



Russell Munz

# Financial Best Practices and Transparency

## The Latest Tools to Help Communities Safeguard their Funds

By Russell Munz, CMCA

Protecting community finances key assets such as bank accounts and reserve accounts is one of the board's top jobs. Your association's financial soundness affects every member of the community through the ability to pay for services, maintain your property and overall unit values. This article will provide an overview of several financial best practices and the latest technologies that help communities follow them.

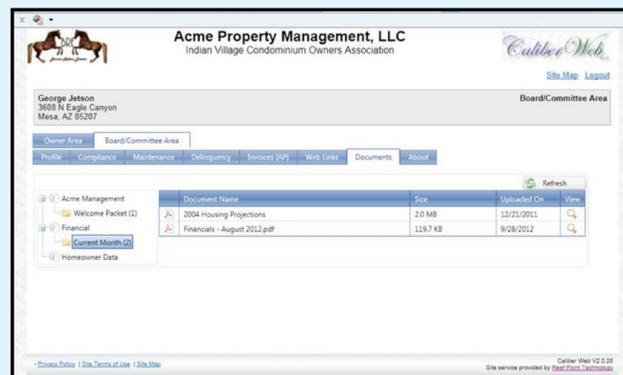
The first best practice is to: 1) enlist the help of advisors. First the board must choose a Certified Public Accountant (CPA) who specializes in community associations (this expertise is critical). This resource will also perform another best practice: 2) a regularly scheduled review of the association financial records which may include an audit. Secondly, the board needs an insurance agent who specializes in community association insurance. This agent will help you with risk management and another best practice: 3) making sure you add crime coverage to your association insurance policy to protect the loss of unauthorized account activity. Another best practice is to: 4) ask your current or prospective manager (or bookkeeper) if they have their own fidelity coverage, how much coverage and ask them to provide you with a certificate of insurance.

Next, use these best practice safeguards to protect the financial stability of your community:

- 5) Get copies of your bank statements with your financial reports and review them. In this way you can reconcile your financial reports against your bank activity – it is recommended to reconcile your bank statements at least quarterly.
- 6) The board member charged with reviewing the bank statements should not be responsible for payment of bills and/or signing

### Tech Tip #2

Ask for emailed Financial Reports – many people quickly discard or throw away financial reports because they take up too much room. Ask for financial reports to be emailed so that you can store them on your computer and refer back to them without losing your closet space.



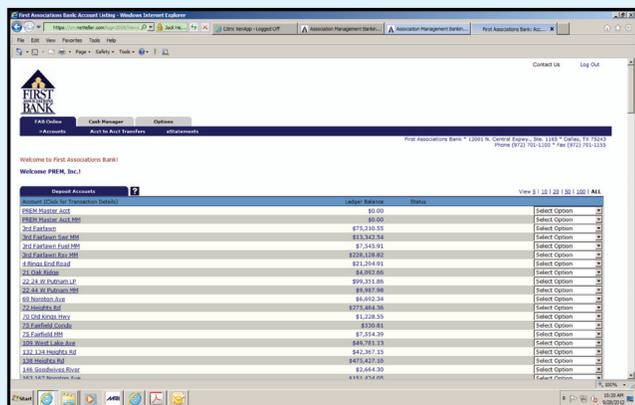
### Tech Tip #3

A newer feature is to have an online portal for board members to access real time financial information from the management company. You have access to previous month's closed financial reports as well as up-to-the minute delinquencies, check register and other reports. This provides another level of transparency and timeliness to your financial information. Additionally, unit owners can login and view their account activity online.

checks. Additionally, don't allow the same person to sign checks, make deposits, withdrawals and perform collections.

- 7) If the previous two practices were done by one board member then all board members should look at and review bank and investment statements quarterly. It is critical for the board to set aside time to review and discuss their financial information.
- 8) Make sure your community's funds are not co-mingled with another community's funds by your managing agent. This means

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### Tech Tool #1

There is no greater tool for visibility and transparency than to have direct online access to view your bank accounts in real time. This allows boards to see their balances, deposit activity and print off prior period bank statements. Many communities have their reserve funds in CDs or Money Market funds at the same bank and they can view those along with the operating accounts in one place. Please note: if you hired a company to do your financial reporting you need to have a process to account for cash transfers properly.

