

dealer summit

May 3-5, 2016
Sheraton Tampa
Riverwalk Hotel
Tampa, FL

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Fraud and Employee Dishonesty Tips

Dealer Summit
May 4, 2016



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**dealer
Summit**

Sheraton Tampa | Riverwalk Hotel, Tampa, FL

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Woman accused of embezzling from car dealership



MONROE, N.C. -- A 56-year-old woman is charged with embezzling more than \$187,000 from Dale Jarrett Ford in Indian Trail.

The Union County Sheriff's Office says Joyce Ann McCray turned herself in on Tuesday.

Investigators say the car dealership told officers that McCray, who was an employee at the dealership, stole gift cards belonging to the company.

During the investigation, detectives discovered that McCray may have been embezzling money from the dealership since 2006.

Detectives said McCray has been cooperative with the investigation.

She is charged with one count of embezzlement. Her first court appearance is scheduled May 5.

Posted on April 7, 2010 at 5:51 PM

West Milton Woman Sentenced In Dealership Theft

Posted: 11:01 am EDT April 12, 2010

Updated: 10:10 pm EDT April 12, 2010

GREENVILLE, Ohio -- A woman accused of stealing hundreds of thousands of dollars from a dealership in Greenville was sentenced on Monday.

Doris Chappell, 66, of West Milton, was charged with theft. She was the general manager of Dave Knapp Ford in Greenville at the time of theft.

Judge Jonathon Hein sentenced Chappell to three years in the Ohio Reformatory for Women in Marysville.

Prosecutors said the theft is a minimum of \$380,000. According to court documents, Chappell said the theft occurred because of her depression and a compulsive gambling addiction.

A co-defendant in the case who was a co-worker of Chappell's is expected to be sentenced on May 6. Restitution in the case has not been settled.

Second Woman Sentenced In Dealership Theft

GREENVILLE, Ohio -- For the second time in almost a month a former office worker at Dave Knapp Ford was sentenced for embezzling from her employer.

Rachel Wyant, 33, of Union City, appeared in Darke County Commons Pleas Court on Thursday morning and was sentenced to two years in the Ohio Reformatory for Women by Judge Jonathan Hein.

Prior to sentencing, a tearful Wyant turned to the owner of the dealership, his family and her former coworkers and apologized.

On April 12, Doris Chappell, Wyant's supervisor, was sentenced to three years in prison. Prosecutors said the theft involved more than \$385,000.

Chappell and Wyant were long-time trusted employees of Dave Knapp Ford.

Dealership manager also accused of embezzlement

December 23, 2010

ANDREA VanVALKENBURG [Press-Republican](#) [Plattsburgh Press Republican](#) Thu Dec 23, 2010, 05:56 AM EST

PLATTSBURGH — Police believe a former manager of Garvey Hyundai not only stole cars from the dealership but embezzled more than \$50,000, as well.

Julie Perry of Altona was charged this week with second-degree grand larceny, four counts of third-degree grand larceny, four counts of second-degree forgery and a single count of first-degree falsifying business records.

State Police investigators believe the 41-year-old has been embezzling money since at least February.

The exact amount of missing funds was not known Wednesday as police continued to pour over the dealership's accounting records.

After Perry's arrest, dealership President Sean Garvey said he was fully cooperating with police as the investigation continues.

Perry is also suspected of using a forged-check scheme to steal four vehicles from the business.

Three of them — all brand-new cars — have been recovered, while the fourth vehicle, a used truck, has not.

Garvey was thankful this week that most of the vehicles will eventually be returned to the business.

Perry, who had worked at the dealership since it opened in 2005, remained jailed Wednesday on \$100,000 cash bail and \$200,000 bond.

She was fired from her job after her arrest and will reappear in court later this month to face the allegations.

Former Bloomfield auto dealership clerk sentenced for embezzlement

BLOOMFIELD — A former accounts payable clerk who embezzled \$545,000 from a Bloomfield auto dealership has been sentenced to seven years in prison.

Acting Essex County Prosecutor Robert Laurino said 44-year-old Karen Marie Sosa of Belleville was sentenced after pleading guilty to theft by unlawful taking.

Laurino said Sosa was living in Nutley when she took the money from Lynnes Nissan in Bloomfield between 2007 and 2008.

After being contacted by dealership officials, the prosecutor's economic crimes unit conducted an audit that found Sosa wasn't depositing all the cash she had received from the parts and services department into the company bank account.

