

# Don't Gamble With Your Controls: Stop Fraud Now



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# Key Takeaways

After attending this workshop you will better be able to:

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



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# Impact of Fraud in Dealership

- Reputation (what are your “headlines”?)
- Trust
- Financial impacts
- Operational impacts
- Relationships with OEM



# Headline: *NY Dealers Targeted for Payment Packing and Other Deceptive Practices*

- \$13.5M settlement....for 3 jointly-owned Honda dealerships
- Attorney General found 11 additional dealers engaging in similar practices



# Business Fraud Statistics

- Typical organization loses ~5% of annual revenue to fraud
- 53% fraud-committing employees have been there for 5+ years
- \$220,000 = median loss of employees with 10+ years tenure
- \$145,000 = overall median loss



Source: Association of Certified Fraud Examiners

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# Business Fraud Statistics

- 18 months = median length of detection
- 87% fraudsters never been charged/convicted of fraud-related crime
- 58% fraud cases have no recovery at all
- Most likely to be detected by tip from employee
- **Dealers do not want to discuss it!**



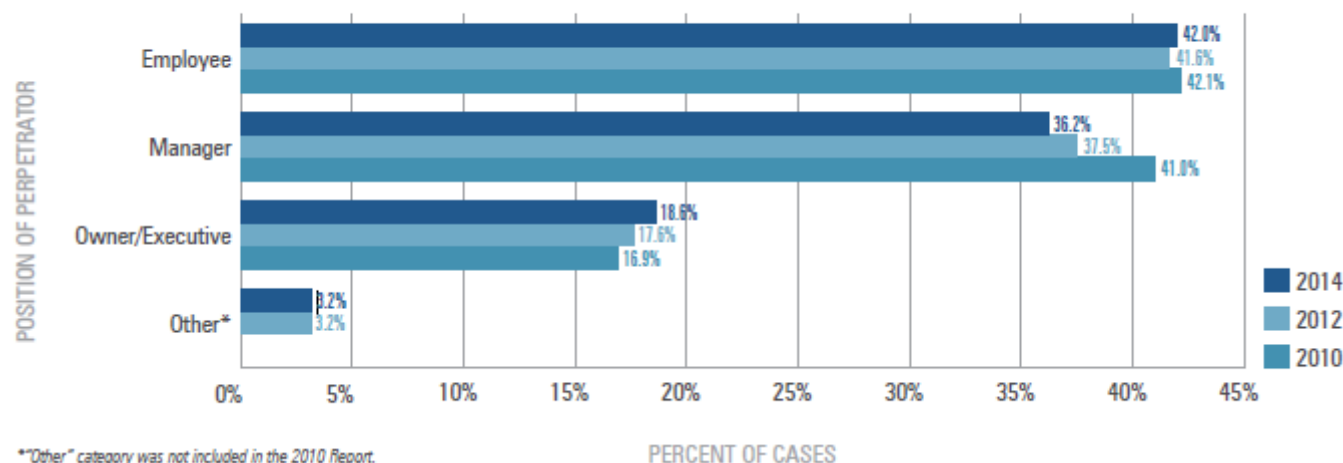
Source: Association of Certified Fraud Examiners

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# Perpetrator Profile

Source: Association of Certified Fraud Examiners

**Figure 40: Position of Perpetrator — Frequency**



- 86.6% - Never Charged or Convicted
- 31 to 45 – Age range of approximately ½ of fraud scheme perpetrators



# BEHAVIORAL RED FLAGS!!!!!!

- Grosses higher or lower than average
- Income per credit app higher than average
- Behavioral red flags:
  - Living beyond means
  - Financial difficulties
  - Unusually close relationship with vendor
  - Unwilling to share duties
  - Wheeler-dealer attitude
  - Divorce, illness or other family issues
  - No vacations



