



PROTECTING ASSOCIATION FUNDS

The Financial Controls Every Board Should Expect From Its Management Company

A practical guide to reducing fraud, unauthorized payments, vendor risk, and financial loss.

A stronger standard for financial stewardship

Association funds should not be protected by trust alone. They should be protected by systems that make unauthorized movement of money difficult, visible, and accountable.

Because Communities Deserve Better!

Community Association Management, Limited

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The Question Is Not Whether You Trust Someone

Most financial fraud does not begin with a Board deciding to take an unreasonable risk. It begins with a process that allows too much access, too little verification, or too much authority to rest with one person.

For an HOA, condominium association, or POA, the consequences can be immediate. Missing operating funds can interrupt services. Missing reserves can delay capital projects. Fraudulent payments can take time to recover, and insurance may not make the association whole.

The most effective fraud-prevention strategy is therefore not simply to hire trustworthy people. It is to build a financial system in which no single employee, vendor, email account, or payment instruction can easily move association funds without appropriate controls.

The standard

Every way money can enter or leave an association account should have a defined control around it.

What This Guide Covers

- Bank-account ownership, Positive Pay, and ACH debit blocking
- How electronic vendor payments differ from vendor-initiated withdrawals
- Invoice approval, segregation of duties, and payment processing
- Vendor verification and insurance requirements
- Lockbox, online payments, remote deposit capture, and cash-handling risk
- Debit cards, credit cards, and one-time-use virtual cards
- Daily bank reconciliation, Board reporting, and financial transparency
- Cybersecurity, business email compromise, and payment-change verification
- Banking incentives and the questions Boards should ask about deposit-based compensation

A Board Member's Role

Board members have a fiduciary responsibility to protect association assets. That does not mean a volunteer Board must become a bank operations department. It does mean the Board should understand the controls surrounding its money, know who can move funds, and ask enough questions to identify unnecessary risk.

The right question is not simply, "Who handles our accounting?" The better question is, "What prevents one person, one compromised email account, or one fraudulent vendor instruction from moving our money?"

1. Start With the Bank Account

Association funds should be held in accounts titled in the association's legal name and tax identification number. Client funds should never be commingled with the management company's operating funds or with the funds of another association.

Community requires associations to use its designated banking platform because the banking environment is deeply integrated with the financial systems and controls used to administer association funds. That integration supports Positive Pay, daily bank reconciliation, remote deposit capture, lockbox processing, electronic payments, check imaging, funds transfers, and other treasury services.

Why a required bank can be a control - not a limitation

The question is why the management company requires a particular bank. A required banking environment can strengthen controls when it exists to support integrated fraud prevention, reconciliation, and treasury services. It should not exist simply to generate undisclosed compensation for the management company.

Positive Pay

Positive Pay is a bank fraud-control service that compares checks presented for payment against payment information previously transmitted to the bank. Transactions that do not match expected payment information can be flagged for review before funds are released.

Community uses Positive Pay on every association bank account within its required banking environment.

ACH Debit Blocking

ACH is a two-way payment network. That distinction is important.

An association can send money electronically to a vendor through ACH - similar to a direct deposit into the vendor's bank account - without giving the vendor permission to withdraw money from the association's account.

Community permits controlled outbound ACH payments that are initiated through the approved payment process. Community does not authorize utility companies, insurers, vendors, or other third parties to directly debit association bank accounts. ACH debit controls help prevent a third party from pulling money directly from an association account outside the normal approval process.

Push, do not pull

A vendor can receive an electronic direct-deposit-style payment without ever being given authority to withdraw money from the association's bank account.

2. How an Invoice Becomes a Payment

Fraud prevention is strongest when no single person controls the entire payment cycle. Community uses a multi-step process designed to separate review, approval, processing, and reconciliation responsibilities.

Step	Control	What Happens
1	Invoice entered	The invoice is received and entered into the system.
2	Invoice cross-checked	Invoice information is reviewed for accuracy and supporting information.
3	CM review and approval	The Community Manager electronically reviews and approves the invoice.
4	Additional approvals	Additional approval levels apply based on invoice amount and authority.

Step	Control	What Happens
5	Accounting payment	Accounting processes the authorized payment through ACH/direct deposit, a one-time-use virtual card, or check.
6	Independent reconciliation	Bank reconciliation is performed by personnel segregated from payment processing.

Why multiple approvals matter

Approval thresholds reduce the risk that a single person can authorize a material expenditure without additional review. They also create a documented authorization trail when questions arise later.

Segregation of duties

The employee who processes a payment should not be the same person responsible for independently reconciling the bank account. Segregating those responsibilities increases the likelihood that errors or unauthorized activity will be identified quickly.

