Is It Time to Centralize Your Accounting Office?

Back-Office Consolidation Can Help Auto Dealers Manage Multiple Locations

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Many dealers face the issue of whether it makes sense to centralize their accounting office as their groups grow and people in various locations work on billing, payroll, accounts payable, and accounts receivable. When does it make sense to consolidate some or all of these functions in a common location? And what factors should dealers weigh before making that decision?

While consolidating functions can reduce the cost of operating an accounting department by as much as 10 to 20 percent, most dealers don’t centralize the accounting function for only that reason – they centralize to gain efficiency, consistency, and accuracy in reporting as well as to improve internal control.

A centralized accounting office attracts talented employees who see the opportunity to build a career by working as part of a professional financial management team, facilitates cross-training, and makes it easier to open new stores and integrate acquisitions. In addition, a centralized accounting office:

- Provides more direct control over various reporting and compliance issues
- Makes it easier to streamline information systems and processes throughout locations
- Promotes the adoption of consistent policies and procedures, which, in turn, simplifies reporting and creates efficiencies in the internal audit function
- Creates stronger internal controls
- Enables faster monthly closings and reporting to manufacturers and stakeholders
- Is attractive to potential buyers when an owner decides to sell
Before You Consolidate

The decision to consider establishing a centralized accounting office is a significant move and should be undertaken with the same care and planning that a dealer would devote to any other major business transaction.

**Start with a plan.** The process should begin with a business plan that includes the number, locations, and sales volumes of the dealerships involved in the consolidation. Dealers should address a number of questions, including: Are the dealerships clustered in a single geographic market, or are they scattered in outlying areas? What experience and qualifications do the current accounting employees have, and what additional supervisory skills might be needed in a centralized accounting office?

**Consider the organizational culture.** Every company has its own business culture, and culture needs to be considered when determining whether to consolidate an accounting function. Is the business culture structured, with consistent processes and procedures for employees to follow, or is it more informal, with systems and rules that might vary by location or department? Generally, creating a centralized accounting function will require companies to adopt a more structured business culture.

**Perform due diligence.** Just as dealers should investigate potential new markets before expanding, they also should research the pros and cons of consolidating their accounting functions. Talk to other dealers who have established centralized accounting offices, and try to visit one or two. How is the office set up? What benefits have other dealerships achieved through consolidation? What problems did they encounter? Try to interview both management and staff.

Taking these steps before embarking upon consolidation can help determine whether a centralized accounting office is appropriate at this stage in the business life cycle.

Getting Started

Once a dealership has decided that a centralized accounting function makes sense, the next step is to address a number of practical considerations involving people, processes, and facilities.

**Assemble the right team.** Dealers will want to form a team to manage the transition to a centralized accounting office. Generally, this team would include the chief financial officer, the chief operating officer and one or more accounting managers, as well as other representatives from the stores.
Determine what functions to consolidate and when to consolidate them.
The team’s first task should be to determine how much of the accounting function to consolidate. Does the company want to consider a phased-in approach and consolidate one accounting function at a time, or does it want to consolidate all accounting functions simultaneously? When weighing the options, dealers should consider the effect on their culture and what other dealers shared during due diligence.

Choose the location. Once the team has determined which functions to consolidate, it needs to select a location for the centralized accounting office. Should the accounting office reside in an existing store that has excess office space? Or should the company choose office space that is convenient to all of its sites. Real estate costs, as well as the ability to attract and retain talent, are among the factors to consider.

Select appropriate technologies and systems. Appropriate information technology is essential to the effective operation of a centralized accounting office. If the company has grown through acquisition over the years and uses multiple dealer management systems (DMS), the team should consider choosing one and transition all stores onto a common DMS. The team also needs to know whether the existing IT network can support a centralized accounting function and whether the stores are employing consistent technology across the organization and using the same merchant services.

Manage document flow. Even in the 21st century, dealerships require paper to operate. Sales contracts, vehicle titles, loan applications, and other documents need to move freely between stores and accounting. Many dealerships scan documents, work with electronic copies, and keep the originals in a secure location. The team will need to address the issue of document management.

Develop new policies and procedures. Creating a centralized accounting office necessitates designing a consistent set of policies and procedures, both for the accounting office and for the stores. The aim of these policies and procedures should be to achieve strong internal controls, segregation of duties, and cash management practices, including expediting the collection of contracts in transit and other receivables.

Redesign the organization chart. Before the centralized accounting office opens, the team will need to decide how best to manage the functions that will be located there. The exhibit shows a sample organizational structure, with a controller overseeing two consolidated accounting managers who supervise several different accounting functions and employees. The team also will need to decide whether to have any accounting staff in the stores to help facilitate deal flow and work with the store managers.
The implementation team also will need to develop a communication plan that will help management communicate the benefits of consolidation to the rest of the dealership's team. Strong communication will promote buy-in to the new approach. Another important element is having the CEO's support from the beginning throughout the first year, as change management requires strong leadership.

As the team works through its tasks, it should plan to communicate with all employees in all locations. Dealers should consider inviting store representatives to attend certain team meetings; publishing a simple, internal monthly newsletter or video about the project; and making formal presentations at all company locations.

Sample Structure of a Centralized Accounting Office

Promoting Buy-In
Lessons Learned

Dealers can learn important lessons from companies that have already established centralized accounting offices.

**Billing.** The ability to monitor deals from the stores to the centralized accounting office is essential for timely and accurate reporting and accountability. In addition, some dealerships find it beneficial to submit funding packages directly from their stores to vehicle lenders. Doing so accelerates payments and can have a positive impact on cash flow.

**Accounts payable and cash disbursements.** Addressing on-demand check needs requires careful consideration. Some dealerships allow the centralized accounting office to issue on-demand checks, which are printed at the dealership location and require two signatures. Using on-demand checks in conjunction with the dealership’s bank’s positive pay service can help mitigate the risk of inappropriate check use.

Dealers also need to have strong processes in place to control purchase orders, wire transfers, and electronic vendor payments. All three areas can pose risks if appropriate checks and balances are not in place.

**Cash and banking.** Millions of dollars in cash, checks, and payment-card transactions flow through a dealership every year. The centralized accounting function needs to perform a daily bank reconciliation to assure that all funds are properly accounted for. It’s also a good practice to set up separate accounts for incoming and outgoing wire transfers.

Many banks today allow customers to make deposits remotely, either by scanning checks or by using on-site cash vaults in which dealerships deposit cash and checks into the cash vaults and armored services can pick up the deposits and transport them to the bank. Both methods provide dealerships with secure and timely reporting of deposits and support appropriate controls.

**Payroll.** Dealerships can have a number of different pay plans for employees, ranging from those who are hourly or salaried to those who are commissioned. It is important to document each pay plan and have a payroll template that the centralized accounting office can customize to meet changing requirements and that includes documented approvals from management.

Paying employees via direct deposit or debit cards instead of checks can streamline the payroll process, but dealerships need to understand what state laws allow so they can be compliant.
Contact Information

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Should You Consolidate?

Many factors come into play when auto dealers consider the possibility of creating a centralized accounting function. No two dealerships are alike. Each has its own way of doing business, and what might work well for one might not work for another.

Before making any change, dealers should consult with their business advisers and speak to and visit other dealerships that have set up a centralized accounting office. The time spent doing some homework and weighing all factors will be time well spent.