



## FRAUD IN THE DEALERSHIP

### *A Three Part Series – Part III – Hitting the Brakes*

In parts I and II of the series, we discussed what a typical fraud perpetrator profile included and gave some strong fraud indicators in specific departments. An employee usually steals when there is an opportunity to steal and usually is someone that has been with company for at least five years and is in a position of trust. Many times additional duties and responsibilities were given to that person because of that trust that had built up over the years. Pressures such as money or addictions can drive someone to perpetrate a fraud especially when it is easy to justify the action. It is clear that even the most trusted employees will steal.

So where do you start? This final part will address ways to identify where you have the greatest risk in your dealership by ranking the following three statements in the order of which you would be most likely to say (1=most likely, 2=second most likely, 3=third most likely):

<u>Statement</u>	<u>Ranking (choose each number only once)</u>		
<i>“Everyone makes mistakes.”</i>	1	2	3
<i>“My controller and auditors look at that.”</i>	1	2	3
<i>“I trust my people.”</i>	1	2	3

After you have ranked the statements, look for your corresponding risk areas below. Included in each section are some examples of some policies and procedures to implement, or in some cases, enforce, in your dealership. The statement you ranked number one (most likely) is typically the highest risk area for you, but all may be applicable.

### TONE AT THE TOP

#### *“Everyone makes mistakes.”*

As you may have been able to discern, controlling fraud begins “at home.” Take a hard look at the individuals responsible for running your dealership (including yourself) with the understanding that everyone else in the dealership is looking at that those people too. Would you be comfortable if anyone in the dealership did the same things you did, even if you are the owner? You may have heard the saying, “As long as he makes me more than he steals, I’m OK with it” or something similar. This practice will only end one way: with fraud in your dealership.

Defining what the dealership determines to be unacceptable is the beginning of proper governance. Without specific, documented, and enforced guidelines for employees to work and live by, lines will be tested, especially the gray areas.





Here are some great examples of policies to implement to help with your Tone at the Top:

1. **Code of Conduct** – These are the rules for conducting business for individuals and the dealership as a whole and may include the values and expected behaviors the dealership follows. Without these guidelines, it is much more difficult to enforce non-compliance and build a strong anti-fraud culture.
2. **No Tolerance** – Successful dealerships simply do not allow employees to commit fraud and still stay employed, even if it is the top salesperson or an owner. Making one exception will forever make your “Tone” tarnished and essentially continue to invite fraud.
3. **Good Hiring Practices** – Consistently using background, drug, and reference checks let all of your employees know that you are only going to hire the best people. Performing these checks every time is the key to success. Good employees also can help recruit other good employees so start with your existing staff and determine if you would hire them today.

## RISK ASSESSMENT

*“My controller and auditors look at that.”*

Some frauds are masterful deceptions that require years of planning. Most frauds include routine transactions that have break-downs in established controls and procedures. In other words, most frauds happen because:

- Someone stopped doing what was supposed to be done
- Someone started doing something that someone else should do

Dealerships, unlike certain manufacturers, do not have what seems like limitless funding to be able to have each single transaction type performed by a single employee. As a result, multiple transactions are performed by individuals every day. Fraud increases tremendously when opportunity arises because an employee is performing duties that would allow for fraud to go undetected. By separating duties properly, fraud risk can be reduced assuming those functions are actually being performed as developed. Just because someone is supposed to do something does not mean they are actually doing it.

There may be times when certain duties cannot be fully segregated due to lack of personnel, expertise or experience levels, logistics or other circumstances. In these situations many



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dealerships assign these duties to the most trusted employee. Of course, these are the same employees that fit the typical profile for committing fraud!

To help determine where you may have “holes” in your dealership that can lead to fraud, you need to perform an assessment of where your risks may be. Use these steps as a starting point for your Risk Assessment:

1. **“Role” Call** – Interview and document what each of your employees do for the dealership, both as a normal job duty and as a back-up (when someone is on vacation, sick, etc.) Begin first with employees that can record transactions, handle money, or purchase items for the dealership.
2. **Risk Ranking** – Determine the greatest risk to your organization. Are you more concerned with the loss of income or reputation? Is the loss of cash more important than the loss of assets? Is it more important for your dealership to comply with new regulations or save the expense and effort and hope you don’t get caught?
3. **Results and Reality** – Honestly assess your risks and where there may be risks you don’t know about or even understand. Is your CFO strong enough to notice financial fraud committed by one of your controllers? Are your personnel actually doing what they say they are (reviewing, approving, etc.)?

## INSPECT AND MONITOR

*“I trust my people.”*

There is no doubt about it: some people will not steal even if you give them a chance. It is also true that some will try to steal even if there is no way to do it. Opportunity is the only thing you can control (that is, if you know about it) and if you choose to just “trust” that employees will do the right thing, it doesn’t matter if there is opportunity or not.

You put a lot of trust in employees today. You trust that they protect the assets of the company, take care of customers, clock in on time, and in general, do the thousands of other things they are supposed to do each day. This should not be a problem as long as all of your employees know what they are supposed to do, are properly trained and educated, and are motivated to perform at their highest level for the company.



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The only sure way to make sure you can trust your employees is by checking them. “Expect what you inspect”, “check the checkers” are all very true. Over time, for many reasons, employees will stop doing what they are supposed to do unless they are reminded.

Here are some examples of both inspect and monitor procedures you can perform for accounts payable and the related disbursements:

### Inspect

- Get back-up for A/P check
- Check invoices for signatures
- Compare invoices to G/L posting

### Monitor

- Sign A/P checks with clerk
- Ask managers what they approved
- Observe clerk posting invoices

Simple inspection tests for any process include comparing the supporting documentation to the actual posting. Monitoring can include inquiry or observation of the process performer.

**Trust your employees enough to check them.**

For more information on how to detect fraud in your dealership, contact Brian Bentz, CPA, CIA directly at (817) 276-4106 or via email at [bbentz@dixon-hughes.com](mailto:bbentz@dixon-hughes.com).

### **About the Author – Brian P. Bentz, CPA, CIA**



Brian Bentz is the lead member for the Dealer Services Risk Services Group and is located in our Dallas, Texas office. Since joining Dixon Hughes over twenty years ago, Brian has focused exclusively on dealerships in providing them industry thought leadership consulting services related to internal audit, regulatory and compliance services, due diligence and buy / sells and agreed upon procedures.

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### **About the Dixon Hughes Dealer Services Group**

The Dealer Services Group of Dixon Hughes, one of the nation’s top 20 accounting firms, has over 135 dedicated professionals working exclusively with some of the largest dealerships across the country. Providing our clients with industry thought leaders in our Assurance, Tax and Risk Service Groups, we consult on best practices to help maximize efficiencies, decrease costs and understand risk management. Dealerships need an independent CPA firm to provide an objective view to take their business to the next level. At Dixon Hughes, we deliver on both sides of the service equation. A fact you might find a plus.

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