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F&I



Sherralyn Peterson

It's the one thing we hate to think of or talk about, like a "100 pound gorilla" in the room, but fraud continues to be a major risk to dealers. Fraud can happen in any business, but dealerships are like multiple businesses under one roof, so the risks are magnified many times over for dealers. It could happen to any dealership at any time—right under your nose, without your knowledge. Believing that it can't happen to you and doing nothing to prevent it can cost you thousands of dollars, possible lawsuits, and maybe even your business.

Consider the millions of dollars, sensitive customer information, financial transactions, and inventories of valuable goods that pass through, or are housed in your dealership. Fraud can occur in any area, at any level.

Managing Fraud Risk

Especially during these difficult economic times, fraud can occur in a vulnerable environment with loose operational practices.

“Devoting time and resources toward implementing checks and balances in your operations is a worthy investment. It will pay off down the road in many ways.”

The one thing that many business owners don't realize is that fraud is not always easy to detect or find, but, in today's environment, planning to protect yourself and

being proactive is a good way to reduce the odds of fraud. Consider these preventive measures:

- 1. Recognize the types and forms of fraud**
 - *External fraud*—misreporting delivery information, F&I misrepresentations, identity theft, causing out-of-trust in floor-planning, etc.
 - *Internal fraud*—check tampering, payments to fictitious vendors, incentive scams, etc.
 - *Theft*—cash, parts, payroll scams, company assets, etc.
 - *Corruption*—bribery, extortion
- 2. Understand the cause**—Three key elements called the “fraud triangle” help us to understand how and why fraud occurs; they are pressure, rationalization, and opportunity. As circumstances in people's lives change and pressures mount, they can often find ways to rationalize their wrongful actions.

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3. **Avoid risks**—Giving too much power, unlimited access, or unusual freedoms to any single employee is not a good thing. Restrict access to information, systems (including DMS), accounts, and records to only the appropriate personnel. The best defense is to have adequate internal controls, segregation of duties (especially with handling cash and its related transactions) and appropriate levels of security in your operations. These measures will discourage the 'opportunity' element.

Note: Smaller dealerships may struggle with implementing segregation of duties, because they may not have the number of employees needed to separate job functions. An alternate option is to use responsible employees from other departments.

4. **Manage the risks**—Have adequate approval processes in place. Timely reconciliation of all critical accounts is mandatory; then review them and ask questions. Conduct periodic in-house audits and compliance reviews; it's a great deterrent to unwanted

behaviors. It also reduces the temptation and opportunity for fraud or misappropriation.

5. **Have clear policies and accountability for your staff**—Educate your staff by communicating what your policies are, what is expected of them, and what the consequences of fraud are. Set the tone for your organization.

In the unfortunate event that fraud occurs within your dealership, you should always have a plan in place to immediately deal with it, from prompt reporting to authorities, to securing, and preserving the evidence. Your attorney should also be contacted immediately to discuss how to handle the situation in regard to the employee(s) involved, the impact on your business, and any damage control, if needed.

Devoting time and resources toward implementing checks and balances in your operations is a worthy investment. It will pay-off down the road in many ways.

Sherralyn Peterson is an automotive incentive specialist with 30 years of experience. She helps dealerships maximize profits, minimize risk, and enhance cash flow. For more information, call 312-310-8380, email speterson@sherralynpeterson.com, or visit www.sherralynpeterson.com.

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