How to Prevent and/or Survive a Warranty Audit

With
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Presented by
DealersEdge
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**INTRODUCTIONS –** Hi, I am Rob Campbell

As we begin:
As soon as we begin to think of warranty administration as a person in a chair, we’ve doomed the shop to eventual failure. Warranty operations in a dealership should be a systematic approach to payment.

**Factory Trend and Expense reporting**

The dealership’s periodic expense report - We have found that in most cases the factory has at least a reason to be suspicious and the excessive expense is out of the ordinary.

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**Audit avoidance**
- Most manufacturers have a defined “risk criteria” on who to select based on the dealership’s warranty performance. *(WARNING: DANGER! WILL ROBINSON)*
- Look at their overall CPVS and categories (repair groups and expense areas)
- How to find your own answers in your expense reports
- Two factors influence CPVS
  - Cost per repair
  - Frequency of repairs

**Cost influences**
- Parts
- Sublet/Dealer Material/Net
- Labor Hours
- Straight-time/excessive hours

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**Frequency influences**
- Visits (potential comebacks)
- Repairs per visit (add-ons or pyramids/multiple repairs)
Conducting an investigation
(whether on your own or a “self-audit” from the manufacturer)

- Reacting to a self-audit from the factory
  - Keep an open mind as to what the problems can be
  - Highly recommend you (or have someone else) research technical information
  - Factory tools and help – getting rep involved
  - Dealer generated reports (Contact the dealership’s vendor)

- Look for the "root" cause, as well as policy errors
- Root cause can almost always be seen as trends (in advisor, technician, type of vehicle, type of repair)
- Be warned of typical "knee-jerk" excuses

Struggling for Compliance

If the basic rules haven’t changed in 15-20 years, why do some shops continually struggle with maintaining compliance?

- Some concentrate on the letter of the law, and not the spirit. You need to have both.
- Practical level of compliance and raising the bar.
- Constant coaching is key
- Bad habits start very subtly and begin to grow.

Thirteen Warranty Rules – the common policies of documentation

1. Accurate and complete R.O. information: GIGO (garbage in, garbage out)
   Delivery date, repair date and mileage
   Customer acknowledging complaints
   Clear understanding of charges -- who's paying
2. Accurate and complete customer concern descriptions
No SOP, parts in, or other jargon – plain English
Maintenance vs. warranty
Shop needs to restate the customer’s complaint into a "warrantable defect"
  ▪ Using the seven dirty words you can’t use on a warranty claim (or at least shouldn’t)
    ○ Broken, bent, cut, punctured, dented, torn, and bad

3. Determination of warranty eligibility
Comebacks is the most missed item here
Advisors must acknowledge return exists - if not the claim will be questioned
Address these points (same complaint? Did previous repair fix it? When did it reoccur?)
Line by line, case by case determination of warranty

  How to judge our dealership performance:
  • Mileage ending in “00” from any claim listing
  • Rejects for beyond warranty
  • Chargebacks for “not warranty” from parts return centers or after a parts scrap

  Improving your dealership
  Advisors write, technicians verify, booker inspects, warranty administration assures

4. A complete description of the cause of failure
Technician documentation is key
Were the proper repair/diagnosis procedures performed?
Look for areas where the technician’s comments are not accurately transferred.
5. A reasonable correction for the failure
Repair vs. replace
Does the repair match the complaint?

6. Time recording
Time recording has been a favorite target area
Technician efficiency -- impossible thresholds
Approve and record additional time

How to judge our dealership performance:

- Watch time records for breaks, normal work stops, etc.
- Extreme efficiency or inefficiency
- Lack of test results, measurements, comments

Improving your dealership

Constantly reinforce the tech’s role and duties regarding warranty.
Develop quick sheets and notes to assist techs in noting the correct documentation.

7. Approval required for additional work (Add-on's)
You must fulfill requirements, plus not be soliciting repairs
Who benefited the most?
Controlling multiple repairs

8. Proper documentation and retention of warranty parts.
Return of parts when requested and tracking those returns
Caution against shops allowing parts to accumulate in the shop area
All parts need to be retained
9. Accurate sublet charges and receipts
Watch excessive sublets for kickbacks, tightly control P.O.'s
Audits have shown increased interest in sublet invoices – they are looking for billing differences between warranty and "standard"

10. Accurate labor operation numbers and times
Overlapping operations
Excessive repairs/diagnosis requested

11. Proper administration of Service management/factory approvals
Sign, date & time, and explain any authorization
Justify your decisions

12. Data entry must reflect what is on the R.O.
Watch for changes between entries and the R.O. (DCS audit or buck-slips)
Be particularly concerned with the minor items (tech id#, etc.)

