AUTO DEALER

Defend Your Dealership Against Fraud

by Larry Adams

Dealers often wonder how they can improve their controls. While it is probably cost prohibitive to hire enough people to have a perfect segregation of incompatible job functions, there are many things that dealers can do to prevent fraud in the dealership. The following is a list of the five items most likely to have an impact on improving your controls:

1. **Dealer receives the bank statement directly.** Whether it is sent directly to your house or you receive it, unopened, at the dealership, you must review the bank statement on a regular (or irregular) basis. Scan the checks looking for anything out of the ordinary. Make sure everyone is aware you are doing this. The person reconciling the monthly bank statement should not have signature authority or general ledger access. The statement reconciler often covers up improprieties. We would recommend that the office manager, the payable clerk and the receivable clerk have job functions that are incompatible with reconciling the bank account. Find someone else—anyone else!
2. **Count your vehicle inventory monthly.** Relying on a floorplan auditor to detect problems is a big mistake. A floorplan auditor is only concerned about vehicles that are floored. We recommend the used car manager count the new vehicles monthly and the new car manager count the used vehicles monthly. Have them report to the office manager and resolve discrepancies immediately. One lesson that can be learned from the floorplan auditors—touch every vehicle every time!
3. **Have regular "heat sheet" meetings.** Dealership management should meet regularly with the appropriate accounting office personnel and departmental managers to discuss those schedules subject to large fluctuations, uses of cash and balances that can decrease in value without the proper attention. A weekly review of all contacts in transit, receivable and inventory schedules will assist in identifying problems before they become write-offs. Meet, assign responsibility for follow-up and discuss every week until the item is collected.
4. **Review month-end general journal entries.** When you consider that all sales, purchases, cash receipts and cash disbursements are recorded in their own separate journals, you might wonder why it is necessary for management to understand the general journal entries posted on a monthly basis. These entries are where receivables are written off (maybe to cost of sales), credits are posted and unreconciled amounts are written off.
5. **Only people you trust can steal from you.** While this is not entirely true, it does point out the fact that a good system of checks and balances will prevent anyone from perpetrating fraud or embezzlement on your dealership. Cross-training, mandatory vacations and being attuned to changes in lifestyle are just some of the ways your system of controls can be strengthened.

If you critically evaluate your system, review monthly reconciliations and discuss with your CPA how your system can be improved, you are already on your way to better controls.

Larry Adams is a principal with the LarsonAllen Auto Dealer Group. Contact Larry at ladams@larsonallen.com or 612/376-4523.

CONSTRUCTION

What Do Your Financial Statements Say About You?

by Darrel Mullenbach

Many business owners fail to recognize the significance that financial institutions, sureties and even potential customers place on certain areas of your financial statement. Understanding how to accurately report and properly present this financial information will demonstrate that your company is more worthy of their trust than your competitors.

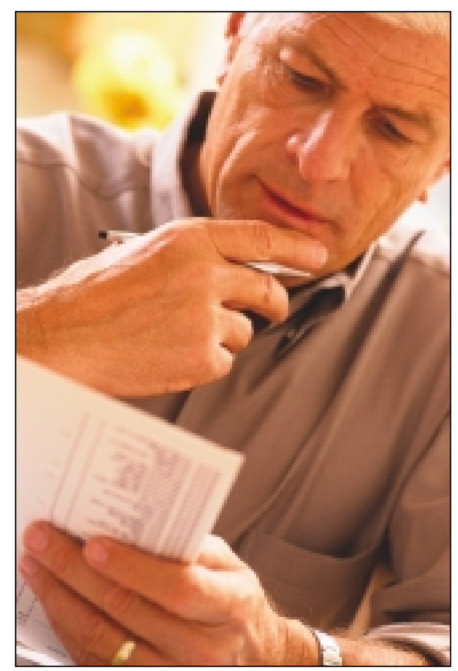
Some key indicators are:

Working Capital: Working Capital = Current Assets – Current Liabilities. Working capital is an indicator of your liquidity. It may also indicate how much volume you should have under contract at one time and how large any single job might be. Typically, financial institutions and sureties consider your workload or contract capacity to be a multiple of your working capital.

