

The background features three large, overlapping blue circles of varying sizes, each with a lighter blue ring around its center. Two thin blue lines intersect at the top left, extending diagonally across the page. The text is positioned in the lower-left quadrant.

# **Examining The Impact Of Undetected Fraud In Retail Organizations**

An exploration of fraud losses and detection methods from  
the ACFE's *2010 Report To The Nations*

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## Introduction

With the recent release of their [2010 Report to the Nations \(RTTN\)](#), the Association of Certified Fraud Examiners (ACFE) revealed a sobering look at both the extent of fraud committed within businesses, as well as the surprising consistency of the type and frequency of fraud events committed across the globe. Most importantly, the report illuminated the growing financial impact these events have on businesses, and the value generated by detecting fraud early.

In this white paper, we'll take a deeper look at the fraud statistics presented in the *2010 RTTN*, and the benefits derived from using technology to enable earlier detection of fraud events. In particular, we'll explore the typical loss amount associated with fraud in retail, the types of activities associated with these fraud events, and the duration of fraud events before detection.

## Retail Fraud By The Numbers

According to the *2010 RTTN*, "the typical organization loses 5% of its annual revenues to occupational fraud." Within the retail industry, the fraud numbers that are most relevant to loss prevention (LP) and asset protection (AP) professionals are those associated with asset misappropriation. This category of loss includes events such as larceny, skimming, payroll abuse, false voids and refunds at the register, and product theft. Across industries, the dollar figures associated with typical losses associated with asset misappropriation can be staggering. According to the *2010 RTTN*, these losses are as follows:

<b>Fraud Incident Description</b>	<b>Median Loss (In Dollars)</b>	<b>Median Duration of Fraud Incident</b>	<b>Median Loss Per Month (In Dollars)</b>
<b>Skimming</b>	\$60,000	18 months	\$3,333/mo
<b>Cash Larceny</b>	\$100,000	18 months	\$5,556/mo
<b>Payroll</b>	\$72,000	24 months	\$3,000/mo
<b>Cash Register Disbursements</b>	\$23,000	12 months	\$1,917/mo
<b>Cash on Hand Misappropriations</b>	\$23,000	18 months	\$1,278/mo
<b>Non-Cash Misappropriations (Product Theft)</b>	\$90,000	15 months	\$6,000/mo

For retail in particular, the typical fraud event resulted in a loss of \$85,000. Using 18 months as an average duration before detection, that equates to a typical loss of \$4,722/mo. With large figures such as these, the importance of early detection becomes paramount.

### The Value Of Early Detection

Using the above numbers, we can begin to see the impact of each fraud event on the organization, as well as the savings to be had by detecting fraud as early as possible. In the charts below, we see how much a retail organization can save from early fraud detection on a quarterly basis. Even a single month of early detection can pay huge dividends in averted losses. Note that these numbers do not include any additional sums recovered by catching fraud early.

<b>Per Instance Savings From Early Detection</b>								
<b>Months of Early Detection</b>		<b>1</b>	<b>3</b>	<b>6</b>	<b>9</b>	<b>12</b>	<b>15</b>	<b>18</b>
<i>Skimming</i>	\$3,333	\$3,333	\$9,999	\$19,998	\$29,997	\$39,996	\$49,995	\$60,000
<i>Cash Larceny</i>	\$5,556	\$5,556	\$16,668	\$33,336	\$50,004	\$66,672	\$83,340	\$100,000
<i>Payroll</i>	\$3,000	\$3,000	\$9,000	\$18,000	\$27,000	\$36,000	\$45,000	\$54,000
<i>Cash Register</i>	\$1,917	\$1,917	\$5,751	\$11,502	\$17,253	\$23,004	N/A	N/A
<i>Cash On Hand</i>	\$1,278	\$1,278	\$3,834	\$7,668	\$11,502	\$15,336	\$19,170	\$23,000
<i>Product Theft</i>	\$6,000	\$6,000	\$18,000	\$36,000	\$54,000	\$72,000	\$90,000	N/A

To explore the value of early detection at a deeper level, let's explore a hypothetical skimming fraud scenario similar to those experienced by many retailers.

The Setting: A national retail hair salon that sells both products and services.

