

RE-ENGINEERING THE AUTOMOTIVE RETAIL DEALER AUDIT TO BRING YOU REAL VALUE

Are you getting optimal value out of your audit or review engagements?
By Mercedes Hendricks, CPA

Over the years, countless clients have told me, that for all the time and effort that goes into preparing for an audit, all they gain in the end is a piece of paper with an opinion, attached to a set of financial statements. Hundreds of hours and thousands of dollars later, the audit is dutifully filed away, and rarely looked at again.

There's no doubt that the accounting profession has changed significantly in recent years. Regulations have tightened, requiring CPA's to ask more questions, request more documents, follow new rules, document more, corroborate more, disclose more and test more. This "more, more, more" mandate has increased the time we must spend on assurance engagements, which in turn, translates to more time and more cost for you, the clients. But from your perspective, there is no perceived additional value in the end result (aside from a thicker set of financial statements).

SO WHERE IS THE BENEFIT FOR YOU?

I've been in public accounting for over 13 years, the last nine of which have been in the automotive retail industry, all the while knowing that I could bring my clients more VALUE than a traditional audit alone. The only question was how. Reducing costs by reducing the work we're required to do is not an option. The regulations are there for a reason and audit quality simply cannot be compromised.

Is it possible, then, to deliver a high-quality audit that produces valuable, actionable information for you, while providing the highest level of service (oh, and without breaking the bank)? I spent the last year working through the answer to this question. Finally, the solution was realized this summer, when I partnered with like-minded professionals to create VVH CPAs and Associates.

I believe that traditional assurance services for auto dealers (whether audits or reviews) have been lacking in four key areas in recent years. With the increasing complexity of the regulatory environment, as well as an increase in the use of technology tools, the traditional assurance services have been in need of Focus, Integration, Innovation and Passion.

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FOCUS – Focusing on one industry, and one industry only. Many CPA firms service a multitude of different industries, and some are able to do that successfully. However, for automotive retail dealers specifically, I believe that a practice tailored 100% to your industry enables us to not only apply the rules and regulations appropriately, but also to provide you with exceptional customer service. By applying Focus, we can customize audit and review procedures so that we're only asking and testing what we need to, and no more. Focus drives efficiency, which, in turn, facilitates a smooth delivery without excess costs.

INTEGRATION – The synergy created by combining audit knowledge (CPA's with expertise in auditing car dealerships) with operational experience (professionals that have lived and breathed the auto retail industry by working in dealerships). This integration is crucial for being able to communicate properly with clients. Because we speak the same language, we can accurately identify risks pertinent to the audit, while providing you with operational efficiencies and industry insights to help your business thrive.

INNOVATION – This word seems to get kicked around a lot these days, but the way I intend it here is thinking of new ways to meet auditing standards by leveraging the latest technology. As the auditing profession demands more of us as CPA's, we must find new ways to meet these demands using technology, and without causing an extra burden on you. This means we need to be able to electronically extract data, apply new and innovative techniques to analyze it, and then make connections within the data in a way that supports the audit. Gone are the days of "let's do it the way we did last year." Today, Innovation creates audit efficiencies, greater effectiveness, and increased value.

PASSION – A compelling enthusiasm to serve the needs of the automotive industry. Passion is the critical element that ensures a high quality audit is delivered at the highest level of customer service. Passion is what drives individuals to consistently exceed the expectations of their clients every day.

Each of these ingredients, Focus, Integration, Innovation and Passion are needed in equal parts in the recipe for a high-quality audit that provides real value. VVH CPAs and Associates is excited to offer these traditional assurance services to auto dealers in a non-traditional way! ➤



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BAGELS, BMWs OR BUGATTIS: DON'T LET HALF-BAKED CUSTOMER SERVICE JEOPARDIZE PROFITABILITY

By Marilou C. Vroman, CPA, CFE

As an automotive consultant and CPA, I often write about how to improve internal controls or generate more profit out of the service department. I don't often venture outside of the fixed operations and accounting arenas. However, a recent visit to a bagel shop in Texas led me to a powerful realization: when it comes to profitability and success, regardless of what you're selling - or to whom - it all really comes down to listening and genuine caring.

It was the first morning of a week-long project with a local dealership, and I was happy to find a bagel shop conveniently located right next door to my client. As I walked in, a young man behind the counter briskly - and with a certain sense of entitlement - asked for my order. It seems that I may have interrupted his online chat session. Feeling slightly rushed, I requested my default order: a cinnamon raisin bagel with cream cheese and a small cup of coffee. It was a simple order, or so I thought. This IS a bagel shop after all, and they serve bagels day after day. As I made my way towards the cashier, from the corner of my eye, I thought I caught a glimpse of my fresh cinnamon raisin bagel subjected to the flames of a toaster oven and then slathered with a heavy layer of - wait for it - salmon spread. Nah, couldn't be. As I pondered this unusual gastronomic pairing, the cashier explained that she couldn't find small coffee cups, so she would just give me a medium cup instead. Given her struggles entering my order at the register, in the interest of time, I just went ahead and paid. When the salmon-raisin delicacy was actually presented to me, however, in disbelief, I pointed out, "I'm sorry, but I didn't request a toasted bagel, and I also asked for plain cream cheese."

