

WE'RE WE SUPPOSED TO SAVE THAT?

by Christa Floyd, CPA, CFE

It is not uncommon for a board member of an association to suggest that a financial audit be performed for a specific year or years. The impetus may be due to a change in management companies, a large board turnover, requirements set out in the governing documents or one of many other reasons. Whatever the motivation, having the proper records available and accessible are the keys to a positive audit experience.

When performing an audit engagement, the auditor is not just looking at cash in and cash out. The auditor looks deep – into the financial statement transactions, billings sent to owners, invoices received from vendors, contracts between the association and the vendors, bank statements, insurance policies, reserve studies, board minutes, governing documents and anything else that impacts the financial health of the association.

When an auditor is ready to begin the audit fieldwork, it is common practice to send a document request list to the association contact person.

That person may be the property manager at the management company, the outsourced bookkeeper or a board member. Because the document request list is very comprehensive, some people might think that “hitting the high points” on the list is enough information. Sadly, it is not. Even though the person on the fulfillment end of the audit may see the list as daunting, it should not

be viewed as such. In reality, what the auditor is requesting are the records that every association should be keeping as a regular course of business.

WHAT EXACTLY ARE THE PROPER RECORDS AND WHY ARE THEY IMPORTANT?

Let's start where most clients naturally go when they think of “audit records”.

Nearly all associations have some form of automated accounting, allowing the association to produce the financial reports needed such as a balance sheet, income statement, budget, general ledger, check register and deposit detail for the entire year under audit. The software can also produce reports that show what the association owes to its vendors, which owners have delinquencies and which owners have paid their assessments in advance. All of these financial reports are the starting and ending points of an audit as well as part of the association's “story” for that year. These reports tell the auditor how much money to expect to see when verifying bank balances, how realistic it is to actually collect 100% of the delinquent balances and attest to the account balances at year end.

An auditor also looks at monthly bank statements with reconciliations, canceled checks, statements for certificates of deposit, vendor invoices, contracts and agreements with vendors (including management companies), member billings, deposit slips and other supporting documents. These documents are all part of transaction testing. That is a small description for a critical part of the audit. Bank statements, canceled checks, vendor invoices and contracts/agreements with vendors are all related. In fact, they are also important because of their relationship with the financial reports generated by the association's accounting software. Although it does not happen on every audit, there are plenty of times that discrepancies are found when reviewing, comparing and

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footing the records. In some cases, the discrepancies can actually give associations the opportunity to recover funds.

Next is something that may seem perfunctory to an audit, but is as important as any other component - insurance. All associations have insurance. Whether your association is a condominium development, townhome community or single family subdivision, it seems there is always something to insure. Maybe it is the association's beautiful entry with lovely landscaping and a charming pavilion. Maybe it is the exterior of the association's condominium buildings. Maybe it is the swimming pool and amenity center for your townhome community. Or maybe it is your board covered by the Directors and Officers policy. When the association has insurance, one thing the auditor wants to see is the level of coverage. Why is all the insurance coverage of interest? Because it is important to the association's financial health to be adequately insured. Imagine discovering that the association is underinsured after the hailstorm destroyed the rooftops of the condominiums. Or, what if your association is faced with a lawsuit? Those are just two examples of where being underinsured can result in financial hardship for the association and its members.

Some associations own property. They may own moveable personal property like a television and fitness equipment housed in the amenity center, or they may own the chaise lounges that sit at the side of the pool. When that is the case, the auditor will request a list of property of that nature that the association owns. Auditors then keep track of the value of the moveable personal property, depreciating it over its useful life. Additionally,

the association members may own a partial interest in real property, things far more expensive to maintain, repair and replace. This includes items such as fences, rooftops, parking lots and private roads. For the planned repair and replacement of both personal and real property, the auditor will request a copy of the most recent reserve study. Per Wikipedia, a reserve study is defined as a budget planning tool which identifies the current status of the reserve fund and a stable and equitable funding plan to offset the anticipated future major common area expenses. As with insufficient insurance coverage, an underfunded reserves account can result in financial hardship, potential safety and liability concerns and decreased property values, all of which can impact the association's financial health.

Finally, an auditor wants to see gov-



erning documents, a list of the board members and officers, board meeting minutes, annual meeting minutes and the signature card from the bank that lists the authorized check signers. The reasons for wanting all of that information are varied. Reading the governing documents tells the auditor if the association business is being conducted as intended. The need for the board and officer listing is also related to the governing documents. Is the number of board members and titled officers consistent with the requirement set forth in the bylaws or declaration? And meeting minutes? Reading the meeting minutes is another part of learning the association's "story", similar to the financial statements. For example, if during

the audit process the auditor sees a contract with Jim's Fabulous Fencing for a new \$50,000 fence and the board minutes are silent on the subject of a new fence, the cost of a new fence, the bid process for a new fence or the approval of the bid for Jim's Fabulous Fencing in particular, then questions from the auditor will arise. Meeting minutes should memorialize the various financial decisions ratified by the board or the membership of the association. Furthermore, are the meetings held and the minutes taken and maintained by the Secretary as directed by the governing documents? That is one of the most common stumbling blocks when performing an audit. Lastly, are the authorized check signers aligned with the management company personnel, bookkeeping firm and the elected officers for the year under audit?

While it is true that much information is requested to perform a financial audit, much work is done during the course of that audit. And you can see that the documents needed are things that should be kept in some form anyway, whether digitally or in paper form. So before your board member, bookkeeper or property manager sends a document to the recycle bin or the shredder you can ask that person, were we supposed to save that?



Christa Floyd has been a licensed CPA since 2007 and a Certified Fraud Examiner since 2012. She has worked in the accounting field for thirty years, primarily in public accounting and land development. Christa is a member of the Texas Society of Certified Public Accountants and the Association of Certified Fraud Examiners

