

Welcome to the

WASHINGTON STATE CHAPTER
of
Community Associations Institute

*The leading professional organization providing education,
resources, and advocacy for community association living.*



Protecting Association Funds

- Jeremy Newman, Newman & Associates, CPA, PC
- Nick Anderson, Columbia Bank
- Q&A (combined) 15-20 Minutes

We Will Cover

- Questions to ask, red flags: Reading the Board's monthly financial package
- 10 Commandments of Internal Control
- The Fraud "Diamond"
- CAI Guidelines- Fraud Prevention
- CAI Guidelines - Cash & Investments
- DDM
- Additional Fraud Prevention Tools

About YOU

- Board Members?
- Board Treasurers?
- Managers?

How many here are the Treasurer because you weren't at the Board meeting when they decided this???

Questions to ask, red flags when reading your financial statements

Balance Sheet

At a POINT in time

- What you OWN (Assets)
- What you OWE (Liabilities)
- What is left over (Equity/Fund Balance/Net Worth)

Operating Cash

- Does the Board review the bank statements and reconciliations at least quarterly? (Monthly preferred)
 - Are there unusual reconciling items or transfers in the bank reconciliations that don't clear?
 - Does the bank statement match the reconciliation?
- How many months of operating cash (technically Equity) are on hand?
 - CAI recommends 1-3 months of average monthly operating expenses
 - Similar to a rainy day fund for your personal finances

Reserve Cash

Are there monthly or quarterly bank/investment statements for ALL reserve accounts?

- Banks should provide statements, activity reports, and/or on-line access
- Board should review reconciliations

Are 2 Board members authorizing all disbursements?

- Note: WUCIOA states “Under Board control” rather than “2 signatures”
- Does the Board approve any transfers between operating and reserve cash?
 - Other than the standard monthly budgeted allocation to reserves
- Does the amount correlate to “Projected Cash” in the reserve study?

Assessments Receivable

- Does the Aging (Delinquencies) report agree with the Balance Sheet?
- Does the Board review this each month and take appropriate action?
- Are write offs to AR (bad debt expense) authorized by the Board and documented in the minutes?

Prepaid Assessments

- Does the amount on the Balance Sheet agree to the listing of assessments paid in advance?
- This amount can artificially inflate the cash balance as it is received in advance of when the Association has earned the revenue

Accounts Payable

- Is there a listing that supports the Balance Sheet amount?
- Is this unusually large? Cash flow issue?

Due Between Funds

This will show up in different forms on your Balance Sheet, depending on whether the Association uses fund accounting

Find out why this balance exists.

If there is a payable from **operating to reserves**:

- The monthly budgeted allocations are not being done AND/OR
- Operating cash was short and had to borrow from reserves
 - NEITHER of those is good!
 - Get it repaid
 - Budget for contingencies next year to protect against this happening again

Due Between Funds

If there is a payable from **reserves to operating**:

Possibly a disbursement that was intended to be paid from reserves was paid from operating cash

Board should be very clear in the board minutes re: authorized reserve expenses

- Vendor, amount, description

Important to keep the 2 funds **SEPARATE** for tax purposes. Be very clear with the management company regarding operating vs reserve expenses

Revenue & Expense Statement

1 year PERIOD of time

Assessment Income

Does it agree with the budget?

If not:

- Association is on the cash basis
- Other transactions are recorded in the assessment income account
- The billing has changed from the approved budget

Assessment Income

Is significant “other income” monitored?

- Guest Suite fees
- Community Center rentals
- Move In/Move Out income
- Other user fees

Expenses

- Expenses significantly over budget: Are variances explained and documented?
- Are vendor bills paid timely?
- Unusual/material operating expenses: Approved in board minutes?
- Reserve expenses: Approved in board minutes?

TEN COMMANDMENTS OF INTERNAL CONTROL

1. “Segregation of Duties” – More than 1 person should be involved in accounting function whenever possible

TEN COMMANDMENTS OF INTERNAL CONTROL

2. FULL board should take responsibility for monitoring financial functions (not just the Treasurer)

TEN COMMANDMENTS OF INTERNAL CONTROL

3. Review financial statements at least quarterly if not monthly

TEN COMMANDMENTS OF INTERNAL CONTROL

4. Review bank statements and reconciliations on ALL bank accounts (including CDs)
 - At least quarterly if not monthly

TEN COMMANDMENTS OF INTERNAL CONTROL

5. Controls over significant “other income”

TEN COMMANDMENTS OF INTERNAL CONTROL

6. Invoices or other verification needed to pay a bill
(Not a check request)
 - Credit card statements approved by someone other than the user

TEN COMMANDMENTS OF INTERNAL CONTROL

7. Board authorization (2 signatures) for reserve withdrawals

TEN COMMANDMENTS OF INTERNAL CONTROL

8. Change signature cards when board changes

TEN COMMANDMENTS OF INTERNAL CONTROL

9. Board approval for significant AR write-offs (follow policy, document approval in board minutes)

TEN COMMANDMENTS OF INTERNAL CONTROL

10. Be skeptical of everyone involved in the financial function. Fraud happens.

The Fraud Diamond***

4 components to be aware of that can lead to fraudulent behavior:

- Financial Need
- Perceived Opportunity (Lack of Internal Controls)
- Rationalization (I deserve this)

- Capability (next slide)

(***)Published by Association of Certified Fraud Examiners/
David T. Wolfe, Dana R. Hermanson



The Fraud Diamond

Are these capability factors potentially present in a staff member?