Following a withering "I-can't-believe-you-asked-me-to-make-a-whole-new-bagel-for-you" look, a fresh "untoasted" cinnamon raisin bagel with plain cream cheese was finally delivered a few minutes later. I collected my small size coffee in my medium-sized cup, from the counter littered with loose sugar granules and empty paper packets. The canister labeled "half and half" was empty. The day had nowhere to go but up.

As you read this, you may be thinking, "Isn't this an automotive newsletter? It sure is, but here's why this story is relevant to you: this little bagel shop is incurring loss upon loss, one transaction, and one customer at a time. And while it may not yet be evident to the owner, it very quickly became evident to me.

When it comes to the fundamentals of taking care of customers, there is little difference between an auto dealership or a bagel shop, a doctor's office or a dog sitter. A customer may materialize for various reasons - a new car, service for an existing vehicle, parts or accessories. No matter the specifics, one thing's for sure: the customer expects great service and professionalism from knowledgeable staff, and fulfillment of the need which brought him to you in the first place. There are many opportunities to deliver a great experience and win a customer's loyalty, but they all share two characteristics in common: genuine caring and concern for the customer and focus and attention to the details. It's often overlooked how easy it is to retain, but also to lose, a customer.

FIRST IMPRESSIONS ARE LASTING ONES -

The bagel shop's failure started the moment I walked in the door. I was pressured to committing to a purchase right away, without being greeted or even having a moment to look at the menu. A smiling, friendly "good morning, how may we help you?" would have gone a long way. In sales, the pressure to deliver a vehicle is often

so great that it can be easy to forget to give customers the time and space they need to feel welcomed, and to create a positive first impression before attempting to make a sale. Some of the best run dealerships I've visited are those which ensure the first point of customer contact is very relaxed and positive. Customers value first impressions, and the importance of having a bright, clean, welcoming facility with friendly staff cannot be overemphasized.

LISTEN WITH CARE - A toasted cinnamon raisin bagel with salmon spread? This was not exactly - or even remotely - what I had in mind; let alone what I had requested. In fact, it should have raised a red flag, especially with a self-respecting bagel professional. If the staff is not getting my order right, what else are they missing? Did they wash that knife? Did they check the expiration date of that salmon? Once a customer detects an employee is inattentive, unconcerned, or incompetent, they will lose trust in the employee, and by extension, in the integrity of the overall business. As a result, the customer may be lost before a sale is ever made. This is why it's so important to listen to your customer's



needs with genuine caring. Take the time to truly understand what your customer is seeking, rather than what you might be able to sell. By focusing on what's best for your customer at that moment in time, the sale will – more often than not – follow. Because customers are often defensive when approaching a dealership, it's essential to establish trust immediately. And trust is earned by listening with care.

HIDDEN LOSSES – Our firm often sees losses go undetected because they are relatively small in dollar amount, even when they occur frequently over the course of time. Needless to say, these losses are often unnecessary and can add up to significant amounts if the root cause of the loss is left unaddressed. The bagel shop employee's time and the first bagel with salmon spread were both losses. Yes, the average transaction price at a bagel shop is small. But if you consider an analogous transaction at a dealership, such as an average repair order or vehicle selling price, these types of hidden losses can add up quickly. For example, for failing to listen to a customer's repair complaint to yield a proper cause and correction, a subsequent "comeback repair" will not just incur a loss, but will greatly increase the risk of losing the customer to a competing dealership that can get things right the first time.

Taking the hidden loss scenario one step further, you may recall I was given a medium sized cup instead of a small for my coffee because the employee didn't think it mattered all that much. However, the risk of a customer taking more coffee than purchased is quite high and unlikely to be detected. As I observed the cashier handing out medium-sized cups for small coffee without concern, it dawned on me that a very similar scenario could occur in a parts department if a fast-moving part sells out and a more expensive part is used to complete an order. The customer will likely be unwilling to pay for the price

difference, so the store would have to absorb the loss. Think about it: if your store is not seeing "lost sales" being reported in parts, this scenario may be happening more often than you realize. This scenario exemplifies how employee indifference to the best interests of the shop or its owner can, and will, generate hidden losses. In addition, consider the instantaneous and widespread damage realized when an irate customer rants about their negative experience with others, especially on social media. This places the dealership at even greater reputational risk.

A CULTURE OF CARING – At the end of my bagel experience, I felt a great deal of concern for the owner of the bagel shop. It's likely that the owner was unaware of the problems and hidden losses I observed. It would likely take a long time to manifest in a trend of declining revenues and profits. It's also unlikely the owner would know how many customers were lost simply due to poor customer service experiences. At that point, correcting such an indifferent company culture would likely require a significant investment of both the owner's time and money. Clearly, the risks to a dealership from an employee's lack of caring can result in short-term financial losses, and in the long run, the loss of customers altogether.

