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# HEADLIGHTS



A PUBLICATION  
OF THE AutoCPA Group

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## PROTECTING THE FINANCIAL WELL-BEING OF YOUR AUTOMOTIVE DEALERSHIP

**I**t's been several years since dealers have had to actively manage the financial health of their dealerships. Gross was at historical highs, demand outpaced supply, interest rates were low—financial security seemed easy. Those comforts are gone today. Gross is back near pre-pandemic levels, inventories are generally increasing and interest rates are at their highest level in more than 20 years. These challenges create uncertainty. This doesn't mean times are bad, it means dealers should actively manage the financial well-being of their dealerships. Below are some ideas dealers should consider as they look for opportunities to strengthen their financial position.

### Risk Assessment and Management

Now is a good time to look at your store and determine the events that could have a significant

impact on operations. Can the risks you identify be insured? Is your coverage adequate? How does filing a claim affect your premiums or ability to obtain coverage in the future? Is your insurance

coverage providing the protection you're expecting? Make sure you understand your policy, and watch out for language that may present an obstacle to having claims paid.

Important to risk management is having a current disaster recovery plan in place and appointing a person responsible for maintaining, updating and enacting the plan. The ability to get back on your feet quickly is key to weathering any disaster.

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**Matthew  
Marcoullier, CPA  
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### AUTUMN 2024

**FINANCIAL FRAUD AND  
RISK MANAGEMENT**

**WHY ACCURATE REPORTING IS CRUCIAL  
FOR DEALERSHIP GROWTH**

## Financial Planning and Measurement

As grosses have started to shrink, it's important to plan and prioritize how that money will be spent. The first half of 2024 has seen the full resurgence of advertising and floor-plan interest expense. These items, which were below historical levels since 2020, are once again taking a piece of diminished gross. Forecasting and budgeting for spending on a per vehicle retail (PVR) or absolute basis, then holding your team accountable for hitting those targets, is crucial to maintaining healthy operations. Inventory management is another key to success in the latter half of 2024 and going forward. Dealers strategic and disciplined in their approach to inventory and expense control will be better positioned for future success and surviving downturns.

## Customer Satisfaction and Employee Development

Well-trained employees make fewer mistakes, are more engaged and create more positive customer experiences. Investing in your employees gives them the skills they need to be successful and keeps them engaged, which is powerful for retention. It's inefficient to continually retrain employ-

ees. Reducing turnover saves money and helps ensure a knowledgeable and skilled team to work with your customers. As competition increases and bottom lines are reduced, it's important to make sure you're getting the most out of your sales opportunities. Failing to close on leads or having comebacks diminishes the customer experience and negatively impacts sales.

General economic conditions, pressure from original equipment manufacturers (OEMs) and intense regulatory scrutiny are challenges faced by auto dealers; it's important to be alert and make sure you aren't overexposed. Finding new ways to implement and embrace technology and thinking outside the box are still important for growth, but we see a return to the basics, with active monitoring and oversight of performance, as the pillar to safeguarding your financial resources. Dealers embracing this approach and discipline will be those best positioned for continued success.

To discuss how to effectively manage the financial well-being of your dealership in today's environment, contact your **AutoCPAGroup** member. 📧

# FINANCIAL FRAUD AND RISK MANAGEMENT



**S**afeguarding against fraud risk in the dealership industry is now more critical than ever. Financial fraud involves intentional deception, where perpetrators misrepresent, conceal or omit facts related to promised goods, services or benefits for monetary gain. Three common conditions contribute to fraud.

Three common conditions contribute to fraud.

**Dwayne Tucker, CPA**  
**Spoor Bunch Franz**

- 1. Incentive/Pressure:** An employee wants to make a certain commission in a given period.
- 2. Opportunity:** Given a lack of effective controls, a staff member is able to access the same financial data as the CFO.
- 3. Rationalization/Attitude:** To justify fraudulent behavior, an employee minimizes the situation, saying what they did was "not that bad."

