Schedule Review, Fixed Assets, and Retention Records

Presented by Graham Applebaum, CPA

Rogers, Clem & Company

- Meeting Objectives:
  - Obtain an understanding of schedule review for aged/unusual items (from the outside CPA's point of view)
  - Fixed Asset procedures
  - Review retention requirements for documents

Schedule review

In general, your outside accountant will be reviewing schedules and looking for the following:

- Aged items (30 or 90 days depending on the account type)
- Credit balances (asset side of balance sheet)
- Large balances (regardless of age)
- Misposting between control numbers

Schedule Review (Continued)

- If the work is for a tax return, we won't look at income statement items (unless a balance is up or down significantly over last year)
- What if a balance is a credit at month end?
- A/R, A/P, DMV clerk should be printing out schedules and adding notes as to the status of aged controls for the business manger to review
- Taking a step back after performing a reconciliation and asking is there anything that should be followed up (aged checks, deposits in transit, differences in credit card batches

Cash Clearing

- Balance should zero out at the end of day
- More realistically one to three days
- Anything over 5 days is a concern and should be researched

Story Time

- Cash clearing account was not being reviewed to determine if balance was zeroing out the following day.
  - Balance was zero at year end in previous years.
  - Company changed software vendors from Reynolds and Reynolds to Auto/Mate in 2020 (right has the pandemic set in)
  - Balance at year end 2020 was approximately $6,300 and $18,000 in two cash clearing accounts
  - By 2021, the balance was at $9,000 and $14,000
  - Employee was stealing the funds at the end of 2020.
  - I didn’t catch on until I realized the balance staying consistent
  - Business manager was not reviewing the schedule at all

Receivables

- CIT – collected in 5 days (varies depending on the financing source – factory vs. bank)
- Vehicle receivables – down payment should be collected ideally at time of vehicle delivery and no more than 30 days. If down payment is shown on the retail contract that it has been paid (whether it has or not) makes it difficult for any dealership recourse
- Amounts over 30 days should be followed up immediately
- Credit balances for deposits on vehicles (perhaps set up a liability account to record customer deposit but up on same CIT schedule – presentation issue)
- Wholesale receivables – we typically focus on aged amounts over 30 days. However, with the pandemic and title issues, not unusual for items to age to 60 or 90 days.

Receivables – Parts and Service and Factory (Rebates, Warranty, PDI, Holdback)

- Amounts over 60 days should be followed up (30 days for factory amounts)
- At 120 days, the customer's account should be frozen
- Aged credits with no current activity
- Factory accounts – credits should be reviewed for potential chargebacks, mispostings or incentive amounts set up for the wrong amount
- If lump sum is received from factory, amounts should be applied to specific controls to determine amounts are zeroing out
- If using an outside warrant company, recommend provide them the schedule at month end to put their notes as to the status of the receivables

Story Time

- Warranty Claims
  - Schedule was usually one or two pages long (small volume store)
  - By the end of 2020, schedule was 20 pages long
  - Company made the switch to use outside warranty company
  - Business manager was not providing a monthly schedule to the company
  - Outside company was not aware there were so many aged items on the schedule
  - Many of the balances were short pays or slight over payments that needed to be written off (and researched as to what was causing the issue)

Receivables – Parts and Service and Factory (Rebates, Warranty, PDI, Holdback)

- Incentives should be collected within 30 days (usually). Dealer incentives and factory programs can be 60 to 90 days depending on the program and when it pays out.
- Finance Reserves – Nowadays, these should be spot on and collected within 30 days. We used to have issues setting up the receivable accurately, but nowadays this shouldn't be an issue. However, the schedule should be reviewed for these misc. small left-over balances and they should be cleared monthly. Most DMS systems have a function to clear off items below "x" dollar amount from the schedule.
- Employee receivables should be reviewed to determine they are making payments or the balance is clearing after payroll

Story Time

- Body Shop Receivable
  - Lack of schedule review could result in free work performed.
  - Of course, the body shop manager would be collecting cash from the customer in the service drive. The parts and labor would go on another ticket
  - The insurance company wouldn’t pay for those items or labor so the difference would just sit on the schedule.

