CREDIT CARD FRAUD: WHEN EMPLOYEES MOVE FROM BEING AN EMPLOYER'S BIGGEST ASSET TO THEIR BIGGEST LIABILITY

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CASE DESCRIPTION

The primary subject matter of this case concerns a manager's discovery of fraud. Specifically, this case discusses credit card fraud committed by trusted supervisors and cashiers from within the organization. The case has a difficulty level of three and higher, appropriate for junior level and beyond. The case is designed to be taught in two to three class hours in a management, auditing, or ethics course, and is expected to require three hours of outside preparation by the students. This includes reading the case, understanding the concept of purchases and financial transactions in a retail environment, recognizing the importance of internal controls, observing ethical practices in the business environment, as well as makingdecisions for recourse once transgressions have been discovered by management.

ABSTRACT

According to the Association of Certified Fraud Examiners (ACFE), fraud is defined as, "a knowing misrepresentation of the truth or concealment of a material fact to induce another to act to his or her detriment" (2013, para. 2). In general terms, fraud is perceived as a crime for gain, Fruad includes any intentional or deliberate act to deprive another of property or money through deception or unfair means.

Different types of fraud exist. Perpetrators seek to defraud organizations and individuals alike; leaving both victims. Fraud within an organization can be committed either internally or externally. ranging from employees to managers and from venders to the owners themselves.

The Association of Certified Fraud Examiners' (ACFE) 2012 Report to the Nations, quantifies the impact of occupational fraud, with losses of five percent in revenues. This equates to $3.5 trillion in global loss, after being applied to the 2011 Gross World Product (2012). In particular, United States merchants lose approximately $190 billion a year to credit card fraud (Shaughnessy, 2011).

This paper opens with a case of fraud in a retail industry setting. It then follows with a background of the history of credit card use and how financial transactions are processed when using credit cards. Specifically, this case illustrates a manager's discovery of rampant credit card fraud by trusted supervisors and employees of the organization. Instructor's notes are provided for background on this topic. The reader is invited to put himself or herself in the place of the manager, make decisions on how to resolve the current situation, as well as identify what could have been in place or could be implemented in the future to

preclude credit card fraud in this retail organization.

CASE STUDY

Mr. Williams, General Manager of GTS Department Store was performing one of his favorite rituals in the morning; walking through the retail store right before opening to greet all of his employees by name. He prided himself on being a “people person” and now considered his long-time employees as family. Mr. Williams had been in retail since starting as a part-time cashier in high school and now, only five years away from retirement, he had been put in charge of one of the largest department stores in the chain, located in the Western Pacific. Originally from Pennsylvania, this promotion, however, required him to move to a small island in the Pacific with his family.

Mr. Williams immediately adapted to the island life. He quickly developed many friendships with local island professionals. In such a tight knit community, many of the island’s residents were related to each other and one did not have to look far to make a connection. Here, strong family ties and bonds were central to the culture. The island culture was hard to ignore; having significant impact on the organizational culture of the company as well. Mr. Williams felt right at home as the relationship oriented work culture fit his personal leadership style.

His store was one of two department stores on the island and at 80,000 square feet required a staff of 120 full and part-time employees. The store consisted of 22 departments, including a variety of products: from housewares and furniture to clothing, as well as jewelry and shoes. There were 24 individual cash register stations throughout the store all monitored by an in-house security force using cameras and an undercover roving patrol.

GTS Department Store made 70% of their annual sales between the months of November and December due to strong sales from the holiday season; Black Friday and Christmas boasting significant revenue. The holiday shopping season was one of Mr. Williams’ favorite times of the year. Mr. William did not mind the extra work and long hours required. This was when he felt at his best. He believed that it was times such as this that really brought out the best in his employees and was very appreciative all the hard work and effort that everyone put in. The sales floor’s team in his opinion, played a key role in the store’s success.

One morning after his daily rounds on the sales floor, he received a visit Alice, a friend of the family. Alice was in the same civic organization as his wife, Sarah, and was a loyal customer of GTS Department Store. She apologized for bothering him during the busy holiday season rush, but was curious about a double charge on her credit card. Mr. Williams welcomed the opportunity to review it with her.

