



NATIONAL
AUTOMOBILE
DEALERS
ASSOCIATION

Don't Gamble with Your Controls – Stop Fraud NOW!



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Key Takeaways

- Gain a greater awareness of the overall impact of fraud on the dealership industry
- Assess your dealerships' susceptibility to and risk of fraud
- Identify key indicators of fraudulent behavior
- Identify the areas in your dealership that pose the biggest fraud risks
- Implement 5 key controls NOW to help mitigate risks for fraud

Example Cash Risk Assessment Questions

1	Are all cash in bank accounts reconciled promptly each month and reviewed?	
2	Are bank reconciliations prepared by individuals with no other cash receipts or disbursement functions?	
3	Are financial statement adjustments to cash prohibited?	
4	Is there an independent comparison of the list of checks received in the mail with those actually received?	
5	Are all checks endorsed "for deposit only" to the credit of the Company immediately upon receipt?	
6	Are cash receipts deposited intact daily?	
7	Are the duties of the person preparing deposits such that they have no access to accounts receivable?	
8	Are cash refunds prohibited?	
9	Are manual receipts used in any area of the dealership?	
10	Are manual checks instead of utilizing DMS prepared checks?	
11	Are promissory notes or hold checks accepted on finance deals?	
12	Are adjustments and/or write-offs of rebates and warranty receivables discussed, reviewed and authorized by department managers?	
13	Is the perpetual parts inventory reconciled to the accounting records at least on a quarterly basis?	
14	Are all accounts payable reconciled to vendor statements promptly each month?	
15	Are payments made by invoices only?	

EXAMPLE

Other Items May Apply

Example Deal File Checklist

Dealership Name _____

DEAL CHECKLIST

Name _____
Date _____

Stock # _____
Salesperson _____

REQUIRED FOR ALL DEALS	F&I	Accounting
Buyers Order signed by customer and manager		
Factory Invoice		
Copy of Insurance		
Product Disclosure Form signed by customer		
Copy of Drivers License or Passport		
Social Security Number		
Factory Rebates Incentive Forms, If Applicable		
Original We-Owe signed by Customer & Manager		
Delivery Inspection Report, If Applicable		
Front Gross Sheet signed by Desk Manager		
CAP Sheet signed by FI & Desk Manager		
Lien Holder Information (If applicable e.g. Credit Unions)		
IRS Form 8300 (If over \$10,000 cash or cash equivalent)		
OFAC verification for all buyer's and co-buyer's		
Cashier Receipts for Deposit and CODs		
Commission Vouchers Signed by Manager		
Product Disclosure Form Signed by Customer		

FINANCE BANK DOCUMENTATION	F&I	Accounting
Contract		
Credit Application/Provide Customer Copy		
Co-Signor Form, If applicable		
Notice to Vehicle Credit Applicant form Signed by Customer		
Unexecuted Non-English Contract If Applicable		
All Contracts and Aftersell Products sold		
Corporate Resolution If Applicable		
Bank Approval		
Proof of Factory Used Vehicle Certification		
Lease Worksheet - Leases Only		

MOTOR VEHICLE DOCUMENTATION CHECK LIST	F&I	Accounting
Report of Sales - completed and signed		
Completed Reg 262		

TRADE VEHICLES	F&I	Accounting
Trade Appraisal - ACV signed by used car manager		
Copy of Registration		
Payoff Authorization and Over/Under Form		
Title to Trade (If applicable)		
Used Vehicle Delivery Condition Acknowledgement		
Lemon Law If Applicable		

DEMO	F&I	Accounting
Vehicle Disclosure form		
Prior History Disclosure		
Warranty Date of First Use		

REQUIRED FOR SOLD USED VEHICLES	F&I	Accounting
Customer Acknowledgment of Disclosure by Dealership of Damage to, Prior Usage of, or Theft of Motor Vehicle Form		
Customer Acknowledge of Receipt of Carfax		
Copy of Buyers Guide		
Copy of Carfax		
Certified Used Car Forms If Applicable		
Kelly Blue Book Sheets		

RE-WRITE DOCUMENTATION	F&I	Accounting
New Contract		
New Optional Product Disclosure Form Signed By Customer		
Acknowledgement of Re-Written Contract From Signed by Customer		

DEAD DEALS	F&I	Accounting
Credit Application		
Cancelled Contract		

EXAMPLE

Other Items May Apply

Article on Fraud

The following is an excerpt of an article written by Dixon Hughes Goodman's Forensic and Litigation Support department, in conjunction with our Dealer Service Group.

