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Stopping Threats from Within

Sometimes the biggest threats to the livelihood of a dealership are the people on the inside. There are plenty of examples of that reported in local newspapers across the country. Compliance expert provides a strategy for protecting the dealership from the inside out.

By Joe Bartolone

There isn't a day that goes by that I don't see a news report about a dealer getting caught for some illegal scheme. Fortunately, illegal business activity is not prevalent at most dealerships, but it doesn't mean you are insulated from being victimized by a new hire or a lifelong employee.

Dishonest employees who are inclined to commit fraud, theft and other crimes are driven by need, greed, rationalization, and opportunity. An employee may be experiencing an economic setback, going through a divorce, or trying to support a gambling or drug habit. The

employee may also have reached a point where he or she feels deserving of a little extra, and adopts the attitude that "the dealership can afford it." The employee may even feel there is little risk of getting caught.

The first two factors are difficult to change, but the third factor is one where a dealer can have the most impact. A dealer can limit the opportunities for an employee to commit a crime by having the proper internal controls. The following are preventative measures a dealership can employ to protect the dealership from rogue employees.



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► DUTY SEPARATION

Segregation of employee duties is one way to implement internal controls in a dealership. Compliance consultants, CPA firms and DMS providers can help establish policies and procedures to ensure that no single employee or group of employees can disguise improper activities within their job functions. Here are a few examples:

- Employees who create book-out sheets should not submit contracts for funding.
- Employees who issue and record purchase orders should not post invoices into the

accounts payable system.

- Employees who authorize credit limits should not prepare month-end customer statements.
- Employees who create a repair order should not close the order.
- Employees who are responsible for hiring, terminating, and approving employee raises should not distribute payroll checks.
- Employees who open the mail should not make the bank deposits.

► ESTABLISHING A COMPLIANCE PROGRAM

Similar to the Safeguards Rule and the Red Flags Rules, there are five steps you should take to establish an effective compliance program.

1. Name a compliance officer: The person selected should be an officer of the company. He or she is responsible for the dealership's overall risk management functions and ensuring the success of the program.

2. Conduct a risk assessment: Just like your insurance company, you have to determine where the risks are before you can develop the required processes and procedures.

3. Develop a policy and procedure manual: The manual should describe the organization's expectations on how an employee should complete certain tasks, as well as standards of conduct in working with customers, fellow employees, lenders and vendors. It's important that employees acknowledge



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they have read and understood the standards of conduct. This will eliminate statements such as "I didn't know I shouldn't do that," "We've always done it this way," or "My manager told me to do it."

4. Provide employee training: This applies to new hires but should also include refresher training for established employees. Establish a curriculum and retain a roster of each person who has been trained. Additionally, conduct periodic audits with a three-layered approach:

By job function: A deal processor must complete a deal checklist or a service cashier must balance the cash drawer.

Management review: The general manager is required to review five deal jackets per month per F&I manager.

External review: Engage an independent outside consulting firm once or twice a year.

► KEEPING IT SIMPLE

Here are a few simple tips that can help you protect your dealership against internal fraud.

- Have the bank send all canceled checks and correspondence to a different address, such as a post office box or the dealer's home address.
- Change computer passwords regularly.
- Prosecute offenders and have a zero-tolerance policy.
- Set an example for ethical behavior.
- Never accept photocopies of documents, such as invoices and delivery tickets.
- Randomly check deliveries to your business and your customers.
- Conduct unscheduled audits.
- Look into unexplained employee absences and be suspicious of employees who never take time off.
- Spot check phone bills for calls to unrecognized business numbers.
- Establish an anonymous tip program that allows



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- employees to report questionable behavior.
- Require full documentation by asking for receipts, delivery times, and notes on the condition of goods when they arrived.
- Investigate all missing documents.
- Require employees to sign out for equipment and ensure that laptop computers, cell phones, pagers, and other equipment are promptly returned when an employee leaves the company.
- Be suspicious of any employee with a sudden financial change.
- Be open with your employees about theft and dishonesty.

4 PREVENTABLE CRIMES

Crimes committed in auto dealerships have recently made headlines in newspapers and television. Unfortunately, many of the offenses committed were preventable. Here are five crimes and five solutions that could have prevented them.

Crime No. 1: An employee is arrested on charges he led a \$1 million scam over six years to defraud three local car dealers. According to local authorities, the culprit and three other people conspired to bill for aftermarket products and services that were never provided or requested by the dealers.

Solution: If dealers required a purchase order for all sublet repairs and purchases, then this crime would have stopped in its tracks.

Crime No. 2: Ten car dealership employees were charged on July 23 with a scheme to defraud and grand larceny, according to *Newsday*. The

multi-pronged scheme involved identity theft, adjusted loan rates or financial information, stolen cash deposits, the sale of identities, and tricking customers into buying car equipment in order to get loans.

Solution: The dealership needed a compliance officer and a Safeguards Information Security Program to conduct regular risk assessments, and ensure that physical, administrative and electronic controls are in place to protect customers' information. The dealership also needed an outside compliance consulting firm to review its sales and F&I departments.

Crime No. 3: A former salesman and four accomplices were arrested for stealing numerous vehicles in an identity theft scheme at a Texas dealership, according to the *Valley Morning Star* newspaper. If convicted, each could face up to 10 years in prison

and \$10,000 in fines.

Solution: A simple deal checklist and a monthly review of a few deal jackets might have prevented this crime.

Crime No. 4: A television news report by the NBC4 station in California revealed dozens of car buyers were caught in a price inflation scheme at a Los Angeles dealership involving inflated lease payments. The dealership is being sued by some of the customers, and is under investigation by the L.A. County District Attorney and the California Department of Motor Vehicles.

Solution: The controller and general manager should have regulated the situation. This wasn't a one-time incident. Dozens of customers complained about the same thing, and now the dealership must face bad press, legal costs, fines and settlements.

Joe Bartolone is an associate with gvo3 & Associates. He can be reached at jbartolone@bobit.com