MEMBERS OF THE BOARD AND REVIEWING BANK STATEMENTS

The key to watching Your Association's Money:

No great period of time passes without news of a fresh scandal involving an association whose cash assets have been mishandled by someone in a position of authority. Like automobile accidents, these statistics remind us that theft and fraud can happen at any time to any association. What is most distressing is that these situations could almost always have been prevented had the association's directors followed a few, simple rules about watching their association's money.

Banks Statements:

One of the simplest means of watching the money is to review reconciled bank statements for each of the association's bank account. In Nevada, the board is required by law to review the reconciled bank statements for both the operating and reserve bank accounts **at least quarterly**. Prudence and fulfilling your fiduciary duty dictates that this should be done monthly.

Why is a bank statement so important? An association's assets are managed by only a few individuals, typically the manager, their bookkeeper and two directors or officers who sign the checks. In Nevada, the manager can be one of the signers on the check, but it is not recommended. **The bookkeeper or owner of the company cannot sign anything, by law.** An accounting of this management is given monthly in the association's financial statement" i,e, payments received, checks written, etc. However, the association's cash assets are stored in a bank. The bank account statement represents a separate and independent declaration of the association's funds. Put another way, bank statements allow you to compare what your banker is telling you about your money with what the money managers are telling you in the financial statements. Bank statements allow you to verify bank balances, check payees and amount, and deposits. Even in long term certificates of deposit, a statement will verify that the cash is indeed where it's supposed to be. While this does not seem to be a strong deterrent, consider that fraud is often accomplished by altering the payee on a signed check. Likewise, in the absence of a bank statement, sums of money can be "borrowed" from long term savings and "repaid" at a later date without the loss even being noticed. Merely the knowledge that account balances and cash transactions are being responsibly reviewed every 30 days **significantly inhibits fraudulent activity.**

At a time when watching the association's money is foremost among the board's fiduciary responsibilities, banks are reducing statement services to cut their operating costs. Ironically, it is for an association's largest accounts (especially long-term certificates of deposit accounts) that monthly statements are at times not provided. If a board receives statements only upon the maturity of large replacement reserve CDs, as much as a year can pass without verification of those account balances. <u>This is both unlawful and unwise</u>. And, if you're a director, it should be unacceptable.

Some banks, recognizing the special needs of homeowner's associations, have developed special programs tailored to those needs. These banks typically provide monthly statements for virtually all types of accounts. However, many banks do not. When deciding on where to deposit the association's cash assets, boards must take into consideration more than just the interest rate. Monthly bank statements represent a form of insurance for association's assets and must be considered together with the interest those assets might earn.

Reviewing Bank Statements: What to watch for:

Bank statements should not be sent to nor reconciled by the same person who writes the checks. Statements and especially canceled checks, ideally, should be reviewed first by someone other than the check handlers.

Reconciling the bank statement means accounting for all the activity reported by both the bank and the financial statements. Checks which are reported in the financial statements may not have cleared the bank by the end of the statement period and may still be outstanding. Likewise, deposits may have been recorded in the financial reports which do not show on the bank statement. These are called "deposits in transit" and should be accounted for carefully. The reconciliation explains the differences between the bank statement and financial reports. Adjustments stemming from those differences should bring the reconciled bank statements into "balance" with the financial statements.

Reconciliation adjustments and their explanations may not be clear or easy to understand, but, as a director, it is your job to understand them. Ask questions until you are satisfied that all differences have been reconciled. Don't worry about appearing uninformed or hurting the manager's or bookkeeper's feelings. A great deal of effort goes into keeping a good set of books and those responsible are usually pleased to have directors take an interest in their work. And remember, reviewing bank reconciliations may not be the most glamorous job a director has, but it is one of the most important in fulfilling his or her fiduciary duty. All directors need to be involved, not just the treasurer!

Electronic windows for watching the Money:

Most banks have used rapidly changing technology to provide homeowner association with additional tools to help them watch the money. Among these are phone and computer-based inquiry systems by which a director may check account balances 24 hours a day, seven days a week. While these services are most commonly available for demand-deposit accounts, the ability to verify all the association's bank account balances on demand is a valuable service. Consider this when selecting a bank in which to deposit your association's funds.

Other Measures for Safeguarding the Association's Money:

In addition to reviewing reconciled bank statements, a number of other simple rules can help you watch your association's money. Among these are:

- Require two signatures on all checks, not solely on replacement reserve account checks. (Remember that Nevada law also requires it.)
- Periodically check the signature cards for the association's accounts to ensure that they are current and correct. By altering or resubmitting modified signature cards, an unauthorized person can easily gain access to your association's money.
- Verify that the association's checkbooks are in a secure place and subject to restricted access. Checkbooks readily available to a large office staff invite abuse, especially if canceled checks for these same accounts are lying about to provide sample signatures.
- Mail checks to the recipients immediately upon signing rather than sending them back to an office for further processing. Remember that, once signed, the payee's name can be altered. Postage can already be placed on the envelopes for the last signor to seal and put into the mail.

The majority of agents who assist associations in handling their money are trustworthy. By attending to the steps outlined above and incorporating them in the duties of your association's future directors, you gain the additional assurance that your cash assets will be safeguarded. Having the bookkeeper or manager provide training where directors learn how to read their specific financial statements also helps so that they know what they are looking at since Nevada law requires both accrual account and fund accounting. These types of accounting can be troublesome as some directors think that these types are used to make it harder for them to read vs. helping to get a true financial picture for their association. Like seat belts they provide the extra margin of safety that can prevent your association from becoming another dismal statistic.