Trial delayed for Frankenmuth woman charged with embezzlement at car dealership

As attorneys negotiate a possible plea deal, a judge this week delayed the trial of a Frankenmuth woman charged with embezzling more than \$100,000 from a Frankenmuth car dealership.

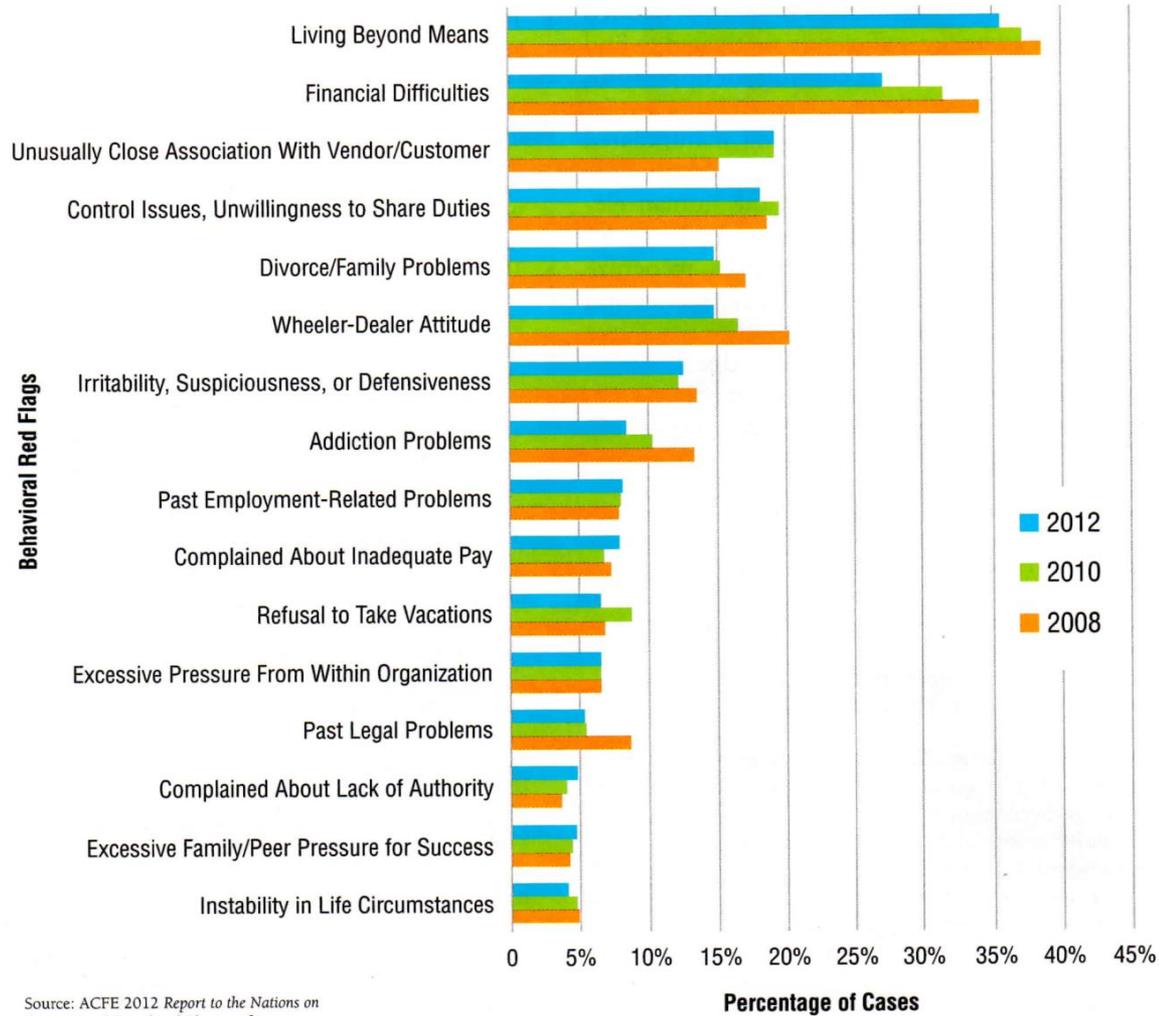
Rhonda C. Cron, 42, of 2932 Maple is charged with one count of embezzlement of over \$100,000. Saginaw County Circuit Judge William A. Crane postponed the trial as attorneys discuss the deal.

Prosecutors said that between June 1, 2002, and June 1 of this year, Cron embezzled more than \$100,000 as an employee of Mike Young Pontiac-GMC, 312 N. Main.

Through an internal audit, the dealership found that checks from insurance companies were not deposited appropriately, Frankenmuth Police Detective Randy Flathau said. Cron worked in the dealership's body shop, Flathau said.

