Ten steps a property manager can take to prevent fraud in your community association - by Bryan Hughes

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As a homeowner who lives in an association, you put a lot of trust in the people designated to manage your association's money. So it can come as quite a shock if you discover that one of those people has been stealing from your association's funds.

Fortunately, there are steps that board members can take to prevent being victimized, both internally and working with your professional property management company.

1. Protect your association's bank accounts.
Association bank accounts should be FDIC insured and opened in the name of the association only. Money in these accounts should not be commingled with an individual's money, and no one should be allowed to write checks to themselves or use funds for personal expenses.

Your reserves and your operating funds should always be kept in separate accounts as well. Choose accounts that guarantee the safety of your funds while maximizing your return.

2. Require two signatures to take funds from reserves.
Massachusetts condominium law states that all checks drawn from the reserve fund have to be signed by a member of the board, as well as the management company, unless there's a written agreement stating otherwise. Best practices use both signatures. Following this practice when transferring funds from the reserve account to operating account will help your board keep a close eye on the reserve fund, which is critical to the financial health of your association.

3. Implement internal controls.
The person who signs checks should not be the same person who reconciles bank statements and receipts. Another precaution your board may want to consider is rotating financial responsibilities so that no individuals retain control of a specific function for long periods of time.

This applies to your property management company too, if you have one. “One of the things we take pride in here at FirstService Residential is our financial reporting and internal controls," said Sean Jordan, director of property management at FirstService Residential. "We work with many of the auditors in our area, so there are always checks and balances in place. We want to make sure that everyone is doing what needs to be done to minimize risk and continue to look for improvements."

4. Reconcile transactions promptly.
"One of the most important things a board can do is review their invoices and reconcile them with bank statements," Jordan said. "Management should be providing invoices with the monthly financial statements or providing access to them online. That allows the board to know if anything improper was paid and to find discrepancies quickly."

5. Use electronic payments if possible.
Electronic payments limit opportunities for theft and fraud by minimizing manual handling of money. Implementing reliable and secure property management software can make it easier for homeowners to submit their common area fees and other payments online.

6. Update financial authorizations regularly.
Since association boards are made up of volunteers, members can change frequently. Be sure to update bank signature cards and other financial authorizations immediately when there is turnover on your board.

7. Conduct annual financial reviews.
A financial review is a review of your financial books that is conducted by an independent certified public accountant (CPA). It ensures that your association's financial statements are complete and accurate. Jordan said that he recommends that all associations do a review every year. "It's a safeguard for the association and provides another check and balance," he said.

8. Obtain adequate fidelity insurance.
Fidelity insurance will protect your association in the event of criminal activity by a board member or other named person. Ask your management company about fidelity insurance that is designed specifically for associations. That management company should also provide proof that it has insurance to protect your association in the event of fraud by one of its employees.

9. Get training.
As volunteers, very few board members are experts in finance or accounting. It's important that the board have an understanding of what your manager and management company does in terms of handling your association's money. Find out if your management company offers training that can help your board members better understand these matters. Massachusetts law doesn't require board training, but we think it's always helpful in building great relationships between the board and the management company. It gets everyone on the same page and hopefully having the same expectations and understanding.

10. Know what to look for in a property management company.
The best of intentions won't protect your community's finances from fraud. Resources must be

available to make those intentions a reality. For example, to successfully segregate financial duties, a management company will need to have employees available to staff separate payables, receivables and record-keeping departments. Ask if spot checks are performed in the company.

Verify that the company can provide your association with a web-based platform where residents can make online payments to reduce the risk of check fraud. Be sure the company's in-house information technology (IT) department can provide robust security for that platform as well. Don't underestimate the importance of cyber security in protecting financial and personal data, even in associations.

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