Fraud Schemes to Guard Against

Fraud schemes are always going to be around as long as humans are involved in any transaction. Unfortunately, the fraud schemes continue to evolve and some are more complex than others. However, when you stop and look at any fraud scheme there are a few common characteristics in all of them. Accounting text book theory on fraud discusses pressure, rationalization and opportunity, commonly called the fraud triangle. The fraud triangle is interesting if you stop and think about fraud. A person needs to first feel some pressure to commit the fraud. Most of the pressure comes from outside influences such as wanting to keep up financially with friends or neighbors, health issues in the family, financial distress, divorce or settlement issues or gambling/addiction problems. Rationalization happens over time where the person believes what they are doing is acceptable. Rationalization examples are the following:

- they will just borrow these funds and then return them,
- others are doing something similar in their mind, owners are living out of the business so they believe they can do the same, and
- they believe their salary is not commensurate with their level of work

While the business owner can try to remain aware of the first two fraud characteristics, opportunity is where they can have the most impact.

As you think about your business, where do your employees and control environment fit into the triangle? As a basic business premise companies will trust people to do the right thing. That is the first mistake. Even good people will do the wrong thing if given the opportunity. The owner or CFO must guard against making this mistake. When a company puts too much trust and responsibility in one person, the control environment is at serious risk. A controller is normally given much of the responsibility of the business office. Adequate oversight must be maintained.

One common fraud scheme is where a controller pays their personal credit card bills with corporate funds. What controls are in place to ensure this does not happen? Hopefully, the controller does not have full check signature and posting in accounts payable authority. Segregation of duties in the accounting office is important. Ensuring segregation of duties in the system is also important. Have you had someone review your accounting system access settings to ensure fraud is mitigated? Does someone look at the check registers each time checks are cut? Does someone look at a vendor spending analysis from the system? Ensuring the information that is reviewed is from the accounting system is important. If the information was summarized in Excel, the person committing the fraud could be only showing the

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the legitimate information. Ensuring complete data is provided and posing questions along the way will likely deter someone from doing the wrong thing. Inspect what you expect.

Corporate credit cards are another area where dealerships can have good people who decide to turn bad. Many times larger groups will have general managers and other executives with corporate credit cards. If there are not adequate controls in place the corporate credit spending can begin to spiral out of control. Personally, I don't think there are many benefits to having a corporate credit card. Having an expense report reimbursement process in place will allow for managers to be reimbursed for valid business expenditures. When someone is using their own credit card, where they are personally responsible, they will think twice about if the purchase is appropriate for the business and whether it will be reimbursed or not. If corporate credits are used I would suggest requiring a live receipt with the proper documentation supporting the business purpose. If the corporate controller also has a corporate card someone needs to be reviewing their expense reports as well. Again, live supporting documents should be compared to a live credit card statement. One example of a fraud scheme involved the controller photocopying the corporate Amex statement and then cutting and pasting the legitimate business expenses to include in her expense report which was then reviewed by her supervisor. She went as far as trying to line them all up, and then recopying so it looked like a complete statement.
Unfortunately, she was using the corporate card for personal expenses but those were never reviewed, but the entire Amex bill was paid each month. Without the proper controls in place this type of scheme could go on for years unnoticed. Be sure supervisors are looking at live documents and not photocopies.

One last scheme to bring to your attention is for the controller to under pay their own health insurance. Without the proper controls and review procedures in place, a controller could sign themselves up for a family plan on the company health insurance but only have deducted from their pay a single coverage premium or less. While this seems to be trivial it can certainly add up to real dollars over time. Review your dealership controls in place to ensure the health insurance elections are in line with the deferrals. Segregation of duties and review of the health insurance deferrals should detect and prevent such a scheme from occurring.

These are just a few of the fraud schemes which can occur. Having the proper amount of detect and prevent controls in place can mitigate the risk of these schemes from occurring. Having an environment which has sound internal controls, adequate supervisor reviews and proper accountability at the top will allow the business to prosper with low fraud risks. Business is hard enough with outside competition reducing your margins. It gets even harder when your own people are eating away at them too. Monitor and hold people accountable as most businesses cannot afford not to do it.

TAX TIP

FOREIGN ASSET TAX COMPLIANCE ACT

The IRS has created Form 8938 for purposes of disclosing US owners of foreign financial assets if the value of such assets exceeds $50,000.

Form 8938 must be attached to and filed with the taxpayers annual return. Most calendar year taxpayers will need to file a Form 8938 along with their 2011 tax returns. Although the reporting requirement currently only applies to individual shareholders or owners of specified foreign assets, the IRS anticipates issuing regulations which will require a domestic entity to file Form 8938 if the entity is formed to hold specified foreign assets.

Any individual shareholder holding specified foreign assets of $50,000 or more on the last day of the tax year or more than $75,000 at any time during the tax year must file Form 8938. Married taxpayers filing joint income tax returns living in the United States satisfy the reporting threshold if the value of specified foreign financial assets is more than $100,000 on the last day of the tax year or more than $150,000 at any time during the tax year.

You have an interest in specified foreign financial assets if any income, gains, losses, deductions, credits, gross proceeds, or distributions from holding or disposing of the asset are or would be required to be reported, included, or otherwise reflected on your income tax return. You are also deemed to have interest in a specified foreign financial assets even if there are no income, gains, losses and deductions, credits, gross proceeds, or distributions from the holding or disposing of the asset included or reflected on your income tax return.

Dealers selling warranty contracts which are reinsured via Non Controlled Foreign Corporations (NCFC's), have direct ownership interest, and meet the above criteria would be required to comply under the tax legislation.

You should consult with your ATA tax advisor to determine whether you are required to file Form 8938.