

Principal Press

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HOA GOVERNANCE: MAKING THE OUTSIDE – MANAGED VS. SELF-MANAGED DECISION

By Linda A. Bartel, Sr. Vice President, PCAM®

The number one reason homeowner associations self manage is they think they are saving money. However, this myopic attitude often leads to higher costs, avoidable problems and unnecessary headaches over time. Although an association may save money in management fees, the benefits provided by a professional management company can outweigh the cost of monthly fees. All too often, we find a consistent pattern of problems with self-managed properties in the following areas:

1. Financial/Bookkeeping/Reserves
2. Maintenance/Administrative
3. Governance/Legal

Financial/Bookkeeping/Reserves: Financial recording and reporting is a large responsibility for an association. It is not as simple as collecting dues and paying the bills.

Association funds need to be segregated. Persons charged with the custody of funds may not commingle them with funds which do not belong to the association. Reserve funds must be kept in a separate account. Without the proper education and training, it is easy for the association to find themselves in a situation where they are not following state law and may place the association in a position to be sued for mismanagement.

The reserve fund for future repair or replacement for common elements is another area where self manage boards might struggle. It is very easy to fall into the trap of thinking that putting money away each month for reserves raises the dues. Some boards feel that future owners can pay for a component when it needs to be replaced.

A professional reserve study will also reduce claims of financial mismanagement because the Board sought out the advice of independent reserve study experts. Demonstrating sound fiscal management to the owners with a professional reserve study will provide the owners with a high comfort level that their property investment is being well managed.

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Maintenance/Administrative: A high percentage of self-managed properties do not have a maintenance plan for the operating maintenance and a reserve study for future projects. This often leads to deferred maintenance. Deferred maintenance often leads to more expensive maintenance over time. Some actual examples I've experienced are extending the recommended maintenance cycles such as painting the buildings every 12 years vs. the recommended 7 years, never top coating the decks to keep them waterproofed and not sealing the asphalt on a regular cycle.

I have also found in addition to deferred maintenance often the maintenance that is done is completed by incompetent contractors. I have seen this happen on flat roofs that don't last more than 5 years because the work was done so poorly that the leaking resurfaces again. If the Board would have sought outside help to put together the specifications and monitor the work, the cost of the owners would be far less than dealing with leaky roofs, interior repairs and eventually replacing the roofs again. Self-managed associations typically do not have an extensive vendor list they can rely on for competent, honest and competitive contractors.

Not all problems relate to maintenance and money. Often self-managed properties require a few key individuals to step forward to deal with the day to day administrative business. Who do the owners call to report a problem? Who handles emergencies during the day and in the middle of the night? Who fills out lender forms and responds to escrow payoff figures? Do they outsource the bookkeeping or keep it in house? These are the same people that usually end up enforcing the house rules and get ugly stares and a

cold shoulder from the violators. What happens if these people move or stop doing these things, who steps in to do it?

Governance/Legal: This section covers potential legal pitfalls and the following sentence should keep the reader's attention: an association board or individual board member may be held legally liable for failure to follow Texas statutes or to act in good faith based upon a reasonable basis. Self-managed homeowner association board members often do not have the background, training or experience to recognize potential legal hazards; nevertheless, to act in strict compliance with specific statutes or general laws. All too often, an association board may act in good faith, but in contravention of one or more laws or standards. Unfortunately, determination of whether action or omission was reasonable is sometimes left for a jury to decide.

An example of self-managed association pitfalls include imposing improper limitations on satellite TV dishes (in violation of the Federal Telecommunication Act), denial of certain rental leases (in violation of the Fair Housing Act); failure to respond properly to homeowner disputes (in violation of ordinary and reasonable care.)

Another serious pitfall for self-managed associations to consider is the substantial changes to the law governing homeowner associations passed in the 2011 Legislative Session. Several changes were effective on September 1st with the majority of the changes to become effective on January 1st.

In closing: In order to avoid unnecessary risks, an association board may wish to explore the ordinary and reasonable step of hiring an experienced association management company to help guide them through the sometimes precarious, yet always eventful, experience of community association governance and management.



AssociaLiving.com

AssociaLiving is a fun and insightful online magazine created specifically for our Associa communities and homeowners.

A resource of useful and inspiring information for residents and community associations across North America, AssociaLiving includes relevant stories about Entertaining, Home, Practical Living and Community, each geared toward enriching our homes and building stronger community associations.

