

Condo Smarts

Headline: Financial Controls

Topic: Finances

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Dear Tony: An issue has come up at our council meeting with our manager that deals with the signing authority on cheques and our accounts. We have two council members who have created friction with our property manager and are now questioning their integrity because they have sole signing authority on our trust funds. Should our strata corporation be concerned about the management of the trust funds and the lack of scrutiny over the cheques that are issued, or is there a better approach to ensure the strata corporation has controls to deal with our concerns?

Martin W. Langley

Dear Martin: Whether your strata corporation is self managed or in an agency management agreement, the most important role in the relationship in financial operations is the review and the leadership of the strata council. Under an agency agreement, the strata corporation's funds are held in trust in the name of the strata corporation. Trust funds must not be pooled with any other strata corporation, and specific funds like operating accounts, special levy accounts and contingency funds must all be accounted for separately. Each account will have a monthly financial report.

As the funds are held by the strata management agency, the broker or authorized signatory is responsible to authorize payments to approve cheques or electronic transactions. Multiple signing officers inevitably just delay transactions causing greater problems and often replace review of the financial statements which is much more important.

In the event there is a dispute or claim over an unauthorized expense, the funds have limited insurance coverage through the Real Estate Council Compensation Fund, which has rarely been accessed. If there is a

financial irregularity that cannot be resolved, your first call as a strata corporation is to the Real Estate Council. The agency management of receivables and payables is first step in the financial management process; however, it is the responsibility of the strata council to review the reconciled monthly financial statements, bank statements, payments, and receivables. Your management company likely processes thousands of transactions monthly with multiple strata corporations often using the same service providers. Incorrect allocations or errors can easily occur and on financial review they are identified and adjusted, but it is up to the strata council to review the monthly financials in detail. Compare the payables to invoices that are preauthorized as routine expenses or infrequent payables for designated projects and budget items. A summary of the payables and receivables each month helps to make the review easier for the treasurer and council to review.

If your strata corporation is self managed, the risks of loss or fraud have been reported more frequently as volunteers tend not to challenge each other on the credibility of documents, the provision of monthly financial reports, or challenge the integrity of transactions. Watch for individuals who often place themselves in positions where they have sole control over the strata bank accounts and transactions and refuse access to other council members. If you have a treasurer who is not providing access to bank statements for all accounts, is not providing routine financial statements, which could be monthly or quarterly depending the size of your strata corporation, or who is withholding copies of invoices and cancelled cheques, alarms bells should be sounding. If your treasurer misappropriates your strata funds it is too late, there is no insurance coverage.

For self managed strata corporations, basic financial management policies should include:

- a minimal number of signing officers on the accounts of at least 3 if possible
- a council member receiving a financial payment is never permitted to sign their own cheque
- all council members have access to view the bank statements
- separate accounts are created for operating funds and contingency/special levy funds
- no cash is ever accepted or handled
- the council routinely review all financial transactions.

The best prevention to financial risks is to be proactive. Routinely, review all transactions and compare them to invoices and accounts.