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THE MOTOR DEALER REPORT FROM AUSWILD & CO
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HOW SECURE IS YOUR PARTS DEPARTMENT?

A recent story reported by *Dealers Edge Headlines* prompts us to re-visit the issue of security in dealerships – particularly in the parts department.

According to *Dealers Edge Headlines*, Morris Pontiac Cadillac GMC dealer, Robert Morris, was surprised when the yearly physical inventory of the parts department uncovered three missing engine assemblies. A follow up investigation led to the arrest of Parts Manager Roman Lundgren on charges of grand theft by deception. The value of the three engines was placed at \$43,000, but the dealership suspects other thefts and is still investigating.

It appears that Lundgren ordered the three engines in question on the dealership's account, but had the assemblies delivered directly to the intended customers. Lundgren had the customers pay him directly and pocketed the proceeds of the sale. Lundgren was a nine-year employee of the Cleveland area dealership.

Dealership owner, Robert Morris, expressed shock at the theft saying, "You never expect anything like this to happen." That is an all-to-common response heard from most dealers when a substantial theft is discovered. All-to-common as well, unfortunately, is the fact that many of these thefts are perpetrated by long-time and trusted employees.

Like it or not, any business with a large and diverse inventory presents opportunities for theft or fraud. The typical dealership parts inventory contains a large number of parts that can easily be converted to cash. In fact, surveys and studies on fraud consistently show that theft of inventory and plant continues to be the most common form of internally instigated fraud with more than 40% of frauds being of this type!

In this issue of **ausCAR** we look at what you can do to prevent or at least minimise the theft of parts from your dealership.

Proximate causes

Being aware of the proximate causes of fraud is the first step in prevention. Three conditions must exist in order for fraud to occur: situational pressure (for example, "keeping up with the Jones's" or living beyond their means), opportunity, and rationalisation. Combined, these conditions comprise what is known as the "fraud triangle." In short, a need or motivation (usually financial) comes together with the opportunity to commit and hide a dishonest act (usually theft). The thief then rationalises his action as merely getting even with the company for some perceived injustice.

Methods for deterrence

The best methods for preventing theft or fraud against the dealership are those that remove one or more of the sides of the fraud triangle.

A five-step approach is recommended for preventing theft and improving internal controls and paper flow problems. The five steps can be identified by the acronym **CLEAR** – **check, lock, enforce, access, record**. Here are some basic measures to consider for each action:

Check

- Regularly perform random bin checks or keep a perpetual inventory
- Investigate any unusual consumption or shortage
- Routinely inspect incoming freight. Check against the bills of lading or packing slips. Note all discrepancies and ensure that corrections are made
- Routinely inspect outgoing freight, especially the parts delivery trucks. Quantities and types of parts being shipped must agree with the delivery tickets
- Review purchase orders regularly. They should be filled out completely and include a corresponding work order or parts ticket if applicable

- Perform a physical inventory at least once a year
- Audit the cash registers at least monthly
- Require the customer's full name, address, and phone number whenever parts are returned for a refund. Randomly call the customers to verify that the returns are legitimate
- Check references for all new employees
- Spot check trash cans and trash bins to make sure saleable parts are not being removed in that way

Lock

- All entrances and exits must be locked securely after business hours
- Parts department should have a separate access from the rest of the dealership
- Depending on the size of the inventory and the number of employees, consider a locked security area with limited access for valuable items like audio equipment
- All inventory items must be in an area that can be locked after business hours. (Incredibly, some dealerships have unsecured inventories that extend into the showroom or service department)

Enforce

- Make sure all parts employees are aware of the security policy. Allow no exceptions, not even for the dealer principal
- Ensure that all parts employees administer the security policy

Access

- Limit access to parts department employees only
- Post signs that clearly identify the "no admittance" areas
- Employees from other departments should be accompanied by a parts employee when they enter a secure area
- Locks on parts department doors should be keyed differently from the rest of the dealership
- Maintain rigid control over parts department keys
- Limit access to inventory file records to parts employees. Change passwords often
- Parts counters should also act as barriers with no open access
- The layout of bins should provide for clear views of access doors including the shipping and receiving areas
- Mirrors should be installed to monitor hidden areas
- Consider installing security cameras

Record

- No part should leave the inventory without being documented
- Maintain accurate records
- Only parts department employees should charge parts against work orders
- Parts used by the dealer principal, if provided at no charge, should be recorded on an invoice "at no charge"
- Counter tickets should be numbered sequentially and accounted for daily
- Parts on loan to the service department should be documented
- Returns to the manufacturer or distributor are documented and carefully checked against any credits. A counter ticket can be generated for documentation. This will also relieve the inventory on-hand quantity

The human factor

Predicting which employees are likely to resort to theft is not easy. However, any unusual or out-of-the-ordinary behaviour by employees should be noted. Here are some warning signals that should be heeded:

Lifestyle – this is important. Any obvious discrepancy between an employee's income and lifestyle should raise red flags. Look for the purchase of expensive cars, bigger houses, heavy gambling, and a sudden increase in available cash, etc. Sudden and unexplained improvements in lifestyle should be discreetly questioned.

Holidays – or rather the lack of them. Keeping a fraud concealed becomes a full-time job. Employees who don't take their annual leave may be trying to avoid detection. While they are away, others may spot something suspicious. A good company rule is to require all employees to take all their leave annually.

Strange behavior – Does the worker seem overly interested in the company's accounting procedures? Do two employees seek overtime together?

Tips and rumors – In most cases, rumors will be nothing more than meaningless gossip. However, tips should quietly be followed up to ensure that no fraud is taking place.

Remember: "*Crime is 10 percent motivation and 90 percent opportunity.*"

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