13. Filing and record retention
You must retain for most manufacturers for 12-24 months.
Purge consistently
Make sure there is easy access
CLOSING – The last one out turns off the lights

A warranty claim is always at the mercy of whomever _________ it.
- all the momentum at that point, when it goes into accounting, is to get paid for __________ amount.

The most common mistakes made by booker/closing
- Lack of understanding of technician controls – add-ons, straight-time, etc.
- Treats it like another piece of paper to get of their desk
- Untrained in the use of the factory’s time standards
- Failure to recognize mistakes – misbilled items, etc.

How to judge our dealership performance:

- We get rejects for seemingly simple clerical errors
- Warranty administrator / data entry is having to constantly ask for clarification
- The service manager never has to reconsider, approve or review a warranty claim at this stage.

Improving your dealership

Quick checks using Wednesday, Thursday, Friday, Saturday technique
- W – Warranty eligibility
- T – Time billed and flagged
- F – Facts to support
- S – Signatures to control

-- Covering the four basics each and every time assures consistent results

Making sure of every dime is a combination of the first four key steps we’ve discussed.

SUSTAINING – Gone, but not forgotten

On-going reviews and monitoring of your warranty processes are the best thing to keep everyone sharp and active in the process.

Prepare every claim like you might be audited next week. Coach everyone to EXPECT that the claim will be reviewed.

How to spot check claims in under 30 minutes a week – pick a role and check:

**Week 1 – Advisors:**
Grab ten multiple line warranty repair orders, preferably those with high mileage, and read the stated customer complaint and re-verify warranty eligibility.
Week 2 – Technicians:
Get five warranty claims, preferably those with some technical difficulty. Pull out the shop manual and compare it to the tech’s notes. Check for updated service information, look at the time records and repairs claimed.

Week 3 – Closing/Payment:
On Monday, check the schedule for the oldest ten claims. Find out the status of each claim, verify the charges and then follow up on Thursday if the status has changed.

Week 4 – The match game
Pick a couple of very elaborate or complicated claims from the past month. Get out all the supporting information and see if they all tell the same story. Do the time punches all agree, does the rental or tow bill fit the dates, does everything collaborate the same series of events.

(Alter the selection of weeks every month.)

**We are going to cover a warranty audit from three perspectives**

Advice for the dealership, Before / During / After

**The dreaded, “We’re coming …” letter (handout)**

Investigate: ____________________________________________

Explain: ____________________________________________

Call: ____________________________________________

Options: ____________________________________________

**Steps you absolutely need to consider:**

Past reviews/audits:

____________________________________________________

Protest?

____________________________________________________

DON’T

____________________________________________________
Getting ready for the visit:

What to do now: ________________________________________________________________

One week out:  ________________________________________________________________

Right before:   ________________________________________________________________

Creating a work space _________________________________________________________

Setting the rules _____________________________________________________________
Rob Campbell  
Senior Editor and Consultant for DealersEdge

After fourteen years as a dealership consultant and trainer, Rob continues to have a passion for the service business. He is currently the editor of the Service Manager, the Service Advisor, and the Warranty Administrator newsletters for DealersEdge. The Service Manager, is a cornerstone publication at DealersEdge that reports on profitable ideas for Fixed Operations. Nearly 9,000 dealership professionals read these subscriber based publications. Rob also serves as one of the resident dealer analysts for DealersEdge Consulting, helping dealers through difficult audit concerns and negotiations. A frequent and popular speaker at industry events, including five NADA conventions, he is a true professional and a great communicator.

Rob is a Northwood University graduate who has augmented his formal education with much practical experience. Before joining Dealersedge/WD&S, Rob held a position where he wrote extensively concerning GM warranty administration issues, conducted training sessions and worked as a consultant to many dealerships from around the country.

