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HEADLIGHTS

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WAS THAT VENDOR YOU JUST PAID A GHOST?

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A company recently paid $460,000 to what it thought was a vendor's account, only to find out that it wasn't. As a result, the company lost the entire payment and still had to pay the vendor. How did that happen? The business was a victim of a "ghosting" email scam. That's when a scammer hacks into an email account and takes it over, allowing the perpetrator to pose as the sender and send emails to another party that looked convincingly authentic, often with the original sender's logo and signature.

In this case, the "ghost" posed as a vendor with whom the accounts payable clerk was negotiating via email about the amount owed on an invoice. Once the payable balance was agreed upon, the scammer stepped in and sent an email to the clerk, with directions changing the wiring instructions, sending the payment to a different bank account. Because the ghosted email looked like it had come from the vendor, the clerk complied—and the business lost nearly a half million dollars.

Beware of "Phishers"

How did the scammer hack into the vendor's email? Through some type of "phishing" activity. Typically, this involves sending an email with a link or attachment to click on for what may seem to be a legitimate purpose, such as to open a document or learn more about a subject. Once the recipient clicks on the link or document, the hacker can follow every move on the recipient's computer and take it over when the opportunity is right—as they did in this company's case. And in this case, the hack happened on the vendor's side.

Phishing can be difficult to identify. The phishing links or attachments can look totally innocent

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and legitimate. For example, an email link for a person you know, say John Smith, may actually be the hacker's spoof of John's email account and the means for getting into your computer. Or the hacker's URL for a firm you know may have just one character more or less than the authentic URL, and fool you.

Knowledge Is Power

One of the best ways to prevent cyber fraud is to make sure that everyone in your company is aware of phishing and other scam techniques. To this end, it helps to conduct regular cybersecurity training programs, so employees become adept at recognizing and preventing scams.

If you don't already have a cybersecurity program, consider one that's been developed by experts, such as KnowBe4, Proofpoint, Webroot or any of the others you can find online by searching "cybersecurity awareness training." Many of these providers offer free trials, customizable self-study programs and free security tools, such as phishing simulations to assess employee susceptibility to scams.

Strengthen Wire Transfer Controls

In addition, make sure you have internal controls in place to prevent wire transfer mistakes. For example:

✔ Require any changes in wiring instructions to have supervisor-to-supervisor (typically CFO-to-CFO) verbal confirmation before any money is wired.

✔ Implement callback procedures with your bank, so that the bank must call a designated individual (typically the CFO) to review outgoing wire transfers before they are processed.

✔ Require a list of confirmed wiring instructions from vendors, and specify that no changes are allowed unless they are confirmed verbally supervisor to supervisor.

✔ Don't use wire transfers to pay vendor invoices. You can't stop payment on a wire transfer—once it's gone, it's gone.

Check Your Insurance Policy

Fraud is hard to prevent 100% of the time. One critical way to minimize your loss is to have good, and adequate, insurance coverage. Unfortunately, most business owners don't pay much attention to the cyber coverage in their insurance policies. We highly recommend sitting down with your agent to understand, even obtaining in writing, what your policy covers and what it does not. Don't let this be a surprise if the unthinkable happens.

If you have any questions about ways to increase cybersecurity or strengthen controls in your business, contact your local **AutoCPAGroup** member. We welcome the opportunity to put our knowledge to work for you. ✍

KEEPING TABS ON YOUR F&I DEPARTMENT

Gerry Green
Green & Miller, P.C.

When a customer enters your finance department, you ask them to complete a credit application. Most dealerships utilize a program such as Dealertrack to electronically submit the application to various credit bureaus and lenders. The process in many stores is accomplished by having the customer complete a paper application with the finance person entering the information dictated to them by the customer either on paper or electronically, or by the customer directly entering the information into the computer system. Upon completion of the application, the information—if not already entered into the computer—is entered by the finance person, reviewed by the customer and signed by the customer on a reproduced paper copy.

