

REFUND SCAMS

Refunds are recognized throughout the retail industry as the most frequently abused transaction, as well as the number one source of cash losses in the retail industry. Literally tens of billions of dollars are lost annually to refund scams. While there are many products sold in the typical Ace Hardware store that are very tempting to steal, there is nothing as tempting to steal as *CASH!*



Refund scams come in three basic forms:

- By a cashier working independently to embezzle cash.
- By a cashier working in collusion with an accomplice to embezzle cash.
- 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 at your store.

There are variations in the MOs used in each of these three scenarios, to 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, can embezzle thousands of dollars over a relatively short period of time - *and never be over or short*. There is a host of controls available within the Activant E4W system 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.

Rest assured that if your controls are lacking, it is only a matter of time (normally a very short time) before a dishonest associate or customer will take advantage of that laxity.

Let's discuss the primary scenarios.

FRAUDULENT RETURN BY A DISHONEST CASHIER

This type of theft is possible when internal controls are insufficient (or not enforced) at the point of sale and the subsequent cash and sales reconciliation process is inadequate. The following controls are recommended, at a minimum:

GENERAL

- Consider establishing a time frame within which refunds will be given (e.g., 90 days).
- If at all possible (and it is if you have three or more POS terminals) enforce a ***one cashier per drawer*** policy. This will allow you to hold a cashier responsible for *everything* that happens at that terminal during that associate's shift. A dishonest cashier cannot hide under the umbrella of multiple cashiers operating out of the same POS terminal.
- Again, if possible, designate ***one POS terminal for refunds***. It should be the POS terminal *closest to the entrance door*. The fewer associates involved in the refund process, the better.
- Count down the cashier's drawer ***at shift-end***. This should be done in a locked office with a manager present.

- **Do not** give the cashier access to the DCD report, cash balancing report or any other report that contains actual cash sales data. A cashier should not know how much cash **should be in the till** prior to counting down.
- If the DCD report is used for the countdown (recommended), configure it **to include refund data** (number and dollars). NOTE: The same recommendation applies to voids.
- Reconcile refund documentation against POS refund data **during the cashier countdown process**, to at least confirm that the appropriate number of refund documents is present.
- Treat missing documents as a **red flag** and resolve the matter **before the cashier leaves**.
- Do not allow cashiers to operate out of an **open drawer**. Require the drawer to be closed after every transaction. If a transaction can be rung with the drawer open, modify Activant option 5434 to prohibit it.
- If you have a **CCTV system**, ensure that you have appropriate coverage of the POS terminals. There should be a separate camera for each POS terminal and they should be installed in a manner that provides an unobstructed view of the **cashier's hands** (see article entitled "CCTV Surveillance in Ace Hardware Stores"),

THE REFUND PROCESS

- Set a dollar threshold (Activant Option 5403) that mandates a **manager override** to permit a refund transaction to proceed. What threshold? Prepare a list of each refund transaction during the past 30 days **by dollar value**. Let's say there were 250 refunds with a total dollar value of \$6,045. That would equate to \$24.18 as the value of the **typical** refund. The dollar threshold for manager override could then be set at \$25.00 without overly controlling the refund process and imposing an impractical workload on managers.


- Use either the Ace Merchandise Return form (Ace Stock Nr. 90111) or the Activant Refund Receipt (see Options 6200-6221 to configure the refund receipt) to provide a

ACE Hardware		No 783166		Merchandise Return		No 783166	
Name		Register No.		Cashier		Notes	
Address		City State Zip		Amount Paid \$			
Phone		Signature					
Date of Purchase		Check One		<input type="checkbox"/> Cash <input type="checkbox"/> Check <input type="checkbox"/> BankCard <input type="checkbox"/> House Charge			
Reason		Receipt		Refund Info		Refund By	
<input type="checkbox"/> Wrong Size Or Color <input type="checkbox"/> Defective <input type="checkbox"/> Other		<input type="checkbox"/> Attached No Receipt (Cash Out)		<input type="checkbox"/> Exchange <input type="checkbox"/> Other		<input type="checkbox"/> Cash <input type="checkbox"/> BankCard <input type="checkbox"/> Check <input type="checkbox"/> House Charge	
<input type="checkbox"/> Did Not Want Or Need		<input type="checkbox"/> Drivers License Number		<input type="checkbox"/> Last Date Sold		<input type="checkbox"/> Last Sales Price	
Today's Date		SKUs Returned		Manager Approval		Returned To Stock By	
Date		Date		Date		Date	

Ace Stock No. 90111 See Reverse Side For Instructions On How To Use This Form

hard copy record of important refund data. NOTE: The Ace form is advisable as it contains blanks for various data, as well as a means of documenting the disposition of the returned item. If the Activant Refund Receipt is used in lieu of the Ace Merchandise Return form, it is recommended that the following data elements be included:

- Customer Name (Printed)
 - Telephone Number
 - Customer Signature
 - Manager Approval Signature (for those refunds that require a manager override).
- If the customer does not have a purchase receipt, **ask a few questions** to pin down the estimated purchase date, was anything else purchased at the same time, etc. Be alert for hesitant answers or facial expressions that belie the verbal answers to your questions.

