HEADLIGHTS

A PUBLICATION
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WHAT IS YOUR NEW VEHICLE INVENTORY LEVEL?

Reviewing our dealer clients' financial statements, we are starting to see an increase in new vehicle inventories. While new-car and light-duty truck unit sales for 2014 were approximately 16.5 million—the largest number since 2006—and projections suggest 17 million new-unit sales in 2015, dealers need to continue watching their new vehicle unit inventory levels. With an improving economy; pent-up demand from 2008 through 2011, when annual new vehicle unit sales ranged from 10.4 million to 12.7 million; and somewhat easier financing, one could conclude that new-unit sales will continue to increase or at least level off at high levels in 2015 and future years.

Carl Woodward, CPA
Woodward & Associates, Inc.

Sometimes dealers have short memories when they allow their new vehicle inventory levels to start exceeding a 90-day supply. *Automotive News* reported an average new vehicle unit supply of 71 days on December 1, 2014. Our data from more than 200 dealers show that some of them have a 100-day supply. After talking with dealers and observing dealer storage lots that are running out of room, we are beginning to be concerned about new vehicle inventory levels. More new-unit sales create more used-unit sales, which in turn require dealers to hold more used-inventory units, which also plays into needing more display space.

Our tracking of new vehicle unit sales by month (see Winter 2015 *Headlights*) showed that 2014 monthly unit sales rates were consistent with trends seen over the past seven years. Using this data, 2015 should be similar in this specific measurement.

The monthly new-unit sales rate can affect your inventory level for any one month if you are pro-

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jecting these trends in your inventory planning process. Your ordering strategy needs to consider monthly fluctuations in both unit sales and types of units sold at different times of the year.

As a benchmark for new vehicle inventory levels, we suggest that your ending monthly new-unit inventory goal should be either two times your best month of new-unit sales for the year or three times your worst month of new-unit sales in the year. For hitting this or any other new-unit inventory goal you establish for your dealership, you could also consider establishing financial incentives for managers or those responsible for new-unit inventory planning.

Feel free to contact an AutoCPAGroup member to discuss this matter further. ✍

DETECTING FRAUD IN YOUR DEALERSHIP

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The 2014 edition of the *Report to the Nations on Occupational Fraud and Abuse* discussed schemes leading to fraud, detection methods and perpetrators of occupational fraud. In terms of the number of fraud cases, 85% are asset misappropriations, which tend to center on the accounting department. That may seem surprising, because the internal controls in the accounting department are strongly enforced. But one of the reasons for this is that accounting department employees are familiar with those controls and know how to circumvent them.

Billing schemes in which fake vendors are set up and paid is one of the largest areas of such fraud. The best ways to prevent or identify these schemes include the following:

✔ Setting up vendor accounts should be strictly limited to one or two persons.

✔ A periodic review of vendor lists, as well as verification of addresses, can help identify a vendor's legitimacy.

✔ Check signers should carefully review the invoices or backup to the checks they sign, not only for the correct dollar amount but for the legitimacy of the vendor and the work done or supplies provided.

Cash payments received from customers for amounts owed to the dealership is another area in which money can be shifted among other customer receivables accounts to hide the fact that the employee has been stealing the cash. Any employee responsible for receivables should not be allowed to go to the bank with deposits. The controller or business manager needs to review all month-end receivables rather than the employee responsible for that receivables account.

Perception of fraud detection among dealership employees is a strong deterrent. Those who think they may be caught are less likely to commit fraud. An owner who inspects the checks and deposits on each month's bank statement before it is given to the employees in the accounting department provides visible oversight. In addition, a complete review of your books and schedules by your accounting firm at least annually is another good way for employees to see that their work is being checked.

Lastly, behavioral changes can provide a warning that employees might be perpetrating a fraud. These changes could include living beyond their means, having financial or personal problems, or having a bad attitude toward fellow employees or customers. A hotline that allows employees to provide tips will permit them to report such information anonymously. Use of background checks is one way to identify some of these problems before a person is hired.

Contact an AutoCPAGroup member if you would like to discuss this further. We can assist you in putting in place these and other controls that may be helpful. ✍

THE IMPORTANCE OF CASH RECONCILIATIONS

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Owners of businesses around the world use—and live by—the phrase "cash is king." Dealers usually believe that procedures they already have in place ensure that amounts representing "the king" are accurate and reliable. However, it is important that everyone knows how these procedures, such as bank and daily cash reconciliations, are performed and what they entail.

For many people, the process of reconciling the bank statement is tedious and, seemingly, of little value. Office managers often hurry through the calculations, and general managers and/or dealers rarely double-check to see that the key aspects of the reconciliation are correct.

Not knowing whether the cash amounts on the financial statement are accurate or, worse, believing that they are accurate when they are not, can lead to ill-informed decision-making and business practices, or ignorance of theft and fraud. When performed and reviewed correctly, bank reconciliations give a form of assurance that the cash balance on the financial statement is an accurate number.

The process of reconciling the bank statement begins with the book balance at the end of the period selected. Lists of deposits posted to the books but not on the bank statement are added to the ending bank balance. Then, checks that have been written and posted internally, but have not yet been posted by the bank, are subtracted from the final bank balance. Adding deposits in transit and subtracting outstanding checks generates an adjusted bank balance.

Obviously, managers and dealers do not have the time to go through the reconciliation statement and double-check every number. However, they should perform the following steps:

✔ Check to make sure the ending bank balance matches that on the bank statement.

✔ Scan the deposits in transit to see if any deposit has been in transit for more than two weeks. Deposits should not take longer than two weeks to be posted by the bank. If this occurs, find out why.

✔ Review the outstanding checks to see if any have been outstanding for more than three months. Again, find out why.

Performing these steps can reduce errors and impede manipulation of the reconciliation.

Cash needs to be not only reconciled but also controlled effectively. Individuals who write the checks, sign them and post the disbursements, as well as those who record cash receipts, should not be the ones who reconcile the accounts. Most theft and fraud occurs when one person is given enough control to conceal any misuse of funds.

Another good practice is for the owner or general manager to open all bank statements and check for anything out of the ordinary prior to reconciliation. The manager should carefully review the reconciliation and question unusual transactions, paying special attention to adjustments.

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THE IMPORTANCE OF CASH RECONCILIATIONS

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Some dealers use a form to reconcile cash on a daily basis. This daily reconciliation allows the dealer to know the net amount of liquid assets available. The process resembles reconciling the bank statement but brings into the equation other factors such as inventory, flooring and contracts in transit.

Managing cash should be a top priority of any business owner. A reliable and accurate bank reconciliation, coupled with sound internal controls and a daily cash calculation, is a powerful tool that can aid in cash management. For more information, contact your local **AutoCPAGroup** member. ✍