3. Vendor Controls: Verify Who You Are Paying

Strong payment controls can still fail if the wrong vendor is approved or legitimate vendor banking instructions are fraudulently changed. Vendor management therefore belongs inside the fraud-prevention system - not outside it.

Community uses a dedicated Vendor Manager to administer vendor approval requirements. Changes to vendor banking information are independently verified before payment instructions are updated. Email alone is not treated as sufficient proof that payment information has changed.

A question every Board should ask

If someone emails your management company tomorrow claiming that a vendor changed banks, what prevents that email from redirecting your association's money?

Vendor Insurance Is Also a Financial Control

Protecting association funds is not limited to preventing theft. A contractor that is uninsured or underinsured can transfer significant financial risk back to the association if an accident, injury, vehicle incident, or professional error occurs.

Community requires vendors to meet established insurance standards appropriate to the work being performed. These requirements are designed around risk transfer: the goal is to ensure that a vendor has enough of the right insurance to keep a vendor-caused incident from becoming the association's financial problem.

Coverage	Minimum Standard	When Required
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Coverage	Minimum Standard	When Required
Commercial General Liability	\$1 million each occurrence / \$2 million aggregate	All non-institutional vendors
Automobile Liability	\$1 million each occurrence, or \$300,000 with umbrella coverage	Vendors using automobiles on association property
Workers' Compensation	Statutory limits	As required by law
Professional Liability	\$1 million per claim	Professional services, including architects, engineers, consultants, and testing services

If a Board elects to use a vendor that does not meet Community's minimum insurance requirements, the Board is required to sign a written waiver acknowledging the additional risk on behalf of the association.

4. Protect Incoming Association Funds

Fraud controls should protect money coming into the association just as carefully as money going out.

- Owner payments can be processed through bank lockbox and integrated online payment services.
- Payments received in a Community office are remotely scanned and deposited the same day through remote deposit capture.
- Community does not accept cash payments.
- Reducing physical custody of checks and cash reduces opportunities for loss, misdirection, or delay.

5. Debit Cards, Credit Cards, and Virtual Cards

Convenience can bypass controls. A standing card can allow money to be spent outside the normal invoice, approval, vendor, and payment workflow. Boards should understand the difference between card types and how exposure is limited.

Debit cards

Community generally discourages association debit cards. When an extenuating circumstance makes one necessary, the card is not tied directly to the association's primary operating account. Instead, a separate bank account is established specifically for the debit card.

That account is typically funded with \$1,000 or less, and the card also has a daily transaction limit. The combination of a separate account, limited available funds, and a daily card limit reduces the association's exposure if the card is lost, stolen, or compromised. Because the debit card still operates outside the normal accounts-payable workflow, the Board must sign a waiver acknowledging the exception and associated risk.

Traditional association credit cards

Community also discourages standing association credit cards. These accounts are often opened using a Board member's personal identifying information or Social Security number. When that director leaves office or moves from the community, the association may face difficulty administering, transferring, or closing the account.

One-time-use virtual cards

A one-time-use virtual card is different. It is generated as part of the approved accounts-payable process for a specific vendor payment. It does not create ongoing discretionary spending authority and can be used as a controlled payment method after the invoice has already completed the required approval process.

6. Reconcile Early. Report Clearly.

The longer unauthorized activity remains undetected, the greater the potential loss. Timely reconciliation and transparent reporting therefore serve as both accounting functions and fraud controls.

Community's integrated banking environment supports daily bank reconciliation. Board financial packets include bank statements and reconciliation summaries so directors can review the association's financial position and bank activity. Boards that want direct real-time visibility may elect an additional bank-access service for a monthly fee.

What a Board should expect to see regularly

- Balance sheet
- Income statement / budget-to-actual report
- Accounts receivable aging
- Accounts payable information
- Transaction or check register
- Bank statements
- Bank reconciliation summary

Do not ignore unexplained differences

A reconciliation is not simply a document to file. Unexplained differences, unusual payees, unexpected transfers, duplicate payments, or material budget variances deserve timely investigation.

7. Ask Who Benefits From Your Deposits

Banking arrangements in the community-association industry vary. Some management companies may receive deposit credits, earnings credits, rebates, revenue-sharing payments, or other compensation tied to the amount of client money held at a particular bank.

That does not automatically tell a Board whether the banking arrangement is appropriate. It does create a potential conflict of interest that should be understood and disclosed. Boards should know whether the management company receives compensation because the association keeps funds at a preferred bank and whether that arrangement affects the association's rates, fees, or banking choices.

Community's position

Community does not receive deposit-based rebates, earnings credits, or monthly payments based on association account balances. Community requires its designated banking platform because the integration supports stronger financial controls, daily reconciliation, and treasury services.