Take it from a Certified Fraud Examiner: *You are Your First and Best Defense*

Fraud is everywhere. Our firm gets, on average, one call a week from someone who suspects a fraud in their organization. And by the time you suspect or discover it, you may have already experienced a financial loss.

Fortunately, there are some simple precautions you can take. Start by recognizing some tough truths about fraud and the people who commit it:

1. **Fraudsters don't always look like criminals.** If they did, you wouldn't hire them. People who steal from their employers or clients look like you and me.
2. **Fraudsters don't have rap sheets.** Your pre-employment background checks would reveal if someone had been convicted of a crime. The typical fraudster has never been in legal trouble.
3. **The person who steals from you is likely to be a long-term, trusted employee.** You've trusted them enough to give them access to financial information, company checks, petty cash, or a company credit card.
4. **Fraud generally starts slowly.** It begins when a good person gets into a bad spot and makes a bad decision.
5. **After you've discovered the fraud, it will make sense.** Hindsight is always 20/20, and victims of fraud often tell me they had a hunch they ignored.

Good people may do bad things

So, what makes a good person do something bad? The formula is simple. It's a bad experience plus a perceived opportunity. Good people find themselves in positions that seem untenable, such as debt, divorce, or midlife crises. When someone in financial trouble has access to funds – and thinks he/ she can dip into those funds without getting caught – there's an opportunity for fraud.

Understanding that decent people commit fraud is crucial to protecting your dealerships and its employees. Setting up appropriate safeguards not only protects you and your dealerships' assets – it also protects a good person (in financial trouble) from doing something illegal.

As an employer, there's little you can do about the external forces impacting an employee. What you can do is minimize your risk by having proper controls in place.

An ounce of prevention

The most effective way to deal with occupational fraud is to *deter* it. The best defense is a good offense.

Don't be afraid you're going to create an atmosphere of distrust. Let your employees know you recognize fraud as a potential threat and that you've implemented safeguards to prevent and detect it. Being visible and hands-on goes a long way toward thwarting fraud.

There are a few simple things any business owner or manager can do to help prevent fraud:

- **Review your bank statements and the supporting documents including your canceled checks.**
- **Establish an atmosphere of oversight.** Let employees know someone is watching.
- **Have a written policy about fraud.** Most employees want to play by the rules. But they have to know what the rules are.
- **Establish a sound audit trail.** Friends and family members shouldn't approve each other's expense reports.
- **Physically safeguard confidential, sensitive documents.** That's just good business.
- **Restrict and oversee electronic access.** Give access only to those who need it.
- **Segregation of duties.** This is Internal Controls 101.
- **Be careful about vendor approval and vendor payment setup.** Fake vendors are a serious problem. Use the technology readily available (such as Google and your state's Secretary of State website) to check out the vendors you're paying.
- **Implement anonymous reporting mechanisms.** Make it safe for someone to report suspected fraud.
- **Consider job rotations and mandatory vacations.**
- **Recognize the behaviors of an employee in potential trouble.** An employee who seems overly protective of a client or customer could spell trouble.

Now, consider calling in a pro to conduct:

- **Fraud risk assessment.** Someone who isn't close to your business and your employees is ideal.
- **Fraud awareness training.** It's important for employees to know the *why* behind the internal controls they're asked to implement. An outside expert can help explain the rationale.
- **Surprise investigations.** The element of surprise is crucial to learning what's happening behind the scenes. An unannounced, on-site review of controls will allow you to determine the true effectiveness of your internal control environment.

The human element

Internal controls aren't enough to prevent fraud. A computer alone can't monitor your cash flow. A human has to do that, and humans are fallible. Invest in educating your people about what constitutes fraud, how to detect it and what the penalties are. Make it tough for an employee to make a bad decision. People who think they're going to get caught don't commit fraud.

Every business owner or team leader wants a friendly workplace. But chumminess, plus access to finances, can lead to trouble. If Joe and Bob are best friends, and Joe has the authority to approve Bob's

expense reports, there's potential for a problem or if Barbara is the controller and her husband Joe is the parts manager.

You want to trust your people, and you should. Ronald Reagan's old adage about the former Soviet Union applies here: "Trust, but verify." It's perfectly reasonable – and good business – to check behind people to be sure your trust is well placed.

