



Mulcahy Memo – September 2016

Published for clients and friends of the Mulcahy Law Firm, P.C.

by Beth Mulcahy, Esq.



Dear Clients and Friends,

With Summer coming to an end, we are looking forward to cooler temperatures! This month, our Memo discusses "How to Prevent Theft of Association Funds" (scroll down to read more).

We are excited to announce our upcoming 16 FREE educational classes being offered this Fall. These classes provide education on the laws that govern associations and are for board members, homeowners and managers. Please join us in September and October for one of our many free seminars!

Chandler HOA Academy:

- *9/15- 12:00- 1:30 p.m.- Advanced HOA Legal Issues*

City of Mesa HOA Seminar:

- *9/26- 1:00- 3:00 p.m.- Board Member Conflict, Dealing with Difficult People, CC&R Enforcement & Rentals*

Glendale HOA Academy:

- *10/4- 1:00- 2:30 p.m.- Federal Laws Pertaining to Community Associations*
- *10/11- 1:00- 2:30 p.m.- Code enforcement and Collections*
- *10/25- 1:00- 2:30 p.m.- Amending CC&Rs*

Peoria HOA Academy:

- *10/5- 5:30- 7:00 p.m.- Board Meetings and Committee Basics. Topics include Parking Lot, Board Meetings & Committee Basics*

Tempe HOA Academy:

- *10/11- 9:00- 11:00 a.m.- Delinquent Assessments & Vendor Bidding and Contracting*
- *10/25- 1:00- 3:00 p.m.- 2016 Legislative Update and Q&A*

Scottsdale HOA Academy:

- *10/27- 1:00- 3:00 p.m.- Board Members: Roles, Responsibilities, Meetings & Minutes*

For registration information or to view a full listing of the classes, please visit our website by clicking [here](#). We hope that you can join us for one of our upcoming classes!

Follow us on Facebook! Our law firm has a very active page with free tips and legislative updates for board members, managers and owners that is updated weekly.

Thank you!



Sincerely,
Beth Mulcahy, Founder and Senior Partner
Mulcahy Law Firm, P.C.

How to Prevent Theft of Association Funds

By: Beth Mulcahy, Esq.

If you Google the words "association and embezzlement" you will be shocked to see the number of recent fraud and embezzlement cases involving community associations in the United States. No board of directors ever wants to find out that money that is needed to run the association and maintain the common area is now gone due to embezzlement. As an association board, you can help prevent the possibility of theft of association funds by following some easy and common sense steps.

What can the association do? Understand and identify the risk the association faces and implement steps and actions that board members can do to help prevent the association from falling victim.

Warning signs of potential fraud include the following: missing bank statements and reconciliations, general ledgers that do not balance, missing and altered documents, photocopies rather than originals, unexplained cash shortages, unauthorized credits to receivable accounts, increased past due accounts, duplicate payments to vendors, unauthorized purchase transactions and payments for unspecified services.

Accounting checks and balances are vital steps toward protecting the association's assets, but, vigilance and awareness are also needed. The board of directors should periodically set aside time for a full discussion of all financial matters, and, above all, they must maintain a level of skepticism.

A major board decision is the selection of a management company to perform financial services. Working together, the board and advisers can make a good selection by considering:

1. The company's reputation for integrity;
2. Experience of the managers and the company; and
3. The qualifications of, and processes followed by the financial department.

A thorough review of the management company's and the association's insurance policies should be undertaken and appropriate action taken. It is then important to remain vigilant, reviewing all processes dealing with your association's money. Even though the association may have hired a management company; the association's financial actions and records remain the responsibility of the board of directors.

Our law firm suggests that boards have the following accounting and financial controls in place to prevent embezzlement and fraud in their association:

1. *Keep association records up to date;*
2. *Assign control of all reserve funds to the entire board;*
3. *Monthly financial reports should be prepared and made available for board review (include in the monthly report: a balance sheet, a statement of revenues and expenses and a comparison of actual revenues and expenditures to budgeted amounts);*

4. *Require two signatures (including at least one board member) on all checks or transfers greater than a pre-designated amount;*
5. *Prior to signing checks, authorized check signers must review invoices and supporting documentation;*
6. *Review bank statements and reconciliations on a monthly basis;*
7. *Keep only a small amount of petty cash on hand and in a secure place;*
8. *Regularly review delinquent receivable balances;*
9. *Purchase adequate fidelity insurance to cover the volunteers and employees who handle funds. In addition, arrange for directors and officers coverage (D&O insurance) in the event the board is accused of financial mismanagement;*
10. *Hire a CPA to conduct an independent annual review or audit; and*
11. *If your board discovers that funds are missing from your association, remove the suspected fraud perpetrator from a position of control, put a stop on all bank account activity and check with your association attorney for advice on how to proceed.*

Following established accounting procedures when dealing with association finances will help prevent your association from falling victim to theft or fraud.

If you have any questions, please contact Beth Mulcahy at 602.241.1093 or bmulcahy@mulcahylaw.net.

***If you have questions and need answers on budgeting questions,
please contact Beth Mulcahy at 602.241.1093 or bmulcahy@mulcahylaw.net.***