



Implementing Strong Guidelines in the Parts Department to Prevent Theft.

By Jorge Arrieta

In any dealership, parts may be considered assets at the highest risk. Why? Because parts theft could very easily remain undetected since few people monitor parts activity besides parts managers. Between the high transaction volume, frequently changing part numbers, returns, new vendors, and special orders, it can be a challenge to know everything that has been happening in the parts department.

By implementing a daily bin count and an annual physical inventory, dealers and controllers can have more control over their parts inventory.

When performing a daily bin count, one should select a few high risk parts from the parts pad and verify they are still in inventory. Some examples of parts to select include those that have

a history of plus/minus adjustments, scrapped parts, and parts sold for low or negative gross profit on parts tickets or repair orders.

We recommend having an individual from the accounting office trained on the proper procedures to conduct an unannounced bin count. The individual should be able to print out the parts inventory and find bins in the parts department, without the help of parts department personnel. Then bin counts can be checked against on hand quantities in the parts pad and vice versa.

You might think your parts department is operating effectively and efficiently, but you may be surprised by what you find when you implement and enforce new internal controls. ■



Thinking About Applying for an Open Point? (Part 1)

By Eduardo Hernandez and Phil Villegas

Whether you're an experienced dealer with multiple franchises, a rising sales manager, or anything in between – has the thought of applying for an open point ever crossed your mind? Investing some time to keep your resume updated can save you hours of headaches if you ever do decide to apply for an open point.

Many, if not all, applications will ask you to summarize various aspects of your resume on the application. By keeping your resume up to date, it will make filling out the application and creating a business plan that much easier because you would be keeping many of the items manufacturers ask about in one place and current. Some of the items we've seen manufacturers ask about include: employment history, awards, community involvement, and formal education. Take credit when credit is due, and here are some tips to help you:

- More importantly than keeping track of your positions in each dealership are the accomplishments that you achieved in each position. If you were directly involved in raising or maintaining CSI

scores or had record breaking sales numbers, make sure to keep track of it.

- All awards that you've been personally awarded should be on your resume, especially anything related to the manufacturer or industry. Keep track of any manufacturer awards that you played a key role in helping the dealership win.
- Keep track of any community involvement you've taken part in. Whether it's a few sporadic community service events, a cause you strongly support, or a creative way of getting customers in the door. (Make sure to take and keep pictures!)
- When it comes to education, capture it all. Whether it's the NADA University training or a Bachelor of Science, this information completes the picture on who you are as a dealer.

Remember, with an open point application, the goal is to convince a manufacturer that you are the best candidate to open a dealership and start a decade's long relationship with. Highlighting your ability to sell vehicles and keep your customers happy is key in open point applications. ■



Interpretation of the APA – as With Healthcare, Get a Second Opinion.

By Marilou C. Vroman, CPA, CFE

Buying a dealership can be an exciting and stressful proposition. Working with manufacturers, lenders, attorneys and accountants all in the interest of getting past the closing table to run your new automotive retail venture. Many of the hurdles of acquiring a dealership can be overcome, but one area that can create a significant amount of stress between buyer and seller is negotiation and interpretation of the asset purchase agreement (“APA”) which governs the sale of the dealership assets.

For those contemplating their first acquisition, the APA will typically highlight what will be purchased (e.g. inventories, fixed assets, goodwill etc.) and the method of valuation of each type of asset. The interpretation of the “what is being sold and for how much” can put a dealership transaction at risk if left until the date of closing to be discussed between buyer and seller. For example, an APA will typically include new vehicle inventory with a discount to the buyer for incentives. The language of the

APA is so sensitive to a single word that the difference between incentives “earned” vs. incentives “collected” can be hundreds of thousands of dollars. In another example, new vehicle inventory is typically valued at cost plus the cost of accessories which have been added to the vehicle. However, some dealers may practice an ambitious and uncustomary capitalization policy where the cost of advertising, repairs, washes, packs and other items are added to the cost of vehicles in stock. As a buyer, would you reasonably expect to pay for these items as part of the vehicle? No. If the “adds” are not specified as “hard adds” or tangible accessories which add value, buyer could end up paying significantly more than customary to purchase the inventory.