Debt to Equity (leverage): Debt to Equity = Total Liabilities / Equity. This ratio indicates the company's debt leverage compared to the net book value of the company. Debt to equity ratio is an indicator of financial stability and ability to increase borrowing to fund current cash flow needs, such as the replacement of equipment.

Backlog: Backlog = Sum of Open Contract Revenues – Sum of Revenues to Date. Backlog is the volume of revenue your company has on hand to cover the annual general and administrative expenses or fixed costs. A low backlog may indicate that the gross profit on contracts is insufficient to cover these expenses without a reduction in overhead or aggressively bidding on new contracts, likely at lower margins than in prior years. The ability to obtain contracts at margins sufficient to cover your fixed costs in competitive markets or slow economic times may determine the net results for the upcoming year.

Profitability: Profitability % = Gross Profit / Revenue. Lenders and sureties look for consistency in profitability percentages from one year to the next regardless of volume, market and size of projects. Profit margin is an indication of your ability to manage your indirect job costs, handle changes on contracts and control direct costs.



Profit Fade: Estimated Profit – Actual Profit on completed jobs. Profit fade indicates your company's ability to estimate and anticipate the direct costs necessary to complete a contract. This estimating ability is key to the recognition of profit on open contacts in your financial statements and the bidding on new contracts. Profit fade analysis based on job schedules is widely used to determine credit capacity.

What is the bottom line? What are the financial institutions, sureties and prospective customers looking for? Creditors whose risk is based on your company's financial performance are looking for accuracy, consistency, and predictability. The results of your key indicators and the changes you implement to improve them will demonstrate you are capable of managing your company and its financial results.

Darrel Mullenbach is a principal with the LarsonAllen Construction Group. Contact Darrel at dmullenbach@ larsonallen.com or 612/376-4652.

EMPLOYEE BENEFIT ASSURANCE

Timely Remittance to 401(k) Plans

by Kris Tveit

The Department of Labor-Pension and Welfare Benefit Administration (DOL-PWBA) is focusing on the definition of "plan assets" as it relates to the timely remittance of participant contributions. Under the regulations, the assets of the plan include amounts that a participant has withheld from their wages by an employer, for contribution to the plan as of the earliest date on which such contributions can reasonably be segregated from the employer's general assets. The maximum time period for 401(k) plans is the 15th business day of the month following the month in which the participant contribution amounts are withheld by an employer from the participant's wages. Recently, the DOL clarified that loan repayments are considered participant contributions and are subject to the same rules.

> The Department of Labor is currently conducting audits of plans and focusing on this issue.

The DOL is currently conducting audits of plans and focusing on this issue. There have been certain instances where a 401(k) plan sponsor has bi-weekly payroll but only deposits the deferrals and loan payments once per month. This may be in violation of the plan asset regulations. The DOL has taken the position that the funds should at a minimum be invested in an interest bearing account within the trust as soon as reasonably possible.

Failure to remit contributions on a timely basis is considered to be a prohibited transaction (deemed to be a use of plan assets for the benefit of the employer or a prohibited extension of credit) and is a required disclosure in the accountant's report, and on the Form 5500. The transaction is also subject to a 15% excise tax on the lost earnings, which must be reported and paid on Form 5330.

The DOL is currently enforcing this regulation to treat participant contributions as plan assets as of the earliest time the funds can be reasonably segregated from its general assets. The deadline of the 15th business day following the month of withholding is no more than an outside date for determining when reasonable segregation can take place. Therefore, if the employer has routinely demonstrated that deposit to the trust can be made earlier than the outside deadline, the DOL will take the position that the earlier date is the date upon which the contribution becomes a plan asset. The DOL may challenge plan sponsors on this issue and may take the position that the plan sponsor should remit deferral contributions and loan payments within the same time frame that they remit payroll tax withholdings.

Kris Tveit is a principal with the LarsonAllen Employee Benefit Assurance Group. Contact Kris at ktveit@larsonallen.com or 320/203-5526.