

PART 2 OF A TWO-PART CED-EXCLUSIVE SERIES

Theft Schemes in Dealerships – Is It Happening to You?

Be on guard for the many subtle – and often undetected – ways employees can perpetrate theft, right under your nose.

BY REX COLLINS

Few dealers are immune to the danger of fraud and the slowdown in the economy will only increase its existence. You may believe that it can't happen to you or your people would not do that to you; however, employees in dealerships everyday are proving otherwise.

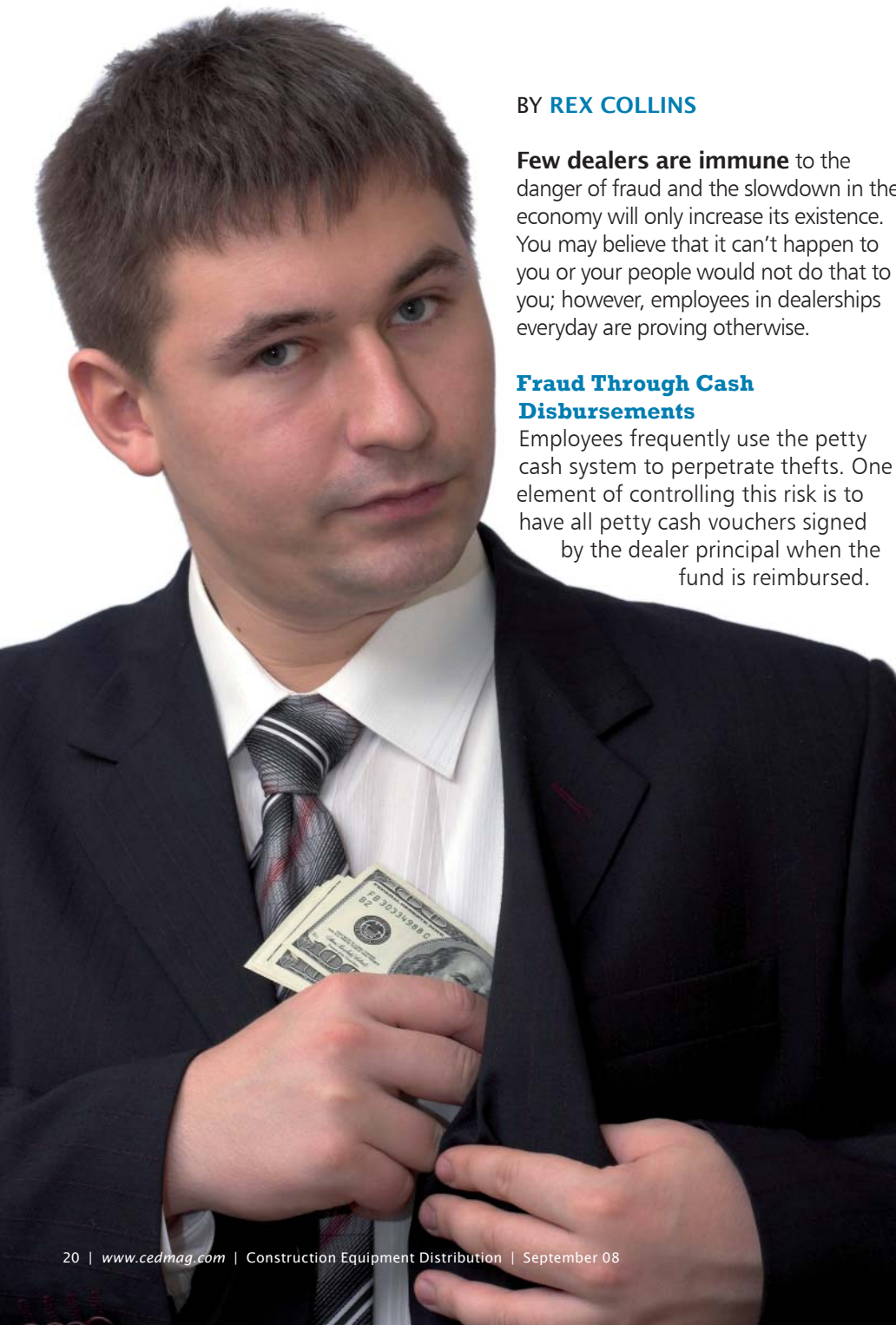
Fraud Through Cash Disbursements

Employees frequently use the petty cash system to perpetrate thefts. One element of controlling this risk is to have all petty cash vouchers signed by the dealer principal when the fund is reimbursed.

