



## Dealership Internal Control Manual



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## Chapter 1. Introduction to Internal Control

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### 1.0 Introduction to Internal Control.

A successful NIADA dealership, like any business, needs standard procedures and controls to protect company assets and profits from theft and fraud. This chapter is designed as a starting point for NIADA dealers and their office managers to review some basic IC concepts used by thousands of new and used car dealerships in preventing losses in the dealership through theft, embezzlement and larceny. *Another way of stating this is instituting procedures to help honest people stay honest and stop the crooks from taking everything that isn't nailed down.*



You may see that your dealership already uses many of the ideas presented. However, you should be aware that even dealerships with well-documented controls still suffer losses through customer or employee theft. Therefore, the authors encourage you to read these ideas and procedures as if these procedures were just being implemented in your dealership. You may find new insights and aspects of these procedures that you had not considered before.

A well-designed internal control system contains several elements:

1. Accurate, detailed and current financial records.

NIADA dealerships deal in significant amounts of cash, receivables and various inventories. If accounting and management records are not current, theft or embezzlement activities may not be found for days or months after it has occurred. Once problems are found, poorly documented records may be inadequate to reconstruct exactly when and how the theft or embezzlement occurred.

2. Segregation of duties throughout the dealership.

One basic tenet of strong internal control is the segregation of duties, specifically requiring that employees involved in the recording of dealership transactions should not be responsible for, or have custody of the assets of the dealership. Obviously, factors such as staffing, sales volume, facility layout have to be considered when assigning duties and establishing controls

3. Being pro-active in limiting opportunities for loss.

No system has been devised which will absolutely prevent embezzlement. Often, dealership losses can be traced to a lack of security or to inefficiency. Certain precautions can be taken to keep inherently honest employees from misusing dealership money or materials. When signs of employee dishonesty show up, one or more of the following situations generally exists:

1. The dealership was unwilling to implement and require ongoing basic security and auditing procedures;
2. The dealership did not routinely talk about security and internal control issues with their employees.
3. The dealership did not take necessary steps to adequately document losses, the reasons for the losses and take as strong corrective action as necessary.
4. The dealership had poor personnel pre-employment screening and training.
5. The dealership had dishonest management.



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Many dealerships that have been ripped off thought their internal controls system was adequate. Often what had happened was that controls broke down at some point, because of differences between theory and actual practice. The dealer and/or office manager should make checking some part of the internal control system part of his/her daily procedure.

### **1.1 Fifty Ways to Steal from the Dealership.**

Dealers and office managers who have been in the automobile business for only a short time may be amazed at the number of ways employees and customers find to steal from the dealership. Before moving into the specifics of implementing a strong internal control systems, take a moment to review these 50 common examples of dealership theft or embezzlement.



1. Using dealership stamps or postage machine for personal correspondence.
2. Stealing office supplies and office equipment.
3. Stealing shop tools, by claiming they are personal tools or broke while in use.
4. Stealing shop or body shop supplies such as paint, tape and chemicals for off-site repairs for cash.
5. Stealing or "arranging" theft of shop equipment.
6. Stealing aftermarket merchandise such as caps, jackets and other accessories.
7. Stealing small amounts from cash funds and register and explaining the losses as routine shortages.
8. Not recording repair order or other sales and pocketing the cash.
9. Creating overages (slush funds) in cash funds and registers by under-recording sales.
10. Cheating on expense reports by reporting non-existent expenses.
11. Misusing dealership cash for personal use.
12. Taking payments on customers' accounts without issuing a receipt and then pocketing the money with or without updating the customer's account balance.
13. Collecting an account, pocketing the money, and writing off the money as a bad debt.
14. Collecting payments from written-off accounts and not reporting the payment.
15. Charging customers' accounts with cash stolen.
16. Issuing credits for false customer claims and returns.
17. Not making bank deposits daily, or depositing only part of the money.
18. Altering dates on deposit slips to cover stealing.
19. Making round sum deposits, attempting to catch up by month-end.
20. Carrying fictitious extra help on payrolls, or increasing rates/hours.
21. Carrying employees on payrolls beyond actual severance dates.
22. Falsifying additions on payrolls withholding unclaimed wages.
23. Destroying, altering, or voiding cash sales tickets and pocketing cash.
24. Withholding cash sales monies by using false charge accounts.
25. Recording cash receipts with unwarranted cash discounts and pocketing the bogus discount amount.
26. Increasing amounts of petty-cash vouchers and/or totals in accounting for disbursements.
27. Using personal expenditure receipts to support false paid-out items.
28. Using copies of previously used original vouchers, or using a properly approved voucher of the prior year by changing the date.
29. Paying inflated invoices in collusion with suppliers.
30. Paying fake (self-prepared) invoices with dealership funds and pocketing the money.
31. Completing repairs for cash without preparing a repair order.
32. Selling parts for cash without preparing a parts invoice.
33. Buying or selling vehicles at an unfavorable-to-dealer price and collecting a kickback or payoff from the other party to the transaction.

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34. Increasing amounts of suppliers' invoices through collusion.
35. Charging personal purchases to dealership through misuse of purchase orders.
36. Billing stolen merchandise to fictitious accounts.
37. Shipping stolen merchandise to an employee's or relative's home.
38. Falsifying inventories to cover thefts or delinquencies.
39. Taking checks payable to the dealership or to suppliers and forging endorsements.
40. Increasing canceled bank checks to agree with fictitious entries.
41. Inserting fictitious (no basis in fact) journal entries into dealership records.
42. Making incorrect entries in cash receipts and disbursements journals.
43. Deliberately mis-posting expenditures to try to hide theft in large dollar accounts.
44. Selling waste and scrap materials with no sales invoice and pocketing proceeds.
45. "Selling" door keys or combination to safe or vault.
46. "Selling" customer names and credit card numbers.
47. "Accidentally" being occupied while a theft occurs.
48. Falsifying bills of lading and splitting with carrier.
49. Stealing blank checks (unprotected) and forging signature.
50. Permitting special prices or privileges to customers, or granting business to favored suppliers, for "kickbacks".



As you can see from these examples, virtually everything the dealership owns is subject to theft. As you read through the remaining chapters, you will see that for each instance of theft above, a defense or internal control procedure has been devised to attempt to limit that theft.

### **1.2 Fifty dealer directives for stronger internal controls.**

Here are some typical dealership procedures and controls to minimize or prevent theft. These are actions that must be initiated and required on an on-going basis by the dealer/owners. As a NIADA dealer, it is your business and your internal controls. These procedures will only be followed

on a consistent basis under your leadership and example.

1. Bond all employees.
2. Check references and past employers before hiring.
3. Have company mail addressed to a post office box.
4. All incoming mail is opened by the dealer and then distributed to addressee.
5. Periodically check daily deposit slips versus bank statements.
6. Insist on document accountability (control log) and review personally.
7. Periodically review reconciliation of bank statements.
8. Periodically examine canceled checks and endorsements.
9. Challenge all unusual discounts and write-offs.
10. Personally cancel all invoices at the time you sign checks.
11. Inspect pre-numbered check books periodically for missing checks.
12. Have the business audited by an outside agency at least annually.
13. Have physical inventories done by an outside agency annually.
14. Do not allow employees to work on own cars on premises after hours.
15. Require authorization of overtime; make sure employees are supervised.
16. Separate responsibilities so no one employee handles a complete money transaction.
17. Insist on employees taking vacations.
18. Let your people know you are control conscious.