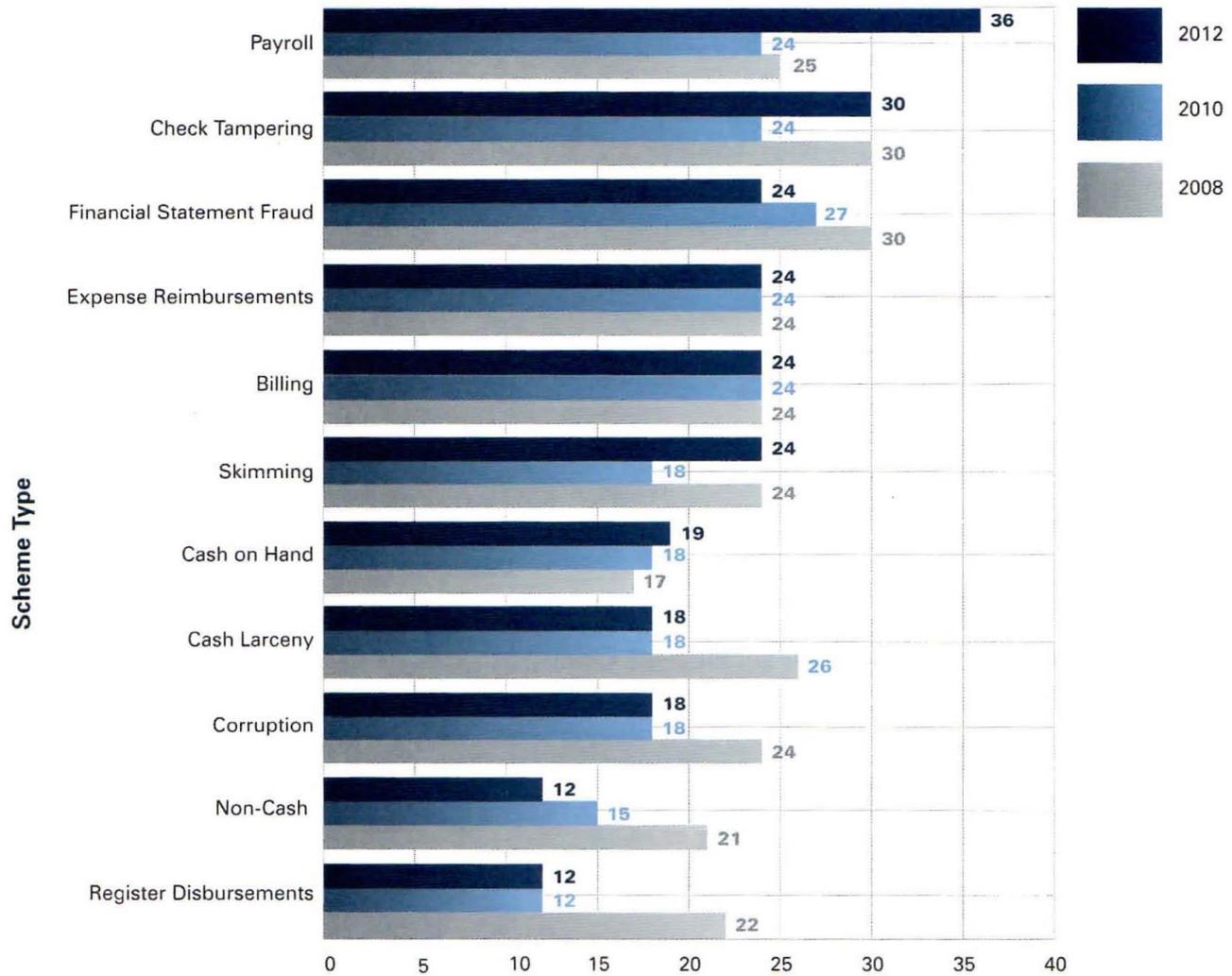
If convicted, Cron, who was free on a personal recognizance bond, would face a maximum sentence of 20 years in prison or a fine of up to three times the amount embezzled.

