Why Have an Audit?
By Tom Weidner, CPA

On occasion we are asked by HOA Board Members, by property managers, and by others "Why should an HOA have an audit?" The following comments are provided to help answer that question.

HOA audits are either mandatory or discretionary. A few examples of mandatory audits: Colorado law requires that a transition audit be done when the developer transitions control of an association's Board of Directors to resident-owners. The conditions for an existing loan may require an audit, or an audit may be required in order to get a new loan. Finally, an association's governing documents may mandate an annual audit. Thus, there are a number of situations where an HOA audit is mandatory.

But, HOA audits are most often discretionary. Discretionary audits are typically initiated either by the Board or by the management company. Common reasons: A Board may request an annual audit to evidence to all parties that the Board has satisfied its fiduciary responsibilities. A management company may request an annual audit to evidence to all parties that the management company has properly administered the funds and financial affairs of the HOA. Boards and management companies often are aware of the tangible benefits that an audit can provide. An audit can verify compliance with governing document provisions. An audit can also identify accounting errors that recapture funds for an HOA. Common examples: payment by an HOA of the bills of another HOA, duplicate payments (i.e., the same invoice paid twice), and legal fees paid for receivable collections that should have been but that were not charged to residents. An audit can also provide suggestions for improving the business operations of an association. For example, significant cash in non-interest-bearing accounts or an absence of aggressive dues collection efforts usually elicit comments.

Other reasons exist for Board and management companies to request discretionary audits: Sometimes a Board wants an audit because of concern for the records. For example, an audit may be requested by the Board when an association changes management companies. Sometimes the request for an audit comes from the successor management company. Such audits typically "bridge" through the period of record transition from the prior management company to the successor management company. "Bridge" audits provide the parties with "comfort" regarding the transition of the data. Management companies on occasion will request an audit to resolve concerns regarding the records voiced by a Board or by the members of an association.

Finally, an audit can assist both Boards and management companies by providing independent, informed, editorial inputs on certain issues. The most common issue we encounter where such inputs are desired relates to reserve funds. Sometimes it's difficult for a Board or management company to persuade HOA members that a reserve study and related reserve fund savings are needed. An audit, through a letter of comment, may help the Board and management company deal with such member concerns.

"Why should an HOA have an audit?" Some HOA audits are mandatory (i.e., required under law, by third parties, or by governing documents). Most HOA audits are discretionary. Boards, members, and management companies have various reasons, some of which are described above, for pursuing such discretionary audits.