



How to Increase Transparency in Your Parts Inventory

By Jorge Arrieta

In the automotive industry, we tend to see employees performing tasks in a certain way because traditionally “it has always been done that way,” yet often no one questions why?

The New Year is a great opportunity to review and improve on our operational procedures. The parts department is a perfect example of old habits that die hard. For example, for dealers using CDK, the use of the “display/sell” or “DS” function can be used to adjust parts inventory. This function can be appealing due to the convenience it provides however, when the display/sell function is used, the parts pad can be modified without management authorization or a paper trail. In addition, the accounting records may adversely be affected because accounting personnel may not be notified of the adjustment, or have visibility to test if the transaction should be recorded

in the general ledger. One of the largest concerns is the risk of an individual using the display/sell function to mask the misappropriation of parts.

One solution is to generate a counter ticket to scrap or return parts so a document reference number and paper trail is created when a part is written off or returned for credit. In addition, an accounting manager should review adjustments to the parts inventory monthly and perform tests to ensure the adjustments are warranted and the parts manager is aware.

With these small changes, transparency is improved and the variances between the parts pad and the general ledger inventory balance can be minimized. If done consistently and appropriately, this should also reduce the risk of inventory losses. ■



IRS Form 8300 compliance - What you can do NOW to prevent penalties.

By Marilou C. Vroman, CPA, CFE

Most dealers are aware of the requirements to file IRS Form 8300 when they receive more than \$10,000 in cash for business transactions. Interestingly, as part of our internal audits we test 8300 compliance and still find even the best run dealerships have 8300 Forms which were either filed late, or not at all.

As a refresher, dealers must report cash payments over \$10,000 to the Internal Revenue Service using the Form 8300 within 15 days of the related transaction. The form must be filed regardless of the nature of the transaction or whether the sale has been completed. In addition to filing Form 8300 with the IRS, dealers need to furnish to each person whose name has been reported on Form 8300 a written statement of the 8300 filing by January 31 of the year following the transaction.

Failure to file a timely and correct Form 8300 has a penalty of \$250 per violation. The aggregate annual limitation for a typical dealership operation is \$3,000,000. The intentional disregard penalty for failure to file a timely and correct Form 8300, is the greater of \$25,000 or the amount of cash received by the dealership, not to exceed \$100,000. There is no aggregate annual limitation for intentional disregard of Form 8300.

We recommend an individual in the accounting department be assigned the responsibility for auditing the 8300 process on a bi-weekly basis. A custom report can be built in your DMS which shows subtotals of cash receipts grouped by customer name including the form of payment (Cash, Cashier's Check, etc.) This report should be compared to the Form 8300s that have been filed to date to ensure no required filings have been missed. ■



New Year's Resolutions for You and Your Dealership

By Phil Villegas

One of the beautiful things about the New Year is that we take it as an opportunity to reset certain aspects of our lives and make a concerted attempt to do better in the year to come. Whether it's a commitment to losing weight, quitting smoking, volunteering time, pursue another degree or simply to take that dream vacation, New Year's resolutions give us a clear starting point from which to embark on enriching our lives.

This should be no different for your dealership and there's no better time like the New Year to implement or roll out efforts to improve your store. Just like in our individual lives, the prospect and possibilities of the New Year are endless and this is no different for a dealership.

Just like there is not a perfect person, there is not a perfect dealer-

ship, there is always room for improvement. Some New Year's resolutions for your store might be:

- Adopting a paperless environment
- Daily bank and factory reconciliations
- Formalized employee evaluations
- Leadership training for management
- Dealership personnel community involvement
- An employee weight loss / stop smoking departmental challenge
- An improved and personalized customer service initiative

The possibilities are endless. No matter how small the initiative, don't waste an opportunity for improvement, particularly at a time when the entire dealership would be most receptive to it. Happy New Year! ■



Back office investment will yield front end rewards.