No excuses

We sometimes hear the rationale about why people don't have or enforce internal controls. "It takes too much time," or "It makes employees feel they're not trusted." We tell them that internal controls can't work if they're not enforced. Again, hiring trustworthy employees is what you should be doing. But trust is *not* an internal control.

If you think enforcing controls impedes efficiency, you'll hate to see what an embezzling employee does to productivity – and to your bottom line. Inherent in every internal control is an additional layer of time and effort added to an individual's responsibilities. Nonetheless, it's worth the time and effort.

We've seen the devastating effects of fraud. It's more than the financial impact on your business. It's tough to see a dealership owner or manager who has lost trust in someone he/she employed and cared for. It's tough to see that same person questioning his/her own judgment. We've seen the shame and remorse on the part of employees who have committed fraud – those good people who made bad decisions.

When you implement fraud controls, you're preserving your business and your personal relationships. Limit the opportunity, and you've limited your chances of being a victim.

Fraud is everywhere. But it doesn't have to happen in *your* business.

We live by one simple promise:

When you choose us...We give you our best!



Automotive News

N.Y. attorney general sues more dealerships over credit repair

Hannah Lutz 

Automotive News | January 21, 2016 - 3:05 pm EST

-- **UPDATED: 1/21/16 4:54 pm ET - adds dealer statement**

The New York attorney general has sued four dealerships and settled with three others over the illegal sale of credit repair and identity theft protection, the attorney general's office said Wednesday.

The actions are part of New York Attorney General Eric Schneiderman's efforts to stop dealers from charging customers for services without their knowledge or consent.

"When consumers shop for a car, they should not be misled by deceptive dealerships looking to make a quick buck off New Yorkers," Schneiderman **said in a statement Wednesday**. "Unfortunately, some dealers pad their pockets with fees for products and services that unaware consumers don't need, and don't want."

In the latest actions, the attorney general's office sued Koeppel Nissan, Koeppel Subaru, Koeppel Mazda and Koeppel Volkswagen in New York City, accusing the stores of unlawfully selling credit repair and identity theft protection to 1,426 consumers.

Mark Lacher of Koeppel Nissan said in a statement that the attorney general's office "is requesting a further breakdown of some of our paperwork. We will be working closely with them to comply with their request."

He added that the Koeppel dealerships have played an integral role in the community and are well-respected within the industry.

More stores

The attorney general reached a settlement with Westbury Jeep-Chrysler-Dodge, in Jericho, N.Y., and Fiat of Westbury, in Westbury, N.Y., for selling illegal credit repair services from Credit Forget It, and employing deceptive sales tactics.

The Westbury dealerships agreed to refund consumers \$100,000, representing the profits made from selling credit repair and identity protection. They will also pay \$5,000 in penalties and \$5,000 in legal costs.

The attorney general also reached a settlement with Security Dodge in Amityville, N.Y., for similar practices, the statement said. The dealership will refund more than \$18,000 to consumers and pay \$5,000 in penalties.

Attempts to reach Security Dodge, Westbury Jeep-Chrysler-Dodge and Fiat of Westbury were unsuccessful.

Illegal upfront fees

Some customers of the Koeppel dealerships paid more than \$2,000 for the services. The dealerships began working with Credit Forget It in 2013.

Regardless of whether the consumers received the services, the dealerships charged customers for credit

repair and identity protection, but concealed the charges from them or said the services were free, the statement said.

New York state and federal laws prohibit charging upfront fees for services guaranteeing that customers eventually will improve their credit.

From January 2013 to November 2014, the Koeppel dealerships received more than \$1 million from consumers for credit repair and identity theft protection services, the lawsuit said. A settlement proposed by the state in the lawsuit would prohibit the Koeppel dealerships from “engaging in these kinds of practices in the future” and would require them to refund all overcharges to consumers, the statement said.

Earlier actions

In June, the attorney general’s office announced multimillion-dollar settlements with four New York dealerships for selling illegal credit repair and identity protection via Credit Forget It.

Earlier in 2015, a consent order had dissolved Credit Forget It and prohibited its principals from participating in the credit services business. It also required them to tell all dealership clients to stop selling their credit repair services and remove all promotional materials and contracts from their dealerships.

The attorney’s general office continues to investigate other New York dealers that sold or continue to charge for aftermarket services without consumers’ knowledge, the statement said.



Eric Schneiderman: “When consumers shop for a car, they should not be misled by deceptive dealerships.”

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