Financial Oversight
By Dale Weidner, CPA

Most associations opt to outsource management, including financial recordkeeping. Boards of directors should keep in mind that they are ultimately responsible for all of the activities that they outsource to the management company, including the accuracy and the quality of the financial statements. In that light, it makes sense for boards to exercise a bit of due diligence in making sure that the financial records and reports are well prepared. The performance of a few simple activities can go a long way toward identifying problems quickly and keeping the financial statements on track. We'll discuss three of the most basic and essential activities that a board can do to fulfill their financial oversight duties.

Review the bank reconciliations. Almost all activities recorded in the financial statements involve cash - cash either coming in or going out. It is therefore critical that monthly bank reconciliations be performed accurately. Bank reconciliations explain any difference between the cash balance shown on the balance sheet and the cash balance on the bank statement. A bank reconciliation usually consists of items such as outstanding checks (checks that have been issued, but that hadn't cleared the bank as of the bank statement date) and deposits in transit (deposits that were received by the management company, but that hadn't been deposited as of the bank statement date).

The first thing a board member should do is to make sure that the book balance and bank balance on bank reconciliations actually agree to the balance sheet and the bank statement. Sometimes they don't, which is a big problem right out of the box. Next, look at the reconciling items. Both checks and deposits should be of recent vintage. Any old checks on the reconciliation should be looked into to determine if they should be voided or reissued. An old deposit means that money was received but lost before being deposited-not good! Any payment received should be deposited within a week. If everything is as it is supposed to be, this review shouldn't take more than a couple of minutes-time very well spent!

Agree the Accounts Receivable Aging Report and the Prepaid Assessment Report to the Balance Sheet. If there is a difference between the reports and the balance sheet there is a problem that the management company needs to fix. It shouldn't take more than a minute to agree the reports to the Balance Sheet.

If your association is on the cash basis of accounting, you won't be able to do this because your balance sheet doesn't show receivable and prepaid information. However, your management company should be able generate a report that rolls forward the receivable and prepaid balances from the beginning of the year to the current month by factoring in charges, payments received and write-offs (beginning net AR + charges (assessments, late fees, fines) - payments - write-offs = ending net AR).

Examine the Budget Variance Income Statement. The board should have an understanding of what has caused the differences between the budgeted income and expenses and the actual income and expense. Many managers prepare a report explaining the significant budget/actual differences. If your manager doesn't, perhaps she should. But in any case, the board should make sure that they understand what's being recorded to the financial statements. Focusing on income and expenses that have veered significantly from budgeted amounts is a good way to accomplish that. This process can take a little while, but it can also lead to productive discussion regarding where the association's money is being spent and how to budget for future years.

Performance of these three steps can identify any errors quickly and alert the board to problems before they become pervasive or too old to fix. The good news is that if you have a good management company, none of these steps should be particularly difficult or time consuming.