

HOA Finances: Five Signs of Fraud or Financial Sloppiness for HOAs

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Typically before HOAs learn of fraud or financial ineptitude on the part of their treasurer or manager, there are small signs that should have been red flags. Here we provide five signs that your HOA funds may be in jeopardy.

1. Checks written to individuals, not the association. "Ask questions if board members begin receiving checks written to themselves in their own names rather than the association," advises Jed L. Frankel, a partner at Eisinger, Brown, Lewis, Frankel & Chaiet PA in Hollywood, Fla., who advises community associations. "That happened at one association, and it didn't raise red flags for anyone for a while." It turned out that a board member was asking people who owed money to the association to make checks out to him and pocketing funds that should have gone into the association's coffers.

2. HOA checks are made out to association members. "You sometimes see board members make checks out to themselves," says Frankel. "That's not frequent because it's so blatant. Most times, it's a board trying to run its own affairs. It doesn't have an outside accountant or management company involved, and board members leave the accounting to one or two people. That's where you see people writing checks to themselves, hiring themselves to perform services, or reimbursing themselves for things they've allegedly bought for the association. It's difficult to prove those were improper after the fact."

3. New vendors or big price increases for current vendors. "Any time there's a new vendor and there's a difference in pricing between your prior vendor and the new vendor, that tells me to ask questions," says Frankel. "Even when a new vendor comes in generally, unless there have been problems with the prior vendor, ask serious questions about why the association is switching. For instance, if you've had a valet service for 20 years and it didn't raise its rates markedly, why is the association hiring a new one? Finally, if you've been paying a vendor \$1,000 for a number of years, and all the sudden it's \$2,000 a month, ask more questions."

Any of these scenarios could be a sign that the vendor is overcharging or that someone in the association is getting a kickback from the vendor for having pushed the selection of that vendor.

4. Fees paid to unqualified service providers. "In some larger associations, you see people with dummy companies that the board brings in supposedly to perform a service, and you start seeing checks written to those companies on a monthly basis," says Frankel. "In a recent case, the board contracted [with] a guy to perform public adjusting services for the association even though he wasn't a public adjustor. Then,

when there was a big check from an insurance company, that guy somehow got a cut of it."

Lesson: Always vet people who claim to perform specialized services, and seriously question when board members are pushing to hire unqualified service providers.

5. Big decreases in revenue. Whenever your association is losing revenue, ask for an independent audit to ensure that nobody's siphoning off association money.

"We've seen board members set up accounts in the name of the association, yet the board member controlled the accounts and had access to them," says Frankel. "It was like a dummy account. All the proper association information was there, and there was someone with the proper documentation to access the account. The only problem was that the board member was using the dummy account as his own bank account. It was easy for him because checks would come into the association, and he'd deposit them into the dummy account, not the association's account. If there's not someone monitoring the intake of all checks and tracking all money coming in, you'll never know that's happening."