Sign up for AssociaLiving (www.associaliving.com) to get great recipes for fall or to discover activities for the whole neighborhood. Keep reading to be inspired with holiday decorating ideas or to learn the ins-and-outs of weatherproofing your home. AssociaLiving has something for everyone in your family and community.

For those everyday clever ideas, visit AssociaLiving's *NeighborlyNotes* blog. *NeighborlyNotes* provides quick and savvy ideas to help make your home a happier, healthier and more efficient place to live. Blogger Carol, like many of our homeowners, juggles a life comprised of many

roles: spouse, parent, child and working professional, to name just a few. She has hectic days like everyone else, but no matter where they are spent, she ends them all at the same place: home. The editors of AssociaLiving hope the helpful tips and tricks about everything from organizing things around the home to entertaining with a twist will help make your days run a little smoother.

Celebrate the best of community living. Visit www.associaliving.com and sign up to get the latest ideas in Home, Community, Entertainment and Practical Living.



Tips for the Board FACING RECALL



We asked our attorneys to develop a list of practical tips for boards who are facing a recall vote. This list is not intended to cover the “legalities” of a recall meeting as much as it is to offer worthwhile and practical suggestions for a smooth running meeting and vote.

- Have legal counsel review your governing documents prior to calling a special meeting to make sure owners have properly petitioned for the recall meeting and it is called in accordance with the document requirements.
- Review the recall petition carefully. Determine whether the entire board is being recalled or only certain board members. The Notice of Meeting should be very clear as to whom is being recalled as well as the specific purpose of the meeting.
- When calling the meeting, be very specific regarding the use and form of proxies including whether faxed or emailed proxies are acceptable, and which one takes precedent if multiple proxies are received.
- Consider meeting with the “other side” prior to the recall meeting to discuss who will chair the meeting, the agenda and order, the process, format of the ballots, proxies, etc.
- If the entire board is being recalled determine whether to list each name separately or simply state “board of directors” on the ballot. This is often a tactical decision determined by an assessment of who may or may not be recalled. Whichever route you choose have counsel review and approve the ballot.
- Allow at least an hour for check-in and counting proxies and have a system in place for conducting the check-in and proxy verification process.
- Have rules of conduct in place, including time limits on speaking. And bring a timer.
- Do not attempt to prevent disgruntled owners from speaking. It may be a good idea to let them speak first to allow the board to respond to owner complaints and concerns.
- Focus on facts and not opinions or personalities when responding to allegations and complaints. Consider bringing documentation to support your position.
- Have a fair and impartial system in place ahead of time for counting votes and allow observers from each side to witness the count.
- Accept the results of the vote. The members have spoken. Make peace with the opposition and be the leader you are. You never know when you might be serving on the board again.

Have a plan in place if the meeting gets out of control or there is a breach of the peace.

Employee Profile



Heather Tyree

HEATHER TYREE joined Principal Management Group this past July 2011. She came to us with a background in the home builder industry, which included but not limited to, accounting, permit department and great customer service. Heather is an Accounting Clerk in our Resale Department.

Outside the office, Heather currently enjoys any type of resting time! However, before she can enjoy any resting time, Heather makes time to take night classes to achieve her goal of becoming a Civil Engineer. In addition, Heather is mother to a 14-month old son, Andre, who entertains her when she is not working or at school. If there is any spare time left, Heather enjoys activities such as drawing, golf and frisbee golf.



AVOIDING DISPUTES WITH NEIGHBORS

By Surina Wright, CMCA®, AMS®, Director of Management Services

We can all get along. The key is *communication*. It's often the best way to prevent and resolve conflict. Having worked in the community association management industry for the past 31 years, we have been asked to mediate more than a few homeowner association (HOA) neighbor to neighbor disputes. It is important to remember the management company is not in a position to resolve these kinds of disputes outside of the bounds of consistent enforcement of association rules.

You don't have to be acquaintances or spend time with your neighbors to attain a peaceful coexistence. However, you should try to be a good neighbor and follow the helpful tips below:

Say hello. While walking the dog, at the mailbox, or when you see a moving van arrive, introduce yourself. Learn your neighbors' and other homeowners' names and repeatedly offer a pleasant hello.

Do unto others. It's an old saying but very true, treat neighbors as you would like to be treated. Be considerate about noise from vehicles, stereos, pets, etc. Pets are a common concern we hear from neighbors.

Know your differences. Make an effort to understand and appreciate each other. Differences in age, ethnic background and years in the neighborhood can lead to different expectations or misunderstandings.

Observe the view. Keep areas of your property that others can see presentable. Don't let your grass get out of control and keep the area free of litter.



