

Automotive News

U.S. opens investigation of possible illegal activity in dealer cuts

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WASHINGTON -- The federal inspectors that criticized the Obama administration, General Motors and Chrysler for their handling of about 2,300 U.S. dealership terminations have opened a follow-up investigation of possibly illegal activity in the effort.

The Office of the Special Inspector General for the Troubled Asset Relief Program, whose \$700 billion bailout included GM and Chrysler, won't disclose the targets of the investigation or the actions being probed, said Kris Belisle, the office's spokeswoman.

But auditor files used in preparing a July report on dealer terminations during the automakers' bankruptcies have been turned over to the office's investigators, she said in an e-mail.

"There is an investigation," Belisle told *Automotive News* today. "Generically, we can investigate any offense."

The July audit more generally examined the role of the administration's auto task force in the dealer cuts and the processes used by GM and Chrysler to decide which dealers to terminate.

Cost savings?

It also looked at the extent to which dealer cuts would save money for the automakers.

An investigation bores in on possibly illegal activity, and it can lead ultimately to prosecutions and even penalties such as fines or imprisonment.

The inspector's office, headed by former federal prosecutor Neil Barofsky, had 104 ongoing criminal and civil investigations as of June 30, according to its most recent quarterly report to Congress.

The focus of those investigations has included false statements, obstruction of justice, public corruption and various kinds of fraud, the report said.

Office investigators can issue subpoenas, make arrests and refer cases to the U.S. Justice Department for prosecution, according to the report.

U.S. Treasury Department spokesman Mark Paustenbach declined today to say whether the agency had been contacted by investigators. GM spokesman Greg Martin also declined to comment.

Chrysler has not been contacted by investigators, said company spokesman Michael Palese.

"Chrysler Group's optimized dealer network is already contributing to improved vehicle sales and will be a vital part of the company's success as we continue to deliver outstanding products to our customers," he said.

The 41-page July audit did not suggest that any illegal activity had been committed.

Questions and criticism

However, auditors criticized the administration for accelerating dealership closings last year during a severe economic downturn and for failing to consider the impact of the cuts on automakers' viability and costs.

Chrysler, in the end, terminated about 760 dealerships after a series of federally-mandated arbitration cases took place this summer. GM cut another 1,550 dealerships.

The auditors also expressed doubt about the credibility of GM's and Chrysler's estimates of savings from the dealer cuts, and they faulted GM for keeping inadequate records of its decision-making on terminations.

Dealer advocates have questioned whether evasive responses to auditors' questions delayed release of the critical report until July 18 -- four days after dealer arbitration hearings were completed.



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