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# FINANCE DEPARTMENT PROFITABILITY

**Aaron Winiarz, CPA**
**Aaron Winiarz**

A proactive and profitable finance department is a vital part of today's dealership. The current business environment, in which front-end gross profits are higher than normal due to the shortage of vehicles, may not last forever, and an aggressive finance department will allow sales managers to increase the profitability of deals. As gross profits return to more normal levels, a robust finance department can help keep profitability at a higher level for the future benefit of the dealership. It is important that finance managers understand the degree to which their involvement can affect the current customer satisfaction index and future customer retention.

The finance department's goal should be at least $1,500 gross profit per retail unit sold. More importantly, the department should achieve at least $1,000 per retail unit after chargebacks and finance compensation. The measurement of the net number is key because it will determine the profitability of the department.

In addition to maximizing the allowable finance reserve, many other products can be sold to achieve this goal. To add to the productivity of the department, the finance manager's objective should be to sell at least two additional products per unit sold. These products vary by dealership but include extended service contracts, gap insurance policies, etch protection programs, paint and

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fabric protection, antitheft devices, vehicle maintenance programs, collision deductible programs and biweekly payment programs. The biweekly payment program offers both a potential interest savings and a convenience for customers who are not likely to miss an installment in this era of electronic payments.

Many finance departments also sell accessories for each vehicle sold. This requires a close working relationship with the parts department but also a need to display the equipment. Programs that show what the various accessories would look like on the customer's vehicle can aid in the sale. This also helps increase the profitability of the department.

With the potential of additional regulations that could reduce finance reserve income, aggressive sales of additional products can help replace some of that lost income. If you have any questions, please contact your local AutoCPAGroup member. ✍

# BENEFITS OF REINSURANCE COMPANIES

**Carl Woodward, CPA**
**Woodward & Associates, Inc.**

This article is written for those dealers that sell vehicle service contracts (all dealers) and do not have their own reinsurance company. Let's review the benefits of reinsurance companies for dealers and consider whether these new vehicle dealers are missing some incremental profits and giving up a material amount of income.

## Substantial Lost Incremental Profits

All dealers sell service contracts and receive a commission (gross profit) upon the sale of the service contract. However, additional profit can be made on the sale of the service contract by the service contract administrator or the actual service contract company. Some dealers do receive this second level of gross profit on a limited basis. Oftentimes, this second level of gross profit (commission) is called "retro" program income. Yet even under most of these "retro" programs, there is still a third level of profit available to the selling dealer. To obtain this level of profit, the selling dealer must own a reinsurance company.

When a dealer owns this reinsurance company, its company has a few minimal expenses, other than a service contract administrative fee (or commission paid) to the reinsurance administrator or the insurance company. The administrator and/or insurance company will typically send someone to the dealership on a monthly basis to train and guide the salesperson at the dealership to increase the penetration of selling these service contracts. Out of the payment made to the reinsurance company, which constitutes the cost of the service contract, the administrator will typically charge a fee for these needed services.

## Income to the Dealer

The selling price of service contract by the dealer, less cost of the service contract, less the fee to the service contract administrator, less the minimal administrative fees, less some minimal income taxes leaves incremental profits at the reinsurance company level. These incremental profits, often left on the table by dealers that do not own their own reinsurance company, can add up to an annual six-figure amount. These administrative fees are very negotiable. I see a wide range, low to high, of these administrative fees. Make sure these administrative fees are reasonable and competitive.

**In summary:** Dealers should consider signing up for their own reinsurance company. Consult your AutoCPAGroup member to discuss the benefits of doing so. ✍

# THE TRUSTED EMPLOYEE

**Bridget Conner**
**Spoor Bunch Franz**

Taking on a new client several years ago that engaged our firm for a review, I heard about Bob, who had been a trusted employee for more than 30 years and managed the financial reporting process with precision and efficiency. "You won't find much wrong with the schedules Bob puts together" and "he will get you what you need ASAP," I recall the owner telling me. At the time, the owner's biggest concern was replacing Bob, who was 71 at the time. He mused about finding someone as dedicated, trustworthy and accurate—"he is just old school, they don't make them like him anymore." Of course, the readers of this article know where this story is headed—I found out three years later that Bob had embezzled $300,000 from that dealer over a 5-year period.

Anyone close to the retail automobile industry has probably heard a similar story. It is unfortunate, but in many small businesses, the major reason fraudsters can commit their crimes is because management trusts them so much; they are family members or longtime friends, or they have proven work records and years of service that allow them to hide their activities. In my experience, the fraud perpetrated by the trusted longtime employee seems to be particularly prevalent with auto dealers.

Given all the moving parts in an auto dealership, it is easy to overlook internal controls. Yet maintaining effective internal controls is crucial to protecting the business and its assets.

Internal control is not just about preventing or detecting a misstatement. Accountants can also focus on controls that improve the efficiency and profitability of a dealership's operations. Some areas that a dealership can focus on include:

✔ **Reviewing contracts** in transits, vehicle accounts receivable, warranty receivables and manufacturer receivables.

✔ **Managing new inventory** by reviewing the composition and age of new-vehicle inventory. Monitoring floor plan payoffs and performing reconciliations is also critical to reduce floor plan interest and ensure that a dealer is not in an out-of-trust situation.

✔ **Managing used vehicle inventory** by reviewing the controls over acquiring, reconditioning and appraising used vehicles.

The following is a summary of the best internal control procedures for auto dealers:

✔ **Segregation of Duties**—There should be an adequate division of the following duties: approval, accounting/reconciling and asset custody. For example, in the finance department, there should be separation of assignments for accounts payable, bank reconciliations, receivables, titling and customer refunds.

✔ **Purchase Orders**—All purchases should be approved by a managerial-level staff member. The

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purchase order should be attached to a vendor invoice for verification before payment.

✔ **Check Signing—**It is important to ensure that check-signing responsibility is left to a senior manager or owner. In addition, carefully review all check details to ensure that the payee is an approved vendor. Many businesses are utilizing ERP (enterprise resource planning) systems that provide electronic signing on blank check stock and an audit trail for authorizations. The business can set a certain threshold and secure the computers that have access to print the checks. Another way businesses are cutting costs is by transitioning to using ACH (automated clearing house) payments over credit cards. ACH is one of the largest, safest and most reliable payment systems in the world.

✔ **Conduct a Vendor Audit—**Sometimes fraudsters will create phony vendors to make small payments to on a regular basis. This allows them to pay themselves large sums of money over an extended period without being noticed. It is important to regularly review a list of the dealerships' vendors to verify data about the companies being paid. Call the vendor to ensure the details are accurate and that the business is legitimate, or hire a company that will manage vendors for the dealership.

✔ **Reconciliation Process—**Reconcile all key accounts, preferably monthly. Informing employees that accounts will be reviewed and reconciled and that differences will be investigated can be a preventive measure.

✔ **Mandatory Vacations—**Be sure to require mandatory vacations for all members of the dealership. This will ensure the opportunity for others to review fellow employees' work, observe processes, create an opportunity for any inappropriate behavior to be discovered, and cross-train staff on different accounting functions. It is a red flag when an employee refuses to take a vacation or time away from the office; it can signal that they are concealing inappropriate activity. Another benefit of mandatory vacations is that it forces the dealership to cross-train staff on different accounting functions.

Attest compliance functions are important, but let's not forget that the attest function can provide meaningful value to auto dealers, as well. Feel free to discuss any of these matters with your **AutoCPAGroup** member. ✍