

**SUMMIT BUSINESS SOLUTIONS LLC**

Fractional CFO | Bookkeeping | Cost Reduction Consulting

# Dealership Internal Controls

A Practical Framework to Reduce Fraud, Protect Your People,

and Limit the Damage When Something Goes Wrong

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## **122 Controls Across 15 Functional Areas**

Cash & Banking · Payroll · Vehicle Inventory & Floor Plan · Title & Tax Compliance

Vehicle Custody & Test-Drive Governance · Service-Lane Safety · Insurance Oversight

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## Why This Guide Exists

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Most dealership fraud isn't sophisticated. It survives because nobody reconciled, reviewed, or questioned the numbers. The same is true of the vehicle-safety losses that show up in dealership litigation — a set of keys handed to the wrong person, a test drive nobody was watching, a manual-transmission vehicle moved by someone who'd never driven one.

This guide is built from two sources: a proven, field-tested dealership accounting control checklist, and a review of real, publicly reported cases — embezzlement, title and lien fraud, wire fraud, warranty fraud, and vehicle-related fatalities — that repeatedly trace back to the same root cause: a missing or unenforced control.

### **One important caveat before you read further:**

Internal controls don't guarantee fraud or tragedy will never happen. Even the best-run companies in the world experience both. What controls do is reduce the opportunity, increase the chance of early detection, and limit the damage when something goes wrong. That's the honest, professional standard this guide is built around — not a promise nobody can keep.

Every item below is something a dealer principal, GM, or controller can act on directly. Items marked

Items marked **NEW** are controls that don't typically appear on a standard dealership accounting checklist — they came directly out of real fraud and fatality cases where a gap in vehicle custody, title verification, or product reconciliation caused a multimillion-dollar loss.

## A. Governance, Culture & Personnel

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*Controls start with people, not spreadsheets. A dealership that is loudly and consistently “control-conscious” prevents far more loss than one relying on paperwork alone.*

- Bond all employees.
- Check references and past employers before hiring.
- Provide a written policy manual spelling out company policies.
- Develop and maintain a formal Dealership Internal Control Checklist — a living document, not a binder that sits on a shelf.
- Hold periodic manager meetings specifically to review and update internal controls.
- Let your people know, explicitly and repeatedly, that management is control-conscious. Verbal culture matters as much as written policy.
- Enforce dealership rules, regulations, and systems consistently — inconsistent enforcement is itself a control failure.
- Require all employees, and especially accounting staff, to take real vacation time. This is one of the single best fraud-detection controls that exists — most embezzlement schemes require daily maintenance and unravel the moment someone else touches the books.
- Run pre-employment motor vehicle record (MVR) checks on anyone who will drive dealership or customer vehicles as part of their job — not just a license check, a full driving-history pull. **[NEW]**
- Re-pull MVRs annually for anyone with driving responsibilities. A clean record at hire doesn't stay clean. **[NEW]**
- Establish written reasonable-suspicion impairment procedures (drug/alcohol) with clear authority for any manager to pull someone off the road immediately. **[NEW]**

## B. Cash & Banking Controls

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*Cash and wire fraud rely on one thing above all: a missing second set of eyes. Every control below exists to put one back.*

- Have company mail addressed to a P.O. box; all incoming mail opened by the dealer/owner and then distributed to the addressee.
- Prepare a daily cash report and assess the dealership's cash position daily.
- Review the daily report and research unusual items or fluctuations — don't just glance at the total.
- Periodically check daily deposit slips against bank statements.
- Periodically review the reconciliation of bank statements — someone above the preparer actually reviews it, not just files it.
- Bank accounts and credit card statements must be reconciled with each statement by a person with zero access to cash.
- Rotate bank reconciliation responsibility monthly among different individuals, or outsource reconciliation quarterly for independent verification.
- Choose a bank with strong internal controls that require two people to electronically approve wires or transfers, with code identifiers.

