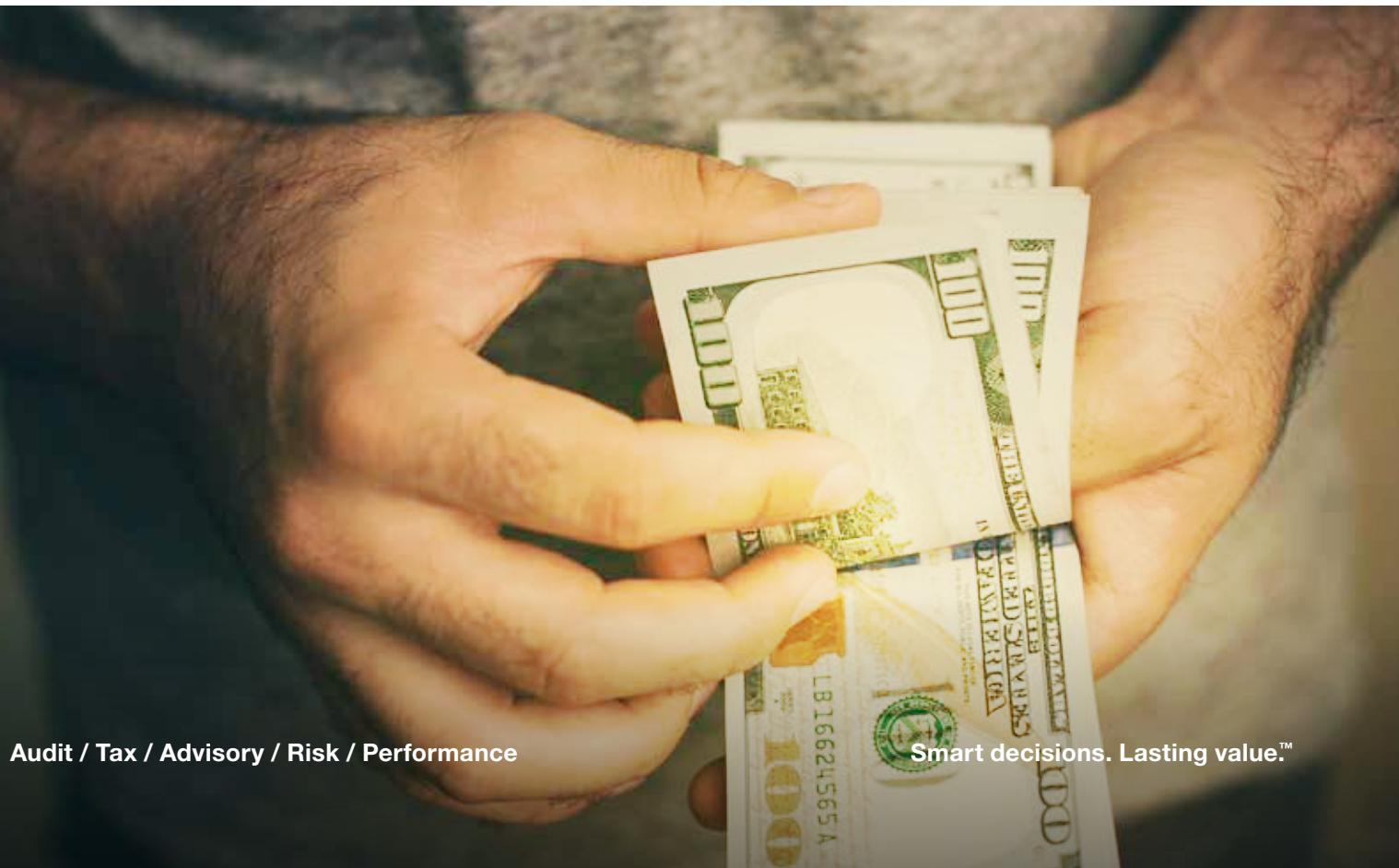


November 2017

Strengthening Internal Controls in a Cash Environment

An article by Tony J. Allison, CPA, and Stuart T. McCallum



California dealerships may be seeing more green starting Jan. 1, 2018, when the state will begin issuing licenses for recreational marijuana sales. Marijuana providers are not expected to use the banking system to deposit the cash from their sales transactions, so they likely will use cash to purchase goods, including cars.

