

7 Accounting Best Practices for Auto Dealers

Maximize accounting department productivity, save money, prevent fraud, reduce waste, and boost staff morale.



TABLE OF CONTENTS

Your Accounting Office is a Profit Center	3
Accounting Best Practices	
1. Prevent Fraud	4
2. Centralized Accounting	6
3. Reconcile Bank Transactions Daily	6
4. Mandate Digital Data Entry	7
5. Post Transactions Within 24 Hours	8
6. Train Employees	8
7. Don't Overwork Employees	9
DMS Accounting Checklist	9





Your Accounting Office is a Profit Center

Is your dealership's accounting department viewed as a profit center? Typically, dealers view sales, F&I, and service as the source of all profits because they generate revenue. Your accounting staff may not generate revenue, but what happens in that department has a huge impact on your business' profitability.

If your office staff isn't working efficiently, your money isn't being managed efficiently. Untrained or overworked staff delay and sometimes overlook tasks that add dollars to your bottom line.

Many accounting processes, such as manual data entry and report generation, are highly unproductive, wasting hundreds of hours per month, while others leave your dealership vulnerable to fraud and embezzlement. For many dealerships, some procedures haven't changed in 10 to 20 years.

If you haven't paid attention to what's going on in your accounting department lately, it's time to take a look under the hood. Technology exists to streamline and improve processes throughout your dealership, including the accounting department. Is the technology being used, and is your dealership reaping the benefits?

Reasons to Implement Accounting Best Practices



Save
Money



Increase
Productivity



Prevent
Fraud



Reduce
Errors



Boost Employee
Morale



Better Forecasting
& Decision-Making



Increase Customer
Satisfaction



Improve
Vendor Relations



Accounting Best Practice No. 1: Prevent Fraud

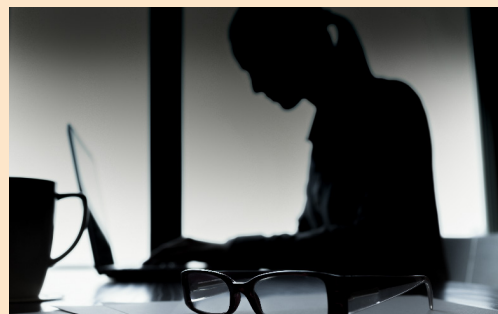
“Embezzlement” is a word that strikes fear into the heart of every dealer. According to the National Federation of Independent Business, two-thirds of all U.S.-based small businesses fall victim to employee theft. Auto dealerships are often victimized but are not among the highest risk categories.

In auto dealerships, the most common method of embezzlement is the old-fashioned forging and fraudulent endorsement of checks.

Profile of an Embezzler

The following profile is based on extensive research of thousands of cases in the United States involving the theft of more than \$100,000:

Female in her mid-40s working in a bookkeeping capacity at a small business, nonprofit organization, government entity, or in the healthcare or financial services industries. This individual is typically a long-term employee (more than five years) and generally viewed as helpful, trustworthy, and hard-working. Many business owner victims exclaim after the fact how betrayed they feel and that they “trusted her completely and treated her like family.” This fictitious prototypical embezzler will often engage in more than one type of misappropriation scheme, most likely forging checks, converting company receipts for her benefit, or making unauthorized electronic funds transfers to herself or accounts she controls.



She will most likely have schemed without involving any coconspirators. Her thefts will span an average timeframe of about four and a half years. She will attempt to cover up her misdeeds by creating false bookkeeping entries and submitting false financial reports to her superiors.

Profile courtesy of:
Christopher T. Marquet, Senior Partner, Veritas Assurance Partners, Miami. Veritas Insurance Partners is an international investigative and risk mitigation firm.

Prevent fraud with these best practices:

1. Do not allow single individual access to all aspects of company finances. Ensure there is a division of duties in the finance department, regularly rotate responsibilities for bookkeeping personnel, and never allow bookkeepers to take work home. Additionally, require bookkeeping personnel to take time off. Embezzlers often take little or no vacations to perpetrate their schemes.
2. Require two signatories on outgoing checks above a certain nominal amount. The signatories should be different individuals from the check preparer. Additionally, examine canceled checks regularly. One common method of embezzlement involves the forgery of checks. Another is to have them payable to the embezzler or their vendors.
3. Maintain unused checks in a lockbox. Be sure all checks, purchase orders, and invoices are numbered consecutively, and reconcile any of those missing. Additionally, conduct regular and random audits of petty cash, credit card charges, and expense reports. Owners should also take a hands-on management approach by physically spending time with the bookkeeping department.
4. Be sure each payment, electronic or otherwise, is backed up with appropriate documentation. Financial records should also be backed up daily.
5. Make and reconcile daily deposits. Use a “for deposit only” stamp for check deposits. The person recording cash receipts should be different from the one making the actual deposits. The same goes for bank reconciliations; you don’t want them made by the same person who handles cash receipts and cash disbursements.
6. Know your vendors. Embezzlers often create phony vendors and submit fraudulent invoices for payment. Additionally, examine payroll records regularly. Some embezzlers issue themselves extra paychecks and bonuses through the payroll system.
7. Investigate customer and vendor complaints promptly. If vendors are not getting paid as expected, it may be a sign of payment checks being diverted.
8. Conduct pre-employment background checks for all personnel with fiduciary duties, and prosecute perpetrators so there’s a permanent record future employers can find.