- Require dual approval and independent call-back verification on any wire instruction change. Call the bank or vendor back on a known number, never the number provided in the email or letter requesting the change. **[NEW]**
- Maintain strict segregation between whoever can initiate a wire and whoever can approve it. No single person should hold both capabilities in the banking portal. **[NEW]**
- Periodically examine canceled checks and endorsements for authorized signatures and proper endorsements.
- Never sign a blank check or any check that isn't completely filled out and fully supported by documentation.
- Ensure the same person is not authorized to both write and sign checks.
- Conduct unannounced cash counts on cash drawers and petty cash.
- Use lock boxes at the bank to receive and deposit mailed check payments.
- Verify CMA (cash management account) funds on the GL match CMA funds on deposit with the lender by cross-checking statements directly.
- Require employees to submit itemized, original receipts for all company credit card purchases or reimbursement requests.
- Review refund reports and audit credit card batches monthly — specifically watch for refunds or credits routed to personal Venmo, Zelle, or personal bank accounts instead of the original payment method. **[NEW]**
- Separate the authority to issue a customer refund from the authority to approve it. No single employee should be able to do both start to finish. **[NEW]**

## C. Payroll Controls

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- Personally distribute payroll checks periodically to verify no bogus employees are on the payroll.
- Require all department managers to sign off on payroll each pay period, approving both the identity of listed employees and the accuracy of amounts paid.
- Periodically review monthly payroll reports against approved pay plans to verify accuracy.
- Managers should personally deliver approved timesheets to payroll — even a well-meaning employee offering to “drop them off” should be politely declined; letting anyone else handle approved timesheets negates the approval control.
- Verify proper segregation of duties in payroll: the same employee should never both approve payroll and print/release checks.
- Compare repair-order flagged hours to hours actually paid to technicians.
- Assess IT risk in the payroll process — system access, change controls, backup, and monitoring.
- Require all overtime be pre-approved and ensure employees are actually supervised while working it.
- Watch specifically for payroll manipulation used to inflate an individual's own compensation — payroll access without independent review is one of the most common levers used by a manager or GM committing fraud against their own store. **[NEW]**

## D. Accounts Receivable & Collections

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- Rotate responsibility for preparing and mailing AR statements.
- Require aging of all overdue receivables, reviewed with the appropriate manager, with copies to the GM:
  - Parts and service receivables over 60 days
  - Vehicle receivables over 30 days
  - Contracts and transit over 10 days
  - Factory receivables over 30/60/90 days (per franchise terms)
  - Body shop receivables over 60 days
  - Warranty claims over 60 days
  - NSF checks over 30 days
  - Cash sale balances over 1 day (tickets closed to cash with no payment actually received/deposited)
- Spot-check payments against accounts receivable to verify lapping isn't occurring.
- Insist accounting collects wholesale vehicle receivables directly — never let the sales manager collect funds and hand them to accounting; that creates an outside-accounting lapping opportunity.

## E. Vehicle Inventory, Floor Plan & Wholesale Controls

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- For stronger vehicle inventory control, outsource a full physical inventory (floored and non-floored) to an outside company that touches every unit in stock at least annually.
- Have physical inventories of both parts and vehicles conducted by an outside agency annually.
- Reconcile floor plan statements with the General Ledger monthly, confirming every billed vehicle is actually in stock.
- Review a list of outstanding titles with the wholesale clerk monthly and get a clear understanding of the status of each.
- Prepare a list of all wholesale vehicle sales sorted by buyer and sales manager; look for loss patterns and trends.
- Perform a C.O. (certificate of origin), title, and key check monthly.
- Personally inspect demonstrators and lot cars periodically, checking for excess mileage that suggests unauthorized personal use.
- Personally meet all vehicle wholesalers.
- Before any vehicle leaves the lot on a sale, verify there is no outstanding lien or unresolved title issue tied to that VIN. This is a distinct step from the floor plan reconciliation above — it protects the buyer's legal ownership, not just the dealership's balance sheet. **[NEW]**
- Keep titles and vehicle keys under lock, with both sets of keys controlled and access limited to named, authorized people only.