Unscrupulous finance people can use any of these procedures to alter income and adjust a customer's history, circumstances and other vital information to present a false picture to lenders. What is the cost to the dealer when one of these people inhabits your office? The potential costs include a future unhappy customer who now has a payment above and beyond his means, a lender that has purchased a misrepresented contract with a high likelihood of default, a contingent liability to the company for a contract that now has become recourse to the dealership, and the occurrence of a fraudulent act by the company with resultant legal exposure and potential cost in time and money (legal fees and penalties).

With declining new vehicle gross margins, manufacturer incentives play an increasingly large factor in dealership profits. Salespeople are under constant pressure: from the dealer, to reach their target sales level and obtain the related manufacturer incentives that go along with it, and individually, to earn more on their incentive-based pay plans.

The cost to the dealership can be significant when F&I department sales are not performed in the correct manner. With strong internal control procedures, vendor-initiated software controls, filmed F&I transactions and accounting office oversight, many opportunities for fraud can be minimized. Strong closing procedures need to be in place to ensure that the customer reviews the actual financial information submitted to lenders and that managers are submitting accurate information to lenders based on real information provided by customers. Now may be the time to pull those deals, review the finance closing tapes, and make sure practices and safeguards are in place to minimize the chances of this happening at your dealership.

Reviewing internal controls to protect your dealership's assets and reputation is an ongoing process. Contact an **AutoCPA** firm member to assist in setup and oversight of this process. ✍

HOW TO REDUCE TAXES AND PROTECT ASSETS

Dawn M. Lopez
Dwight Darby & Co.

If you are seeking a larger tax deduction and asset protection, you may want to consider adding a split funded defined benefit plan to your current plan. Many dealers may not be pleased with their current 401(k)/profit sharing plan; dealership tax deductions are still relatively small, compared with money laid out for contributions for highly compensated employees and employee matches. A good plan design requires integration of multiple plans (e.g., 401(k), profit sharing and defined benefit) into a combined model that aims to achieve business owners' goals. With this model, you can direct a larger piece of the contribution in the dealership employee plan towards your own account.

Who should consider this type of plan?

✔ Are you currently contributing maximums and would like to contribute more?

✔ Are you spending 5%+ on employee costs in your current plan?

✔ Do you avoid spending the safe harbor minimum on employees because you won't benefit much?

✔ Do you have consistent earned income and the ability to fund a plan with $100,000 for at least five years?

✔ Would you like more flexibility in investment and product choices?

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✔ Is plan portability important?

✔ Do you desire to continue taking advantage of all tax deductions?

✔ Are you looking for higher tax deductions in the form of plan contributions?

✔ Do you need long-term retirement accumulations?

✔ Do you want to shield income from creditors claims and lawsuits?

Keep in mind that the defined benefit plan is subject to actuarial certification each year. Contributions are determined by the actuary's taking into account census data, plan asset information and other IRS actuarial factors. Contributions are tax deductible for the employer and are not taxable to the participant, including the owner-employee. They are taxable upon distribution.

However, if the plan includes life insurance, then upon the death of the business owner, the life insurance policy death benefit is paid into the split funded defined benefit plan. The plan must then pass along this life insurance death benefit to the participant's named beneficiaries. This benefit may be paid income tax-free from the plan. You'll need to keep in mind that a policy placed inside a qualified plan is includable in the employee's taxable estate. You'll want your CPA, attorney and plan adviser to take part in structuring the plan to ensure that your estate planning is maximized.

The plan will also require a plan administrator to determine benefit levels and contribution amounts, administer payments and provide statements. The administrator will ensure that benefits are offered on a nondiscriminatory basis.

Also, contributions for business owners are based on earned income subject to a maximum of $280,000. Earned income is defined differently, depending on whether your dealership is an S or C corporation, a partnership, or a sole proprietorship. Contributions to a split-funded defined benefit plan may be invested in a wide range of options, including stocks, bonds, mutual funds and cash value life insurance. The plan must be adopted with a trust document executed prior to the close of the owner's tax year-end.

If you would like to learn more about this topic, please give one of our **AutoCPAGroup** members a call. We can set up a meeting with retirement plan professionals to review options that may be viable for you and your dealership. ✍