Exhibit 1 Behavioral Red Flags of Perpetrators



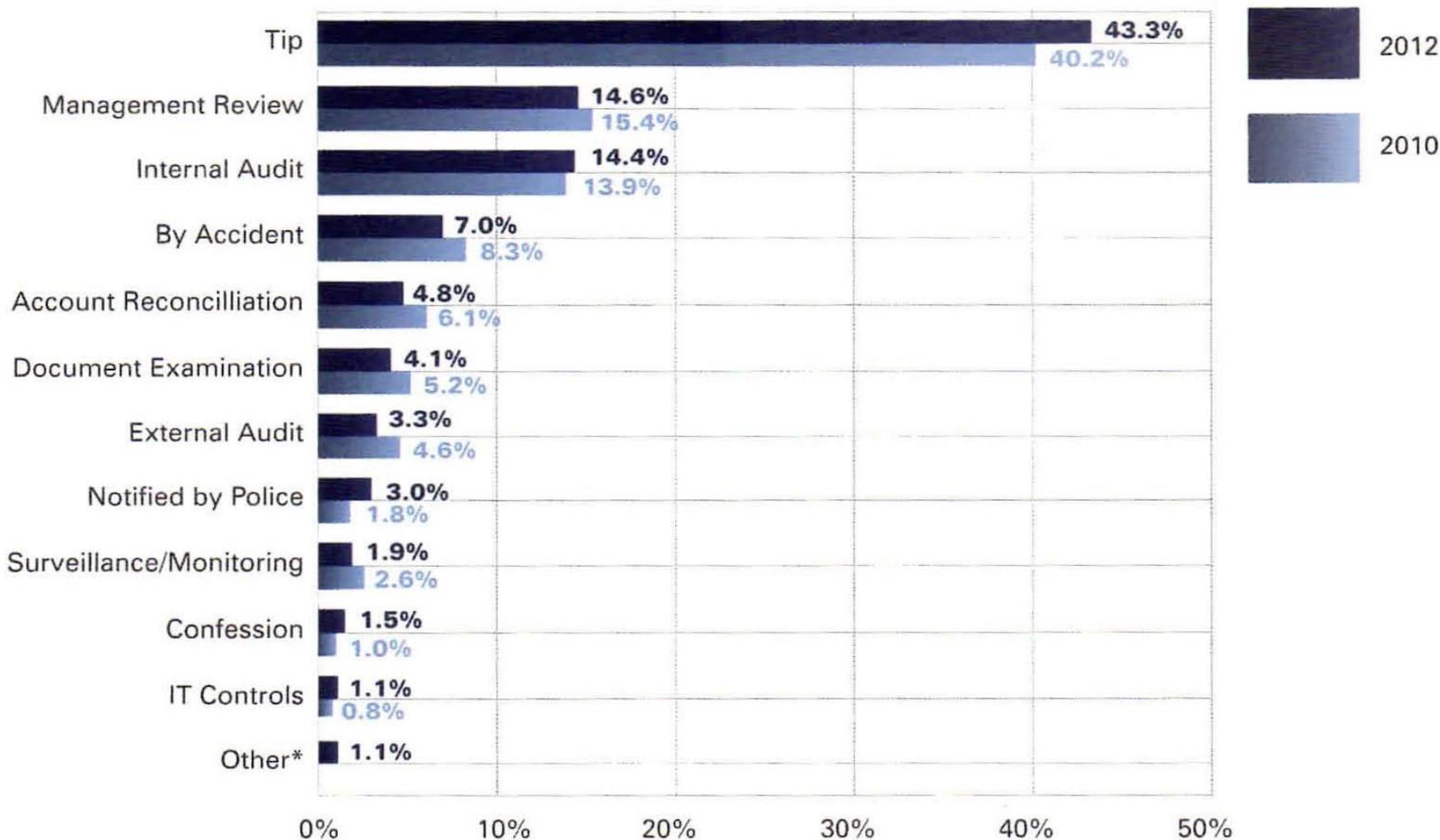
Source: ACFE 2012 Report to the Nations on Occupational Fraud and Abuse, acfe.org.