To prepare for an influx of cash-paying customers, California dealerships should review their controls over cash. Dealers can focus on four main areas to make sure the cash that crosses their counters makes it into their records and bank accounts.

Assess Active Delivery Risks

In dealerships that practice active delivery, service department advisers – rather than cashiers – accept payment. While this method is meant to save customers – and dealerships – time, in reality, it could cost dealers money.

Active delivery leaves dealerships vulnerable to weak controls in two main ways. First, when the service department takes payments directly, the people accepting payment also have the ability to apply a discount to the service. As a result, a service adviser could adjust an

invoice amount but then take the cash and discount the invoice in the accounting system as a policy adjustment.

Another common control weakness in an active delivery dealership may be in the repair order (RO) process. If dealers have open ROs that are yet to be closed out and no payment has been received, it could mean that a customer has received service and left without paying. In a cash transaction, however, it also could mean that payment was made but not applied to the RO and then was stolen by a service department employee. Dealerships should consider taking a physical inventory of the work in process periodically by tracing the open RO list to the vehicles in the service department.

One way to detect irregularities in the RO process is to inspect ROs that are not in sequential order by RO number. Several ROs that are not in sequential order could indicate those ROs were provided to customers who paid in cash without the transaction being recorded in the books.

Other steps to strengthen controls in active delivery:

- Require all service department transactions to be credit or debit transactions.
- Track all ROs and investigate any that have been open for a suspicious amount of time.
- To maintain independence, have non-service department personnel audit open ROs or ROs that are substantially out of sequential order.
- In multistore groups, have an individual from a different dealership execute the audit.

Consider Separate Cashier Positions

Large dealership operations should consider separate cashier positions to help manage cash transactions. In addition, any person handling cash should not be related, in any way, to the staff members responsible for recording and reconciling accounts and also should not, for any reason, be able to adjust invoices. Additionally, consideration should be given to bonding cashiers and others handling cash.

Additional controls related to handling cash:

- Review voided sales regularly.
- Reconcile all credit card transactions to credit card receipts for assurance that customers' credit cards are not overcharged and then cash refunds misappropriated.

- On a daily basis, reconcile invoices to make sure cash received has been accounted for and deposited in the dealership's safe or bank account in a timely manner.
- Reconcile cash drawers daily and bank accounts at least monthly.

In addition, someone who does not have access to or control over the account should prepare all reconciliations. For example, in a multistore group, the controllers from Dealership A could reconcile Dealership B's cash account and vice versa.

Track Cash in the F&I Department

Controls should be in place to make sure finance and insurance (F&I) managers who receive cash from customers actually deposit the cash into the dealership's safe and have no opportunity to misappropriate cash.

Controls to help prevent F&I department fraud:

- Create a chain of custody so at least two people have oversight when cash comes in.
- Flag cash transactions early in the sales process, if possible, so the dealership can prepare to receive the cash.
- Have a cashier collect all cash.
- Consider having both the F&I manager and the cashier deposit money into the safe so two people are involved in handling the cash.

Ultimately, more than one person should handle cash.



Be Aware of Cash Collectors Who Work Every Day

Dealers should keep an eye on staff members who work every day or refuse to take a vacation. Unfortunately, these scenarios sometimes mean these employees do not want anyone else to see their records because they're attempting to conceal fraud. Dealers should consider implementing mandatory vacations for anyone who handles cash.

Prepare for More Cash

As the marijuana industry gains momentum in California, dealerships must be ready for an increase in cash transactions. Now is the time for dealers to review and, if necessary, strengthen their cash controls.

Learn More

Tony Allison
Partner
+1 574 236 8630
tony.allison@crowe.com

Stuart McCallum
+1 630 706 2093
stuart.mccallum@crowe.com

This article was published by the California New Car Dealers Association in November 2017.