Set Option 8308 [Return Validation Posting (Pre-selecting) Rule]—this is the retailer's choice (oldest date, newest date, highest price paid first, lowest price paid first).
- Set Option 5007 (Reprice credit items when transaction is repriced?) to NO.
- Set Option 8344 (Returns validation across stores allowed?) to YES if you have multiple stores.
- Set Option 8374 (Post returns with current or original cost?) to CURRENT.



# 'Tis the Season

## *More Than Just Shoplifting*

- Set Option 8375 (Recalculate Average Cost after a return?) to YES.
- Set Option 8414 (Prompt Clerk for Return Reason) to YES.
- Use Option 8416 (Add/change user-defined return reason codes) to add/modify reason codes for returns.
- Set Option 9527 (Use original sale's tax code on return) to YES.
- Set Security Bit 767 (MO—Allow return even if merchandise not purchased) to NO, which then requires a manager override for a cashier to proceed past the “This item was not previously purchased in this store. Continue?” warning.
- Set Security Bit 768 (MO—Allow return even when no returnable purchases exist) to NO, which then requires a manager override for a cashier to proceed past the “There is no outstanding quantity to return against. Continue?” warning.
- Set Security Bit 802 (Access Customer Returns Viewer) to YES for all managers and associates who you want to have access to this viewer. (NOTE: It's recommended that this viewer be accessible by managers and office personnel only.)
- Set Security Bit 816 (MO—Allow return even if original sale to different customer) to NO so that a manager must be called to approve this deviation from policy. (NOTE: This security bit applies to those cases in which purchases are tied to a particular customer or job.)

### **THEFT THROUGH YOUR BACK DOOR**

*(If you have an uncontrolled back—or side—door, it is not a matter of IF you will lose merchandise through that door but rather HOW MUCH merchandise you will lose through that door.)*

- See the article entitled *BACK DOOR CONTROLS* at <http://www.ancellossprevention.com> for detailed guidance on this topic. Go to the PUBLICATIONS tab and click on LP ARTICLES.
- If the door is not an emergency exit, and if there is no reason for employees to use that door other than to take out the trash, we recommend that it remain locked, with the key closely controlled by management.
- If the door is a designated emergency exit, install an exit alarm (either stand-alone or integrated with the emergency exit panic bar) and closely control the keys to disarm and arm it. (NOTE: These alarms are available from our preferred vendor-partner SE-KURE CONTROLS. Detailed information on these devices and contact information for the national account representative are available at <http://www.ancellossprevention.com>. Go to VENDORS and click on LOSS PREVENTION DEVICES.)
- Keep overhead roll doors padlocked at all times when not in actual use. Keys to the lock must be strictly controlled.

*As can be seen, there are a number of risks that are year-round in nature, but are magnified during the holiday season. This is the time of year when your “loss prevention antenna” must be fully deployed and on high alert. If there is a unique situation at your store that is not adequately addressed here, please contact Retail Loss Prevention and discuss your concerns with one of our loss prevention professionals.*



*Want to receive a copy of LP Corner every month direct to your email address? Send us a request at [info@ancellossprevention.com](mailto:info@ancellossprevention.com) with your email address, store number, and any specific topic requests for future publications.*