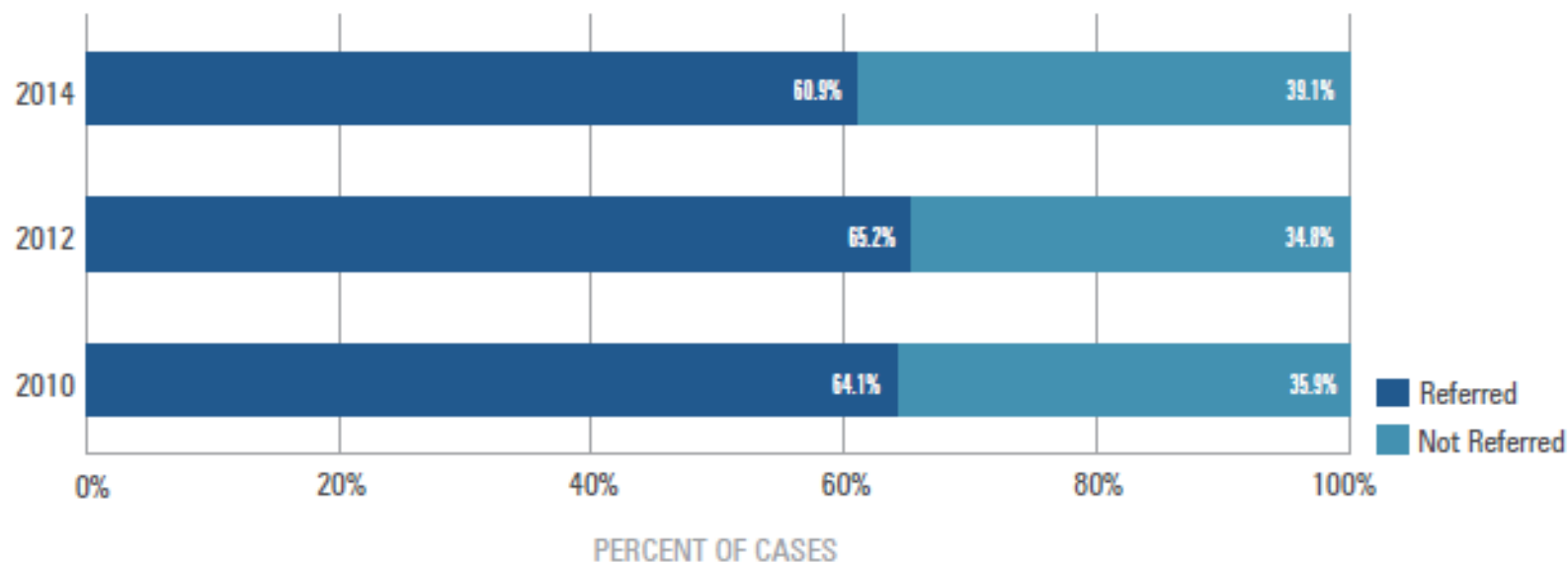
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# Fraud – What is the Impact on Reputation?



