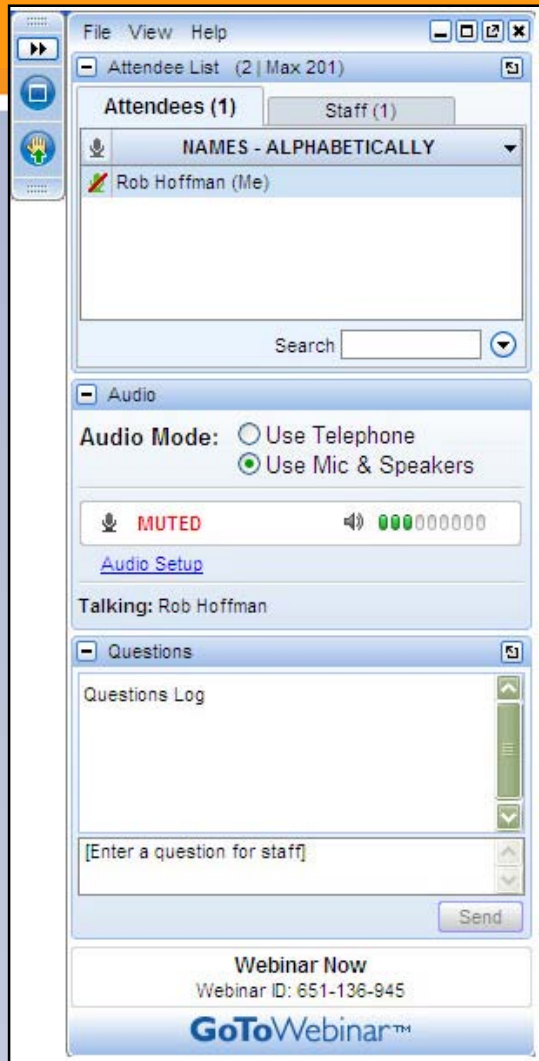




# Fraud: Spot It, Stop It

September 22, 2009  
3 p.m. to 4 p.m. EDT



## Moderators

Denise Rondini, Editor



Derek Smith, Editor



**Successful Dealer**  
DELIVERING INNOVATION IN SALES, SERVICE AND SUPPORT

**TRUCK PARTS & SERVICE**

## Presenter



**Jonathan Wilke, CPA, CIA**  
**Dealer Services Group**  
**DIXON HUGHES**

# OVERVIEW

- Business Fraud Statistics
- Fraud Triangle
- How to Spot Fraud
- High Risk Areas of Fraud
- Protect Your Business

# LET'S TAKE A POLL



Has fraud occurred at your dealership  
or distributorship in the past year?

# TRUSTED MEMBERS OF THE FAMILY

They would never steal from anyone



# WHAT IS YOUR FRAUD TOLERANCE?

Or would they?



## QUOTE FROM BERNIE

“In today's regulatory environment,  
it's virtually impossible to violate  
rules.”

~ Bernie Madoff

# STATISTICS ON BUSINESS FRAUD

Most likely to be detected by a tip

Median loss \$175,000

60% of schemes caused the organization to suffer loss of at least \$100,000

**52% of employees committing fraud have been with the organization over 5 years**

Median length to detect fraud is 24 months

Association of Certified Fraud Examiners. [2008 ACFE Report to the Nation on Occupational Fraud & Abuse](#). 2008.

# 2008 EMPLOYEE PAY VS. BUDGET

	2008 Monthly Pay		2008 Personal Expenses
Salary	\$4,000	Mortgage	\$2,000
2% Sales Gross	\$4,000	Transportation, insurance, personal care	\$2,000
Miscellaneous Bonus	\$500	Loans	\$1,300
Taxes (Est. 20%)	\$ (1,700)	Miscellaneous	1,200
<b>Take Home Pay</b>	<b>\$6,800</b>	<b>Total</b>	<b>\$6,500</b>

