

TOP 11 WAYS



TO AVOID FRAUD

& THEFT AT YOUR

HOA / CONDO

COMMUNITY

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LOSE MONEY

FROM FRAUD.

I have spoken to board members whose associations were victims of fraud perpetrated by management companies and by board members of self-managed communities. It is just plain wrong and this abuse is at the heart of why I started this business.

Theft can be limited in size and go unnoticed or can be in the hundreds of thousands of dollars. Some communities that suffer fraud are covered by fidelity insurance and get some or all of their money back. Other communities are less fortunate and just lose out.

The best way to learn the lessons of fraud is second hand rather than experiencing it at your community.

So I have put together a list of financial best practices to prevent fraud and theft at your community.



Collecting Money (Accounts Receivable)

1. Don't accept cash – cash can go missing or unaccounted for too easily.
2. Don't co-mingle funds – the community needs to have a separate bank account in the association's name. A management company cannot deposit funds into its business operating account or a board member cannot deposit into their personal bank account.

Also you need to have a separate bank account for reserve funds that require a board members written authorization to move funds from a reserve account to the operating account. (In California 2 board members are required for this).

3. Provide ways for funds to go directly to a bank account - Use a bank with a lockbox (a post office box that assessment checks are mailed to directly); Offer ACH (direct deposit) so funds go directly from unit owner bank accounts to the association account; and offer online payments that allow for unit owners to set up one time or recurring ACH or credit card payments that flow thru to the community's bank account.

Paying Bills (Accounts Payable)

4. Safeguard checks - Lock up the checkbook, extra checks and if printing checks your check stock. Also inventory check #s so you know all checks are accounted for.
5. Segregate financial duties – This is often referred to as having “internal controls” - separate check approval functions and check writing functions – someone can modify the invoice and the accounting records. Get checks and balances on your checkbook.
6. Check fraud detection – Some banks like the one we use have active fraud detection measures. One is called positive pay which matches the account number, check number and dollar amount of each check presented for payment against a list of checks previously issued by the community.
7. Approve bill payment - Sign off on bills before they are paid. The old way of doing this was to have a board member sign physical checks. Our system allows board members to approve bills online (a digital sign off with each board member having a unique login) prior to payment. If expenses are over a certain \$ amount you can also have 2 board members such as the Treasurer and the President both approve.

General Oversight

8. Get financial reports – One of the biggest issues communities tell us is they don't get financial reports. Your community board needs monthly financial reports to track its income and expenses and other key financial items. When people talk about transparency it starts first with getting financial reports. But Boards need to review the reports and not just file them away. Look for variances from your budget and ask questions or look into items that stand out.
9. View bank statements - Get copies of your bank statements or have the ability for the board to view the community bank account & statements online. One management company got away with stealing money by not providing bank statements and doctored the financial reports to cover their tracks.

10. Perform bank reconciliations – A reconciliation is performed to explain any difference on a specific date between the community’s financial reports (check register, general ledger, balance sheet, etc) and the bank balance shown on the community’s bank statement. Look into why there are differences look for items that did not clear and investigate them.
11. Conduct periodic audits – have a CPA review your financial statements. In Florida communities with assessments over \$500,000 per year are required to have an audit. Even if it is not required it is a best practice. One way for smaller communities to afford this is to save up and perform an audit every 2 or 3 years. Also our service helps reduce the cost of audits by having all the community invoices and financial reports available to your CPA online – less time spent finding paper invoices and having to travel to conduct the audit.

If you want to learn more about how to safeguard funds at your community and how our service provides transparency of your association’s finances schedule a free consultation with us.

Sincerely,
Russell Munz, CMCA
Founder