Add some stress relief to your buy/sell and take the time to have a second set of experienced eyes review your APA in detail. The less risk of APA misinterpretation, the greater likelihood of a smooth closing. ■



The Lost Art of Internal Controls Over Journal Entries Will Cost You Thousands.

By Marilou C. Vroman, CPA, CFE

Remember a time when journal entries were hand written on green ledger paper and were reviewed and approved by the controller prior to posting? In a time when our DMS systems have enabled ease of journal adjustments through source journals we have found more opportunity for theft and income manipulation than ever before.

During our internal audits we often review adjusting journal entries very closely; we have found there is an inverse relationship between the cleanliness and “health” of a dealers financial records and the volume of journal entry adjustments that occur within the dealers books. In a perfect world, there would be very few adjustments since every transaction would be recorded correctly up front. Since we are not in a perfect world, it’s important to know who is adjusting the books, why those adjustments are being made and whether

the adjustments have been properly approved by department management.

In your next monthly financial statement review, ask your controller if you can review the file of general journal entries and source journal adjustments. Is there a file in the first place? Are the adjustments tracked in an organized way? Do the adjustments have proper documented support? Have the entries been approved by an authorized manager? How many dollars have been written off over the course of one month and by who?

The items above should be easy to produce in an accounting department with strong controls over journal entries. If there is any difficulty in producing an organized report of adjustments, explanation and support for these adjustments, this could be a sign of something much worse than inaccurate financial statements. ■

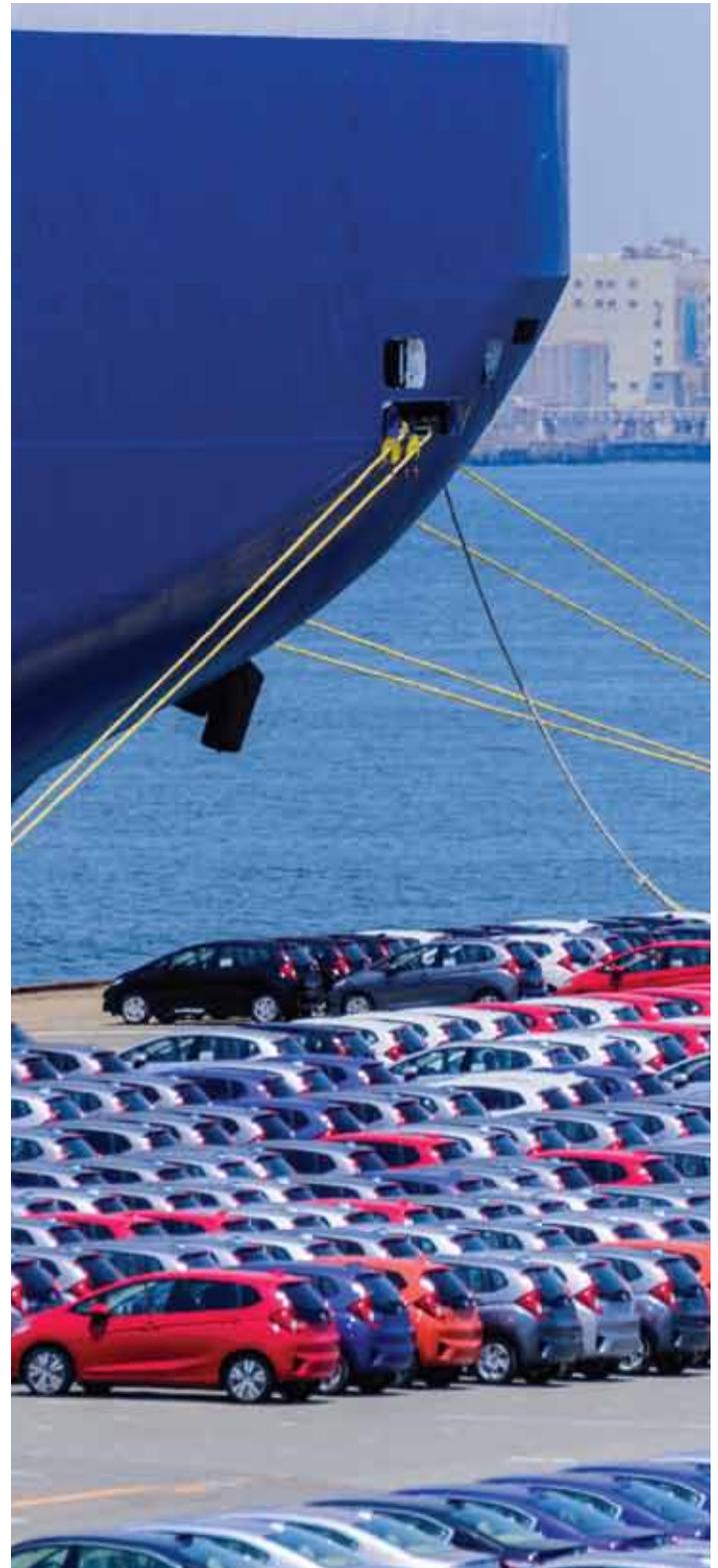
Proper Handling of Export Transactions Can Be Taxing.

