

## **Cash is Still King...but who's got the Keys to the Castle?**

Is it just me or is cash theft becoming more prevalent in automotive dealerships? I just spent several days investigating a fraud scheme in which the cash sales clerk at a dealership "allegedly" stole tens of thousands of dollars. During the investigation the newly hired controller, who was responsible for uncovering the fraud scheme, remarked that these situations must be following her. (She had recently experienced a similar situation at her old store). I told her that it was my opinion; take it for what it was, that employee theft of some type occurs in over 65% of automotive dealerships across the country, the majority of which remain undiscovered.

We've seen this happen quite often over the last few years. During 2005, we investigated an "alleged" embezzlement at an automotive dealership, whose office manager "allegedly" embezzled more than \$500,000 in cash. Now, this guy was employed at this dealership for more than 15 years and the dealer trusted him. He trusted him so much that he gave him full control of the checkbook. You have no idea how many dealerships I walk into where the dealers dismiss the fact that a certain employee or manager would steal from them. I hear it all the time, "don't worry, I trust that guy." It's natural to trust your employees. I'm not telling you not to. However, **you can not rely on that trust as a substitute for internal controls.** And that's what most dealers do, they mistake trust for an internal control.

Most people do not wake up in the morning and think to themselves; "hmm, how am I going to steal from my employer today?" Something happens in their life that they cannot control that causes them to be so desperate that they see no other alternative.

In fact, every instance of fraud is comprised of three elements called the Fraud Triangle:

Motivation – Rationale – Opportunity

In the first two factors, the dealer has little to no control (you cannot control the extenuating circumstances that exist in someone's life or the life of a loved one, nor can you control the rationale for committing the fraud). However, you can control the opportunities that exist.

### **Motivating Factors**

With the cost of living on the rise and profits shrinking in most dealerships across the country, now more than ever dealerships are susceptible to cash theft or fraud. People are making less money and the value of the dollar continues to decrease.

Drug/alcohol addiction, extramarital affairs and gambling (you can now place a bet from anywhere in the world – all you need is a credit card and internet access), are the top three motivating factors; however, excessive lifestyle and medical expenses also can factor in.

These are all situations that can take otherwise honest people and turn them into crooks.

I recently attended the tele-seminar "Stopping Internal Theft in the Dealership" presented by Robert Burton from Moss Adams, LLP in conjunction with Dealers Edge Magazine in which Mr. Burton quoted a survey stating that:

30% of the people are genuinely honest

30% of the people are genuinely dishonest

40% of the people are dishonest if given the right set of circumstances

That would suggest that 7 out of every 10 employees who work for you are capable of stealing from you. Now,

that's a sobering thought! Factor in that 12% of people working in the automotive industry have a criminal record ("Stopping Internal Theft in the Dealership") and dealers across the country have a problem.

So, every dealer, vice president of operations, chief financial officer or general manager that believes that because so and so has been with you for 25 years he'd never steal from you, should get that thought out of their head, because sometimes desperate times call for desperate measures. For example, you have an employee whose son racks up \$50,000 of gambling debt; no one knows what could happen if the opportunity exists.

### **Reduce the Opportunities**

Therefore, it is imperative that the dealership reduce the opportunities by implementing sound internal controls, primarily in the area of segregation of duties.

The general rule of thumb when it comes to segregating duties is to separate the custody of the asset with the access to accounting. For example:

The employee who receives the cash should not have the ability to post to accounting.

The authorized check signers should not open the bank statement.

The cash sales clerk should not send out the receivables statement.

As gross profits diminish and dealers strategize to reduce the overall expense of the dealership, many accounting offices are being cut to 2-3 people. This has made the task of properly segregating duties more difficult and has essentially put the control of your checkbook in your office manager's hands. In these types of situations, it is imperative that the controller, CFO, general manager or the dealer himself (depending on the organizational structure of the dealership) play an active role in the review process of the key reconciliations, schedules, journals and other reports.

Some multi-franchise dealerships may require a full-time internal auditor to review the internal controls of the dealership group. As an alternative, the dealer could hire a CPA firm to perform this function at a substantially lower cost. Either way, it is essential that someone is reviewing the books and records on a periodic (i.e. monthly, quarterly, etc.) basis and determining the reliability of the internal control environment.

In the current market, it is becoming more difficult to be a successful dealership in America (especially in the Northeast). Many dealers have neither the excess capital nor the resources to sustain employee theft. I would urge all auto dealers to take the necessary steps now to prevent potential losses and headaches down the road.