Case 1: A Portland dealer found out the hard way why this procedure is necessary. In this case, the office manager was "reimbursing" the petty cash fund three to four times each week, and there was no support for many of these petty cash disbursements. In essence, the office manager was stealing \$1,500 to \$2,000 a week from the dealer.

Case 2: A weakness in a Kentucky dealer's accounts payable system allowed the accounting clerk's personal bills to be paid by the dealership. This dealer unknowingly paid the clerk's personal utility bills for many months because he did not review the supporting documents attached to the checks presented to him for signature.

Case 3: Bank statements should come to the dealer unopened and the dealer should review all cancelled checks and electronic banking items for anything unusual. A Midwest dealer found that his office manager, Larry, was writing checks payable to himself on a weekly basis equal to his net pay on his payroll check. This had the effect of doubling Larry's take-home pay. Eventually Larry became so bold that he began writing checks to himself for very large sums of money. This was one element of a theft scheme that cost this dealer over \$100,000.



Dealers are using credit cards more and more frequently to pay the dealership's bills. This is generally done so that the dealer or the dealership gets the awards points or airlines miles relative to these very significant charges. There is a risk, however, associated with the use of credit cards. There have been instances in which the payables clerk or other employees have ordered and paid for items of a personal nature utilizing the dealership credit card. One clerk went so far as to claim that registration for her child's participation in Little League baseball should be considered advertising, while admitting that there was no mention of the dealership in any printed materials or on the team's uniforms.

Fraud Through Account Reconciliation

With fuel costs exceeding \$4 a gallon, many employees are stealing fuel. We are seeing instances where sales and lot personnel are doing just this. The accounting office must review and reconcile the fuel bills. For those of you with fleet fuel cards that are utilized by your staff, you must review the fuel consumption (average miles per gallon between fill-ups) to detect the unauthorized use of the cards.

Case 1: A dealer in the Midwest, after incurring a theft loss of \$140,000, discovered why it is important that all write-offs of bad debts be approved by management. In this case the office manager, Sally, wrote off uncollectible accounts, and credited the payments for the customers to her own accounts receivable, thereby creating a credit balance (which indicates that the dealership owed her money).

This dealer also charges its employees for health insurance and other monthly charges in advance of the month in which the premium is due. Specifically, the dealer had a 90-day waiting period before employees became eligible for coverage and the dealership's policy was to begin

payroll deductions at 60 days for those employees who were electing coverage under the health insurance plan.

In this way, the dealer had the employee's funds available to make the first month's premium payment instead of advancing each employee one month's insurance premium. In the case at hand, Sally made a journal entry to eliminate all of these advance payments for health insurance premiums by the employees and move them to her accounts receivable balance (again, increasing the credit balance in her account). Since the dealer encouraged its employees to save by establishing a "Christmas Fund" at the dealership, it was not unusual for employees to have sizeable credit balances in their account receivables. Accordingly, when Sally wrote a check clearing out her receivable account on a regular basis it was somewhat expected by the dealer and considered normal, although it was clearly the last step in the theft scheme. Sally also perpetrated thefts through the use of payroll disbursements.

Fraud Through Payroll

Scenario 1: In this case, and in many other cases, payroll clerks and office managers have used "Net Zero Checks" to perpetrate significant thefts. This scheme involves Sally writing a second payroll check to herself, having it taxed, and having what would otherwise be the net pay withheld as an employee accounts receivable, thereby resulting in a Net Zero paycheck. As stated previously, Sally was routinely writing checks to clear out this excess withholding.