## F. Title, Registration & Tax Compliance

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*This section reflects a pattern seen repeatedly in state Attorney General and Department of Revenue cases against dealerships nationwide.*

- Require the title clerk to log every VIN's title status (in-house, at lender, at DMV, salvage-branded, rebuilt, out-of-state) in a single tracked schedule reviewed monthly by the controller or GM. **[NEW]**

- Never accept a “the title is lost/being processed” explanation from a wholesale source without independent verification directly with the issuing state's DMV or NMVTIS. [NEW]
- Cross-check any vehicle with an out-of-state or recently re-issued title against NMVTIS (National Motor Vehicle Title Information System) before retail sale, watching specifically for salvage/rebuilt/parts-only histories that may have been “washed” through a lax-titling state. [NEW]
- Reconcile reported taxable sales against actual deal volume monthly. A mismatch between units sold and sales tax remitted is the single most common thread in dealership tax-fraud cases nationally. [NEW]
- If facilitating out-of-state registrations for customers, document the legitimate business basis in writing and flag any repeat pattern for the same purpose. Several states' revenue departments are now actively auditing dealers on exactly this pattern. [NEW]
- Reconcile sales tax collected (per the DMS) against sales tax remitted (per the tax return filed) at least quarterly, independent of whoever prepares the return. [NEW]

## G. Parts, Fixed Assets & Facility Controls

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- Lock the parts department and tool storage area; limit access to authorized personnel.
- Tag all tools, equipment, and fixed assets with a barcode/numbered asset tag tying back to the fixed asset list.
- Verify scrapped parts are deleted from the system and properly discarded.
- Have your parts and service departments “shopped” periodically (mystery-shop style).
- Stamp all building keys “do not duplicate.”
- Change all locks semi-annually.
- Install alarm and camera systems.
- Assign one key employee clear responsibility for opening and closing the dealership.
- Locate the safe in full view of the street, well-lit, and require two people to open it at all times.
- Keep lots well-lit; consider fencing and night security (physical guards or monitored virtual camera systems).

## H. Service Department, Repair Orders & Warranty/F&I Controls

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- Require all work on new and used vehicles be covered by a repair order; verify expenditures are truly installed and charged to the correct unit. Route work through a requisition form from sales to service (or outsource) to separate duties and prevent collusion with vendors.
- Do not allow employees to work on their own vehicles on premises, during or after hours, without an open RO.
- Review the open repair order report monthly and discuss every item over 30 days with the service manager; perform a full open-RO audit quarterly, physically touching every vehicle on the report to confirm ROs aren't left open after the vehicle has already gone back to the customer.
- Spot-check that parts charged out on an RO were actually used on that vehicle.
- Spot-check repair orders, counter tickets, and deal paperwork to verify doc fees, shop supplies, and discounts aren't being waived or skimmed without cause.
- Review chargebacks and test them for accuracy.
- Reconcile F&I products sold (service contracts, GAP, etc.) against provider statements monthly — match every contract sold to a corresponding funded/activated record with the actual provider, not just the DMS entry. **[NEW]**
- Separate the person who sells F&I/warranty products from the person who reconciles the F&I payable schedule — the same segregation-of-duties principle as cash, applied to product money. **[NEW]**
- Have the controller/CFO personally review any F&I payable balance aged over 30 days, with periodic random verification directly with the product provider rather than trusting the internal report alone. **[NEW]**
- Review cancellation logs and refund activity on F&I products specifically — this is a common concealment point when contracts were never actually funded. **[NEW]**
- Review and initial all general and standard journal entries at least quarterly.

