

## How to avoid the high cost of employee fraud

In my experience there are always “red flags” indicating that an employee fraud situation is or could be happening.

My experiences with dealerships after fraud has occurred have consistently shown that in hindsight red flags were present, but were either not recognized as such or if they were recognized no one acted on them. The thing is when a red flag is recognized the dealerships management must take immediate action and investigate to make sure that fraud has or has not been committed.

### ***Some red flags:***

- Changes in behavior (alcohol, drugs or excessive gambling)
- Excessive number adjusting entries
- Excessive number of year end adjustments
- Floating adjustments
- Employees Friends or family on the payroll
- High employee turnover
- Poor segregation of duties
- Employee lifestyle changes (clothes, cars, expensive homes, jewelry)
- Transaction records Missing
- Resistance to taking vacations
- Lots of over-aged inventories, receivables or CITs
- Evasive when providing information others, especially to auditors
- Unusually high personal debt and/or credit problems
- Shoddy bookkeeping
- Extra bank checking accounts for not good reason
- Transactions you don't understand
- Unexpected checking account overdrafts or drop in cash balances
- Evasiveness when discussing shortages or with accountability questions

In addition to a strong system of internal controls, here are some cultural policies that may minimize occurrences of fraud. Clean up your own act. Employees can easily rationalize fraud if the behavior of management is perceived as unethical.

- Perform a thorough, pre-hire back ground check
- Always check references before hiring
- Ask employees if they know of or suspect anyone of committing fraud in the dealership
- Be inquisitive and follow up on any circumstance that seems suspicious
- Communicate to all employees that you will not tolerance fraud
- Consider hiring outside consultant or have your DMS provider certify utilization of your computer systems built in anti-fraud features and controls
- Always follow the dealership's employment process when hiring a new employee

Directly supervise the mailing of statements and checks  
Require prompt and complete account analysis and reconciliation  
Institute a drug testing policy, before and during employment  
Insure proper segregation of duties  
Clearly state your fraud policy in your employee handbook  
Require the bank to send statements directly to the your home  
Open the mail yourself  
Spend some time getting to know your employees  
Maintain strict accountability for all cash funds  
Formal review of the missing document reports  
Reward employees for reporting theft  
Without exceptions take full legal action when fraud is found

Every dealer will experience employee fraud at some time. But, by having tight internal controls and consistently applying good theft prevention practice, the loss can be minimal and quickly discovered.