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Dealer Theft Increases In Difficult Economic Times

During tough economic times, incidents of theft increase and dealers need to be alert for the warning signs. For many people, the cost of food, energy, housing and education costs are increasing at a rate that is faster rate than the increases in their personal incomes. Increased unemployment, maxed out credit cards, and a declining dollar are exacerbating the problem. All these factors are creating significant strains on household budgets. It is our experience that incidents of theft increase during difficult economic environments.

Financial pressures can also be a result of addictions to drugs, alcohol, or gambling. These types of behaviors are not easily detected, but need to be considered as another possible source of fraud.

Employees who engage in theft often intend to pay the money back. However, this rarely happens and all too often the theft increases. To ensure no one else discovers the theft, the individual needs to "cover up" the malfeasance. Dealers need to have an adequate series of internal controls to help identify any attempts at cover up.

Posting improper journal entries is often used to cover up the theft. An excellent internal control to protect from this is that all journal entries should be reviewed by the office manager and dealer / general manager each month and suspicious journal entries should be investigated.

Dealers should also consider limiting the number of journal entries being posted. Reviewing the general journal report can be a cumbersome task as this report can exceed 50 pages in length. The volume of this report is a result of routine transactions such as electronic funds transfers and deposits being posted via general journal entries. Routine transactions such as these should be posted via the cash receipts and cash disbursements journal not by a general journal entry. General journal entries should be used only for "non routine entries." The use of the general journal by accounting clerks should be limited and their entries should be approved by a second individual.

We have compiled a list of monthly internal controls that should be performed individually by the Office Manager and the Dealer to help identify problems in the accounting and reporting systems of a dealership and act as a deterrent for employees considering a fraud. Our "Monthly Office Manager Checklist" acknowledges to the dealer/general manager that all pertinent schedules and reconciliations are being prepared and reviewed on a monthly basis. Our "Dealer's Checklist" identifies items that a dealer / general manager might review on a monthly or quarterly basis to ensure that accounting controls are in place. The most effective internal control feature in a dealership is an active dealer who asks questions.

If you would like copies of these checklists, please email Paul McGovern at pmcgovern@downeycocpa.com or you can obtain them from our newly revised webpage at www.downeycocpa.com and follow the link to newsletters.

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