

EMPLOYEE RETENTION PROGRAMS

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These deferred compensation programs can accumulate substantial deferred bonus amounts in each participant's account. Because the amounts are not vested or required to be paid until January 1st of the third year following the accumulation year, the dealer has sufficient time to provide for the actual payments.

The major benefit to the dealer is that, as overall production increases, personnel recruiting and training costs decrease because turnover of qualified employees is reduced.

These plans are relatively easy to administer and require no formal filings with regulatory agencies. If you believe that implementation of this type of plan can benefit you, contact your AutoCPA Group member for further details. ↗

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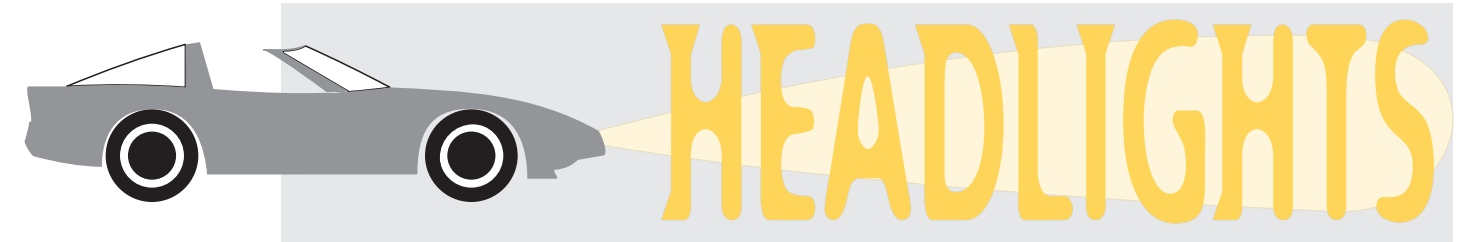
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PROTECTING DEALERSHIP ASSETS

With the recent downturn in the economy, employee theft has become an even greater concern. While there are a number of ways to deter your employees from taking the dealership's cash or property, the following are a few key procedures you should be using to protect your assets.

1 Protection of dealership assets should start when you are hiring your employees. Make sure his or her resume is completely reviewed and that all references are called.

2 Segregate the cash- and property-handling function from the accounting function. In order for most thefts to go undetected, an accounting entry must be made to "hide" the theft. By segregating the handling and accounting functions, it's much more difficult for someone to avoid detection.

3 You should require authorization by management for all transactions requiring a reversal of a recorded sale. This would include the issuance of credits to customers or the voiding of parts tickets or repair orders. The appropriate manager should initial the document to indicate his or

her approval. General journal entries should include an adequate explanation of why the entry was made and be approved by management.

4 Account for the numerical sequence of source documents. Those sequential numbers that appear on your cash receipts slips, checks, parts tickets and repair orders are there for a reason. Otherwise, a sale or receipt could be omitted, reversed or voided improperly and never discovered. This makes it extremely easy to hide a theft.

5 Require all employees to take a vacation. Many thefts are discovered when an employee's duties are performed by someone else while he or she is on vacation.

6 Keep reviewing those monthly financial statements. A number of thefts have been discovered when dealers or general managers have called their accountant to say that something just didn't

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seem right about the financial statement. It could be the monthly gross was too low or an expense was unusually high. These could be signs of theft.

7 Make sure that all employees handling cash are bonded. Since no system of procedures can

absolutely guarantee that theft will not occur, all employees handling cash should be bonded so the dealership can recover theft losses if they occur.

For a complete evaluation of your accounting policies and procedures, contact an AutoCPA Group member. 

EMPLOYEE RETENTION PROGRAMS

**Ronald E. Weibley, CPA
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Successful dealers invest a lot of money to recruit and train qualified sales consultants. When they leave or are pirated by the competition, the dealer's initial and continuing investment in training is lost. What can dealers do to minimize this loss?

One method that has been successful is the implementation of a nonqualified deferred compensation plan for sales consultants. These programs, often referred to as "career-builder" programs, allow sales consultants to build a deferred bonus fund based upon achieved performance levels above specified benchmarks. Each employee's deferred bonus fund account is accumulated on a calendar year basis (the accumulation year), but is not considered earned (or vested) until January 1st of the third year following the accumulation year (the maturity date). In order for vesting to occur, the employee must still be employed by the dealership on the maturity date. If an employee leaves employment with the dealership for any reason except death, permanent disability or full retirement, that employee's deferred bonus fund is forfeited.