Duration of Fraud Based on Scheme Type



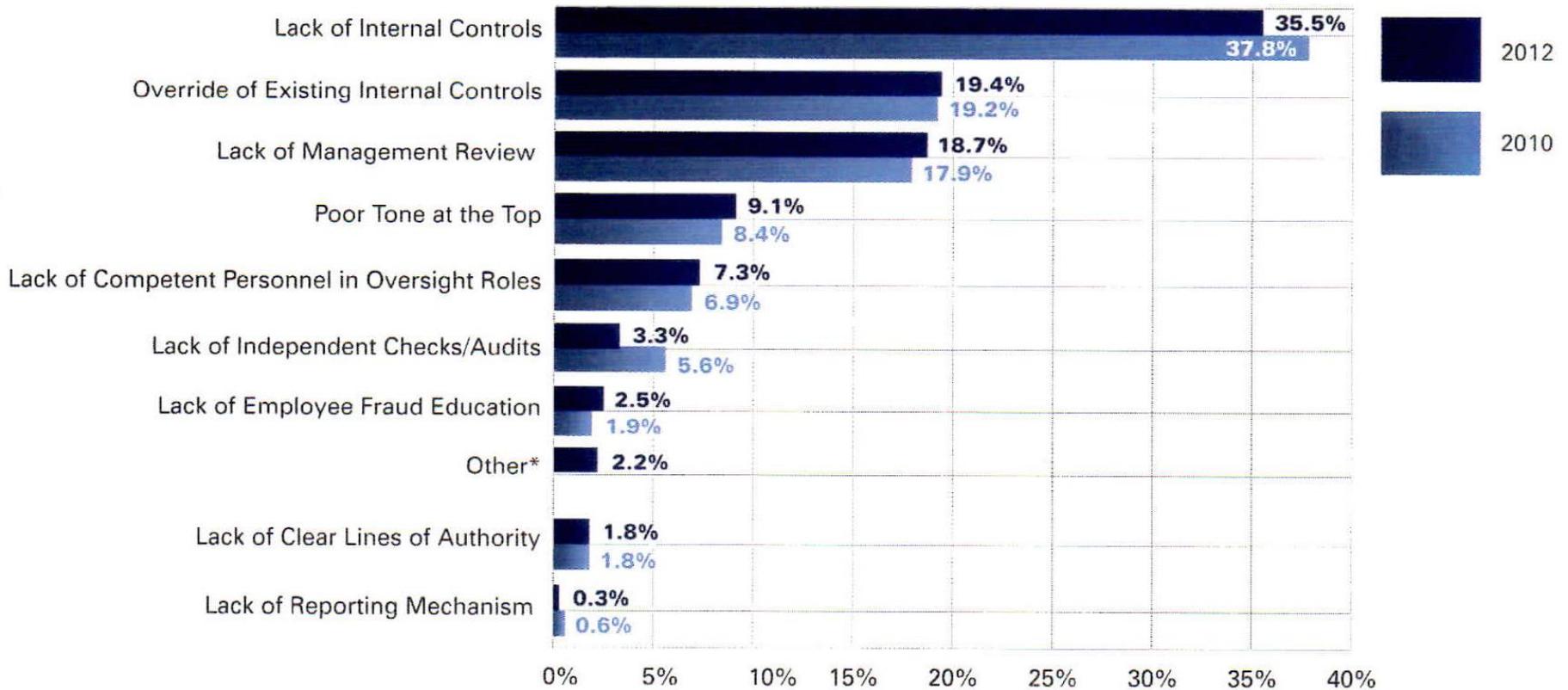
Source: ACFE, Report To The Nations On Occupational Fraud And Abuse, 2012 Global Fraud Study

Initial Detection of Occupational Frauds



Source: ACFE, Report To The Nations On Occupational Fraud And Abuse, 2012 Global Fraud Study

Primary Internal Control Weakness Observed by CFE



Source: ACFE, Report To The Nations On Occupational Fraud And Abuse, 2012 Global Fraud Study

Your Motto:

**It's Not That I Don't
Trust You...**

I Just Don't Trust You!

Always Remember:

**Whoever steals will
eventually get caught
and realize it was not
worth it!**

Top Ten Indications of Accounting and Internal Control Weaknesses

1. Employee is always behind on paperwork and appears to be unorganized
2. Employee never takes very much time off
3. Employee seems to live above their means
4. Employee becomes very trustworthy and is assigned more duties which cross more departments
5. Schedules and general ledger accounts are not reconciled
6. Bank reconciliations are not completed timely and there are always many reconciling items not recorded
7. Employee has multiple duties of receipts and disbursements
8. Deposits are not deposited timely
9. Employee has too much control over dealership assets
10. Employee has personal and/or family problems

General Controls

1. Track your dealer plates
2. Know where all your vehicles are, even ones not ready for sale yet
3. Require mandatory vacations of at least continuous one week at a time
 - a. Someone else does their **complete** job while they are gone
4. Cross training is mandatory
 - a. Have employees switch jobs to cross train and catch possible theft schemes

General Controls (continued)

5. Review equipment purchases for same items purchased multiple times or multiple quantities of same item at same time
 - a. Physically check to verify item is on dealership premises

6. Be aware of any employee experiencing personal problems, divorce, drug habits, illnesses, family problems, always borrowing money from other employees or you, love of gambling, flashy clothes, nice cars, expensive house, vacation home, kids in college, boats, motorcycles, etc.