The Situation: After a quarterly review, POS data has indicated that service revenues from a particular location have dropped from a typical average of \$30,000/month to \$27,000/month, and have remained at this lower level for a 4-month period. These service transactions generate average revenues of \$50 each. An average of 600 of these services is sold monthly per location, or approximately 20 per day.

The Investigation: Using a combination of POS data review and remote audits via surveillance and surveillance tools, two employees were observed to be committing fraud. When a particular service was paid for in cash instead of by credit card, the employees would either enter a "no sale" into the POS, or would not ring up the service on the POS at all, and would then pocket the cash from the transaction. This occurred approximately twice per day.

The Resolution: Regular auditing of surveillance footage revealed multiple incidents, and were used as proof to terminate the employees and recoup some of the losses. By revealing the fraud in 4 months instead of 18, approximately **\$42,000** of potential loss was prevented.

Given the value of early detection of just a single fraud event, then, it is clear that any mechanism available that can assist LP and AP in early detection has a clearly definable ROI if proven to have efficacy.

### Methods Of Early Detection

According to the *2010 RTTN*, the most powerful method of early detection of fraud was through tips provided by fellow employees, with 40.2% of cases detected. The presence of an employee hotline for providing tips significantly increased the chance that a tip would be provided. Next to employee tips, however, the *2010 RTTN* revealed that audits and audit tools directed towards review of employees and locations provided the greatest ability to detect fraud early. Between management review, internal audits, external audits and surveillance, 36.5% of all detected cases of fraud were revealed.

As is true in most retail organizations today, the capability of LP and AP departments to proactively audit is often limited by budgets and personnel. Therefore, with expanded capabilities, these departments will be able to uncover additional fraud events, as well as uncover all fraud events earlier. Most importantly, new methods of early detection that utilize the technologies available to LP and AP professionals now make force multiplication a technological and economic reality for many of these departments.

Systems such as ReTel Technologies' [AuditAssist](#) use existing surveillance systems to assist internal LP and AP teams audit locations for fraud factors and employee behavior on a regular basis, revealing abnormalities that could indicate fraud events, and thereby providing early detection that can save retailers hundreds of thousands of dollars annually across all of their locations.

### Conclusion

Fraud in retail organizations can have a massive impact on the bottom line. With each event at retailers carrying a median cost of \$85,000, and typical detection times that can stretch to as long as two years, early detection is critical to mitigate the impact these events have. LP and AP professionals now have an increasingly sophisticated arsenal of tools available to them to help provide early detection, as well as gain increased insight into every location on a regular basis.

We appreciate your interest in this whitepaper, and welcome your comments. Please feel free to provide feedback to us at [info@reteltechnologies.com](mailto:info@reteltechnologies.com).

**Appendix: Additional Data**

<b>New, Reduced Loss Amount Per Instance Resulting From Early Detection</b>								
<b>Months of Early Detection</b>		<b>1</b>	<b>3</b>	<b>6</b>	<b>9</b>	<b>12</b>	<b>15</b>	<b>18</b>
<i>Skimming</i>	\$60,000	\$56,667	\$50,001	\$40,002	\$30,003	\$20,004	\$10,005	\$0
<i>Cash Larceny</i>	\$100,000	\$94,444	\$83,332	\$66,664	\$49,996	\$33,328	\$16,660	\$0
<i>Payroll</i>	\$72,000	\$69,000	\$63,000	\$54,000	\$45,000	\$36,000	\$27,000	\$18,000
<i>Cash Register</i>	\$23,000	\$21,083	\$17,249	\$11,498	\$5,747	\$0	\$0	\$0
<i>Cash On Hand</i>	\$23,000	\$21,722	\$19,166	\$15,332	\$11,498	\$7,664	\$3,830	\$0
<i>Product Theft</i>	\$90,000	\$84,000	\$72,000	\$54,000	\$36,000	\$18,000	\$0	\$0



ReTel Technologies, Inc. is an advanced analytics provider focused on capturing powerful data and insight from physical environments. ReTel has partnered with some of the world's leading consultancies, research universities and technologists to develop compelling solutions for forward thinking business managers and security stakeholders. For more information, please contact Adam Rodnitzky, Chief Marketing Officer at [info@reteltech.com](mailto:info@reteltech.com) or 888-777-0407.

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