The association's operating account does not earn interest, as disclosed in the management agreement. Boards should still evaluate where reserve and other eligible funds are held and whether those funds are receiving appropriate rates consistent with the association's liquidity and investment needs.

8. Cybersecurity Is a Financial Control

A fraudulent payment no longer requires someone to steal a checkbook. A compromised email account, fake vendor request, stolen login, or convincing phishing message can be enough to redirect money if the payment process relies on email alone.

Controls Boards should expect

- Multi-factor authentication for financial and administrative systems where supported
- Role-based access so employees receive only the permissions needed for their jobs
- Independent verification of vendor banking changes using known contact information
- No reliance on an email message alone to change payment instructions
- Prompt removal of financial-system access when an employee or Board member leaves
- Documented procedures for suspected account compromise or fraudulent payment activity
- Secure data backup and recovery practices appropriate to the systems being used

The goal is not to eliminate technology. The goal is to prevent technology from becoming a shortcut around financial controls.

9. Insurance Is the Backstop - Not the Control

Crime, fidelity, cyber, and other insurance can be an important part of an association's risk-management program. Insurance, however, responds after a covered loss. It should never substitute for controls designed to prevent unauthorized payments or detect them quickly.

Boards should periodically review coverage with an insurance professional familiar with community associations and consider whether policy limits, covered parties, cyber protections, and crime/fidelity coverage remain appropriate as association balances and exposures change.

Independent financial review

Independent CPA services can provide another layer of oversight. The level and frequency of audit, review, compilation, or other financial examination should be determined based on applicable requirements, the association's governing documents, size, complexity, and the Board's risk tolerance.

10. Questions Every Board Should Ask a Management Company

1. Are all association bank accounts titled in the association's legal name and tax identification number?
2. Are association funds ever commingled with management-company or other client funds?
3. Is Positive Pay enabled on every checking account?
4. Can vendors, utility companies, insurers, or other third parties directly debit the association's bank account?

5. When you pay a vendor by ACH, is the payment pushed to the vendor like a direct deposit, or is the vendor authorized to pull money from our account?
6. Who can create a vendor, and how are changes to vendor banking information independently verified?
7. What insurance must a vendor carry before being approved to work for the association?
8. Can the same employee approve a payment, process the payment, and reconcile the bank account?
9. What additional approvals are required as invoice amounts increase?
10. Does anyone carry a debit card or standing credit card that can bypass the normal invoice approval process?
11. If a debit card is necessary, is it isolated in a separate account with limited funds and transaction limits?
12. How quickly are bank accounts reconciled, and what bank information is included in the Board's financial packet?
13. What happens if an employee email account is compromised or a vendor asks to change banking instructions?
14. Does the management company receive deposit credits, rebates, earnings credits, revenue sharing, or other compensation based on association balances?
15. If the management company requires a particular bank, what operational or financial-control purpose does that requirement serve?

One final question

If you cannot explain how money gets into the association's account, who can move it, how that movement is approved, and how it is independently verified, you do not yet understand the association's financial-control environment.

How Community Protects Association Funds

Community Association Management, Limited is an AAMC-accredited, privately owned community-association management company serving North and South Carolina. For approximately 20 years, Community has built its financial operations around clear controls, defined accountability, and systems designed to reduce unnecessary risk.

Our financial-control framework includes

- Association-owned bank accounts maintained in each association's legal name and tax identification number
- Positive Pay on every association bank account within our banking environment
- ACH debit controls that prevent vendors and other third parties from directly pulling association funds
- Controlled outbound ACH/direct-deposit payments, one-time-use virtual cards, and checks
- Electronic CM approval with additional approval levels based on invoice amount
- Segregated payment-processing and bank-reconciliation responsibilities
- Dedicated vendor management, including independent verification of banking changes
- Established vendor insurance requirements and written Board waivers for exceptions
- Daily bank reconciliation supported by integrated banking and treasury services
- Lockbox, online payments, remote deposit capture, and no cash acceptance
- A controlled exception process for debit cards, including a separate low-balance account, daily card limits, and a Board waiver

- No deposit-based rebates, earnings credits, or monthly payments to Community based on association account balances

A Better Question for Your Next Management Proposal

Price matters. Service matters. Technology matters. But before a Board turns over responsibility for millions of dollars in operating and reserve funds, it should understand the financial-control architecture behind the proposal.

Ask us to show you the controls

If your association is evaluating management companies, Community will walk your Board through how funds are received, approved, paid, reconciled, reported, and protected - before you sign a management agreement.

Ready to evaluate your association's financial controls?

Visit communityassociationmanagement.com to learn more or request a management proposal.

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Educational Notice: This white paper is intended for general educational and risk-management discussion. It is not legal, tax, investment, insurance, or accounting advice. Association requirements may vary by governing documents, insurance policies, banking arrangements, and applicable law.