7. Have all dealership keys stamped "Do Not Duplicate"
 - a. Have each employee sign for the key and have them present it to you at random times
 - b. If you have not accounted for keys adequately in the past, change the locks and issue new keys, have employees sign for them
 - c. Find out who has the "internal door" keys

General Controls (continued)

8. Review all gas tickets for stock numbers, dealership use of company vehicles, manager's use of gas cards
9. Check health insurance bills to make sure all employees are paying their required amounts for family plans, etc. and the dealership is actually getting reimbursed through payroll and or receipts correctly
10. Collusion is very hard to catch and check for - multiple people can cover the activity more easily
11. Dealer and managers must set the "standard" for the dealership
12. Dealers should search desks of employees from time to time
13. Have "Work To Do" baskets for your staff so you can easily monitor their work flow when you walk by

General Controls (continued)

14. Let all personnel know they will be prosecuted to the fullest extent if involved in a theft
15. Review your insurance policy for employee dishonesty limit coverage's and make sure it is at least \$500,000 per occurrence
16. Inquire on each of your bank accounts who has check signing and transfer authority
17. Complete background checks on employees in position of authority and all office personnel
18. Require people change their passwords on a regular basis
19. publicdata.com - check out prospective and troubled employees, vendors, wholesalers, etc.

Company Credit Card Controls

1. Review all detail for authorized charges
 - a. If used for parts or services, review the actual invoice or other documentation
2. Make sure amount paid on credit card pays only the company's credit card amount
3. Dealer and his family should have a personal credit card for personal items

Payroll Controls

1. Hand out checks/payroll slips to all employees from time to time
2. Review the payroll detail for all payrolls in one month and hunt for:
 - a. Excessive withholding as a % of gross pay
 - b. Voided paychecks to verify they have not cleared
 - c. \$0 amount checks with gross pay and withholding
 - d. Duplicate checks for same employee
 - e. Final paychecks and check the calculations
3. Review W-2's for all employees to see if gross pay matches pay plan
4. Run your own monthly payroll reports and review them for reasonableness
5. Require signed time cards to be completed by all personnel, even salaried personnel for possible future work comp claims, etc.

Payroll Controls (continued)

6. Drivers - should document stock number of vehicle, always run wages through payroll
7. All overtime must be approved and initialed by supervisor
8. Monitor temporary employees and their job responsibilities
9. Monitor and insure all payroll taxes and 401k plans are paid timely
10. Compare Direct Deposit account numbers to employee's name for variances
11. Compare net payroll on report to funds transferred on bank statement

Cash Controls

1. EFT and ACH
 - a. Floor plan payoffs - verify the amounts to actual vehicles sold and floor plan statements
 - b. Review multiple months of transfers for identical amounts - car payments, etc.
 - c. Require a manual EFT log of all outgoing transfers be maintained. Review and trace them back to original documents and the bank statement
 - d. Review documentation for all outgoing funds
 - e. Setup a separate bank account for incoming funds only

2. Credit and Debit cards
 - a. Reconcile your detail daily
 - b. Review any credits or reversals in activity ASAP

3. Wire transfers
 - a. Require an owner/supervisor's authorization code to release transfers
 - b. Limit transfers between company accounts only

Cash Controls continued)

4. Bank reconciliations

- a. Bank reconciliations should be completed **immediately** after month end or during the month
- b. Bank reconciliations should be completed by someone who has no access to payables, receipts, deposits, EFT's, etc.
- c. Bank statements should be sent to the dealer's house and reviewed by them
- d. Review back of cancelled checks for "Pay To The Order Of" transfers or name not matching the front of the check
- e. Check deposits slips to bank statement and match dates and amounts
- f. Have your CPA on-site one month as a surprise when the accounts are reconciled or have them reconcile the bank accounts from time to time
- g. Review your bank activity daily for unusual transactions
- h. Manually add up the list of outstanding checks and deposits to insure accuracy
- i. From each bank statement, choose random deposits, transfers and checks and pull the original documentation for the transaction

Cash Controls (continued)

5. Petty cash

- a. Make surprise cash counts at lunch time to prevent "borrowing"
- b. Review vouchers and receipts for all activity for one month
- c. Each amount should be entered separately as a disbursement entry to the correct G/L account and credit petty cash the same as if a check was issued
- d. Require hand written receipts from each employee if a spiff is given to them or hand them out yourself with another employee present

Cash Controls (continued)