Inventory

- Aged new inventory over 120 days should be brought to the sales manager's attention
- Controls should be reviewed to make sure there are no lingering amounts after a unit has sold
- Review open flooring to make sure it has not aged beyond what the flooring company allows (5 days or 15 days)
- Used inventory (who has that in this market?) over 60 days should be brought to sales manager's attention
- Excessive repairs to units (could be mismanagement of resources or potential fraud, should understand company policy)
- Used car write down (separate control vs. specific control)

Inventory (Continued)

- Sublet Inventory – amounts over 30 days should be investigated
- Labor in Process – may not need to schedule based on the volume if high, could rely on open WIP report to determine if something needs to be researched

Prepaids

- Every prepaid (insurance, taxes, construction in progress) should have its own control number
- Not recommended to use same control number if amounts from prior year will overlap with new year)
- Does it provide a future benefit? Okay to add as long as it is zero by year end
- Construction in progress will need to be reported on the 571-L until the project is completed

Fixed Assets

- If a schedule is used, please review to make sure depreciation is occurring on a monthly basis and amounts are not being over depreciated
- If a similar asset is being acquired (for example, a new lift), please put a new control number (as opposed to a current one)
- If an asset is already being depreciated but additional cost needs to be added, you could use a new control number that is similar to the original control with a “-01”at the end
- Controls could have the year acquired as the first four digits

Payables/Employee Withholdings

- In general, these should all be current. And from an internal control standpoint, a list of “approved vendors” should be kept by the business office. Any payment made to a non-approved vendor should be scrutinized.
- Overpayment of payables occur because of the lack of reconciliation of the vendor invoice to the schedule.
- If a debit balance, confirm that the company will be doing future business or request a refund

Story Time

- Dealerships lose big chunks of money by not reconciling the medical & dental withholding to the actual invoice.
- We found overpayments for terminated employees by inquiring about all the debit balances on the schedule.
- It isn't unusual for the Payroll Clerk to forget to notify the insurance company that the employee is no longer there. And you cannot get more than one month's premium back. And you'll only get that back if you follow-up before the covered period ends.

DMV Payable

- These should be current with no debit balances other than DMV bundle credits.
- Amounts over 30 days could be considered a compliance violation
- As a side note, please keep an eye on DMV ASF charges. An invoice is sent out by the DMV monthly. While the dollar amounts are generally insignificant, every violation is an infraction that can be used to revoke the dealer’s license.
- If you’re constantly having to adjust amounts on controls, the process should be reviewed with the appropriate manager to make sure sales staff is calculating the correct amount

  Might have to collect from customer or eat the balance

Story Time

- DMV clerk had “pennies” on her schedule and DMV only charges whole dollars. There weren’t that many balances that had pennies, but when we started digging in, she left for lunch and never returned. It was estimated that she stole at least $50k
- This same store had the business manager stealing cash. She was way too busy with her theft to catch anyone else’s.
- “ULD” on a bank reconciliation. Found out it stood for “Unlocated Difference”.

Due Bills (We Owes)

- One of my favorites
- Aged credit balances should be reviewed to determine if the RO was recorded to the income statement instead of posted against the payable
- Any debit balances and remaining balances after RO is closed should be reviewed (it could indicate work done but not paid for)

Service Contract Payable

- Should all be remitted ASAP
- Any balance aged over 30 days should be verified that the contract was submitted to the insurance company.
- If a customer comes in to get a repair on a service contract that has not been submitted, the dealer will eat that cost. We used to give examples of $5,000 engine jobs, but now, changing an EV battery could be over $20,000 per job

Fixed Assets

- In general, expenses that provide a future benefit beyond one year could be considered a fixed asset and depreciated over life of asset
- Company should be consistent in how it applies its de minimis amount
- Assets should be given a serial number and a sticker to more easily track it
- Managers should be informing business office when they sell or dispose of (I'm living in fantasy land)
- Instead, office managers should provide fixed asset detail to the department heads and have them cross out what has been disposed (helps lower unsecured property tax bill)
- If assets are from the 80s or 90s, very likely it doesn't exist anymore

Retention Records

- All business records shall be retained by the dealership for a period of not less than three years
- All records must be retained at the place of business for 18 months
- After 18 months, records can be kept at offsite location as long as the records can be retrieved within three business days

Retention Records (Continued)

- Electronic Files
  - Files can be kept electronically after the 18 month period assuming the following
    - The copy cannot be alternated in anyway
    - It is readily accessible and retrievable
    - It is legible and a complete and accurate reproduction of the original business record
    - A backup of the electronic copy is retained at an on or off-site location
    - Wherever the file is kept, it has physical and logistical security measures
    - You can use a third party to store but you are ultimately responsible for the documents

Questions or Comments?

- My contact information is:
- Graham Applebaum
- Rogers, Clem and Company
- 626-858-5100
- grapplebaum@rogersclem.com