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Improve Your Controls Over Cash By Segregating Duties

We have found that many dealerships assign individual employees too many duties related to the accumulation of cash and checks and making the bank deposit. Even in smaller dealerships, an effort should be made to segregate cash functions.

Many improprieties occur in accumulating the various sources of cash and preparing the bank deposit. Generally, cash is generated from daily mail, the parts and service department, and the vehicle sales department. The cash from these three sources should be summarized by three different employees. A formal report summarizing the cash and checks collected should be prepared in duplicate. A copy of this report should be forwarded to the office manager. The clerk responsible for posting the deposit and applying the accounts receivable should get the other copy. The person responsible for entering the deposit in the computer should not be the person who makes the deposit at the bank. Once the deposit has been made, the validated deposit slip should be returned to the office manager. The office manager should verify that the amount deposited equals the sum of the cash collected from the original three sources.

The clerk responsible for entering the deposit in the computer should not be able to write off any account receivable balances. The office manager should review older, delinquent receivables with the dealer on a monthly basis. The dealer should authorize all charges to bad debts.

Where possible, the person responsible for reconciling the month end bank statement should not be involved in the day to day transaction processing of cash receipts and cash disbursements.

One of the most important control features in a dealership is the presence of an active dealer. Each month the dealer should open the bank statement, scan through a sample of checks for proper signatures, and review the statement for unusual transactions. This process should only take a few minutes. If the dealer has authorized other employees to sign checks, inquire about some of these checks. Making inquiries, will alert employees that the dealer is reviewing cash transactions. The dealer should also be familiar with all vendors of the Company. New vendors should be approved by the dealer.

A well orchestrated scheme to steal cash is difficult to identify. In most cases, the theft is only a few thousand dollars a month. It is even more difficult to recognize when the economy is strong and profits are high. Segregation of duties makes it difficult for an individual acting on his/her own to steal cash. When proper controls are implemented, stealing cash may require the collusion of two employees.

Downey & Company, LLP, is a CPA firm with extensive auto dealership experience in accounting, taxes, and management. For more information, please email Paul McGovern at pmcgovern@downeycocpa.com or call **781.849.3100**.

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