6. Checks

- a. Review actual checks written to actual amounts recorded on the general ledger to insure they match
- b. Review check posting to verify they are charged to correct accounts
- c. Require two signatures on all checks over a certain amount
- d. Review cancelled checks to see if signatures are forged
- e. Review sequential check numbers to verify all cleared bank within reasonable time
- f. Review cancelled checks to the accounting records to insure the payee names match
- g. Require check numbers to be preprinted on check forms and have your computer print the check number below the preprinted number
- h. Periodically check the blank checks to insure none are missing and keep them locked up

Cash Controls (continued)

6. Checks (continued)

- i. Limit checks made out to cash - should have additional authorization and documentation
- j. Check your accounting copies of checks to the amounts cleared on the bank statement
- k. Require all invoices paid to be attached to the check to be signed
 - l. Make sure all voided checks have not cleared the bank
- m. Download the check activity from your system and sort by the payee. Investigate any large quantities of checks to the same payee, any large dollar amounts, etc.
- n. Review disbursement entries for checks and other transfers charged to multiple accounts

Cash Controls (continued)

7. Cash receipts

- a. Check for any cash back type transactions
- b. Prohibit cash back transactions - you are not a bank
- c. Deposit slips should include the customer's name
- d. Dealer should write down all checks received for a day and then check the deposit slip for that day a few days later to insure they all got deposited timely. You can also check the handwritten list to the cash receipts journal for the day to insure they were posted accurately
- e. Customers should be asked to sign your receipt copy of any large cash amounts received
- f. Limit the amount of cash kept in safe overnight
- g. Compare total of all cash receipts journals to the bank statement and deposit slips for reasonableness
- h. Make sure the deposits are actually deposited into authorized dealership bank accounts by reviewing the account number on the bank deposit slip and the amounts and attach bank deposit copy
- i. Make sure all bank accounts are actually on the general ledger and all reflect the activity on the bank statement

F&I Controls

1. Notify all auctions, banks and insurance companies there are to be no "kickbacks" to the personnel of the dealership in any form whatsoever
2. If you don't have one, make up a car deal checklist of all required documents for every type of car deal
3. Pull a random sample of various types of car deal jackets for the last three months. You should have copies of:
 - a. Down payment or full cash payment in the form of checks, cash, etc. taken at the time of sale and a matching receipt with same date
 - b. Payment received from the source in the form of checks, EFT, etc. and a matching receipt
 - c. If cash or check is manually deposited, trace the receipt to the bank deposit slip for the same day
 - d. Copies of any lien payoffs and floor plan payoff checks
4. Make sure all personnel are trained in Form 8300, Red Flags and other required regulations

Accounts Receivable Controls

1. Run a detail of your trade receivable balance for more than one month to Excel if possible
 - a. Look for journal entries moving balances between different control numbers to keep the balance current
2. Actually pull RO and parts ticket copies of old amounts due and review the activity purchased
3. Review all employee receivable balances and test various invoices for correct sale and costs
4. Review and approve all write-offs of receivables
5. Trace various random cash receipts to insure they are being credited to the correct customer number
6. Review employee's history of purchases and receipts for credits or write offs

Vehicle Receivable Controls

1. Verify down payment amounts to the actual car deal documentation, to the actual deposit slip and then to the bank statement
2. Review the wholesalers the dealership uses and who authorized the sales, meet them personally to receive payments on vehicles
 - a. Check the vehicle value in Black Book to sales price
3. Check car deals with little or no gross profit, especially to friends, relatives, employees, etc.

Purchase Orders

- How many of you actually use purchase orders on a regular basis?
- What do you use them the most for?
- It doesn't make sense to write up a PO after the fact
- The entire idea of using PO's is to be able to control and approve purchases so you know the cash flow and expense effect ahead of time
- Using PO's will make you think twice about spending money
- Who is able to approve your purchase orders?
- PO's should be matched up with the corresponding invoice

Service and Body Shop Controls

1. Review all voided tickets for time and or parts charged and then deleted or moved to another ticket
2. Review all old WIP RO's and inquire why they are still open
3. Review all old Accounts Receivable amounts due from insurance companies
 - a. Don't write off any without reviewing the actual RO and other documentation
4. Hunt for employees, their friends, other relatives, large volume in excess of normal transactions
5. Run a report of gross profit by RO for parts, service and body shop sales and cost of sales to test for low gross profits
 - a. Review all tickets below or above acceptable gross profit levels
6. Review all employee RO's and parts tickets to make sure they are paid in full and not charged off

Service and Body Shop Controls (continued)