Fraud prevention tips courtesy of:

Christopher T. Marquet, Senior Partner, Veritas Assurance Partners, Miami. Veritas Insurance Partners is an international investigative and risk mitigation firm.



Accounting Best Practice No. 2: Centralized Accounting

If you have more than one retail location, set up a hub-and-spoke model of accounting. This involves choosing one location as the central hub, where the majority of accounting activities are done. At each retail location, only one accounting support person is required. This arrangement delivers many benefits to an auto group, including:

Consistency: A centralized accounting staff handling payables and receivables for all stores results in more efficient and consistent processes.

Increased productivity: With multiple locations, you may be paying the same vendors, suppliers, and service providers from separate locations. Companies that centralize the processing of all payments save time and money by eliminating redundancies and increasing efficiencies.

Improved customer and partner relations: Centralized payables and receivables can improve relations with customers and partners. For example, if a local body shop buys parts from three different stores in the same auto group, they will receive one invoice instead of three. When vendors are late on payments, they'll receive one call instead of having to deal with staff from three different stores.

Saves time and money: With decentralized accounting, it's inevitable that some locations will be less efficient than others due to different policies, training, staff availability, and management skills. Inevitably, someone will always be late in forwarding results to headquarters, which can delay the close.

According to research conducted by Ideal AP, companies that establish centralized accounts payable operations have a per-bill-processing cost that's approximately \$2 less than a decentralized system. Additionally, businesses with centralized accounts payables are more likely to use online bill pay or electronic transfers, which expedite cash flow and greatly reduce mailing costs

Accounting Best Practice No. 3: Reconcile Bank Transactions Daily

It's common for accounting personnel to fall behind on reconciling bank transactions. When reconciliations aren't current, errors and fraud can go undetected, and poor management decisions are made based on the wrong data.

Does your dealership still reconcile bank transactions at the end of every month using paper bank statements and Excel spreadsheets? If so, it's time to set up electronic reconciliations in your DMS. Here's why:

Reduce employee theft: Most GMs and GSMs have a pretty good thumb on the pulse of their business; however, if you wait until the end of the month for reconciliation, memory can get fuzzy. Daily reconciliations make it easier to keep tabs on how many checks are going out the door.

Catch employee and bank errors faster: The sooner you catch mistakes, the easier they are to resolve. If you sold \$8,000 in customer pay ROs yesterday, but only \$5,000 in cash was deposited, you'll notice the discrepancy right away. If you wait until the end of the month, you may not remember what your customer pay ROs were three weeks ago.

Know your cash balance: It's helpful to know how much cash is on hand at any given time in the event that you want to pay off an aging floorplan unit, purchase new equipment, or acquire inventory from the auctions.

Set up a cash management account: A CMA is an electronic banking function that takes a snapshot of how much cash you have available in your bank account at the end of the day. The bank then sweeps that cash against your floorplan line. For example, let's say a dealer has \$1 million in floorplan loans and \$100,000 in cash in their bank account. That \$100,000 is swept into the CMA, reducing the floorplan balance, so daily interest is calculated on \$900,000 instead of \$1 million. That can save thousands of dollars per month in interest. Reconciling bank transactions daily allows all available cash to be used to reduce floorplan interest payments.

Positive Pay: Positive Pay is a product offered by most banks that lets your dealership off the financial hook when mistakes are made. The bank receives a list of cash disbursements from your dealership daily. It includes the payees, dates, and amounts of transactions. If the bank allows a check to clear for a different amount or to a different party than what's listed, the bank takes responsibility for fixing the error. That saves accounting staff an enormous amount of time figuring out where errors occurred and chasing down other parties.

Bonus: Using your DMS for electronic bank reconciliations results in fewer human errors, such as accidentally transposing numbers.

Accounting Best Practice No. 4: Mandate Digital Data Entry

It's shocking how many accounting processes are still performed manually.

Ask your office manager and/or accounting staff to create lists of all functions and reports that require manual data entry.

Mandate a change and gauge progress. If switching to an all-digital process is challenging, make sure your staff has the resources and training necessary to make the changes.



Accounting Best Practice No. 5: Post Transactions Within 24 Hours

In accounting, managers always want to see the running totals for posted expenses and car deals. Even more critical is tracking how quickly everything gets posted. Is it daily? A bill received on the 29th should post no later than the 30th, while car deals should be posted within 18 hours of completion. Postings that don't happen on a timely basis lead to forecasting miscalculations and a stressful, month-end crush.

