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Financial Transparency and Building Trust with Owners

Before one can discuss how to build trust with condo owners, trust must first be established amongst the individual board members and then between the board and the property management company.

Document and Seek Advice

If there is any reason to question trust between a board and management company, this must be resolved first. If a board is concerned about their manager's responses to questions, their financial records' accuracy, is getting "push-back," or is unsure of what to ask, they should seek professional advice from their accountant or lawyer.

Conversely, if a manager is not comfortable with the decisions being made by a board or by an individual director who may be acting on their own, the matter must be addressed immediately at a board

meeting and noted in the minutes. If not recorded in the minutes, the manager should send a letter to the board documenting the concern. If the board refuses to accept the manager's advice or the manager is not amenable to working with the board, regrettably, there is no alternative but to terminate the management agreement with the corporation.

Giving notice to a condo corporation because of a dysfunctional board is always lamentable. Unfortunately, in most instances, the owners have no idea what is transpiring. There should be a venue whereby a management company can inform the owners as to what is happening. Ideally, the owners might call an owners' meeting to discuss the situation and possibly elect new directors. One way to resolve this crisis is to have an emergency clause in the management agreement that may be

invoked to give the property manager authority to bypass the board and express direct concern to the owners.

Currently, the only way to ensure the management company is not drawn into a potential lawsuit is to terminate the contract. Therefore, if a reputable management company gives notice to the condominium, owners should consider this a "red flag." Owners should demand to know the reason for the termination. A positive relationship between a management company and a functional board automatically renders owners more trusting of the board and management.

Building Financial Trust

Here are some tips on how a condo team can build financial trust with owners:

- The manager and board should be familiar with the past year-end statement

to answer any questions raised at the AGM. Not knowing this or relying solely on the auditor to answer questions will raise concerns. The auditor typically provides an overview of what transpired over the past year. It is the board and manager who are fully aware of how all the funds were spent. A board placing blame on a manager for overspending is illogical when it is the board that should be making all decisions and should be signing contracts and all cheques. If a board does not know how money was spent and questions the manager, then there is a serious problem;

- Bring a copy of the past year's General Ledger to the AGM and highlight items that may be in question. No one expects you to recall what transpired over the past twelve months, but you'll earn respect if you can provide answers promptly at the meeting. Being elusive, unsure, or expecting the auditor to answer every financial question can be suspect in the audience's eyes;

- Ensure that the operating and reserve fund accounts, including all reserve investments, are reconciled monthly and a copy of the statements given to the board, even if the board and manager are not meeting.

The board needs to be assured that condo fees are collected on a timely basis and that suppliers are paid on time. The reconciliation statement is crucial in forming part of the monthly report. If cheques are not cashed for months or the reconciliation does not match the bank or financial statements, further investigation is required. Trying to find fraud months later is much harder to unearth. Self-managed condos should be following the same protocols. Whether the budget is 2-million dollars or \$20,000 per year, treat the condominium's financial management seriously.

Transparency is Key

We recently took over some condos and quickly learned that the previous management companies failed to collect condo fees on time, so the condominium corporations lost their lien rights. These companies should have been held accountable for the arrears but were not.

Directors are advised to file complaints with the CMRAO and/or bring the management companies to Small Claims Court. For example, a small condo I worked with was left in financial ruins because the owners trusted a person who

was both a director on the board and the building's manager. This person became close friends with some of the other directors and manipulated them for personal financial gains. The situation finally came to light when new directors were elected, albeit with push-back from this person. They started asking pointed questions regarding the financial status of the condo and sought professional advice.

Always provide financial records to owners as mandated by the *Condominium Act, 1998*. There is no reason not to be transparent about the finances unless there is something to hide. However, if an owner is persistently asking questions, and it appears that they have a personal agenda, then there is a process to deal with this. (This issue is not addressed in this article).

Be very wary of a manager or board that promises owners the condo fees will be reduced or will not increase. In my 30+ years of experience, it is rare if ever this happens. As a condo owner, I would question how condo fees can remain unchanged. Are proper reserve fund contributions being made? Is the condominium adequately insured? Is



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all mechanical equipment regularly maintained?

If a condo is comprised mostly of investor-owned units and the majority of the board are those investors, is the board trying to keep the condo fees as low as possible for their personal benefit? If they don't live at the condo, are their priorities different than the owners who do? Guess who gets stuck in the middle? The property manager receives the residents' complaints but has no control over authorizing work if the board doesn't approve.

Do Your Due Diligence

As in every business, there are reputable management companies and some that should have their licences taken away. It is up to the board to ensure they do their due diligence and check references before entering into a management company contract. Ask other professionals in the condo industry, such as lawyers and auditors. They work with management companies regularly, and they will be able to provide information based on their experiences. Review their financial

package and check their history with the CMRAO.

The volunteer director who manages their small condo's finances should not be offended if the board asks to view the financial records every month. Set aside personal friendships and remember that the board is responsible for the community's finances as a whole. If something goes awry, the financial impact is significantly higher when fewer units share the burden.

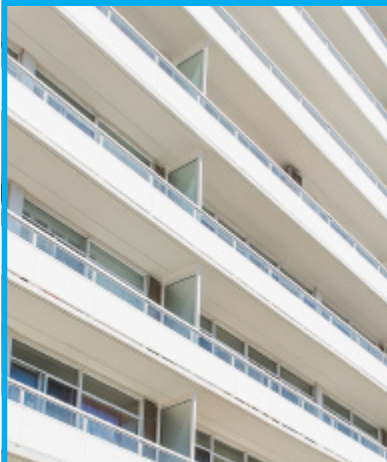
Finally, everything may seem to be running smoothly in your community until something goes wrong. Then all trust is lost, and the finger-pointing begins. Putting some processes in place to prevent a financial disaster is an inexpensive, diligent thing to do. ■

Maria Finoro, RCM, ACCI, FCCI, is the founder of MF Property Management Ltd., a reputable, ACMO 2000 Certified company which has been serving the Wellington/Waterloo region for 28 years. She is currently Past President of the CCI-Grand River Chapter and serves on the Communications and Conference committees.
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