# Criminal Prosecutions

**Figure 77: Cases Referred to Law Enforcement**

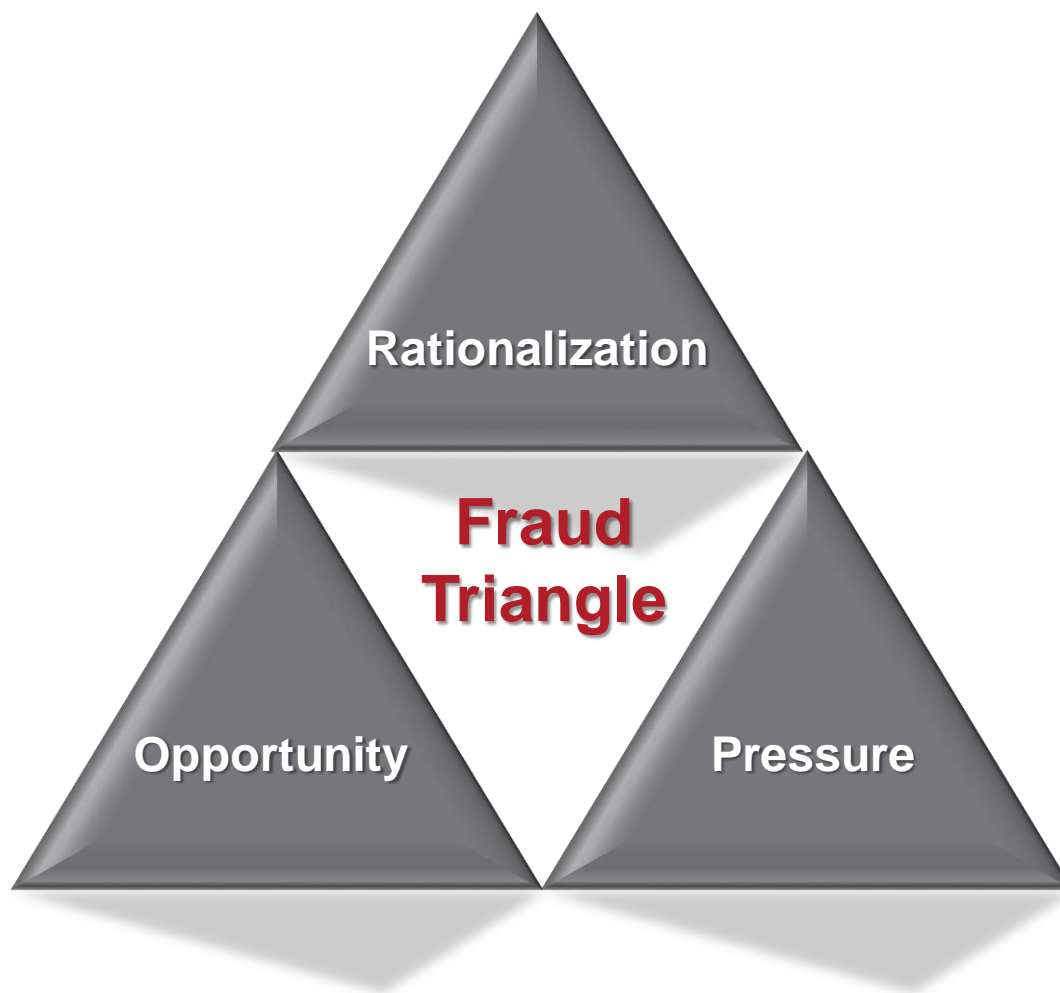


Source: Association of Certified Fraud Examiners

# Money...It Comes In and Out



# Fraud Triangle



# Assess YOUR susceptibility to Fraud

- Consider your:
  - Control Environment
    - F&I Processes
    - Sales Processes
    - Accounting Manuals
    - Policies and Procedures
  - Tone at the Top
  - Personnel
  - History
  - Key management presence
  - Facility layout



# Biggest Fraud Risks

- Financial
  - Theft of assets (including customer lists or trade secrets)
  - Fraudulent financial reporting
- Reputation
  - Perhaps most valuable asset
  - Very difficult to rebuild



# How to identify YOUR risks

- Perform a Risk Assessment
  - Deal Files
  - Hiring Process
  - Financial Controls
  - Tone at the Top
  - Pay Plans
  - Inspections (including use of data analytics)
  - General Awareness





# Example Deal File Assessment

- Is there a deal checklist?
- Do we have F&I rate caps
- Do we have a commission stair step? If so, do we have salesman that just hit it every month?
- Changes to any credit apps signed/approved by customer?
- Blank signed forms in deal file?
- Consistent signatures?
- All required forms signed?



# Example Financial Assessment

- Are standard reconciliations performed monthly?
- Segregation of duties
- Petty cash processes
- Cancelled checks review
- General journal entry process



# Top Fraud Risks Today

- Cash (including corporate cards)
- Customer Information
- Wholesale/Vendor
- F&I
- Not top yet – odometer.....



# What is an effective control?

- Detect vs. Prevent controls
- Manageable
- Cost efficient
- Consistently applied
- Promote Accountability
- Clearly Documented (e.g. policies and procedures manual)
- Reviewed/Tested Regularly



# Cash controls

- Bank reconciliation and review
  - Cancelled checks
  - Testing of outstanding items
  - Wires/EFTs
- Cash disbursements support. Review before signing checks (e.g. lien payoffs)

*\*Review to be done by someone independent from process*



## Headline: *BMW dealership employee stole \$50k*

- Cashier issued unauthorized refunds to her own checking account in 17 transactions over 5 months
- Employee admitted to theft



# Customer information controls

- Ensure only those that need access have access
- Provide alert if any significant downloads are made
- A dealership walkthrough will identify non -IT related weaknesses
- Security training



# Headline: *Car Dealership Finance Manager Arrested for Fraud*

- Stole customers' CC info to make high valued purchases
- Made 25 phone purchases with 20+ different credit cards → \$51,284
- Charged with: organization fraud, credit card fraud, white collar crime, identify fraud





# Wholesale controls

- Vendor approval process
- Detail review of all transactions with wholesalers (follow the money throughout the transaction)



# Headline: *Employee of Local Car Dealership Arrested for Theft*

- Created fake insurance and service claims to steal from employer
- Theft estimated around \$25,000

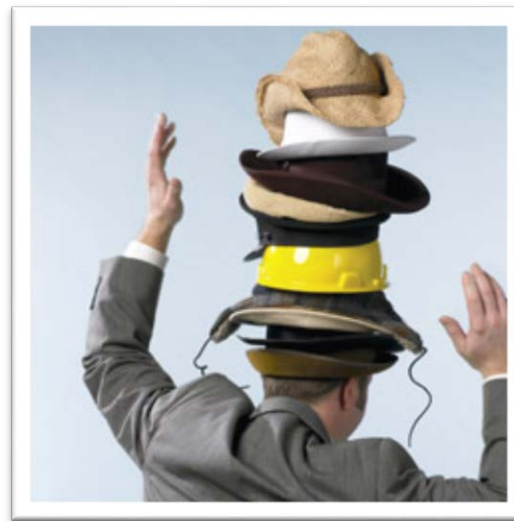


# F&I Controls

- Deal file checklist and review
  - Checklist should include –
    - compliance with any F&I rate caps,
    - unsigned forms,
    - adjustments to credit apps,
- F&I Manager deal analysis
- Information Security Plan



# Take Action...NOW!



- Segregation of duties
- Tone at the top
- Information, communication and monitoring throughout entire organization
  - Give employees the tools to effectively perform
  - Assess the environment, **not the person**
  - Don't give allow pressure, outside incentives or rationalization to trump sound judgement
  - Focus on perceived opportunity

# Recap

- Fraud IS happening in your dealership
- Identify your high risk areas
- Develop an action plan
- Perform a risk analysis
- Implement policies and controls
- Inspect what you expect



# Don't Be Caught



# Questions?

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