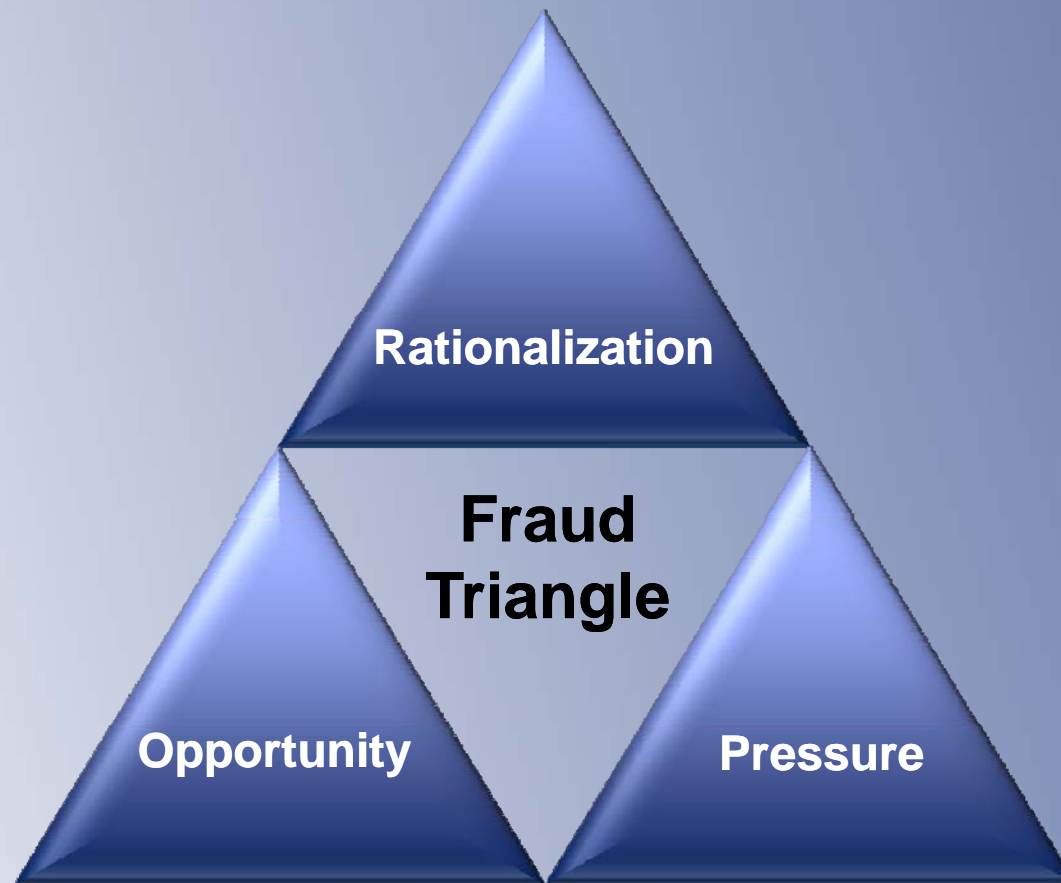
# 2009 EMPLOYEE PAY VS. BUDGET

	2009 Monthly Pay		2009 Personal Expenses
Salary	\$4,000	Mortgage	\$2,000
2% Sales Gross	\$2,000	Transportation, insurance, personal care	\$2,000
Miscellaneous Bonus	\$500	Loans	\$1,300
Taxes (Est. 20%)	\$ (1,300)	Miscellaneous	\$800
<b>Take Home Pay</b>	<b>\$5,200</b>	<b>Total</b>	<b>\$6,100</b>

# EMPLOYEE PAY ANALYSIS

	2008	2009
Monthly take home pay	\$6,800	\$5,200
Monthly expenses	\$6,500	\$6,100
Monthly Surplus/(deficit)	\$300	(\$900)

# THE GATEWAY TO FRAUD



# HOW TO SPOT FRAUD

## Lapping of Receivable Accounts

- Delays between time customer says they paid and posting of payment
- Unexplained discrepancies
- Excessive credit entries
- Different dates between deposit and customer payments

## Inventory Theft

- Differences between physical inventory and perpetual records
- Decreases in gross profits
- Significant number of in manual adjustments to perpetual inventory
- Large policy write-offs
- Uncollectible receivables
- Increase in credit memos

# HOW TO SPOT FRAUD

## Cash / Accounts Receivable

- Cash adjustments
- High number of no-sale transactions
- Unexplained bank reconciling items/adjustments
- Unusual discounts or credits
- Missing cancelled checks
- Multiple checks below review/dual signature threshold

## Payroll

- Aged open repair orders for work that is complete
- Rise in other expenses
- Decrease in service gross profit
- Warranty chargebacks
- Excessive write-offs
- Adjustments posted between periods

# HOW TO SPOT FRAUD

## Miscellaneous Red Flags

- Lifestyle changes in an employee
- Close relationship with vendors
- Unprofessional looking invoices
- Using non-company email address for company correspondence
- Working unnecessarily long hours
- Trust your gut. If it doesn't seem right, keep asking and researching till you get the right answer
- Follow up on tips
- Unreasonable responses to questions
- Refusing to take vacations
- Unwilling to give up job responsibilities or allow assistance from other employees
- Vendors insist on dealing with only one individual

# LET'S TAKE A POLL



In what area of your business do you think you are most at risk of fraud?