## I. Vehicle Custody, Demonstrators & Keys

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*Every dealership focuses on cash theft, warranty fraud, and inventory shortages. Far fewer treat vehicle custody with the same rigor — yet a \$70,000 vehicle handed to the wrong person can become a death, a lawsuit, and years of litigation.*

- Every dealership-owned or demonstrator vehicle should have a named, accountable custodian on record at all times. The dealership should always be able to answer who has it, why, the approved business purpose, and when it's expected back. **[NEW]**
- Require written personal-use authorization for any demonstrator or fleet vehicle assigned to an employee; explicitly define who else (household members, family, friends) is or is not permitted to drive it. **[NEW]**
- Verify current license and insurance status for anyone authorized to drive a dealership vehicle, and re-verify periodically, not just at assignment. **[NEW]**
- Use GPS/telematics on dealership-owned vehicles where feasible, with mileage and after-hours-use alerts. **[NEW]**
- Immediately recover keys and vehicle access upon termination — don't let this lag administratively. **[NEW]**
- Periodically audit every vehicle assigned away from the premises against the authorized-custodian list. **[NEW]**
- Maintain zero informal exceptions (“he's basically a potential customer,” “she's family, it's fine”) to the written personal-use policy. Negligent entrustment claims hinge exactly on whether management knew or should have known about a risk before handing over keys anyway. **[NEW]**

## J. Test-Drive Governance

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- Require manager approval before any test drive of a high-horsepower or performance vehicle. **[NEW]**
- Establish predetermined test-drive routes that avoid known high-speed corridors. **[NEW]**
- Verify customer license and insurance before releasing a vehicle for a customer-operated test drive. **[NEW]**
- Give employees explicit, trained “stop-the-drive” authority — and back them up when they use it — so a salesperson has both the permission and the expectation to end a test drive immediately if a customer (or coworker) starts driving recklessly. **[NEW]**
- Consider telematics/speed alerts on demonstrator and test-drive vehicles. **[NEW]**
- Maintain a zero-tolerance impairment policy for any employee conducting or riding along on a test drive, with immediate reporting requirements. **[NEW]**
- Document route, departure time, and return time for every test drive, particularly on higher-value or higher-performance inventory. **[NEW]**
- Require a manager-driven demonstration ride before handing certain vehicles (high horsepower, unfamiliar controls) to a customer for solo operation. **[NEW]**

## K. Service-Lane & Physical Safety Controls

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- Certify employees on manual-transmission operation before they are permitted to move a manual-transmission customer vehicle. Do not assume a valid license equals competence with that specific vehicle. **[NEW]**
- Identify manual-transmission vehicles clearly on repair orders and key tags so any employee moving it knows what they're dealing with. **[NEW]**
- Establish clear pedestrian-exclusion zones and no-standing zones in service and lot areas where vehicles are actively being moved. **[NEW]**
- Require wheel chocks and proper parking-brake procedures in service bays. **[NEW]**
- Use spotters for inexperienced drivers moving vehicles in tight or high-traffic areas. **[NEW]**
- Include service-lane safety training as a mandatory part of new-hire onboarding, before an employee is allowed to touch a customer or dealership vehicle. **[NEW]**
- If hosting or attending high-volume events like wholesale auctions, insist on (or verify the host has) physical barriers separating pedestrian areas from vehicle lanes, walking-speed limits, and trained traffic spotters. **[NEW]**

## L. Vendor & Purchasing Controls

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- Require bids and purchase orders on all vendor jobs.
- Personally meet all vendors.
- Require independent purchase-order and receiving sign-off before any vendor invoice is paid.
- Verify vendor addresses in the system don't match any employee address — if they do, investigate and document why.
- Personally cancel all invoices at the time checks are signed (stamp “paid,” attach to the check stub) to prevent an invoice being resubmitted for a second payment.

## M. Systems, Access & Reporting

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- Periodically review user access to the DMS, CRM, and every system the dealership uses, confirming terminated users are deactivated and current users don't have excessive or incorrectly configured permissions.
- Question all voided documents — voided checks, ROs, parts tickets — and require an explanation on file for each.
- Detail (spread) and analyze at least three different expense accounts each month; trace unusual transactions back to source documents.
- Spot-check source documents against expense detail.
- Review all dealership schedules monthly — cash, parts statements, floor plan, finance reserves, parts inventory, intercompany — and sign off on each.
- Review gas tickets and purchase orders for dealership vehicles; use a fuel card system with individual PINs per employee so usage can be reviewed for outliers.