By Phil Villegas

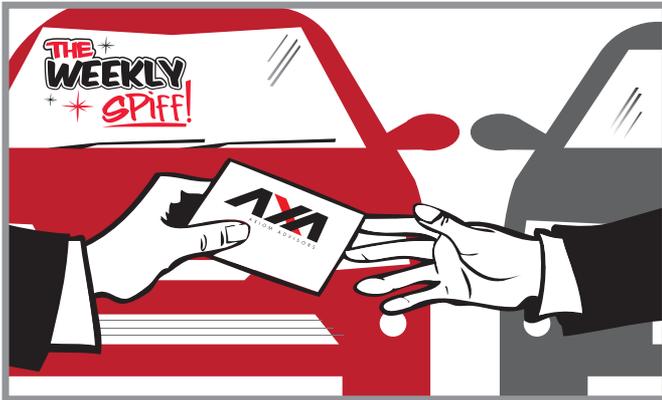
Is your dealership properly handling exports transactions in accordance with state and federal laws?

In our Axiom Analysis, we often discover weaknesses in vehicle export processes and documentation. If an international customer purchases a vehicle with the intent to export, the customer is not exempt from sales tax unless he or she provides proper documentation.

If a customer intends to export a vehicle, the dealership has the responsibility to prevent the customer from driving the vehicle off the lot by issuing a temporary tag. Direct exports are typically not charged sales tax and are not registered. In turn, typical export rules indicate the vehicle must be paid in full, an affidavit that the vehicle won't be driven in the selling dealer's state must be signed, and a bill of lading must be collected for the deal jacket. In addition, we often recommend new vehicles be titled to prevent a MSO from being sent overseas and resold as a new vehicle by an unauthorized dealer. After the vehicle purchase, the customer may ask to keep the vehicle on the dealership's lot for up to 72 hours in order to clear U.S. Customs and Border Protection. During this period the vehicle does not need to be insured and when the customer removes the vehicle from the lot the dealer should maintains proof of how the vehicle was removed. ■



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Axiom Advisors was formed in the spirit of providing a fresh, new alternative to meet the specialized needs of retail automotive dealers. Our team of professionals has the unique combination of over 50 years of hands-on retail automotive industry experience working directly in dealerships, paired with the assurance of professional accounting experience. Our advisors are “car guys” who speak the language of the industry and truly understand the complexities of your business. We specialize in enterprise management, mergers and acquisitions, and litigation support.

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