



Controller's Round Table

October 22, 2010

Presenting

**“Audits on the Rise Are
You Compliant or at Risk of
Losing Thousand\$?”**

Today's Take-Aways.....

1. The Impact to Dealers With Today's Audits
2. How to Reduce Your Risk and Keep Your Money
3. Best Practices for Incentives Management and Compliance

Today's Discussion

1. **Current Business of Incentives**
2. **OEMs Increase Incentives Audits**
 - A. What's Triggers Them
 - B. Audit Findings and Results
 - C. Dollar Impact to Dealers' Bottom-line
3. **Are You Compliant or at Risk?**
 - A. What the Auditors Look For
 - B. Most Common Non-Compliance Areas
 - C. How to Reduce Your Risks
4. **The Value of Internal Controls and Compliance Reviews**
5. **Best Practices**
6. **Closing Statements**
7. **Q&A Session**

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The Sales Transaction



Customer ➤ Product ➤ **Incentives** ➤ Price

*Incentives Drive a Major Part of the Decision
Process and the Final Sale...*

...Therefore, Impacting Dealers' Gross Profit!!

Incentives Are Still Alive – and BIG!

March 2009 - Industry Average Incentives Spending Per Vehicle = \$3,165

March 2010 - Industry Average Incentives Spending Per Vehicle = \$2,742

*“ It’s hard to decide which is more amazing: how much incentives have fallen from a year ago or how high they still are”.
Quote by Jim Henry, Special Correspondent, Automotive News 6/23/10*

True Cost Per Vehicle of Incentives for the "Big Six" Automakers

<u>Automaker</u>	Average 2009	March/Apr 2010	Sept. 2010
1. Chrysler	\$4,584	\$2,166	\$3,787
2. GM	\$3,796	\$3,519	\$3,403
3. Ford	\$3,451	\$3,301	\$2,797
4. Hyundai-Kia	\$2,998	\$1,792	\$1,907(July)
5. Nissan	\$2,511	\$2,403	\$2,980
6. Toyota	\$1,620	\$2,503	\$1,870
7. Honda	\$1,310	\$1,703	\$2,166

Source: Edmunds.com and Automotive News

Incentives Are Still Alive – and BIG!

The Imports Joined the “Incentives War” in 2009

True Cost Per Vehicle of Incentives for the Import Luxury Brands		
<u>Automaker</u>	Average 2009	% Change from 2008
1. Land Rover	\$5,989	300%
2. Infiniti	\$5,134	150%
3. BMW	\$5,097	17%
4. Mercedes-Benz	\$4,185	80%
5. Jaguar	\$4,118	28%
6. Lexus	\$3,402	310%
Source: Edmunds.com and Automotive News		

Types of Incentives

Standard Incentives:

- Customer Cash
- Bonus Cash
- Regional Incentives
- Dealer Cash
- Special Financing/Supported Lease Rates

OEM Special Discount Programs

- Employees, Retirees, Family
- Dealership Employees
- Suppliers & Partners

Ancillary Programs:

- Owner Loyalty & Lease Loyalty
- Conquest Sale
- Targeted Lease/Pull-aheads
- Military Personnel, College Grads
- Organizations/Memberships Offers
- Credit Card Rebates
- Special Sales Event (i.e. Year-end, Auto Shows, July 4th, etc.)
- Fleet Sales, Commercial Users



Incentives Audits Increased

Why...?

➤ More Incentives, More to Audit

- Domestic OEMs Added More Auditors in 2009 to Cover More Dealerships
- Imports Have Also Increased Their Audit Activity (ex. Nissan, BMW)
- Most All Heavily Using "Mail-Out" Audits to Reach More Dealerships
- Incentives Aren't Getting Any Simpler to Administer

➤ Still Issues with Abuse and Fraud

➤ Better Technology to Pin-point Specific Areas of Concern

- In-house OEM Cross-systems Now Communicating
- OEMs Purchase More Outside Supplemental Information (probability, ownership)

➤ Revenue Opportunity for the Manufacturers



Incentives Audits Increased

What Could Trigger Them....