By Marilou C. Vroman, CPA, CFE

One of the best indicators of a good restaurant is a well-kept, clean and organized kitchen. Some of the best restaurants are those where you can see the food being cooked with utmost care and concern, the chef directing traffic, an orchestra of gastronomic talent working together to create amazing dishes with the final garnishes so being carefully placed on each plate. So, as you take time from your busy day to read this, why is this relevant to your dealership?

It's interesting to me how many dealerships continue to operate with the minimal amount required to meet corporate image requirements, and make little no investment in the non-customer facing areas of the store, such as the accounting office, parts department, and even the service department. These are the places where dealership employees come to work every day and are expected to be high producers and to be happy and treat your customers with utmost care and concern. Yet their work environment has been ignored. I've seen accounting departments where boxes upon boxes of old files, old printers and computer

equipment were randomly piled on the floor. Desk chairs that are falling apart, low lighting, mold stains on the ceilings, smelly carpets, bugs, no soap in the bathroom and a general lack of care or concern for the workspace. Not to mention, computer equipment with processing speeds that of a floppy disk era Apple IIC.

Interestingly, I have observed some correlation between the dealer's investment in the work environment and the overall integrity of the dealership. I find those stores that have been meticulously maintained, well lit, clean, pleasant working environments for their employees are generally better run, have higher employee satisfaction and pride, and a lower risk of inappropriate transactions and activities and less turnover.

Like a good restaurant that is proud to share "where the magic happens", dealers should treat the hidden areas of the dealership like the star of the show. If your customer would have second thoughts buying or servicing their car at your store after observing working conditions of these hidden areas, it may be time for a refresh. ■



Facility Potential – How Much is Your Service Department Capable of?

By Marilou C. Vroman, CPA, CFE

Dealers tend to look at high level indicators of store performance. The questions often heard at month end are: “How many cars did we deliver?” or “Where is fixed gross going to end up?” At times, more specific questions should also be asked such as: “Is our service department operating at its full potential?”

While there are many variables that work together to generate service profits such as technician efficiency, productivity and parts availability, a closer look at facility utilization may reveal great opportunities.

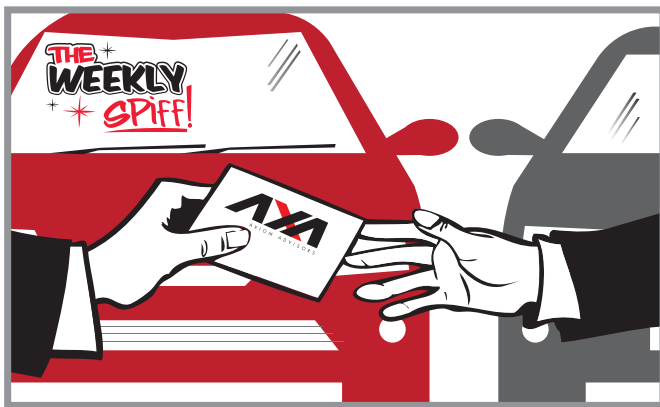
The dealership has a maximum realizable service capacity which should be compared to actual labor sales monthly. This maximum capacity is referred to as “facility potential”. Facility potential is calculated via the following formula: Number of bays multiplied by

the number of days in the period multiplied by 24 hours multiplied by the dealership’s effective labor rate.

This calculation assumes that the service department is open for 24 hours, with a working technician at every bay. While this calculation may seem unrealistic at first glance, the facility can be generating revenue 24 hours per day, seven days per week, by scheduling technicians in shifts. Facility utilization percentage is calculated by dividing total labor sales by the facility potential for the same period. Some dealers may be surprised to find that the service department is operating at less than 50% of its maximum potential!

When millions are spent to build a state of the art service facility with countless bays, there is a great opportunity to find more return on your facility investment with this simple calculation. ■

Suspicious Transactions?



Axiom Advisors shares weekly insights into automotive retail dealerships! Learn tips, trends and controversies related to dealership operations, fraud risks and internal controls.

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