



"A CPA firm that understands dealership management, accounting, and tax issues"

Red Flag Rules Create Dealer Compliance Requirements

In an effort to protect consumers from identity theft and fraud, the Federal Trade Commission has enacted the *Red Flag Rules*. By November 1, 2008, dealerships are required to have a formal, documented program in place to be compliant.

What are the Red Flag Rules?

In its simplest terms, the Red Flag Rules formalize what many dealerships have had in place informally for a number of years – a way to identify, detect and prevent the use of someone's identity by another to purchase goods and services.

Why are dealerships affected?

Basically any business in which an individual is able to obtain credit must have such a program in place. Dealers are subject to this as they are the bridge between the consumer and financing, whether it is a vehicle loan or leasing contract. This also applies to parts and service receivables where someone could use another's identity to obtain credit from the dealership.

What does a dealership need to do?

The best place for a dealer to start is with NADA. They have developed various sample programs and templates that a dealer can use as a guideline to begin to develop his/her own program. Remember that they provide general guidelines and the program needs to be tailored to the uniqueness of each dealer's business. It is also recommended that the dealer consult with its attorney to ensure compliance with any federal, state or local laws regarding identity theft. The sample programs and templates are available at www.NADA.org for NADA members.

What are some of the guidelines?

The dealership needs to develop formal, written policies and procedures that include the identification of areas of risk, examples of risk, maintenance of a log of any incidents involving identity theft (both successful and unsuccessful) and steps employees need to take should they encounter an incident that could potentially be identity theft. A member of senior management needs to be appointed as a Compliance Officer to oversee the development, implementation and administration of the program. This person would take ownership of the program to make certain that it is working properly and initiate any changes he/she deems necessary for the dealership to be in compliance. It is important to provide proper training to those employees who are in a position to come into contact with potential identity theft (most notably the finance department).

With identity theft costing tens of billions each year, the Federal Trade Commission has taken an aggressive approach to deter it. Dealers need to be aware that the consequences of non compliance can be severe and that a formal plan must be in place.

If you have any questions about Red Flag Rules for your company, please e-mail CPA@downeycocpa.com.

Visit our web site at www.downeycocpa.com

Certified Public Accountants, 222 Forbes Road, Braintree, MA 02184 (781) 849-3100 Fax (781) 849-9277
e-mail: cpa@downeycocpa.com