1. Misuse or Abuse of Incentives

- a. 'Peer' Trends Seem Higher
- b. Excessive Usage Patterns

2. Misreporting of Deliveries

- a. Fleet vs. Retail Volume Count
- b. Mismatches Compared to Outside Data (i.e. R.L. Polk)
- c. Premature Reporting or 'Padding' of Dates

3. Cross-Data Inconsistency

- a. Finance Contracts
- b. Registration Data (Dates, Name)
- c. Owner's Info. (Individual vs. Business Name, Address)
- d. Exported Vehicle Alerts

4. Non-compliant Results From Dealers' "Mail-out" Audits Responses

5. Sales Type in Specific Locations and High Volume Areas (OEM Employees/Suppliers)



Audit Findings

Non-compliances

- Missing Forms or Proof of Eligibility
- Ineligible Incentives or Customers
- Not Passing Incentives to Customers
- Exported Vehicles
 - Excessive Doc Fees

Fraud and Abuse

- Fabricated/Fictitious Vehicle Registration Copies (Loyalty, Conquest)
- Offering Discounts/Incentives to Ineligible Individuals
- Falsifying Applications for Payment (Retaining Incentives/Offering)

Delivery Misreporting

- “Redirecting” schemes - related to Dealer Bonus Payout Program
 - > Misreporting deliveries in other names (employees) and addresses to send OEMs’ Customer Satisfaction Survey to desired persons/locations
- Reporting False/Early Deliveries to meet Month-end Sales Targets for bonus incentives and pay-outs

Total Chargeback Ranges: \$100,000 - \$1,500,000



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Other Non-Compliance Issues Found

1. Lack of Proper Documentation (registration, ID cards, receipts)
2. Incorrect Delivery Dates/Vehicle Reported Delivered, but Not Sold
3. Ineligibility of Incentives (delivery type, wrong type doc.)
4. Incorrect Sell Price (OEM employee-priced deals)
5. Incomplete/Missing Signatures on Forms (customer and dealership)
6. Improper/Non-Disclosure (i.e. discounts, rebates, trade equity, add-ons)

Note: Not Audit Debit Issues, But I Often Found During In-House Compliance Review

- Unpaid Incentives
- Wrong/Partial Amount Paid
- Deliveries Not Reported Sold in CDR

What Do Corporate Sales Auditors Look For??

Their Objective: Determine if Deals are in Compliance with Incentives Program Rules & Guidelines



Basic Review Areas:

1. Accuracy of Delivery Data Reported (date, delivery type, name)
2. Disclosure to Customer and Acknowledgement
3. Ensure Incentives are Passed to Customers
4. Required Documentation in Deal and Full/Proper Completion
5. Eligibility
6. Correct Pricing (OEM Employees/Suppliers)
7. Add-ons Properly Itemized/Displayed on Buyer's Order
8. Exports and Sale for Resale

What Do Corporate Sales Auditors Look For??



Other Verifications or Areas Reviewed (if Needed):

1. Title, Registration, Insurance Information Verification
2. Cash Receipts, Finance Contract, Credit Approval Date
3. Relationship; Transfer of Household Ownership
4. Retention Period and Usage Logs of Service/Co. Vehicles
5. Odometer Statements
6. Service Repair Orders or Sublet Invoices
7. Accounting Entries (New Car Inventory, Accounts Receivables)

Think Are You Not at Risk? ... Test Your Dealership and Reduce Your Risk

Sales Department:

- Use of Detailed Checklist in Every Deal
- Use of OEMs Vin Eligibility/Look-up Tool
- Sales Manager Review/Approve Deal Before Sale Finalized
- All Forms/Docs Retrieved From Customer Beforehand
- Reconcile CDR/RDR Count to Sales Log

Business Office:

- Separate Reporting of Deliveries from Sales Staff
- Knowledgeable Employee Applying for Incentives
- All Required Forms Obtained Before Application
- No Filing of Deals Until Every Incentive is Finalized
- Regular/In-depth Compliance Reviews by Experienced/Independent Individual

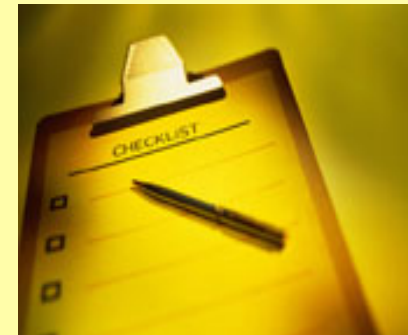


Putting it in Perspective

What Are the BIGGEST Drivers of Success and Profitability?