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that there is a separate bank account for your association.

- 9) Taking this one step further if you have replacement reserve funds – make sure you have visibility of them and they are in separate accounts from your operating accounts. As a reminder as you do a special assessment, make sure you transfer those funds out of the operating account and into your reserve account.
- 10) Obtain timely financial reports – the best practice is monthly. If you do not receive financial reports for an extended period of time it is a red flag that you should ask more questions and dig deeper. It may be someone was on vacation and short staffed or it may be something more.
- 11) Board members review the financial reports. Too often in our industry, financial reports are provided to board members who

remark that they did not have a chance to read or analyze them. If you want help reading financial reports ask your CPA or management accountants who are more than happy to explain it to you and answer your questions.

- 12) Use your budget and financial reports as a financial control tool. Unusual budget variances should be investigated, explained or reconciled.
- 13) Have two people including a Board member “sign off” on operating account checks. Also, have a process for board sign off on reserve account withdrawals.
- 14) Have a Board member review expenses – this is better financial control and during the review lookout for double billing or erroneous services – like pool or elevator work when you don’t have those items. Alternatively, look out for vendors who you don’t recognize – “dummy” vendors are a top way that fraudulent transactions occur.
- 15) Have a process that provides an audit trail – this will log who did what and a time/date stamp for tasks along the approval process. Additionally, your management accounting software should have an audit function where you can go in and see who made what entries or changes. These provide accountability.

That concludes my top 15 best practices and 4 technology tools that help communities follow them in order to better track your financial picture. I want to point out that this article does not include all the best practices. For additional information please read two publications from CAI: “Best Practices – Financial Operations” and “The Board Treasurer: Roles and Responsibilities in Community Associations,” to order visit [www.caionline.org](http://www.caionline.org).

This article’s information is relevant for both professionally managed communities as well as self-managed communities.

Using best practices and the latest technology to help your association with its financial safeguarding is better than the alternative. I encourage you to cut this article out and discuss its suggestions at your next board meeting. ■

*Mr. Munz, CMCA is a former US ARMY Captain where he learned the importance of providing clear guidance and delegating to teammates. Prior to military service, Cornell University business programs taught him the importance of focusing time on tasks that have the greatest impact. Now he works with Pyramid Real Estate Group and [www.Condo-Financials.com](http://www.Condo-Financials.com). Email your questions and comments to [russell@pyramidREgroup.com](mailto:russell@pyramidREgroup.com)*

**Editor’s Note: Russell Munz, CMCA will be speaking at the Conference & Expo. See page 13 for more details.**

**AQUARION Water Company**  
Stewards of the Environment  
Website: [www.aquarionwater.com](http://www.aquarionwater.com)

Account Number: 200110293  
Total Charges: \$1,718.96  
Statement Dates: 09/16/12  
Service for: 1 GREGG ST GREENWICH CT 06830

Meter #	Billing Period	Days	Meter Reading	Reading Type	Usage	Next Billing
52078620 (847)	06/21/12 - 09/16/12	92	From / To: 2067 / 2465	Actual	438 gals (328 thou. g)	Approximately 12/17/12

Account Detail

Water Usage History	
CYF	Usage
450	447
440	446
440	373
438	438

**Tech Tool #4**

Use an online bill approval system. This allows a manager and a board member to review all the bills and then digitally “sign off” on them before a check is cut for payment. It is great control over how your money is spent and convenient. If you are self-managed you can have a bookkeeper review and then board member approve or have 2 board members. You can also set dollar amount thresholds to add a second layer of approval for higher expenses. Additionally, this is a helpful tool for your CPA to conduct your annual audit since they can login, view and sort all invoices in the system without digging through boxes and searching for missing invoices.