

Preventing Employee Fraud

Computer tools that help you prevent and detect theft



“Good accounting practices combined with high utilization of the controls provided by your computer system will prevent most fraud and make it difficult for employees to steal from you and get away with.”

You may not know of or read any of criminologist Donald R. Cressey’s books but I am pretty sure you know his theory of the “fraud triangle.” First introduced in the 1950s his fraud triangle theory has become the foundation for employee fraud prevention. The theory suggests that there are three factors that contribute to an employee committing fraud.

The Fraud Triangle

1. The first factor is financial pressure on the employee, such as gambling or credit card debts.
2. The second factor is opportunity or the employee’s perception that an opportunity to commit fraud exists. This opportunity may arise from poor internal controls, lax discipline policy, or other factors.
3. The third factor is the employee’s ability to rationalize the fraud, suggesting that it is somehow justified and/or non-criminal.

A Cost of Business you Don’t Have to Have

It is not something we like to talk about but, the fact is that theft by employees of small businesses in the USA totals nearly \$40 billion each year. Security experts estimate that as many as 30 percent of all employees do steal, and that another 60 percent will steal if given the motive and opportunity. While we may never know the exact cost of employee theft it is indisputable that it is widespread and the chances are that it is happening in your dealership right now.

Over my many years in retail automotive I have had dealers relate some horrendous experiences with employee fraud. The sad fact is that most were discovered by accident and they would not have occurred or at least been quickly discovered except for poor internal controls and other sloppy practices. I am sure you know dealers who have been victims of employee theft; you may have your own stories from first hand experience.

Which reminds me of an old consultant’s axiom; “all of us learn from experience, ether our own or someone else’s”. While some things (usually of a personal nature) is better learned through individual experience other unpleasant things are best learned from

others experiences. Please consider that when it comes to lessons learned from employee theft experiences it is best to learn from others.

Experience tells us that when it comes to employee theft the two biggest contributing factors is lack of basic accounting controls and misplaced trust in the employee. It is usually the long-term, long-trusted employee that commits the theft. In every case it was the person least suspected who committed the crime.

What to Do

While each of the three legs of the “fraud triangle” requires slightly different theft strategies the one you are most in control of is the opportunity leg. The thing to do of course is to remove the opportunity to steal and make sure you have an adequate system of internal controls and to oversee key employee tasks and enforce theft prevention protocols.

Each time I have been involved with a dealership, auditing and installing internal controls after a theft has been discovered I am reminded of the simple fact that having good internal controls and letting the employees know that these process were in place would have prevented the theft to begin with.

I am sure your CPA can provide a list of internal controls or visit my web site, jimskeans.com for my recommendations. Also please take a look at what I call the “red flags”; things that could indicate that you have a problem or are at least vulnerable to employee fraud.

The Good News

Your DMS provides some wonderful, very effective computer-based tools that will help you fight employee fraud. Good accounting practices combined with high utilization of the controls provided by your computer system will prevent most fraud and make it difficult for employees to steal from you and get away with.

Do you have Missing Documents?

While the list of accounting controls is extensive and all are important one item I have seen in disuse lately is the “missing document report”. I am one who believes that all transaction documents be they parts invoices, service invoices, car deals, checks or purchase orders belong to the accounting department. Once the document is started (opened) it should be a short trip to accounting. It is the accounting department’s responsibility to track and manage these, in transit, transaction documents just as they do for cash. While open, pre-processed sales documents are expected and indeed a fact of life I believe it is the accounting department’s prerogative to ask for and receive a reasonable explanation when one is left open for an unusually long time. The best and easiest way to know if the document is overdue is to run the “missing document report” and let the computer determine age it for you.

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.

Most employees will not commit fraud if your administrative staffs consistently do the little things that communicate to people that if they steal they will be caught. The thing to remember is that the “fraud triangle” requires three legs, take away the opportunity leg and when it comes to employee fraud they won’t have a leg to stand on!

For ADAM Inc. Users

From the main accounting menu click on ‘Report Menu’, select ‘Listings’ and then ‘Missing Documents’ sub-item. From the dialog box select the documents from Administration, Parts and Service transactions by specifying the appropriate journals (multiple if needed) in the selection boxes. Also you can specify the gap range (if documents are not sequential) and how far into the archived months you want to look. Once the desired parameters have been selected choose Print which will preview the report on screen from which you can send to the printer. *Submitted by Orlando Rodriguez of ADAM Inc*

For ADP Elite Users

From the AC account select Function AGDS (Missing Documents menu). Before running the report choose the Update option for creating reference ranges for the document types you want to report. Then choose the Report option to for the report previously set up. The missing document report will list any documents not posted to accounting in the ranges setup in the Update feature. *Submitted by Jim Skeans of Jim Skeans Consulting Group LLC*

For ADP w.e.b.Suite 1000 Users

From the main accounting menu click on Reports, then select Missing Documents. Select documents by either Current Month or Current and Next Month by clicking in the appropriate field to select then enter the document number range by entering the beginning and ending document. Click on the Source Journal(s) to select and then click Add. Once the desired journals have been selected choose View or Print. *Submitted by Jim Skeans of Jim Skeans Consulting Group LLC*

For Reynolds + Reynolds ERA Users

With the ERA system you may create one report for all types of documents or set up separate reports for similar types such as new and used vehicles purchases. Once set up the reports may be saved and used as originally created or modified for use in later months. From the accounting department select the executable 0439 (missing document report screen) and follow the prompts to create the report for documents you want. *Submitted by Jim Skeans of Jim Skeans Consulting Group LLC*

For Reynolds + Reynolds Power System Users

From the Management Accounting application, select Print>Miscellaneous Reports>Print Missing Documents. You can print the report for all journals, or you can narrow the report to only certain journals, a certain date range, and/or specific ranges of reference numbers. Press F12 to request your report. *Submitted by Landis Martin of the Reynolds and Reynolds Company*