Internal Control Structure for Homeowners Associations

Homeowners associations vary in size and complexity. The resources available to your HOA and the involvement of the board are key factors when determining whether to hire an outside accountant or management company, or to utilize the board to handle the finances. The controls implemented will vary based on which direction you choose to go. Let's take a look at the controls that can be implemented for each scenario in order to best protect your HOA.

The amount of time required by board members is significantly less when an experienced accountant or management company is hired to handle the finances of the HOA. In this situation the board needs to be diligent and implement a system of checks in balances over the outside party. The following are controls the HOA can implement in order to minimize any risk association with hiring a third party to handle the finances:

- Have a board member receive a bank statement directly from the bank and review the bank reconciliation that is prepared.
- Require that any invoices over a predetermined amount also require the signature of one of the board members.
- Financial statements should be reviewed on a monthly or quarterly basis.
- Any bad debt write-offs are approved by a board member.
- A board member should meet with the management company on a periodic basis to discuss what controls are in place at the management company. The management company at a minimum will have one person performing the accounts receivable function, one person performing the accounts payable function and a separate person receiving the bank statements and performing the reconciliations.

If the HOA decides to manage the operations with the use of the board members, then there will need to be a more sophisticated system of processes and internal controls. It is important for the processes of the HOA to be documented so that the board members are aware of the responsibilities of each member. There are four main areas to focus on when reviewing the procedures and controls; bank accounts, cash disbursements, revenue and the related receivables, and the financial statement reporting process. The board members need to segregate the duties of each member similar to that of a management company. There should be a separate person reconciling the bank statements, invoicing and collecting revenue, signing checks, and approving invoices. While the controls for this structure may vary depending on the size of the board, they should include at a minimum the following key controls:

- One board member should prepare the bank reconciliation and another member should review it.
- Document who your check signors are. Require two signatures when the amount is over a specified threshold.
- Have a person who does not have check signing authority approve the invoices.
- Approval of bad debt write-offs should be performed by someone other than the person in charge of collecting dues.
- A budget should be prepared, reviewed and approved each year.
- Financial statements should be prepared monthly and reviewed by the board on a periodic basis.

Having these key controls in place will provide the start of a foundation for the overall accounting system. If the organization is looking for additional assurance they may decide to have a review or audit performed on an annual basis by an independent CPA.