

**Don't leave
too much of
either to your
managing agent**

Finances

CONTROL AND DESTINY

By **STEPHEN WILLIAM BEER**

When you hire a contract management company to handle your building's day-to-day operations, expect to take the good with the bad: The good: having an independent entity controlling finances, collecting maintenance charges, and paying bills will protect the board from any question of impropriety concerning distribution of operating funds. The bad: relying too heavily on the managing agent can leave you open to serious financial trouble.

Boards tend to assume that all managing agents have similar internal accounting controls. That is far from the case. There are many ways managers can control your money, and each carries its own set of issues and warning signs.

1. Operating accounts. Watch out for comminglers — firms that have one account for all their clients. First, funds maintained in this way become an unsecured liability of the managing agent. If problems develop, the board may have to sue the agent to recover them. Second, the board must be confident that the manager will not use the money of one client to pay the bills of another. Third, the building's accountant will have difficulty confirming the balance of the cooperative's portion of the commingled cash account. This information usually cannot be obtained from independent sources, especially if the managing agent is affiliated with the sponsor.

Commingling is most likely to be a threat right after co-op conversion. A sponsor-affiliated managing agent, for example, deposited all of its clients'

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accounts into one fund. Board members at each of the co-ops received monthly ledgers indicating the buildings' balance and maintenance paid by the resident shareholders and the sponsor — who appeared to be current. But his payments were simply bookkeeping entries; no cash changed hands. The boards had no way of knowing that the sponsor was running a deficit — until they changed managing agents and found no money to back up their monthly ledgers.

Demand that your operating fund be held in a separate account maintained solely for your building. A trusted board member should be a co-signatory on the account. In the event that problems develop between the board and the agent, the building will have access.

2. Expenses. At one co-op, a new agent who was not familiar with the building approved a large invoice that was not to be paid until substantial additional work was completed. Having received his money, the vendor refused to return to the building to complete the job and it was necessary to pay another contractor to do the additional work.

To avoid this, the treasurer should be sure to get copies of the building's monthly statement, any large non-recurring bills that have been paid, and large accounts-payable items. Set a limit for non-recurring expenses; any invoices exceeding this amount should require officer approval before they are paid. In addition, require all vendors to include the corporation's name and address on invoices. This will mean they don't use your money to pay other co-ops' bills.

3. Reserve funds. Maintain control over your reserves. Several board members should have signatory authority over the account and at least two signatures should be required on each check. In addition, the monthly account statements should be mailed to a board member who does not have signatory

authority over the account.

Leaving control in one person's hands spells trouble. One building, for instance, gave its treasurer sole authority to write checks from the reserve fund and made him the only one who received the monthly bank statements. At first, he made himself a small loan, just for a few weeks. As his business began to fail, the loans grew and grew. Finally, he declared bankruptcy just days before the auditors were to review reserve-fund transactions.

4. Escrow money. If a deposit to a real estate escrow account is included in your building's mortgage payment — especially if it is a wraparound mortgage — periodically request a copy of the escrow account activity analysis. This will allow you to verify that all payments were received.

Not doing this can lead to ruin. The board at one building made timely payments on its mortgage and water/sewer charges to a wraparound mortgage holder. The holder, however, told the bank that the building was only paying part of its debt, and gave that percentage to the lender. The board didn't know about this until it was three months in arrears and the bank threatened to foreclose.

5. Arrears. Generally, building managers have little time to enforce collection of maintenance charges, late-payment fees, and repair costs attributable to tenant-shareholders. In many cases, a vast majority of the maintenance is due from one or two shareholders. To keep arrears under control, the board must periodically review their status.

Relying too heavily on managing agents and their internal accounting procedures can lead to trouble — the board is usually blamed for financial glitches, and new directors can quickly find themselves facing problems created by their predecessors. And that's no way to run a building. ■