- Also ask for, look at and confirm the customer's name from his driver's license, even if a store credit is given in lieu of a cash return. If the customer claims not to have a driver's license or other form of picture ID, explain that a refund/credit cannot be provided without proper identification. NOTE: See **RETURNS VALIDATION** below.
- If the customer does not have a receipt, and provides acceptable identification, provide a store credit in lieu of a cash refund. Consider using the *Ace Merchandise Card* in these cases. Like a gift card, but recognizable as having been issued in lieu of a cash refund, this will alert the cashier who receives it to ensure that the store copy of the receipt is annotated as having been purchased with Merchandise Card.
 
 The image shows a red Ace Merchandise Card. The word "ACE" is written in large, white, stylized letters with a red outline on a white background. Below it, the words "Merchandise Card" are written in a smaller, white, sans-serif font. The card has a white border on the left side.
- ***Consider not combining refunds and sales in the same transaction.*** While this is a convenience, it also has an internal control shortcoming. Specifically, if the net amount of the transaction is a positive number, in other words if the customer owes money, then that transaction will not be counted as a refund in the RDS report. It will show up in the Customer Returns Viewer, but not in the RDS report - and the RDS report is the report used by most Ace retailers the following day to reconcile cash and sales and prepare the bank deposit. A dishonest cashier who knows this can test the system by not including the refund paperwork for such a transaction and see if it's caught. If not, then he/she knows that the odds are in his/her favor to use that as a tool in the future and not be detected. This scenario has also been used by a dishonest cashier in collusion with a confederate to "sweetheart" a sale (allow the customer to leave without paying the full price of the items removed). The scam works like this: scan the item, normally a high ticket item, and then enter a refund for a non-existent item that is priced less than the item scanned. For example, a \$150 cordless drill is scanned and then a SKU of an item selling for \$99 is entered as a refund. The result is that the customer's relative or friend is charged a net price of \$51 plus tax for the \$150 drill, and the refund does not show up in the RDS report's refund totals/dollars. NOTE: In the example cited, it would be necessary for a manager override dollar threshold to not be in force.
- ***Cashiers should not return refunded merchandise to stock.*** This task should be performed by sales floor associates. And if the Ace Merchandise Return form is used to document refunds, the tab of the form should be taped to the actual item so that the associate disposing of it can annotate what action was taken (e.g., returned to stock, Policy A, etc.) and then turned in to the office to be stapled to the basic form).
- ***On a weekly basis, reconcile the QOH in the IMU against a physical count of at least 10% of all refunds*** (be sure and select some high value and frequently stolen product SKUs). If there is a discrepancy and you have CCTV coverage of the POS terminals, review the suspect refunds; also, if your CCTV system has a "smart search" feature (see article entitled "CCTV Surveillance in Ace Hardware Stores"), review activity at the specific four foot section where that SKU is displayed for a time frame beginning at least two days before the refund to the date of your review. You will quickly see all activity at that four foot section during that time frame.
- When reconciling cash and sales, it is important that the number of refunds listed on the RDS report be reconciled against supporting documentation. If there is a missing refund

document, this should be treated as a **red flag** and investigated, to include reviewing CCTV surveillance footage. Look carefully at all refund documentation to ensure that the required information was obtained from customers and, when appropriate, a manager's signature is present. It is a good idea to have a sample of all managers' signatures available to compare with suspect signatures, as dishonest cashiers have been known to forge a manager's signature on a refund receipt.

- **On a weekly basis, follow up on at least 10% of all refunds** with a telephone call to the customers. Be sure to select some refunds processed by each cashier for the follow-up. A **Refunds Verification** form can be found within the *Forms tab* for use in documenting these calls. The form even contains a specific recommended call dialogue for the associate making the calls. If a customer claims not to have received a refund or if the number dialed is a non-working number, an immediate inquiry should be conducted. If there is CCTV coverage of the POS terminals, review the suspect refund(s).
- Calculate your cash refunds as a percentage of cash sales. If the percentage exceeds 5% of sales, this is a **red flag** of possible issues within the refund process.