Scenario 2: A variation of this scheme is one in which the perpetrator will generate an additional payroll check but instead of having any excess amount withheld as accounts receivable the perpetrator simply has the excess amount credited as additional federal income tax withholding. Ultimately, the individual files his/her income tax returns and receives

the excess cash at that time. While this theft scheme is relatively easy to discover it is one that most dealers fail to look for.

Scenario 3: With larger organizations, ghost employees can be a problem. The solution: As often as possible, the dealer should hand the pay checks directly to each employee to mitigate the existence of undetected ghost employees.

Scenario 4: Employees who calculate their own commission pay or bonus pay are always a danger. An Indiana dealer found that his F & I manager had been intentionally inflating his own commissions by more than 50 percent.

Scenario 5: Finally, with regards to payroll, always check references. There was an Ohio dealer group who fired an individual for theft. This former employee filled out an application to work at a sister dealership and was hired by that manager. Ultimately, this same individual – six months after starting employment at the sister company – stole \$130,000. It always pays to check references, especially if they are your own!

Fraud in the Sales Department

Allow no options or equipment to be removed from any new inventory item without an internal repair order signed by the department manager, and take

(continued on page 22)

Top 10 Dealership Theft Schemes

1. Nonrecording of Revenues
2. Withholding Receivable Collections
3. Padding Payroll
4. Vendor Fraud
5. Payment of Personal Expenses
6. Kickbacks
7. Theft of Materials
8. Credit Card Use
9. Stolen Petty Cash
10. Conflicts of Interest

“Theft Schemes in Dealerships” continued from page 21)

frequent unannounced physicals of all inventories. Check the conditions, signs of unauthorized use, and equipment shortages. Finally, test the results against office records and immediately investigate discrepancies. One study has found that 14 percent of all thefts occur in the sales department, and we suspect that number is low.

Another area to watch in the sales department relates to customer deposits. We have frequently seen instances in which the salesman or finance office has “stolen” the customer’s deposit and inflated the value of any used trade-ins to cover such theft. Alternatively, in lieu of padding the used trade-in value the sales person or finance manager has reduced the gross profit by the amount of the theft. Thefts of this type can easily get into hundreds of thousands of dollars.

Fraud in the Parts Department

Shipment of parts on company vehicles should be checked frequently to be certain that all parts loaded have been properly charged out to a customer. It is simply too easy for the parts driver to load additional parts in the parts delivery vehicle and “sell” your inventory on the side.

A clear policy should be established for discount purchases by volume customers and employees. Frequent checks should be made to be certain that these policies

are being observed. We have observed instances in which employees have altered documents to cover their thefts.

Case 1: A Florida dealer experienced a theft in excess of \$50,000 when a parts counter person, Bob, took advantage of weaknesses in the dealership’s systems, policies and procedures. In this case, Bob was hired by the dealership and, within two weeks, was caught stealing quarters out of the employee coffee fund. At this point the parts manager should have terminated the employee; however, the parts manager was a very kind and trusting individual (obviously to a fault), and simply counseled the employee and received a promise from Bob that he would never do it again. Bob went back to work in the parts department; but, he still felt the need to make more money, and accordingly asked the parts manager if he could get a part-time job. Company policy required that management approve all part-time jobs obtained by its employees (There are good, sound, business reasons for this policy that we will not discuss in this article). The parts employee promptly obtained a job working for a repair facility elsewhere in the area. Now the employee had an easy way to sell any parts that were stolen from the dealership by taking them with him to his side job.

Fraud in the Service Department

As part of the regular month-end procedures, all work in process should be inventoried, and all repair orders that have not cleared through billing should be listed. Throughout the month, work should be periodically spot checked to be certain parts charged are actually used.

We are seeing instances in which technicians are performing work “on the side,” in addition to probably being a violation of company policy, this leads to opportunities for theft of parts and materials from the dealership by the service technicians.

The dealer should also be aware of the process for closing service documents. Many thousands of dollars have been stolen from service departments by the cashier shorting the daily deposit and covering this shortage by the removal of service documents from the day’s activity. ■

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