
Customer Refunds and Incomplete Sales Transactions

The Scenario

An auditor was working on a review of commissary's sales transactions and observed a pattern of suspended and voided transactions, and returns of commissary food items. Review of cash register sales records and customer refunds showed two former cashiers, recently promoted to store managers, processed most of these transactions. The same store managers continued to perform cashier duties when other employees called in sick, were on vacation, and during peak sales hours. The auditor decided to observe the managers during their shifts to see if the irregularities were caused by their inexperience or lack of training on store policies and procedures. The auditor made the following observations:

- At the end of a sales transaction, a customer told Store Manager A that they left their checkbook in their car and would return in five minutes. The customer left the store to get their checkbook. During the time the customer was away, Store Manager A suspended the sales transaction. The customer returned and Store Manager A finished processing the remaining grocery items. The auditor saw Store Manager A give the customer a sales receipt before they left the store.

The auditor's review of the daily sales transactions showed that Store Manger A did not resume the suspect transaction; therefore, the system did not record the transaction as a sale. As a result, a cash shortage would not be recorded at the close of the business day. The auditor also knew that the unsuspecting customer would not know their receipt was phony unless they closely examined the document. The phony customer sales receipt would read "Suspended Transaction" in place of "total" or "subtotal."

The auditor expanded their review of Store Manager A's suspended sales transactions and noted that 80% of their suspended sales were never resumed. In addition, Store Manager A processed 90% more of the suspended/not resumed transactions compared to the other cashiers. The auditor concluded that Store Manager A could have stolen as much as \$15,000 from the commissary in the past three months using the suspended/not resumed transaction scheme.

- While ringing in a sale, a customer told Store Manager B that they wanted to go to their car and check on their dog. The customer left the store and Store Manager B voided the sale, totaling \$100.00. Consequently, the sale was deleted from the cash register records and the system would not recognize a cash variance at the close of the business day. When the customer returned, the cashier told the customer that the items cost \$100.00. The customer paid \$100.00 to Store Manager B, which they quickly placed in their pants pocket. The customer was in a rush and did not ask Store Manager B for their sales receipt. While observing this transaction, the auditor remembered that the commissary's policies and procedures stated that all cashiers must provide customers with sales receipts.

- A service member returned unopened canned goods to the commissary and requested a refund from Store Manager C. The customer stated that they received their travel orders and would be leaving the country in a few weeks. The auditor observed the refund transaction and noted that Store Manager C never asked to see a copy of the service member's official travel orders, which was a required store policy.

After observing the transaction, the auditor decided to examine store refund records. In the past six months, Store Manager C processed and approved refunds for himself totaling \$3,000. The auditor noted that the commissary's policies and procedures required refund approval from a store manager; however, management was not periodically reviewing commissary refunds and therefore, was not aware of the ongoing refund scheme.

General Comments / Lessons Learned. Personnel that are familiar with an organization's business operations and internal controls often commit retail fraud. Some past examples of successful fraud schemes are discussed in this scenario and include suspended transactions, voided transactions, and merchandise refunds. Another common refund scheme occurs when a customer returns commissary purchases to another store and obtains a refund. This scheme often occurs when service members and their families move to a new post of duty.

Auditors should remember that commissary management will not immediately detect all fraud schemes because some of the suspect transactions will not result in cash variances. Instead, cash register sales records are a useful audit tool to detect suspect transactions. It is also important for management to ensure employees follow established policies and procedures and promote a strong internal control environment to assist with preventing and detecting fraud in retail environments.

FRAUD INDICATORS

- **Commissary has a large number of suspended transactions, voided transactions, and customer refunds.**
- **Suspect transactions are performed by employees that are familiar with commissary policies, procedures, and internal controls.**
- **Store managers frequently perform cashier duties.**
- **Cash register records show numerous suspended transactions that are not resumed.**
- **Cash register records show that one or more cashiers or store managers are responsible for processing most of the transaction suspensions, voids, or merchandise refunds.**
- **Cashiers do not follow established procedures such as providing each customer with a sales receipt or reviewing service members' travel orders before processing merchandise refunds.**
- **Commissary management does not conduct periodic reviews of customer refunds and/or does not enforce established policies and procedures.**