HOA Financial Controls
Overview

By nature, homeowners associations are particularly vulnerable to being financially damaged by errors that are made by the volunteer members and property managers who perform various functions for the association, and by deliberate acts of fraud and embezzlement. To protect against and minimize the risk of suffering financial losses due to such acts, associations should have established internal financial controls that mandate the manner in which business involving the association's finances is conducted.

Basic controls that are very easy to implement include:

Segregation of Duties
Controls over the Handling of Funds
Regular Director Reviews
Proper Financial Statements

Segregation of Duties

No one person should ever have access to all of the different aspects of the association's finances, and no one person should be vested with the responsibilities of the differing financial duties or the responsibilities of the board of directors acting collectively. Segregating financial responsibilities will facilitate detecting innocent errors and will make it more difficult for one person to commit fraud or embezzle funds from the association. Typical financial responsibilities within a homeowners association that should be segregated and/or performed by the board collectively include: (i) the approval of transactions such as the selection of vendors, entering into contracts, and authorizing payments and credits; (ii) the depositing and withdrawing of association funds and the posting of association financial transactions; (iii) the approval of payments to employees and vendors and the writing of checks for the approved payments; (iv) and the review of bank and financial statements.

Controls over the Handling of Funds

It is critical that associations have established policies that protect their funds. Such policies include: (i) a check signing policy that ensures that no one person is vested with the sole responsibility for signing checks on behalf of the association—and if one person is allowed such authority the account should be structured with a maximum amount that can be withdrawn (i.e. $500.00); (ii) funds should always be deposited into accounts that are in the name of the association and not individual members or property managers; (iii) property managers should not sign on association bank accounts; (iv) association funds should always be deposited into federally insured bank accounts and not investment accounts that have a risk of loss; (v) two signatures required for account withdrawals or transfers. <u>Another article on this topic, preventing fraud and best practices of financial management</u>