7. Choose a random sample of RO's and see if they were closed out for the amount of cash taken or charged to the correct customer account
8. Periodically check service bays and make sure an RO is opened for all vehicles in service department
9. Sublet tickets - review and make sure there is a PO attached to each and then trace them to an actual RO and then make sure it is charged to the customer
10. Ask around to see what technicians, service advisors, etc. work on vehicles on the side and then check their activity of purchases
 - a. Require payment in full for all purchases and review what type of discounts are being used for these purchases
11. Do not allow technicians to work on personal cars at the dealership after hours

Parts Controls

1. Parts pad

- a. Run the parts counter detail pad to Excel and sort by the extended cost
- b. Hunt for large extended cost amounts and test count those parts
- c. Hunt for large on hand quantities and test those counts
- d. Find out what parts are “write ins” and not on the parts pad

2. Parts management report

- a. Review the Adjustments section for large amounts
- b. Run the Adjustments report for both increases and decreases in quantities and amounts and review with the manager as to why they are happening

Parts Controls (continued)

3. Require all supplies be stored in parts department and put on part ticket by technician
 - a. Require empty supply cans be returned to get another
 - b. Check for excessive consumption of same supply by technician to number of jobs they have completed
4. Parts managers have an open checkbook and no purchase orders are required
 - a. Check large parts orders to see whether some parts are still in stock, when sold and to who
5. Check vendor's bills to see what address the parts were delivered to; require all parts to be delivered to dealership
6. Require regular bin checks to effectively take a physical parts inventory every two months and have an office person take test counts; then check the counts against the computer parts pad

Parts Controls (continued)

7. To test your controls, stock five \$20 bills in parts inventory and put them in different bins, record the serial numbers, and check to make sure the same ones are there at random times
8. Have an outside parts firm take the physical inventory with an office person taking test counts also from time to time
9. Have all miscellaneous parts, tires, oil, etc. stocked on the parts pad
10. Used parts taken off vehicles - enter them in special source with parts number and .01 as cost if there is no cost to assign to them
11. Walk through the parts department and check for opened boxes for accessories - floor mats, etc. where part of the box was sold
12. Insure the parts department is locked down at night and find out who has keys
13. Check the trash bin for new parts “thrown away”
14. Check all credit /refunds issued

Accounts Payable Controls

1. Hunt for fictitious vendors
 - a. Run list of vendors and addresses - look for PO Boxes
 - b. Require all vendors to have a street address and a phone number
 - c. Call the phone number to see who answers
 - d. Google the business to see if it exists
 - e. See if the street addresses are valid addresses
 - f. Review what is purchased, how often, and if you can even consume the volume of items purchased
 - g. Check the vendors addresses against your employees addresses for matches
 - h. Pull various vendor's files and see if invoice addresses are all the same
2. Submit a false invoice with no support or purchase order
 - a. See if someone brings questions it or if it just gets paid

Accounts Payable Controls (continued)

3. All new vendors should be approved, checked for valid addresses and phone numbers
4. Review current vendors to find out who approved them
 - a. Call them to discuss the relationship
 - b. Send letter to all vendors advising them of your policy against kickbacks to managers and other employees
5. Review all expense reimbursements and require proper documentation
6. Review cell phone bills for unauthorized phones, plan upgrades and or additional usage added to the account
7. Review internet bill for additional accounts added
8. Review utilities expense accounts for other than dealership bills

Accounts Payable Controls (continued)

9. Bid out your largest and most frequent purchases on a regular basis
10. Limit the number of suppliers you use for the same items and know who these suppliers are
11. Review all purchase orders for one month and randomly question and review the documentation and need for the items on them
12. Review health insurance bills for additional coverage's, dependents, etc. not reimbursed by employee
13. Know who your advertising companies are and who approved them
14. Review rug and uniform contracts for unreasonable and one-sided terms, automatic renewal and price increases, etc.

Lien Payoff Controls

1. Check a full month of lien payoffs and pull the car deal jacket to see if it is valid
 - a. Check the lender's name and address on the actual check to other correspondence to make sure it is a real finance company
 - b. Make sure the amount of the lien payoff check or transfer and the VIN agrees with the car deal
 - c. Review the timeliness of payoffs

Taxes and License Controls

1. Review checks issued for real estate and personal property taxes to insure only the dealership's taxes are paid
2. Review license, sales tax and title fees paid - insure they are only paid on actual car deals by randomly checking batches

What Have You Learned Today?

Your Motto:

**It's Not That I Don't
Trust You...**

I Just Don't Trust You!

Questions?

Thank You For Your Time Today!



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