A deferred compensation program for sales consultants can be implemented as follows:

A dealership develops one or more qualifying benchmarks that must be achieved by a sales consultant in order to qualify for participation in the deferred bonus program. These benchmarks are generally specified as a certain number of new and/or used vehicles sold at retail in a particular month. A dealer may specify laddered qualifying benchmarks in order to provide larger rewards for sales consultants who achieve higher levels of units sold. Once sales consultants qualify for the deferred bonus program, they will begin earning deferred bonus amounts on all retail sales of new and/or used vehicles



for each succeeding month that they achieve the benchmark number of retail sales.

If the number of retail sales is not more than two units below the entry benchmark for a particular month, he or she will not have to requalify for participation in the program in subsequent months. If a sales consultant fails to achieve the qualifying benchmark for two successive months, he or she must then requalify for the program.

The following examples demonstrate how much deferred bonus is earned in varying situations.

1. Tracy delivers 13 units in January 2000, and 15 units in February. Tracy's January sales qualify her for the deferred bonus program at the \$25 per unit level. For February, Tracy earns \$25 per unit for each unit delivered, for a total of \$375.

2. Tracy delivers 16 units in January 2000, and 19 units in February. Tracy's January sales qualify her for the deferred bonus program at the \$50 per unit level. For February, Tracy earns \$50 per unit for each unit delivered, for a total of \$950.

3. Tracy delivers 13 units in January 2000, and 11 units in February. Tracy's January sales qualify her for the deferred bonus program at the \$25 per unit level. For February, Tracy earns no deferred bonus, but retains qualification for the deferred bonus program, and will earn a deferred bonus for March at the \$25 per unit level as long as she delivers at least 13 units in March.

In this example, Tracy would be entitled to receive the entire deferred bonus amount accrued during 2000 if she is still employed by the dealership on January 1, 2003.

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RESULTS OF A SURPRISE ACCOUNTING REVIEW

In an accounting office review, a CPA firm does an inquiry into the accounting procedures and practices of the dealership. The following are the results of our findings from a recent surprise accounting office review, results that may be of interest to you in improving the efficiency as well as the integrity of your back-office operations.

Petty Cash

We performed a count of all three petty cash boxes—the body shop, the service department and the accounting office. While at the body shop, we didn't find anything peculiar about the cash count, but the reaction we got from the staff was somewhat alarming. After introducing ourselves to those behind the counter, the main supervisor immediately stated that she "had nothing to do with cash" and went to the back office to get the body shop manager. In the accounting office petty cash count, we were informed that no fewer than five people had access to the petty cash box. In addition, the accounting office vouchers are not prenumbered but instead are created by the copy machine. We recommended that access to the petty cash box be limited and controlled by one custodian, and prenumbered vouchers be utilized in sequential order.

Cash in Bank

On the day of our visit, in mid-July, the May bank reconciliation had not been prepared. We were also informed that there were no fewer than six authorized check signers and that virtually any of the office personnel could draft a check. We inquired as to the frequency with which the dealer reviews the bank reconciliation and were told that the dealer does not review them regularly. We recommended that authorization of check signing be restricted to as few people as possible. We also suggested that the dealer do a cursory review of the bank reconciliations monthly and a detailed review of the reconciliations at least a few times a year. Four times a year, the dealer should pick up the bank statements and cancelled checks directly from the bank, open them

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himself and inspect for signatures, payees and endorsements.

Accounts Receivable

We reviewed the aged accounts receivable and returned-check accounts for the month of June for parts, service and the body shop. In short, a significant number of accounts were more than 120 days outstanding. While the majority of these old accounts were immaterial, one account in parts and service was material relative to the total and was five months old. Our biggest concern was a policy regarding future credit to these customers with old accounts.

Payroll

We randomly selected five employee files to review. The documentation within the files was not in consistent order nor was the content consistent from one file to the next. In addition, we were told that the dealership does not have an employee handbook. We strongly encouraged the dealership to allocate proper resources in an effort to provide each employee with an employee handbook covering company policies such as vacation, valuations, terminations and sexual harassment policies, among others. Absence of this document, along with a sign-off document stating each employee has read the handbook, may increase the potential of damage awards and wrongful termination or related employee lawsuits.

Conclusion

The key lesson is that surprise reviews help keep people honest and usually result in one or two findings that make the cost of the review more than worthwhile, particularly if the recommendations are implemented. 