Looking back, it's clear to me that the bagel shop employees shared the mindset that their customer supply is endless. People will always need breakfast, and if one customer is lost, it's really not a big deal. Perhaps this is the biggest difference between a good dealership and a great one. Dealerships that strive for a culture of genuine appreciation, where each and every customer is cared for as though they were their last, are the ones that will truly succeed in the end. ➤





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FRAUD IN THE DEALERSHIP

As featured in **WARDS**AUTO

Sometimes the tolerance level gets dangerously high.

By Phil Villegas

Dealers work with a lot of numbers. What acceptable number, in dollars, should a dealer set as the threshold before terminating or prosecuting an employee for theft? Let me pose the question differently. What are you as a dealer willing to tolerate from one of your employees who is intentionally circumventing company policy for personal enrichment? And is the unethical behavior more tolerable if it only adversely impacts customers, not the dealership itself?

This may seem like an easy question to answer, since theoretically no dealer would tolerate any employee taking advantage of the dealership or its customers. The reality is that this precarious situation presents one of the toughest questions a dealer can actually face.

We have all heard and read stories about controllers, office managers, accounting personnel and cashiers who have been caught stealing thousands of dollars, even hundreds of thousands of dollars, sometimes

millions of dollars from the very dealerships that support and trust them. We ask ourselves what could have been done to prevent this outcome from being realized.

By reading the headlines alone, we would believe that the majority of the theft that occurs in dealerships is perpetrated by accounting or clerical personnel. Is it possible dealership accounting and clerical personnel have a certain predisposition for this behavior? That's unlikely, because the fact is that there can be bad actors in other departments of a dealership. They just don't make the headlines as often.

The reason that there is not as much media coverage of theft schemes in other dealership departments is not because they go undetected. It is also not because the money involved is insignificant. Instead, the lack of public discussion about thefts that originate in revenue-producing departments is because these events tend to be more complex and less clear-cut.

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FRAUD IN THE DEALERSHIP

Thefts committed by accounting and clerical personnel generally involve a paper trail. An examination can reveal exactly how much was stolen and for how long. In revenue-generating departments such as parts, service and sales, situations where cash improperly changes hands or disappears are much harder to detect, and even harder to track and substantiate once they are discovered. Typically, frauds occurring in revenue-generating departments often go unreported and unprosecuted for three main reasons:

1. Unlike in most accounting personnel fraud schemes, there often is a lack of quantifiable data or a paper trail to properly establish improprieties for the revenue generators. Items such as under-the-table cash for service or parts, kick-backs from wholesalers or vendors, and cash reallocation within deals in the sales and finance and insurance departments are difficult to prove, let alone quantify. Establishing and proving wrongdoing requires the party providing the cash to cooperate with the investigation. That's unlikely, due their participation in the scheme.

2. There is a double standard in many dealerships regarding the way in which improprieties are weighed from revenue generators compared with accounting or clerical personnel. On several occasions, I have witnessed dealer reactions to potential thefts. When these dealers learned a cashier might be stealing a few hundred dollars, they immediately called the police. In case of a general manager, other manager or salesperson suspected of wrongdoing, however, dealers will sometimes try to rationalize the acts or treat them with a different standard.

The initial reaction is to want to know what compelled them to act in this manner. This can be due, in part, to a fear of losing potential revenue from a good employee who does nine of 10 things right. Or, it may result from a belief that the individual in question deserves a second chance. Since many dealers worked their way up through the revenue departments, they might understand and be more tolerant of some of the gray areas these employees are confronted.

3. In certain cases of fraud that is discovered in revenue-generating departments, dealers are hesitant to prosecute because they believe that negative publicity may drive away potential customers. In particular, are cases where sales or F&I personnel have taken advantage of customers or where customer funds were taken. Those situations leave dealers hesitant to pursue legal action. In unwinding these schemes, the dealer would have to go back and contact customers regarding suspect transactions, which could open a Pandora's box. And, based on my first-hand experience, it can be challenging to get local law enforcement and district attorneys to prosecute some front-end frauds due to their complex nature.

In the last few years, I've witnessed:

- A special-finance manager systematically manipulating customers and paperwork to embezzle over \$250,000.
- A general manager using the dealership's cash to provide a flooring line close to \$1 million for a wholesaler with whom he was conspiring.
- A service manager giving away service and parts to family and friends to the tune of over a \$1,000 per month.
- A parts manager making minus adjustments for high-priced and highly street marketable products to the tune of over \$2,500 per month.
- A general manager instructing accounting staff to not record certain expenses in order to enhance their pay plan by an extra \$75,000 in compensation.

In all but the first case, these employees are still on the job. In the first case, the employee was fired but not charged.

A situation in which an employee intentionally circumvents dealership policies and controls for personal benefit is no different and no less harmful to a dealership than an employee taking money out of the cash register. ➤



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