# FRAUDS TAKING PLACE TODAY

- Credits Issued on Personal Credit Cards
- Wholesale Transactions
- Cash Disbursements (checks and EFTs)
- Selling of Company Assets by Employees
- Rebates or Gifts from Vendors
- Cash Clearing Account
- Expense Reimbursements
- Pay Plan Manipulation

PERFORMANCE + *handling*

**Have your job descriptions been modified in the  
past year?**

# SEGREGATION OF DUTIES



PERFORMANCE + *handling*

**What access do your service advisors have and what are the controls over that access?**

# PROTECT YOUR BUSINESS

## Fixed Operations

- **POTENTIAL RISK AREAS**

If a Service Advisor has access to:

- Close repair orders
- Issue customer credit memos
- Issue service discounts
- Collect cash or prepare daily deposit
- Approve credit limits
- Change sale accounts and/or data files
- Charge repair orders to policy

PERFORMANCE + *handling*

**What access does your parts manager have and  
what are the controls over that access?**

# PROTECT YOUR BUSINESS

## Fixed Operations

- **POTENTIAL RISK AREAS**

If a parts manager has the following access to perform:

- Issue / close parts tickets
- Handle parts inventory for deliveries
- Prepare month-end customer statements
- Have access to change sales accounts and data files
- Access to accounting in the DMS
- Access to post entries in the DMS
- Collect cash or prepare daily deposit

PERFORMANCE + *handling*

What fraud risks are associated with your sales manager?

# PROTECT YOUR BUSINESS

## Front End

- **POTENTIAL RISK AREAS**

If the sales manager has access to perform:

- Change sales accounts and/or data files
- Post deals
- Report sales to manufacturer
- Approve transactions with wholesalers
- Collect downpayments

PERFORMANCE + *handling*

**No risks in accounting, right?**

# PROTECT YOUR BUSINESS

## Accounting

- **POTENTIAL RISK AREAS**
  - Cash receipts/deposit process
  - Cash disbursements process (checks and EFTs)
  - Financial statement fraud
  - Payroll
  - DMS access
  - Segregation of duties

# LET'S TAKE A POLL

## Change Your Mind?



Has fraud occurred at your dealership  
or distributorship in the past year?

# FRAUD OPPORTUNITY ANALYSIS

Fraud Opportunity Risk Indicator	Sales and F&I	Service and B/S	Parts	Accounting
1. Been with dealership for over five years				
2. No one supervises or reviews				
3. Has territorial vendor relationships				
4. Has territorial customer relationships				
5. Does not take vacation or only short increments				
6. Comes in early or stays after hours				
7. Has extreme control of the department				
8. Works excessive hours				
9. Has strange timing and/or delivery of paperwork				
10. Only one that can perform job function				
11. Excessive DMS access				
12. Multiple department access or responsibilities				

To determine the fraud indicator factor for each department manager, answer each indicator with a “yes” or “no”.

Count the total “yes” answers.

More than six “yes” answers may indicate a higher fraud risk for that manager.

PERFORMANCE + *handling*

“Risk comes from not knowing  
what you're doing.”

~ Warren Buffett

# RECAP

- Fraud is happening in your dealership or distributorship
- Develop a fraud tolerance expectation
- Perform a fraud risk analysis
- Implement policies and controls to mitigate fraud opportunities in your dealership/distributorship based on your analysis

# DEALER SERVICES GROUP

- **135+ Dedicated Dealer Services Professionals**
- **20+ Members Fully Dedicated to Dealer Services**
- **100+ Top Dealers in the Country Served**
- **1 Dedicated Dealer Risk Services Group**

## **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 automotive and heavy truck 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.

[www.dixon-hughes.com/dsg](http://www.dixon-hughes.com/dsg)

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# DEALER SERVICES GROUP

PERFORMANCE + *handling*



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# Questions?



Thank You!