- Right organizational position/function to take advantage of opportunities
- Appropriate expertise
- Confidence or ego
- Being able to coerce others to participate in fraudulent activity
- Being able to deal with the stress of committing fraud
- Being a good liar

CAI Guidance

CAI Guidelines for Preventing Fraud and Embezzlement – See Handout with CA Day App

Includes 10 additional fraud prevention tips for your review

CAI Guidelines for Cash and Investments***

Seek Professional Advice: Develop a Written Investment Policy- Then Adhere to it!!

Review Governing Documents for investment restrictions

Key Principles, in this order:

1. Safety of Principal and Income
2. Liquidity
3. Yield

Association investment experts generally recommend:

1. CDs that are FDIC insured
2. Money market deposit accounts up to limits of insurance coverage
3. Money market mutual funds backed by the U.S. Government
4. U.S. treasuries, bills, notes and bonds

(***) CAI Gap Guide: Reserve Funds: How & Why
Community Associations Invest Assets



New Act Effective 7/1/18 -Investment Comments for new Associations: (WUCIOA):

RCW 64.90- WUCIOA

64.90.530 – “Financial Statements- Association Funds”

(3) – “The Association must keep all funds of the association in the name of the association with a “qualified financial institution”

Definitions:

64.90.010 (40):

“Qualified financial institution” means a bank, savings association, or credit union whose deposits are insured by the federal government.

DDM and Additional Banking Fraud Prevention Tools

Nick Anderson, Columbia Bank

DDM – Demand Deposit Marketplace

Columbia Bank participates in a program with other community banks where customer deposits within the account, in excess of their target balance, is automatically allocated to other FDIC-insured accounts held at other banks in the program, in increments of \$250,000 or less.

This unique program enables you to receive expanded FDIC insurance coverage of up to \$25 million for individual, business or public fund accounts and up to \$50 million on joint accounts, earns interest on the idle balances in your account, and is convenient to use.

Why Choose DDM?

- Are you concerned about the safety of reserve deposits?
- Do you have money tied up in certificates of deposit?
- Would you like to have daily liquidity for your money with a competitive interest rate, and be able to access it at any time?
- Would you like to simplify your banking by consolidating multiple bank accounts into a single relationship with our bank?
- If you are responsible for municipal or non-profit organization monies, are you required to ensure they are FDIC insured or fully collateralized?

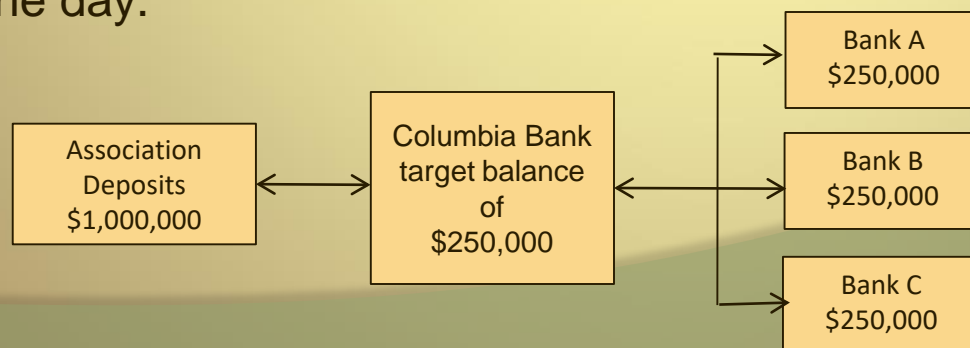
DDM Offers:

- **Protection**—Receive expanded levels of FDIC protection through a single account; several times more insurance than traditional deposit accounts
- **Growth**—All account types, including businesses and public funds, have potential to earn a competitive rate of interest so that your money is constantly working for you
- **Access**—Enjoy daily access to your funds with no transaction limitations
- **Convenience**—Consolidate multiple bank relationships into one convenient account to cut down on paperwork and the coordinating of monthly statements and confirmations

How it Works

- After opening an account and establishing a DDM Sweep, balances in excess of a target balance are automatically swept into the DDM program and allocated to a number of other banks enabling you to receive expanded levels of FDIC insurance and earn interest on these balances.
- If your end-of-day balance falls below your target, funds are automatically swept back into your checking account to meet your liquidity needs.

Best of all, these sweeps are automatic, there is no need for you to worry about managing your daily balances or rush to transfer money at the end of the day.



Additional Fraud Prevention Tools

- Positive Pay
 - Check
 - ACH
- Dual Control
 - Payments
 - Transfers
- Zero Balance Account (ZBA)

Summary

- Receive additional FDIC protection on your funds
- Have funds that are liquid and immediately accessible
- Eliminate sweeping excess balances to repos or uninsured money market funds
- Earn interest on all funds, including those receiving FDIC protection
- Work with one bank instead of managing multiple banking relationships
- Many tools are available
- Manage your business while the bank focuses on managing your cash

QUESTIONS????????????????????????????????

We will remain available after the presentation to answer individual questions as well

THANK YOU!



CAI and the Washington State Chapter of CAI

Working Together to Serve You

Locally and Nationally

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