TIPS ON SAFEGUARDING ASSOCIATION ASSETS

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I am recently returned from the National Conference in Honolulu. While there, I participated as a panelist in the White Collar Crime presentation. It was interesting to note that each of the panelists could relate several, if not numerous, cases in which they had been involved as a professional of some manner, in an embezzlement of association funds. What struck me is that we were five panelist and each could related numerous embezzlement cases and none of them were the same cases. While this certainly doesn't mean that embezzlement of association funds is a widespread problem, it is also too common a problem to ignore.

Protection of association assets is one of the primary responsibilities of the treasurer and board of directors of every association. As associations become more sophisticated, and the financial markets become more sophisticated, many more associations have now adopted investments policies to insure that association funds are protected from the risk of market losses. However, simply due to their size and nature of operations, many associations do not, or cannot take adequate steps to protect association funds from physical theft.

There tend to be three different categories into which associations fall which have an impact on the physical protection of assets.

First, many small associations use volunteer board members to actually run the association. There is no hired staff, nor is there any outside management company. Therefore, the entire burden of all association fiscal matters resides with the volunteer officers. At that point, the safety of association funds depends almost entirely on the honesty and integrity of the individuals involved.

Second tend to be mid-size associations who hire professional management companies to oversee their operations and report on association financial transaction. This is an arrangement that works very well for the vast majority of associations. But it does remove the board members from active participation, and they act more in the role of passive overseers of financial transactions. For associations in this category, the best actions that a board can take to assure themselves of the safety of associations funds is to carefully review all financial reports, bank reconciliations, and transactions that are processed by the management company.

Third, many larger scale associations will often hire their own employees to act as on-site managers and accounting staff. It is rare that there will be enough employees to provide complete segregation of financial duties. In other words, simply due to a limited number of people involved in the accounting function, there will be an inherent conflict of duties performed by certain of individuals within the accounting function. As an example, the association's controller or bookkeeper may send out all bills, make all deposits, prepare the bank reconciliation, write all checks, and file all paid invoices. The only activity not under the direct control of that controller or bookkeeper then becomes the actual signing of checks. Since there are many conflicting duties being performed here, there is an opportunity for that person to misappropriate funds. Again, the board in this situation should carefully review all financial records and also design the accounting system so that opportunities for misappropriation of funds are greatly reduced.

CAI has created a brochure entitled **Tips for Protecting Your Association Finances**. This brochure specifies 15 tips that the association may consider for protecting association assets including:

1) Conduct an annual audit, review or compilation.
2) Ask your accountant for a management letter.
3) Reconcile bank statements at least quarterly.
4) Request monthly or quarterly financial statements.
5) Insure that the board has control of reserve transactions. (This is where the large money is spent)
6) Establish an investment policy that insures safety of principle.
7) Do not commingle association funds with the funds of any other organization.
8) Prepare written collection policies.
9) Determine policy for bank account signatory control.
10) Insist on fidelity bond for manager and/or employees.
11) Specify that kickbacks are prohibited.
12) Require disclosure of conflicts of interests. This would apply to any significant relationship with any vendor or service provider, board members, or members of the association.
13) Purchase directors and officers liability insurance.
14) Maintain control of association documents at all times.
15) Establish good financial procedures.

While the above list provide general guidelines for an association, you will need to obtain the tips brochure to see all of the details about how each of these 15 items can work for an association.

Las Vegas CPA Gary Lein recently passed out a checklist at a Nevada Chapter event entitled *"Protecting Your Association's Funds"*, which is reproduced below. This checklist provides many detailed guidelines that an association can utilize to protect their assets.

Your association can limit exposure to loss of funds by:

1. Thoroughly reviewing the monthly financial statements. Develop a checklist to assure everything is reviewed. If possible, ask at least two board members to check the financials.
   a. Compare bank statements to the bank reconciliations. The bank reconciliation should begin with cash per bank and reconcile down to cash per books. The reconciling items will generally consist of deposits in transit and outstanding checks. Investigate and question any large or old outstanding checks. Deposits in transit should not be outstanding for more than 30 days.
   b. Examine the bank reconciliations and see that they agree to the amounts reflected as cash on the balance sheet.
   c. Review the bank statement to ascertain that all interest income has been recorded in the financial statements.
   d. Make sure that all bank accounts are recorded in the general ledger of the Association.
   e. Examine the aged receivable listing and compare it to the balance sheet. The total of assessments receivable should agree to the balance sheet.
   f. Review the income statements comparison of budgeted to actual activity both for the current month and the year-to-date, and question any significant variations.
   g. For any questioned income or expense items, trace the account to the general ledger and review the detail for that account.
   h. Thoroughly review the check register and any fund transfers to assure all expenditures and transfers are proper

and authorized. Question any large amounts, assure proper approval and documentation.

2. Make sure your accounting records are kept up-to-date.

3. Never sign a blank check.

4. Monitor the petty cash fund. Do not accept hand-written receipts on paper scraps.

5. Require a financial statement at the end of the fiscal year. This financial statement should be prepared by an independent accountant.

6. Review your fidelity insurance on a regular basis. Make sure that the amount is sufficient to cover all your funds. Make sure that your fidelity covers the association volunteers and anyone else who handles your funds (especially the management company).

7. If at all possible, the association should use the accrual or modified cash basis method of accounting.

8. Some recommended policies that the association could adopt:
    a. Do not receive cash, if possible.
    b. The person that opens the mail should stamp the payments (For Deposit Only). The person posting the payments to the computer system should not open the mail.
    c. At least on Board member should review all payables to assure proper invoicing and review costs.
    d. The person who approves the invoices should not be the same person who writes the checks.
    e. Have the signor of the checks mail checks to the vendors, don't return them to the person who wrote the checks.
    f. The bank signature cards should be updated when any signor is changed.
    g. Each month, have the bank statements opened by a person other than the person preparing the bank reconciliations. The canceled checks should be reviewed for irregularities.
    h. Keep reserves in a separate bank account with Board control.
        1. Two board members should sign expenditures or transfers from reserves.
        2. Assure transfers to the reserve account are made timely.
        3. Any expenditure from the reserve account must be properly documented (in the minutes) and approved by the Board.

The above checklist and tips indicate that the Board has to be more than simply passive observers. They do have to take an active part in protecting the assets of the associations, and this comes back to the White Collar Crime Presentation. One of the common threads that I noticed in talking with each of the other panelist and hearing their examples is that, the crime occurred when somebody wasn't doing their job, meaning they weren't performing the above suggested procedures. They weren't using the tips outlined above. If they had, most of the white collar crimes that occurred would of have been stopped dead in their tracks, or could never have occurred to begin with because adequate safeguards and controls would of existed to prevent their occurrence.

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