

DISHONESTY IN THE RETAIL STORE ENVIRONMENT-(Part 1) INTRODUCTION

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Studies peg employee theft at 48-50% of all retail theft.

All the retail store owners I have ever met have been good, honest people. They have a positive outlook and tend to not only be trustworthy but trusting. Maybe that is why they have such a hard time understanding and acknowledging that they may have an employee who is stealing from them. If you have not experienced an incident where an employee has stolen from you, it is not because they have not done it - - it is just because you have not yet caught them.

One retailer, in particular, stands out in my mind. This menswear store owner had a bookkeeper who could not seem to ever get anything done on time. He told me he had not received any inventory or financial reports for over 6 months and the bookkeeper blamed the new computer system. She said even though she was posting transactions, they did not actually get posted into the system. She told me she was writing manual checks and preparing manual reports to show the store owner the invoices that had been paid. As I happened to be very knowledgeable about this particular software program I knew that what she was saying was not true. When I told him my suspicion that she was stealing from the company (due to lack of reports for management to check and writing of so many manual checks) he immediately dismissed this as not being true. Eight months later I saw him and he told me that he had accidentally stumbled upon evidence that she was writing checks to herself then showing on the check register that the payment had gone to a legitimate vendor. At the time he told me this, they had uncovered over \$70,000 in checks she had written to herself over a 16 month period. This is a store whose sales volume was a little over \$300,000 a year so you can imagine how devastating this was.

I had another retailer call me one time and ask me if he should be concerned because the lady who handled the company's payroll, among other things, and earned a modest salary drove a Jaguar. She also told management that if they took the payroll function away from her she would quit. When I told him this was a BIG red flag, he was more concerned with having the employee think he did not trust her than with getting to the bottom of the situation. This company had been having shrinkage in excess of 2 or 3% every year for a number of years. I do not know the final outcome of this situation but hope the retailer was correct that she would not steal. Although for a high end store such as his, 2-3% shrinkage every year is also a BIG red flag. If she was not stealing, I feel positive that others in the company were (and are).

Studies have been done about honesty in the general population. These studies have shown that of all people, 10% will always be honest, 5% will always be dishonest and the other 85% are basically honest (but can be tempted in the right circumstances, such as a severe need for cash, or a risk-free opportunity). You are hiring your employees out of this general population. What do you think the odds are of being able to hire only the people who will always be honest? You most likely have a lot of employees that are in the 85% category of being basically honest.

With this group it is up to you to make sure you have controls in place so they do not succumb to temptation. After all, the retail store is full of temptation in the form of merchandise and cash. And, your employees are in the store all day so who would know better how to steal than them? Now, I am not saying you should be looking at your employees suspiciously: however you do need to be aware of the possible ways in which they can steal so you can take steps to remove temptation.

A few of the common ways employees steal from their retail employer are:

1. Misuse the discount privilege by taking a higher discount than they are allowed
2. Take (steal) store merchandise
 - * mail out merchandise to themselves or an accomplice
 - * put on the store's merchandise during the day to 'model' it then just wear it home
 - * put the merchandise in the trash then retrieving it later
3. Falsify their time sheet so they are paid for more hours than worked
4. Transact personal business on company-paid time instead of on their break or lunch hour
5. At POS do not record the sale of an item and instead just give it to an accomplice
6. Take un-authorized markdowns at POS for their friends or an accomplice
7. Take money from the cash drawer, or if the customer gives the exact amount of cash for a sale, just pocket the money and void the sale
8. When turning in an expense report for travel expenses, enter larger amounts than actually spent
9. Deliberately damage merchandise so they can buy it at a discount
10. Process a fictitious cash refund then pocket the money.
11. Set up a fictitious vendor, write a check to that vendor, then endorse the check over to themselves
12. For a large company the payroll clerk could set up a fictitious employee and include this employee with the others when writing payroll checks

You can probably think of many more ways. There are as many ways for retail employees to steal from their employer as there are employees. The ways are limited only to their imagination and their access to either goods or other assets. As the store owner, it is **YOUR RESPONSIBILITY** to make sure controls are in place to prevent the above activities. Many things you can do are just common sense, such as being aware of the store's vendors and having the invoice or statement paper-clipped to the check that is presented to you for signing. And, then not signing the check unless you have confirmed for yourself that it is legitimate.

There are so many tasks done in a retail store, from receiving the merchandise to carrying it out to the customer's car and all the paperwork that goes with every transaction, that it can be difficult to know where to start to check your controls. If anyone would like a structured way to check their store, we have available, in workbook form, our Internal Control Manual which you can order and use to check all aspects of your store.

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