

Broad Types of Fraud in the Retail Industry Can Cause Management to Become Pale and Frail—by Ryan Hauber, MBA, CFE

A Quick and Easy “Check-up” Exists to Take the “Financial Pulse” of any Organization and Identify Potential Fraud Risks Hidden Beneath Surface of Your Company.

Broad types of Fraud in the Retail Industry affect the Financial Health for all Merchants. If you haven't had to go to the Emergency Room (Conduct an unexpected Fraud Investigation) yet have you at least had your 12 – 24 month check-up from a Professional (Licensed Certified Fraud Examiner) to at least become aware of the warning signals to look for before a situation arises? To put it another way – think of fraud like you do a “Heart Attack” – we all know someone that has experienced one – as a decision maker/influencer for your company do you want to react to Fraud after it has spread to far within the organization, or catch it and prevent it before it has a serious financial/reputational impact on your company?

The history of fraudulent activity within the Retail Industry can be dated back to the days when “barter trading” still was the primary means of payment in exchange for goods or services provided by another individual. Advancements throughout time have resulted in centralized forms of currency and means of payment for most countries, along with continuously evolving changes with technology that have helped prevent and deter fraud.

Albeit – these changes have helped thwart and reduce a

decent portion of fraudulent behavior, however, the new schemes and enhanced skills/capabilities of fraudsters have, and will continue to evolve as long as the “opportunities” and “incentives” for fraudulent activity exists at Retailers from the smallest of family owned privately held merchants to the largest Retailer and public company in the world - Wal-Mart, Stores, Inc.

When you break down occupational fraud within the Retail Sector into the three primary categories – Asset Misappropriation, Corruption, and Financial Statement Fraud – the widest array of mere opportunities resides in the Asset Misappropriation segment. This would include risk items such as, but not limited to:

- Point-of-sale register manipulation (Cash Theft)
- Inventory theft/misuse and concealing inventory shrinkage (Inventory Larceny)
- Fictitious time and expense reporting (Payroll Fraud)
- Overstated charges and/or Mischaracterized expenses (Expense Reimbursement)
- False refunds/voids and illegitimate vendors setup receiving payments (Fraudulent Disbursements)
- Theft of customer information (Intellectual Property Larceny)

The potential impact and probability of fraudulent behavior also resides within the segments of Financial Statement Fraud and Corruption, and one of the more common risk items overlapping both of these cate-

gories within the Retail Industry would be the area of Promotional Allowances (Vendor Allowances). For some Retailers these allowances have historically been high risk and in some cases illegitimate—derived from illegal or unauthorized promises (bribery) gratuities and/or kickbacks (Corruption), along with a cause for concern from a financial statement fraud perspective as it relates to some of most basic underlying accounting principles of revenue recognition, conservatism, materiality, matching and consistency.

Fraud Prevention Check-up

Along the lines of the analogy mentioned above between the comparisons of a heart attack and fraud – there are a variety of very effective Fraud Prevention options, such as the Association of Certified Fraud Examiners' sponsored Fraud Prevention Check-up. This tool is very inexpensive and requires minimal time commitment to complete for most organizations (when scheduled appropriately the fieldwork for these projects can be completed generally in 1 business day or less).

The key to these value-added engagements is to ensure that your organization engages a licensed certified fraud examiner that has experience conducting these types of reviews, and that this professional has experience working on a variety of different “White Collar Crime” type projects with both large and small public and private organizations.

In summary - be cognizant of

the potential impact, likelihood and influence on an organization's reputation/goodwill that fraud can have.

If you find yourself wondering what has been done in the past year or so to identify/explore specific fraud risks (do not confuse this with Sarbanes Oxley Compliance, checklist audits, etc.) with no results then it is probably a very wise time investment for bringing in a CFE for one day to talk independently one-on-one with a select group of management and employees that have institutional knowledge about your company. The benefit for your time investment far outweighs the cost of any lost production over one day out of the year and helps to ensure the pulse of your company is not in danger of flat-lining.

=====

Ryan Hauber is a Principal in Brown Smith Wallace's Risk Services Department, where he co-leads the Fraud, Forensic and “White Collar Crime” Practice.

Ryan also has responsibility for leading engagements that help clients manage business risk, improve processes and internal controls, and comply with the provisions of the Sarbanes-Oxley Act. You can contact Ryan at:

rhauber@bswllc.com

**BROWN
SMITH
WALLACE**
A MEASURABLE DIFFERENCE™