..Behavior and Processes

- ✓ Internal Controls
- ✓ Processes
- ✓ Consistency
- ✓ Accountability
- ✓ Managed People
- ✓ Continuous Training
- ✓ Productivity + Efficiency = Proficiency



The Value of Internal Controls and Processes

- They both should be a critical component of every dealership
- When properly placed and utilized, the benefits are:
 1. Controlled behavior
 2. Ownership and Accountability
 3. Reduced Errors
 4. Realized Profits
 5. Protection of Profits and Assets
- The results are favorable and priceless!!

Best Practices for Incentives



1. Solid Administration of Incentives
2. Timely and Accurate Delivery Reporting and Incentive Applications
3. Accurate Accounting and Set-up of All Due Incentives
4. Monthly Reconciliation of Receivables Schedules
5. Avoid Premature Write-offs. Correctly Resolve Rejects and Chargebacks. Could be Cash Instead
6. Implement Proper Internal Controls – Enhances Profitability and Prevents Losses

Factory Receivables Schedule

3/5/2010
16:43:19

RECAP:	DESCRIPTION.....	SCHEDULE – TOTALS	%-OF-TOTAL	NO-OF-TRs	NO-
OF-BALs					
	TOTAL CURRENT.....	81,989.88	51.59%		43
	TOTAL (31-60)	11,387.99	7.17%	9	
	TOTAL (61-90)	3,474.25	2.18%	4	
	TOTAL (91-120)	4,924.29	3.10%	6	
	TOTAL (121+)	57,150.41	35.96%	27	
	 TOTAL DEBITS	 167,071.90			 74
	TOTAL CREDITS.....	-8,155.08			15

<u>ACCOUNT#</u>	<u>DESCRIPTION</u>	<u>DEBIT ENTRIES</u>	<u>CREDIT ENTRIES</u>	<u>TOTAL ENTRIES</u>	
261 C	OTHER GM RECEIVABLES	643,455.47	-509,865.99	133,589.48	1062
261 D	OVERPAYMENTS/GM REC	37,115.43	-11,788.09	25,327.34	187
	TOTAL	670,570.90	-521,654.08	158,916.82	1249
	GENERAL LEDGE TOTAL (02/2008)...			158,916.82	

RECONCILIATIONS:	JOURNAL: 01	412,681.34	695
	JOURNAL: 02	6,547.75	6
	JOURNAL: 06	2,492.67	2
	JOURNAL: 09	-298,191.23	333
	JOURNAL: 11	26,386.29	213
	TOTAL	158,916.82	1,249

SHERRALYN

PETERSON

AUTOMOTIVE
INCENTIVE
SPECIALIST

Questions and Answers

'Thank You' for Your Attention!

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The Incentives “Pro”

Helping Dealers
Maximize Profits and
Minimize Risks...



Services

- *In-House Audits & Compliance Reviews*
- *Reconcile Schedules/Over-age Balances PAID*
- *Find Lost Dollars & Costly Employee Errors*
- *Help Prepare for a Sales Audit*
- *Verify Delivery Reporting*
- *Staff Training*

Value to Dealers

- *Cash to the Bottom-line*
- *Minimizes Errors and Losses*
- *Better Educated Staff*
- *Find Out What Staff is Really Doing*
- *Reduces Risk of Huge Audit Debit*
- *Delivery Reporting Accuracy*
 - *Implemented Processes*
- *Peace of Mind*

www.sherralynpeterson.com

2024 S. Wabash Avenue | Suite 601 | Chicago, IL 60616-2285 | PH: 312.310.8380 | speterson@sherralynpeterson.com