Provide a heads up. If you're planning a construction project, altering your landscaping or hosting a big party, contact your neighbors beforehand. In the case of major construction or landscaping projects this is helpful in addition to completion of any established association approval process. Applications for approval may even request that neighbors sign an awareness acknowledgement.

Talk honestly. Tolerance is important. Don't let a real irritation go because it seems unimportant or hard to discuss. Let your neighbors know if something they do bothers you.

Appreciate them. If the neighbors do something you like, let them know. They'll be pleased you noticed, and it'll be easier to talk later if they do something you don't like. Telling a neighbor how nice their lawn or garden looks is a great way to say hello.

Stay positive. Most people don't try to create problems. If a neighbor does something that irritates you, don't assume it was deliberate.

Listen carefully. When discussing a problem, try to understand your neighbor's point of view and why he or she feels that way.

Remain calm. If a neighbor mentions a problem they have with you, thank them for the input. You don't have to agree or justify any behavior. Wait for any anger to diminish before responding.

Be respectful. Talk directly to your neighbors if there's a problem. Gossiping with others can damage relationships and create trouble.

Management Company Internal Control Best Practices

Fraud is a huge global problem estimated at \$2.9 trillion dollars. The current economic environment has resulted in increased fraud. Fraud schemes vary greatly from simple check fraud to sophisticated cyber crimes.

Although fraud cannot be prevented, strong internal controls reduce fraud risk. The following are some of the more significant components of a management company internal control environment.

Strong 'Tone at the Top'

The most important internal control is strong 'Tone at the Top' which is essentially the CEO's commitment to the highest possible standards of ethical, moral and legal business conduct as consistently demonstrated to employees, vendors, and customers in words and deeds.

Organizational Structure Is Clearly Defined & Understood

The organizational chart clearly defines responsibilities and reporting relationships to promote management oversight and communication.

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Positive Work Environment

The management company has a positive and motivating work environment. Happy employees are less likely to participate in or tolerate destructive behavior.

Fraud Tip Hotline



An anonymous fraud tip hotline to communicate any fraudulent or improper activity is in place. All employees, vendors, and customer are aware of the fraud tip hotline program by visible display of posters.

Employees, vendors, and customers understand that the fraud tip hotline program provides an anonymous communication channel to raise concerns and reassurance that they will be protected from reprisals or victimization for whistle blowing in good faith.

Honest Ethical Employees

A fraud resistant management company only hires honest and ethical employees who have been properly screened. Proper screening includes an employment application, past employment and education verification, drug screening, national criminal background checks, reference checks, industry referrals, and credit reports.

No Conflicts of Interest & Related Parties Do Not Report To Each Other

No actual or perceived conflicts of interest exist such as employees, spouses, or children of employees performing contract work for the Management Company or clients. Should a potential conflict of interest exist, it has been fully disclosed to the client in writing.

Should a related party be hired, related employees do not directly report to each other nor do they solely approve a related party's transactions such as invoices, timecards, work-orders, bids, etc. All related party hires are approved by the headquarters CEO or SVP HR in writing.

Robust Physical Security

Management Company facilities and employees are protected by a combination of physical access controls such as locked doors, unique alarm codes, cardkey system, and camera systems depending on the local security risk.



The minimum level of physical access security is a non-duplicable key. A Key and Alarm Code Control Log are maintained of all individuals with security access including date of last lock change. The issuance of all keys is strictly enforced at all times.

Keys are immediately retrieved from terminated employees and access codes are immediately deactivated upon employee termination.

Strong Computer / Electronic Data Security

Electronic access to all computer systems utilized by the management company (online accounts including banks, office supplies, etc.) is assigned to employees with a valid need to perform their job duties including backup roles.

All third party systems have been certified for minimum security standards by the headquarters IT Department.

User IDs and passwords are unique to each individual, are protected (no sharing, public posting) at all times, are changed at least every 60 days and include at least eight characters. Passwords are not known by anyone other than the user, including IT, employee's supervisor, or even the management company CEO.

Employees understand that sharing passwords is never acceptable. Knowledge of an employee's password is not an effective management tool.

Strong Physical Data Security

Sensitive and confidential data/documents are safeguarded at all times, and shredded when no longer needed. This includes SSN, DOB, credit card #, bank account #, bank routing #, signatures, etc.



Outgoing Wire & ACH Performed By Two Employees Including the CEO

Outgoing (transfers to any party other than client and branch) wire and ACH transfers require two employees to perform. The CEO approves the transaction. However, the Client Controller/CFO perform the outgoing wire and ACH approval during the CEO's absence. The CEO immediately approves upon return.

