POS CONTROLS

There is a saying among retail loss prevention professionals that goes something like this: adequate controls at your POS terminals and at the back door are major keys to minimizing losses to theft by associates. Easily said, but not so easily accomplished. This article will address the POS controls aspect of that theory.

As we all know, the cashier is an extremely important person on our team. The cashier is the first person a customer sees when they enter, the last person they see when they leave, and this person is responsible for *ringing sales and safeguarding the money* received from your customers. There can be no more important position on your team. In fact, it is safe to say that the four square feet the cashier occupies is the most important four square feet in your store. Unfortunately, it is also the most vulnerable four square feet in your store. It is vulnerable to theft and embezzlement by a dishonest cashier working either independently or in collusion with a customer. It is vulnerable to the dishonest customer who is attempting to refund stolen merchandise or merchandise purchased elsewhere. It is vulnerable to the "quick change" and "short change" artist. It is vulnerable to the customer who knowingly or unwittingly attempts to pay for merchandise with counterfeit currency or a bogus check or a stolen credit card. And it is vulnerable to robbery by a desperate, armed person, intent on stealing cash. It is for these reasons that we must formulate, implement and enforce rules for the cashier position that go a step beyond the standard policies and controls that apply to all associates.

It is not uncommon for an associate to bend the rules a bit or take a shortcut in the name of customer service – in fact, it is possible that you have given your associates a measure of independence to do just that in order to sustain your reputation of providing the highest level of customer service. While this is proper, within limits, in most aspects of your business, we cannot allow cashiers to take shortcuts or bend the rules when it comes to the operation of the POS terminals or handling cash. Any such weakness in your controls will invite losses. We must also keep in mind that while there are many items for sale in the typical Ace Hardware store that can be very tempting to steal, there is nothing in the store that is more tempting to steal than **cash**. It is for this reason that very detailed POS policies and procedures must be developed and enforced.

There are a number of schemes that can be perpetrated by a dishonest cashier if proper safeguards are not in place. The five primary types of theft and embezzlement by a cashier are:

- Fraudulent refunds

- Fraudulent voids (both pre- and post-transaction)

- Simple underringing

- Sweethearting" of sales to friends and relatives

- Outright theft of cash

The key to reducing losses, whether at the front door, the back door, the lumberyard gate, *or the POS terminal*, is to implement workable internal controls that are designed to both deter dishonesty, as well as provide a means to detect it should someone decide to go around or through the control. Most controls consist of three elements or legs:

1. **AN ELECTRONIC, MECHANICAL OR PHYSICAL LEG**
(Something as simple as a padlock or as sophisticated as a POS security bit.)

2. **A HUMAN LEG**
(The requirement for a person to do something - it's this leg that normally fails.)

3. **AN OVERSIGHT LEG**
(CCTV, POS alerts, the POS sales reconciliation process, etc.)

There are many aspects of control at the POS, to include the countless electronic controls offered by the POS program, to the more basic (but essential) manual and procedural controls relating to POS terminal usage.

- Basic rules include the all-important one-cashier-per drawer policy and ensuring that the cashier identified in the system and on the receipt tape as ringing the transaction is actually the cashier who rang the transaction. These two controls are, without question, the most important of all front-end controls. While you may think one or both just can't work in your store, the fact is that they normally can; it is just a matter of determining how to make them work. If you have multiple cashiers per drawer, both the innocent and the guilty are placed under the same dark cloud when something happens that cannot be tracked to a specific cashier. And if you can't guarantee that the cashier whose name is on the receipt is the cashier who actually rang the transaction, the dishonest cashier has an advantage at the expense of an honest cashier.

- Basic guidance includes the Ace Hardware best practice methods of opening and closing (countdown) of a POS terminal, the reconciliation of POS documentation, and the actual money counting process. Also, ensuring that appropriate POS reports are reviewed on a daily basis, possessing knowledge of what constitutes a "red flag" that should be investigated immediately, and the implementation of rules that dictate what actions are taken when an irregularity occurs, are three other important elements of POS control.

Fraudulent Refunds

Refunds are recognized throughout the retail industry as the most frequently abused transaction type, as well as the single largest source of cash losses at the POS. Abuse comes in three forms: (1) by a cashier working independently to embezzle cash; (2) by a cashier working in collusion with an accomplice to embezzle cash; and (3) by a customer who has either stolen merchandise from your or another retailer's store, or purchased it from another retailer, and attempts to obtain a cash refund. There are variations in the MOs used in each of these three scenarios that include some very ingenious methods of disguising the act and creating what appear to be routine, acceptable documents and transactions. A dishonest cashier skillful in the processing of fraudulent refunds, for example, can embezzle thousands of dollars over a relatively short period of time - *and never be over or short*. There are a host of controls available within the Activant E4W system which are designed to reduce your risk of loss to this very prevalent type of theft. The challenge is to put sufficient controls in place to deter dishonesty, while keeping refunds as speedy and customer friendly as possible.

Fraudulent Voids

Fraudulent voids are number two on the list of sources of cash loss in a retail setting. As we know, there are two types of voids – the void of a sale before it is completed and the void of a sale after it is completed. Both transactions come with their unique reasons, rationales and methods of completion, as well as their risks of being abused to accommodate a cash theft. Again, depending on the controls in place, whether they are electronic, mechanical, physical, human or a combination thereof, these theft-prone transactions can be tightly controlled or totally uncontrolled.

Simple Underringing

This is the act of ringing, for example, $2.50 instead of $25.00, for a $25.00 item, taking the customer's money and making change as though $25.00 was rung. In this case it would create an overage of $22.50 in the till, which the dishonest cashier would remove at a later time when no one is watching. The customer may or may not be given the receipt. This type of embezzlement can be deterred through properly applied controls, including signage at the POS informing customers that a free gift card will be given to any customer who does not receive a purchase receipt.

Sweethearting

This is the act of a cashier allowing a customer, normally a friend or relative, to leave the store without paying the full price for all items purchased. This can be accomplished through any one of a number of devious methods involving bogus underrings, voids, suspended sales, refunds,

failure to scan, etc. While there is no single option or security bit that can be enabled to prevent sweethearting, there are options and security bits that can be enabled to address a number of the more frequently used fundamental elements of this dishonest practice.

<u>Outright Theft of Cash</u>

This is normally the action of a cashier who (1) has yet to learn how to steal/embezzle and cover the theft with a bogus refund, void, sale suspension, etc., or (2) shares a till with two or more other cashiers and therefore knows that the shortage cannot be traced back to her/him. As with sweethearting, there is no single POS option or security bit to prevent this. This is just one of the many reasons why it is important to enforce a 'one-cashier-per-drawer' policy.

All of these vulnerabilities are reasons why the POS terminal is not the place where shortcuts should be allowed or rules should be bent. Additionally, the POS terminal is not the place where associates should be allowed to perform at substandard levels.

Keep in mind that POS controls do not come without a price. That price entails the ever-present potential conflict between controls and convenience. Normally when a control is implemented, it is at the cost of convenience. While the decision will be easy in certain cases, in others it will be a matter of carefully gauging the risk versus the loss of convenience and then making the decision.

Contact Retail Loss Prevention at 630-972-2670 and speak to a member of our staff, or e-mail us at info@acelossprevention.com for assistance in assessing your POS internal control posture and implementing workable controls, or to discuss concerns about a current POS situation. Also ask about our ACTIVANT OPTIONS AND BITS document that contains a wealth of information that focuses on the loss prevention related features available within the Activant POS system.