

Authorization to Sign HOA Checks

Provided by: HOA Member Services

It is common practice for the board of directors for a homeowners association to designate one or more individuals to be the “authorized” signers on HOA bank accounts. Some boards adopt resolutions that authorize all of the current board members to sign on the association’s accounts in an effort to make sure there is always someone available to sign necessary checks. Some may even authorize property managers or other personnel who are not directors of the association to sign on the accounts. Other associations are more restrictive and elect to authorize some, but not all directors to sign on the HOA bank accounts in order to maintain stricter control over the association’s funds.

Before adopting resolutions regarding those who are authorized to sign on the HOA bank accounts, it is critical to understand what the requirements of your association’s governing documents and state laws are concerning those who are authorized to sign on an association’s bank accounts. For example, in California, the law requires that at least two directors must sign checks for withdrawals from the association’s reserve accounts, but there are no statutory requirements for the number of signatures required for withdrawals from operating accounts. Even though state laws may be silent on the number of authorized signors on a given type of account, it is likely that the association’s governing documents (generally found in the bylaws) contain provisions that must be complied with. The following is a typical provision that may be found in an association’s bylaws:

“Checks. All checks or demands for money and notes of the Association shall be signed by the president and chief financial officer or by such other officer(s) or person(s) as the Board of Directors may from time to time designate.

Notwithstanding the foregoing, any withdrawal of funds from Association Reserve accounts shall require the signature of two directors or an officer (who is not also a director) and a director.”

An association’s board decisions on those who are authorized to sign on HOA bank accounts should be consistent with the applicable laws and/or the association’s governing documents and should be clearly documented in

resolutions that are contained in minutes of directors' meetings. Disregarding those requirements would be a breach of duties that could result in potential legal disputes and potential liability on the part of directors.

Absent state laws and/or requirements contained in an association's governing documents concerning authorized signers on association bank accounts, the decisions about who is authorized to sign are left to the association's board of directors. Thus, it is not uncommon for associations to authorize their managing agent to pay routine operating expenses up to a certain maximum amount without a signature from a director. This enables the property manager to pay such items as utility bills, insurance premiums, gardening, pool, and other normal reoccurring operating expenses without imposing on the directors for a signature. For payment of less routine expenses or expenses that involve amounts in excess of the limit that was authorized, a second signature from a director may be required. While this procedure facilitates the payment of expenses, it also exposes the association to greater risk that its funds may be misappropriated.

To minimize this risk and protect the association's funds against misappropriation by theft or embezzlement, the association's board of directors must have policies in place that are diligently followed which: (i) mandate reviews of bank statements and reconciliations at minimum time intervals (i.e. monthly or quarterly); (ii) establish internal controls; (iii) require fidelity bonds that cover those with access to the association's funds; and (iv) require periodic independent reviews (i.e. at least annually by a licensed CPA). It is also becoming more common for association boards to obtain background and/or credit reports on those individuals who are given the authority to control their association's funds. Association's that do not have any such policies and practices in place should consult with experienced legal counsel in their jurisdiction for necessary assistance and guidance on adopting and implementing them.