

Safeguarding the Finances of your Association

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Suggestions for Financial Control

With recent news media coverage on associations who appear to have lost funds due to actions by management companies, the question often becomes, how can an association prevent this from happening to them? For starters, it may be helpful to compare actions taken by an association who appears to be missing a significant amount of money from actions taken by an association who does not appear to be missing any funds.

Association 1 received a monthly balance sheet, income and expense statement from its management company. It never received any backup documentation to support the financial statement, such as the monthly bank statement. It did not receive a ledger showing the checks written on the Association's account. It also did not have a Board member who reviewed all invoices and signed all checks before the checks were sent. In fact, no Board member had any access to the Association's accounts. The management company had the only signing power for all of the Association's accounts (including checking, savings, and any reserve accounts).

In Association 2, the entire Board received a monthly balance sheet, income and expense statement from its management company. In addition, the treasurer of the Board received a copy of all of the backup documentation to support the income and expense statement, bank reconciliation, all invoices paid, and a copy of the check register. All checks required both the treasurer and the managing agent's signature. The management company had no signing authority for the reserve accounts of the Association. The Board member with signing power had full access to the bank records, as this person was a signer on the bank account.

Can you guess which association is missing funds? If you guessed Association 1, you are correct. Now, does that mean that every association that operates like Association 1 is going to lose funds? Obviously not. However, just like a person who shuts their garage door is less likely to get items stolen from their garage, an association that institutes tighter controls over its finances is less likely to see them taken because the opportunity is reduced or eliminated.

The following is a list of controls that an association should consider implementing to help safeguard its finances:

1. Make sure that your management company does not commingle your association funds with other associations. This type of accounting can make it very easy for a management company to "rob Peter to pay Paul". Your association needs to have its own separate bank accounts for all of its funds.
2. Obtain a full accounting of your funds every month. Make sure that you are not just receiving a statement of income and expenditures. You need to receive a balance sheet, a copy of your bank statement and related reconciliation, along with the documentation to show what checks have been written and to whom.
3. Consider requiring that all checks be approved by a Board member before the check is written. Additionally, consider requiring that all checks be signed by at least one member of the Board. This prevents easy flow of funds out of the Association's accounts, and oversight of all checks written.
4. Make sure that a Board member has the ability of obtaining a copy of the bank statement directly, rather than just through the management company, or have the ability to review the bank account online. This prevents a management company from falsifying a bank statement.
5. Keep association reserve funds separate from the operating funds, and consider not having the management company as a signer on its reserve accounts.
6. Have your annual audit, review, or compilation performed by a Certified Public Accountant. Even though the law only requires a compilation, at a minimum, a compilation is not much more than a financial statement. Therefore, the association should consider having an audit or review performed rather than just a

compilation. Additionally, make sure that the service is performed by a Certified Public Accountant regulated by the Arizona State Board of Accountancy.

(Note: Non-CPA accountants are not regulated by the Arizona State Board of Accountancy.)

Although the above steps cannot prevent all possible losses, they will help establish roadblocks to help protect the association's funds.

In summary, the Board of Directors needs to remember that it has a fiduciary duty to its members. Part of that fiduciary duty is the protection of the association's assets. Therefore, the Board should make sure that it is taking proactive steps to help protect the financial assets of the association

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