Payment Receipts Are Safeguarded

Payments received are endorsed or logged by an administrative employee or receptionist prior to delivering to the A/R department for processing. If the payment receipts log is used, the log should be immediately compared to the validated bank deposit slip by a management employee independent of payment receipt and posting.

After the payments are endorsed or logged and delivered to the A/R department, the accountant posts the payments, prints the deposit tickets, and prepares the bank deposit.

Employees with the ability to post payments or credits into the accounting records do not have physical access to un-endorsed or unlogged payments.

Refunds/Credits Are Approved By Management

Management approves all credits or refund requests after reviewing the written documentation supporting the credit request.

Written Policies & Procedures

Policies and procedures including major internal control responsibilities are documented, updated as necessary and communicated to all employees.

Desk audits are performed at least quarterly by the management company. The results are documented to promote compliance with standards.

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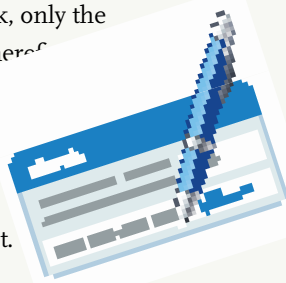
(Management Company Internal Control Best Practices)

Segregation of Duties Is Adequate

Major internal controls are segregated to reduce fraud risk. Specifically, no single individual is able to perform all aspects of a transaction. Related parties collectively do not perform all aspects of a transaction. Therefore, the following major internal control responsibilities are segregated:

A/P Vendor Maintenance

- A/P vendor maintenance controls the address where the check is mailed. Accounting systems typically do not maintain a historical record of the address of the actual check, only the current A/P Vendor Master address. Therefore, vendor maintenance is performed by who cannot approve invoices for payment, enter invoices into the accounting records, create checks, sign checks, and does not reconcile the bank account.



Invoices Approval

- Invoices are approved (signed) by management prior to payment. An authorized invoice approver and check signer do not sign an invoice and the related check. However, in an emergency situation, the same individual can sign an invoice and the related check, but the invoice is co-signed as soon as possible by an authorized invoice approver upon their return.

Invoice Data Entry

- The A/P accountant posts invoices into the accounting system upon receipt of a properly approved (signed) invoice.

Check Mailing

- Individuals who are involved in the purchase-to-pay process (invoice approval, invoice data entry, etc.) do not have physical access to the signed check. Signed checks are given to an independent employee for mailing.

Bank Reconciliation Preparation

- The bank reconciliation preparer directly receives the bank statements, reviews the bank statements, posts interest and completes the bank reconciliation. All reconciling amounts are adequately noted, explained, and are resolved within 30 days of the bank statement cut-off date. The preparer signs and dates the reconciliation when complete.

Bank Reconciliation Review

- The bank reconciliation reviewer reviews the reconciliation to ensure accurate and timely completion. The reviewer signs and dates the reconciliation when the review is completed.

Physical Components of Check Creation Are Safeguarded

Signature stamps, signature plates, check printers, and check stock (even if blank) are locked when not in use and are only accessible to authorized employees.

Positive Pay Is Utilized

Positive Pay (electronic file of valid checks provided to bank) is utilized to significantly reduce check fraud risk.

Management Oversight

Key accounting processes such as A/P check runs, A/R deposits, and financial close occur on a fixed schedule. Exceptions to the schedule are approved in writing by the CEO or Controller/CFO.

A financial close checklist is utilized to ensure that required tasks are performed. The monthly checklist is signed and dated by the Controller.

Management closely reviews the financial packages prior to distribution to clients. The financial packages include the Income Statement, Balance Sheet, Check Disbursement Report/Check Register and Bank Reconciliations for all bank accounts.

To prevent the concealment of fraud by the Community Manager by omission or manipulation of incriminating pages of the financial reports, at least one complete set of the financial reports in a PDF format is provided directly from accounting to at least one board member.

Conclusion

Although fraud cannot be prevented, strong internal controls reduce fraud risk. The foundation of the management company's internal control environment is, 'Tone at the Top' as previously discussed at the beginning of this article.

Without adequate, 'Tone at the Top', the effectiveness of all the other internal controls is greatly diminished.



PMG Houston Maintenance Department

On-Call for Your Association Holiday Decor!

The holiday season is quickly approaching and therefore, our maintenance crew has already begun to spruce up and add new holiday wreaths to their inventory in order to be ready to assist you by showing the holiday spirit to all who visit your community.