Accounting Best Practice No. 6: Train Employees

Most accounting offices are undertrained and often learn how to complete their job as they go. Common mistakes include deals being posted incorrectly, receivables going uncollected, and misrepresented gross profits.

When mistakes continue unchecked, it can result in a huge mess that requires expensive outside audits.

TOP TRAINING RESOURCES

- DMS Vendor Learning Management Systems (LMS)
- DMS Vendor On-Site Training
- DMS Vendor User Summits
- CPA firms/outside trainers
- Facebook auto dealer accounting groups

Train the “Why”

In addition to training staffers on “how” to complete a task, make sure they understand the “why” behind it. That critical part of training often gets overlooked.

Not knowing the “why” makes process improvements difficult. For example, instead of limiting training on how to post a deal, make sure your staff knows where that data goes, why it's essential to do it quickly, what decisions the data drives, and the consequences when the data is wrong.



Accounting Best Practice No. 7: Don't Overwork Employees

Dealers often prioritize the hiring of sales and service employees to ensure adequate coverage. That means the accounting staff can work long hours for many months before the hiring of an additional employee is approved. That can lead to burnout, mistakes, and low morale.

Unfortunately, in many dealerships, the accounting office becomes a dumping ground. In addition to completing their daily responsibilities, accounting staff is often tasked with:

- Secretarial work (e.g., “filling in” for an absent receptionist, ordering lunch, or “doing a favor” for a manager)
- Financial contracts
- Title work, including tracking down missing titles
- Compliance reporting
- Fraud prevention
- Pulling reports for management
- Dealing with customer service issues
- Dealing with vendor issues
- Ensuring all deal paperwork is correct and complete
- Dropping everything to help other employees and/or managers solve problems
- Fix other people's mistakes

When staff is overworked, every day feels like a fire drill. That leads to negative attitudes that can hurt your business and bottom line. For example, leaving factory incentives or receivables uncollected simply because an employee is too overworked and doesn't care about your dealership's bottom line.

DMS Accounting Checklist

Looking for a new DMS? Make sure your vendor offers these time and money-saving features:

- ✓ **Multiple tabs open on one screen:** This feature saves time by allowing the user to quickly switch between different modules in the DMS without having to exit one system to log into another. This feature saves countless hours for accounting staff who frequently switch back and forth between accounting activities and hunting for information in other modules.
- ✓ **No special forms required:** Avoid DMS vendors who require the use of preprinted accounting forms. Preprinted forms cost hundreds of dollars per month. It also takes hours to line up the forms to ensure flawless printing. Choose a DMS vendor that allows forms to be printed on plain office paper.
- ✓ **Bank reconciliation:** Make sure your accounting program incorporates your statement balance and how much you need to balance in the clear transactions tab. Look for the ability to save, exit, and resume sessions at a later time. Additionally, make sure users can search reconciled items based on criteria like dollar amount in the event an item was reconciled erroneously.

- ✓ **Cash-receipt templates:** For nonaccounting personnel, entering cash receipts into the accounting system can be challenging if they don't know how or where to post everything. That creates extra work for accounting personnel, who must double-check all cash receipts, spend time correcting errors, and assign receipts to the correct accounts. Ensure the accounting program allows the office to create user-defined cash receipt templates for every role in the dealership. That limits how individuals can post receipts, thus eliminating posting errors.
- ✓ **Inquiry screen data entry:** The inquiry screen is an often-used feature in dealership accounting systems. Accounting staff use the inquiry screen to research and drill down into cash accounts, expenses, and more, as well as to view scheduled details and specific transactions. Some DMS allow staff to make data adjustments from the inquiry screen, eliminating the need to back out of the screen to perform a separate function to enter or edit data.
- ✓ **Automated intercompany accounts payable:** This feature gives users the ability to automatically post expenses across multiple companies or accounts, eliminating the need to divide and post individual expenses manually. This capability can reduce the time it takes to reconcile intercompany accounts from two to three days every month to under two hours.
- ✓ **Automated intercompany general journal postings:** It's not uncommon for an auto group to have hundreds of journal entries to reconcile at the end of every month, which can take days to complete. An automated feature speeds the process of handling adjustments, write-offs, depreciation, and transactions that occur in third-party applications. Intercompany is an add-on feature allowing dealer groups to expense multiple rooftops automatically by setting up accounts payable and receivable for each location. By eliminating the manual posting of multiple company transactions, users can save time and reconcile what each store owes the other with ease and accuracy. Post journal entries, accounts payable, cash receipts, and accounts receivable across multiple dealerships.





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A DMS That Does Business Differently

Auto/Mate by DealerSocket is a leading dealership management system provider. Our innovative software delivers the functionality, flexibility, and value dealers need to maximize profits, optimize processes and enhance the customer experience while saving thousands on their monthly DMS bill.

The addition of Auto/Mate to DealerSocket's suite of products creates a new choice for dealers seeking a connected platform that's driven by innovation and backed by award-winning customer service. Together, we serve more than 9,000 dealerships and 300,000 users. For more information, [contact us here](#).