In addition to his consulting experiences in serving the dealership community, he has also held positions in the dealership. While at the dealership level, Rob has experience with 14 different franchises, including domestic, European and Asian brands. He has experience as a manager in all areas of fixed-operations, and has retail sales experience. His years of hands-on service drive and unique dealership experiences give him a good knowledge base for dealers to draw on. By having personally taught hundreds of students, and writing to literally thousands more, Rob has proved his value to a significant portion of dealerships.

Current popular manuals authored by Rob ~
- 5-Minute Guide to Service Advisor Coaching
- 129 Quick Tips to Improve Dealership Service Profits Today!
- DealersEdge Guide to Dealership Employee Policy Manuals
- The New Rules of Dealership Service Management
- DealersEdge Comprehensive Parts Department Answer-Guide: Practical Solutions to Today's Most Common Parts Department Challenges
- DealersEdge Top 100 Ideas for Cutting Service Department Costs
- The Authoritative Guide to Understanding GM’s Dealer/Peer Analysis Report
- The Service Manager's Idea Bank...$1,000,000 Worth of Revenue Building, Cost Cutting Fixed Operations Success Strategies
- The Technicians Guide to Understanding GM Warranty
- Claim Solver Series (GM)
- The Cost Control Guide for Dealership Internals
- 101 Proven Ways to Boost Fixed Operations Profits
## ASSOCIATIONS

- **National Automobile Dealers Association (NADA)**
  - Annual Convention and Exhibition
  - Warranty Audit Workshops
- **American Truck Dealers Convention**
  - Warranty Management Workshop
- **Minnesota Auto Dealers Association**
  - Warranty Processing and Expense Control Workshops
- **North Carolina Auto Dealers Association**
  - Warranty Processing and Expense Control Workshops
- **Georgia Auto Dealers Association**
  - Warranty Processing and Expense Control Workshops
- **Illinois Auto Dealers Association**
  - Warranty Processing and Expense Control Workshops
- **Auto Dealers Association of Greater Philadelphia**
  - Warranty Processing and Expense Control Workshops
- **New Jersey Coalition of Automotive Retailers**
  - Fixed Operation Management Workshops
  - Warranty Audit Preparation
- **Kentucky Auto Dealers Association**
  - Warranty Processing and Expense Control Workshops
- **Texas Auto Dealers Association**
  - Fixed Operation and dealership growth opportunities
- **Detroit Auto Dealers Association**
  - Warranty Processing and Expense Control Workshops
- **Connecticut Auto Trades Association**
  - Warranty Processing and Expense Control Workshops
- **Burlington and Camden Auto Retailers**
  - Warranty Processing and Expense Control Workshops
- **Cleveland Automobile Dealers Association**
  - Warranty processing and controls
- **Missouri Auto Dealers Association**
  - Warranty Processing and Expense Control Workshops

## PROFESSIONAL ORGANIZATIONS

- **American Institute of CPAs (AICPA)**
  - Warranty Audit and Dealership Consulting Workshops
- **CPA Automotive Dealer Consultants Association**
  - Warranty Audit and Dealership Consulting Workshops
- **Dallas CPA Association Conference**
  - Warranty Audit and Dealership Consulting Workshops
- **DeFilipps CPA Auto Dealership Niche Conference**
  - Warranty Audit and Dealership Consulting Workshops
- **Automotive Satellite Television Network (ASTN)**
  - Net Gain – Fixed Operation Technology
- **NCM 20 Groups**
  - Dealer Warranty Management Sessions
  - Contact – Various groups and locations
- **NADA 20 Groups**
  - Dealer Warranty Management Sessions
  - Contact – Various groups and locations
- **Greater Michigan Ford Dealers Advertising Fund**
  - Dealer Warranty Management Sessions
- **Chicago Metropolitan Ford Dealers Group**
  - **Chicago Area Buick Dealers Group**
    - (Associations mediated by same company)
    - Warranty Processing and Expense Control Workshops
- **Tri-State Service Managers Club**
  - Warranty Processing and Expense Control Workshops
- **Philadelphia 49ers Service & Parts Managers Association**
  - Warranty Processing and Expense Control Workshops
- **Arizona Ford Service and Parts Club**
  - Warranty trends and headlines
- **International Service & Parts Summit**
  - Warranty Processing and Expense Control Workshops