- Document who has authority to modify vehicle software/safety settings on any vehicle where that's technically possible (speed limiters, driver-assist features, performance modes). Require written customer authorization and manager sign-off before any such change, with the change logged. [NEW]

## N. Insurance Oversight

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*Insurance doesn't prevent a loss — but it can determine whether the dealership survives one financially.*

- Review garage liability and garagekeepers coverage at least annually — confirm limits actually reflect current inventory values and exposure, not a stale figure from years ago. [NEW]
- Review commercial auto coverage specifically as it applies to demonstrators, loaners, and employee personal use. [NEW]
- Confirm umbrella/excess coverage limits are adequate relative to the dealership's actual fleet size and test-drive volume. [NEW]
- Understand exactly what your policy says about household-member exclusions, unauthorized drivers, and punitive-damage exclusions. [NEW]
- Review coverage for customer loaners and rental units as a distinct category from demonstrators. [NEW]

## O. Independent Verification

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- Have the business's books audited by an outside agency at least annually.
- If the dealership is too small to fully separate duties, require an independent check of the work by an outside party (e.g., the CPA firm) as a substitute control.
- Rotate or outsource bank reconciliations quarterly for independent verification, and treat this as a standing annual policy — not a one-time fix.

## The Bottom Line

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**Most fraud does not happen because someone found a brilliant way around the system.**

It happens because there was no system to get around. The same is true of the vehicle-safety losses in this guide — one missing signature, one unverified title, one set of keys handed over without a second thought.

Internal controls cannot eliminate every risk. But they can make sure one bad decision, one unverified document, or one unsupervised moment doesn't turn into a life-changing event — financially or otherwise.

## Self-Assessment Scorecard

Twenty questions, one from each area of this guide. Answer honestly — this is a diagnostic, not a test. Score 2 points for Yes, 1 for Partially, 0 for No.

Control	Yes	Partial	No
We bond employees and check references/past employers before hiring.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Accounting staff are required to take real vacation time, and someone else covers their duties while they're out.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Bank reconciliations are performed and reviewed by someone with zero access to cash.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wire transfers require dual approval plus independent call-back verification on any instruction change.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The same employee cannot both approve payroll and print/release checks.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
We age and review AR by category (parts/service, vehicle, factory, warranty) at least monthly.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Vehicle inventory (floored and non-floored) is physically counted by an outside party at least annually.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Every vehicle is verified lien-free before delivery, independent of the floor plan reconciliation.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Sales tax collected (per the DMS) is reconciled against sales tax remitted at least quarterly.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Parts and tool storage areas are locked and access is limited to named individuals.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
F&I products sold are reconciled against provider statements monthly, by someone other than the seller.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Every demonstrator and fleet vehicle has a named, accountable custodian on record at all times.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Test drives of high-horsepower vehicles require manager approval and a defined route.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Employees are certified before operating manual-transmission vehicles in the service lane.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Vendor bids/purchase orders are required, and vendor addresses are checked against employee addresses.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
User access to the DMS/CRM is reviewed periodically to confirm terminated users are deactivated.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Garage liability, garagekeepers, and umbrella coverage are reviewed at least annually against current exposure.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The business is audited by an outside agency at least annually.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Employees with driving duties have MVRs checked at hire and re-checked annually.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Control	Yes	Partial	No
Management has clearly and repeatedly communicated that the dealership is control-conscious.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

<p><b>34–40 points</b> Strong control environment</p>	<p><b>20–33 points</b> Moderate risk — worth a closer look</p>	<p><b>Below 20</b> Significant opportunity for improvement</p>
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*This scorecard samples one control from each of the 15 sections in this guide. A “Partially” or “No” answer isn't a failing grade — it's simply where the highest-value conversation about your dealership should start.*

### Want to Talk Through Where Your Dealership Stands?

Summit Business Solutions works with dealer principals on fractional CFO support, accounting cleanup, and internal control reviews built around exactly this framework.

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