FRAUDULENT RETURN BY A CUSTOMER

This is an act by (1) a basically **honest customer** who may truly *think* he purchased the product at your store (but didn't), or he actually knows that he didn't purchase it at your store; or (2) a **thief** who stole the product from your or another store. In both cases, the customer wants a cash refund.

- In the case of the honest customer, he will normally not have a receipt; however, the thief may actually have a receipt - **but it may not be valid**.
- It is a common practice for thieves to shoplift an item and then attempt to refund it for cash (without a receipt). This practice can be easily foiled with a policy that provides for a store credit in lieu of a cash refund when there is no proof of purchase. In those cases, it is important to ensure that when the store credit is subsequently used, that the receipt provided the customer at that time is clearly identified as having been **paid for with a store credit**. This is to ensure that the customer doesn't return later with *that* receipt and request and be given a cash refund.
- Shoplifters have also been known to purchase an item in order to obtain a receipt, then **shoplift the same item** and refund it with that receipt. Now they have the item and cash.
- Some professional shoplifting rings are known to **produce their own receipts** using a scanner, laptop computer, printer and standard receipt paper - sometimes all contained in a van in the parking lot. This scam works when the store does not have a state-of-the-art POS system with the capability to confirm that the item shown on the receipt was, in fact, not purchased at that store. NOTE: SEE **RETURNS VALIDATION** below.
- In all cases, obtain a verifiable customer ID (driver's license or other government ID with picture), and record that information on your refund document. If the customer is attempting to defraud you, he/she will not normally consent to providing a picture ID. **All refund requests without receipts should be approved, in writing, by a manager**. This

should be done while the customer is present. NOTE: You may want to set a dollar threshold in this process, but it should be much lower than your standard manager override threshold for refunds *with receipts* - and it will, out of necessity, have to be a manual system.

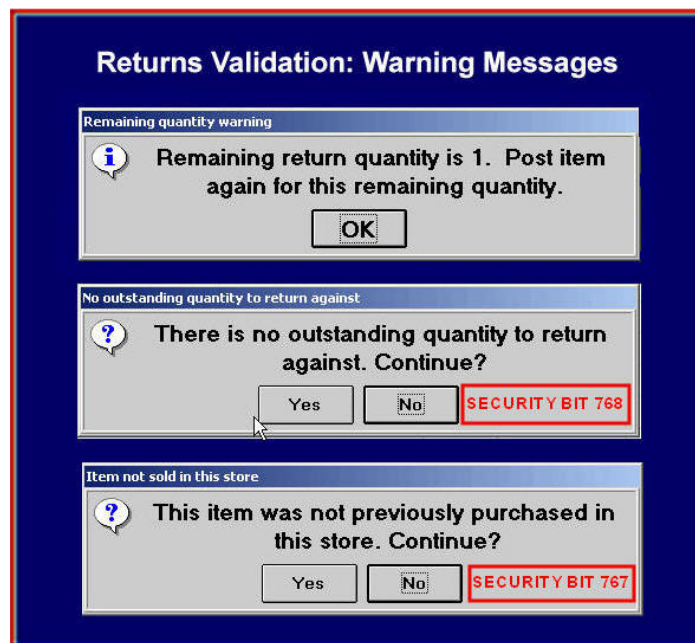
RETURNS VALIDATION FEATURE (ACTIVANT EAGLE FOR WINDOWS)

The Returns Validation feature of the Activant POS system provides a number of automated tools that greatly assist in validating and documenting refunds. It is designed to provide additional control over the refund process by validating returns against past purchases. While it is a valuable enhancement of your ability to detect and deter fraudulent refund attempts by a customer, it will not, in and of itself, prevent fraudulent refunds by a dishonest associate. When setting up this feature, you must determine the time frame for which past purchases and refunds will be displayed. If you have a policy that refunds are granted only within 90 days of purchase, then set the Returns Validation feature up to retain data for 90 days.

There are a number of POS options and security bits that must be turned on in order to enable the Returns Validation feature.

Elements of the Returns Validation feature include:

- Returns validation window.
- Customer returns viewer.
- Purchase history automatically displayed.
- Warning message if number of items being refunded exceeds number purchased.
- Warning message if item being refunded was not purchased at your store.
- Purchase invoice data automatically printed on refund invoice.
- Automatic update of data.
- Multi-store capability.



IN SUMMARY

As you can see, there is much to know about the risks associated with the refund process and what must be done to protect your store, while at the same time providing good customer service.

Contact *Retail Loss Prevention* for additional guidance and information on recommended internal controls, both human and electronic, to enhance your protection.

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