To prevent fraud, here are some effective steps:

- 1.** Update policies and procedures manual, and hold regular meetings to implement new policies and procedures.

2. Identify key areas from your manual to test.
3. Make staff and employees aware of their roles and responsibilities and segregate duties among departments.
4. Follow up regularly to make sure everyone is held accountable.

The digital age has opened the door to new ways of committing fraud. According to Statista, nearly 80% of new cars have been financed, which should raise a red flag regarding loan application fraud. This occurs when an individual or a company misrepresents or omits relevant information to secure a loan they may not qualify for or on terms they would not receive should the truth be disclosed. To limit scams, dealerships should implement verification technology. Just scanning a customer's driver's license doesn't prevent fraud, since the customer could be committing identity theft. With verification technology, you validate the driver's license and verify the person's identity and address. You can even set up triggers to warn you if the customer poses a threat.

Verification technology uses a wide range of tools and methods to confirm the authenticity, accuracy or legitimacy of various types of information, transactions or identities. Here are some examples:

- ✓ **Blockchain Technology:** Utilizes distributed ledger technology to verify and record financial transactions securely and transparently.
- ✓ **CAPTCHA:** Determines whether a user is human or a bot, often requiring the completion of a challenge that is easy for humans but difficult for machines.
- ✓ **IP Geolocation:** Verifies the geographic location of a user based on their IP (Internet Protocol) address to detect potentially fraudulent activities or to personalize content/services.

An audit or agreed-upon-procedures engagement can mitigate fraud risk and improve internal control. As the volume of business increases, so does the associated risk. For any other questions, please contact your **AutoCPAGroup** member for assistance. 📧

## WHY ACCURATE REPORTING IS CRUCIAL FOR DEALERSHIP GROWTH

**M**ost dealers can tell you where they rate with customer service and owner loyalty scores. Volume or hours sold measure a successful month. However, many dealers cannot confidently rate or grade their dealership operationally and financially.

They may view their financial statement as a mere snapshot of past history, *but in reality, it is a key indicator of their business' future and a key tool for future growth planning.*

An accurate and relevant financial statement shows your dealership's profit opportunities and provides a tool to hold management accountable for results. Your financial statement shows lenders

and other partners and stakeholders that you are a well-managed business.

With the evolution of banking regulations and the consolidation of floor-plan lenders, it is crucial for a dealership to represent clean recordkeeping, strong internal controls and financial health to their lenders through a relevant financial statement.

**Stephanie Martz, CPA  
Boyer & Ritter, LLC**



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An accurate financial statement helps your dealership by

- ✓ representing the health of your business
- ✓ exposing potential theft and fraud
- ✓ portraying your financial image to banks, vendors and partners

Show how your dealership is allocating resources by

- ✓ presenting operational opportunities
- ✓ helping you calculate manager bonuses
- ✓ providing a sound basis to help you plan for the future

### Creating an Accurate Financial Statement

Responsibility for preparing and presenting an accurate and relevant financial statement begins with processes and tools to help the front line to efficiently generate transactions while maintaining a positive customer experience.

That shift of responsibility can be a big culture change. Most employees are reluctant to change. Upper management should understand the importance of relevant financial reporting and support that effort with their staff.

*Dealerships achieve accurate financial statements through defined internal controls, related processes and accountability.*

Accurate financial statements require

- ✓ defined roles and responsibilities in each step of a transaction
- ✓ holding the defined roles accountable to their respective responsibilities
- ✓ segregating duties and cross-training
- ✓ systems that promote accuracy and efficiency
- ✓ staff training on systems and processes
- ✓ strong transaction cutoffs and deadlines
- ✓ clean accounting schedules and reconciliations

### Moving Forward

Transparency involves sharing the importance of accurate financial statements with management and staff. Explaining how these statements

impact the dealership and its future opportunities helps secure their buy-in.

With a system for producing relevant and insightful financial statements, your team can identify goals, work collaboratively to achieve them and celebrate success together.

To discuss this issue further, please contact your **AutoCPAGroup** member. ✉

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