Each year, community associations seem to be more interested in decorating their community entrances and exterior gates/fencing with holiday wreaths; we believe the increase in this interest seen over the past few years has much to do with residents being so busy making plans with family and friends, buying gifts and entertaining their kids on their holiday break that exterior décor seems less important than in years past.

Beginning shortly after Thanksgiving, PMG Maintenance Staff will be available to assist you in displaying the holiday spirit for your community. The staff will not only install the décor, after the holidays they will remove it and store it until next year. If you are interested in seeing pictures of various available wreath décor, please contact your community manager today.



Do you keep your temper in check?

By Vicki Ward, CEO, PCAM®

Keeping your temper in check is not just essential; it's the mark of a professional.

We have to remember when two or more people work together, disagreements are an ever-present part of the landscape. There are plenty of ways to become unhappy about a situation without becoming unpleasant and using hurtful words.

Consider these few ideas:

- Figure out what you are really angry about. Are you upset at the current situation, or is your discontent a carryover from previous events?
- Count to ten – maybe 20 or 30 if necessary – before reacting. Remember, once you speak it, it's next to impossible to take back those angry and hurtful words. Such action rarely accomplishes a positive outcome and most often scars a relationship for years to come.
- Give the other side a break even if you think they're wrong. You may discover

there are other unrelated factors guiding the discussion or issue at hand. Diffusing the tension can lead to a better resolution or simply address your concerns in a reasonable, respectful and professional manner.

- Excuse yourself for a few minutes if possible. Walking away from a volatile situation gives you a chance to collect yourself and measure your reaction before you become the one everyone remembers; but not for the right reasons.
- Take care of your health. Studies have shown people who eat properly, exercise and get enough sleep are better equipped to handle stressful situations.
- Share your concerns calmly. Remember, it takes two to tango, but things slow down if one of them does a waltz instead.
- Choose your battles according to how important the outcome would be. Never fight a battle just so you can say you won.

You won't be perceived as a winner, you'll be labeled a bully.

- Accept some things are just beyond your control. One must realize they cannot have their way in everything in life.
- A successful business and/or personal relationship are built upon a foundation of trust, respect and communication and, of course, education. Good relationships take a lot of work and time that can be quickly destroyed when you allow your temper to control your actions.



ASSOCIA SUPPORTS KIDS IN YOUR NEIGHBORHOOD

In February, Associa launched nationally the Associa Supports Kids (ASK) program in communities across the U.S. The program is Associa's way to show its support for the health and safety of our children in and around the home. "Thousands of children live and play in Associa-managed communities, and we have an opportunity to make a difference," said John Carona, President and CEO of Associa. "Through the Associa Supports Kids program, we are helping protect our kids and helping them grow into well-rounded people."

Safety: One focus of ASK is to educate parents and kids about safety through our brochure and on the ASK website: www.associasupportskids.org, which features fun downloadable tips and facts for kids, and a variety of Safety Tips and Statistics for parents and grandparents. At neighborhood events, Scout, our lovable golden retriever mascot, hands out Safety Tip Coloring books and plush Scout toys to each child in attendance. Parents receive an Associa Supports Kids safety

brochure and a ChildPrint identification kit for each of their children.

Sports and Fitness Sponsorships: ASK is also focused on keeping kids strong and healthy by promoting physical activity. Studies show that the average American child spends more than seven and a half hours a day watching TV or movies, or using phones or video games. Scout wants to lend a helping paw by assisting in kids passions to stay strong. To help, ASK offers a kids' health and fitness brochure that details how parents may request sponsorships for their children's team sports activities, up to \$250 annually, for teams associated with a community managed by an Associa company.

Safe and strong kids: Associa Supports Kids demonstrates Associa's firm commitment to safe communities and safe, healthy kids. Plus, the program makes a great addition to any Associa community looking to enhance a positive community experience for their residents. To find out more about Associa Supports Kids, visit our website at www.associasupportskids.org or contact your community manager.



Once again because of Associa's status as the premier management company in the world, we are able to offer our homeowners exclusive concierge type services at no cost, 24 hours a day, 7 days a week. As a resident within an Associa managed community, you will enjoy the exclusive amenity of Associerge. Associerge will allow you unparalleled services and benefits to such items as airline reservations, tee times, ground transportation as well as movie times, stock quotes and a host of other services and information. Homeowners may register online at www.pmgghouston.com or by phone at 800-560-9015.