Alice had saved her store receipt from the week before. On the receipt she had circled the total amount as well as the one item in question. The store receipt showed that Alice had made a single couch purchase with a credit card transaction. She then pulled out a copy of her credit card statement and showed Mr. Williams. The credit card statement showed not one purchase, but two separate, identical transactions on the same day. It had appeared as if she had purchased two couches, in two different transactions, on the same day. Clearly this was a simple mistake. He apologized for the error and told her he would take care of it by having her card credited back for the additional transaction.

The next day, Mr. Williams went to his accounting manager, Doris, with a copy of the store receipt and the credit card statement and asked her to credit back Alice's card for one of the transactions. Doris did so and decided to just double check the inventory records. Doris pulled up the inventory sheet to verify the stock levels of the coach that had been purchased. She was surprised to find that the inventory listing showed zero left in stock. If this credit card charge was a mistake she would have expected to see one couch still in inventory from the original two couches that were ordered and delivered from the vendor to their warehouse. When she looked at the store's copy of all the receipts for that day, she saw that there was another transaction and receipt for the second couch only hours after the first couch was purchased. Alarmed, she walked downstairs to Mr. Williams' office to let him know about the situation.

Mr. Williams met with his security manager, Dave, and his assistant store manager, Jeff, to discuss the situation in confidence. It was the Security Department's duty to ensure that all merchandise released was properly documented. Dave made the point that the warehouse or security staff would not have noticed anything wrong as there were two receipts showing that two couches had been bought and paid for. Upon investigation and tracking of the sales receipts and merchandise pick up slips, it was discovered that two couches had been physically removed from the warehouse and loaded onto a delivery truck. The delivery slip noted that the coaches had been delivered to Alice's house.

The investigation turned to Joe, the warehouse employee who had signed the delivery slip. Joe admitted that he had instructed Alvin, the delivery truck driver, to deliver one couch to Alice's address, and the other couch to an employees' house. This was despite the fact that the delivery slip, with the two receipts attached, had Alice's name and address on them. This was a clear indication that both couches should have been delivered to Alice's house.

As it turned out, the second couch was not delivered to Alice's house; it was delivered to Stephanie Jackson's house. Stephanie was the supervisor for the furniture department at GTS Department Store. The investigation now shifted focus to Marcy, the cashier who had initiated both the sale transactions. As Marcy was being questioned, she was told that Joe from the warehouse already admitted to instructing the driver to take a second couch to another employee's house based on the receipts that had been generated under Marcy's employee number. Marcy adamantly claimed that she did not remember ringing up two transactions for this merchandise and that she would have remembered the purchase of two identical couches. "There must have been some mistake" she said. She claimed that maybe someone else must have inputted her employee number into the cash register to ring up the transaction so that it would look like she had made the transaction. This was doubtful as the employee numbers were only issued by management directly to the cashiers and each cashier had their own identifying number.

Dave spent that evening reviewing the security tapes and came across a transaction at 6:10 p.m. on the camera that clearly showed Marcy ringing up a purchase by Alice, with Marcy processing her credit card through the register. The security tape also showed Marcy ringing up a transaction two hours later, but with no customer present.

When Dave and Mr. Williams confronted Marcy the next day she realized that management had enough information to prove that she had been involved in theft. She immediately began telling "her" side of the story and blamed most of the problem on her supervisor, Stephanie. Marcy said that Stephanie put pressure on her to participate in this scheme. Marcy said that she "honestly" was not comfortable participating, and did not even want to go along with the scheme. Marcy defended her actions saying that other employees, in other departments, were doing the same thing. She claimed that it was, in fact, another employee who had shown her how to save the credit card information and then use that information to later transact a "purchase" so that when merchandise was taken out of the store or warehouse through security, there was a paid receipt attached. According to Marcy, "several other employees including supervisors knew this was happening and were involved or was 'looking the other way'".

Mr. Williams was devastated and felt horribly betrayed. This was happening under his watch and those who were involved were some of his most trusted and longest tenured employees. He was committed to their professional development and career growth; they were treated like family. "How could they do this?" he thought. Moreover, how many other customers had been a victim of these employees and had not yet complained? How many other customers in the past few months had been victims and had not even known that their credit card had been compromised because they did not compare their receipts to their credit card statements?

At this point, all Mr. Williams could think was, "How can I stop this from ever happening again?"