



*Simplified Self-Management*

## HOW-TO....

### **2C. MANAGEMENT TRANSITIONS: FROM PROFESSIONAL MANAGEMENT TO SELF-MANAGEMENT**

In this packet, you will find the following topics that are specific to this How-To process:

- A. Introduction
- B. AAI Sample Forms
- C. Step-By-Step Instructions
- D. Next Steps
- E. Resources

#### **A. INTRODUCTION**

Why would a Board choose to self-manage once professionally managed? There could be many reasons including, but not limited to, the following:

- a) Cost savings;
- b) Better owner communication;
- c) Poor service and/or insufficient guidance provided by Management;
- d) Board is doing most of the work already;
- e) Mistrust with financial management;
- f) Board exhausted options with management for resolution;
- g) Concerns that Management was not familiar with ICPA and condo requirements.

If these points sound familiar to your association, moving to self-management may be the best choice for your Board to make! If self-management is in your future, AAI's How-To process including step-by-step instructions will guide the Board through the many requirements to set up the protocols and organizational techniques to ensure success.

*NOTE: Self-managed boards may be held to the same accountability as a professionally managed association; therefore, it is important for boards to understand their roles and responsibilities in order to decrease any potential risks to the board and possible challenges to their decisions.*

#### **B. AAI FORMS LIST:**

Please review the List of Forms and Usage under the applicable category. Every Association is different; therefore, you should customize these forms to meet your Association's specific needs. Please note that there may be information in the Header & Footer sections that require your customization or deletion prior to distribution.

**Summary of Forms Needed for this "How-To" are: FORMS 2.MgmtTrans\_F1, 2, 3, 4, 6, 7 and 8**

### **C. STEP-BY-STEP INSTRUCTIONS**

**Refer to your Summary Sheet from the Training Session and/or read any applicable sections in your Association's Declaration/By-Laws before getting started.**

When taking over management from a professional management company to self-management, the following steps should be taken:

- 1) Review Management Contract:** Review the current management contract thoroughly to establish termination requirements.
- 2) Termination Review:** Follow all timing in contract to ensure termination can be activated within the Board's chosen timeframe. Obtain a legal or consulting opinion if unclear.
- 3) Terminate Contract:** Once termination date has been established, send notice to current management company with accurate notification details. The *Board Letter to Current Management Co. Stating Change* can be customized for self-management.

7	2.MgmtTrans_F7.doc	<i>Board Letter to Current Management Co. Stating Change</i>
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This letter should include the *Management Account Transition List* (see enclosed) detailing the required materials to be obtained from the existing management company for board review and use.

8	2.MgmtTrans_F8.doc	<i>Management Account Transition List</i>
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- 4) Obtain Short-Term Funds:** Request a check for a minimum of \$1,000 to be sent from the current operating account to the treasurer immediately, to establish a new bank account. This request can be added to the *Board Letter to Current Management Co. Stating Change* letter and it is recommended that you provide a deadline.

- 5) Owner Notification:** Notify owners of the Board's intent to self-manage by sending a letter *Board/Mgmt Letter to Owners Stating Change to Self-Management* to all owners of record, the list of which should be obtained from the Management Company.

1	2.MgmtTrans_F1.doc	<i>Board/Mgmt Letter to Owners Stating Change to Self-Management</i>
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In this letter, you should also provide direction to the owners as to where their upcoming assessments should go—whether to the treasurer, another board member or an outsourced financial service provider—and the effective date that change begins. (see *Category 4C—Budget & Financials*)

**6) Owner Information:** Include also in the *Board/Mgmt Letter to Owners Stating Change to Self-Management* the enclosed *Owner/Resident Form* to establish an accurate *Owner/Resident Roster* and to obtain all pertinent information for properly self-managing the property. When communicating with owners, always include a return date and specific location for owners to return forms, assessments, etc.

2	2.MgmtTrans_F2.doc	<i>Owner/Resident Form</i>
3	2.MgmtTrans_F3.doc	<i>Owner/Resident Roster</i>

Once the owners' information is received, complete an *Owner/Resident Roster* for all future contact/management protocols by filling in the specific details as outlined in the sample forms. This is a procedure that should be done every year to ensure that the association maintains accurate records by having all owners fill out and return the *Owner/Resident Form* annually—we recommend in January.

**7) Obtain Files:** Within 15 days before the turnover date established in the *Board Letter to Current Management Co. Stating Change*, contact the management company representative to determine the status of document files from *Management Account Transition List* provided.

**8) File Set-Up/Vendors:** Once files are received from the Management Company, review all materials comparing what is received to the *Management Transition List*. Request any missing materials. It is a good idea to make an inventory list of what was received, especially if many boxes were provided. The more thorough you can be, the easier it will be to find information in the future, especially if boxes have to be stored off-site.

(See *Category 2E-Maintain Records of Association*) Set up files for each service or vendor. These should include, but not be limited to:

**A) Banking:** The Board will need to determine whether they will be overseeing their own financials, or will outsource to an accounting firm. If outsourcing financials, then the below information should be reviewed with the chosen vendor for further clarifications. (See *Category 4C-Budget & Financials*)

**1) New Operating Account:** Rather than retain existing accounts, it may be wise to establish accounts at a bank of the board's choice. Documentation required may include a resolution by the Board acknowledging authorization to open the account. Banks may have their own; otherwise, the *Resolution for Bank Account* form can be customized to accomplish this signed by all members acknowledging the establishment of the account for the Association.

6	2.MgmtTrans_F6.doc	<i>Resolution for Bank Account</i>
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Also needed will be a copy of the Articles of Incorporation and FEIN number. If these documents are not readily available, the Board or association attorney will have to detail these obligations. The new account should be opened with the \$1,000 advance requested from Management and/or assessments as they are received from the owners.

The Board will need to determine who can sign checks, and if more than one signature will be required. (see below)

**2) Reserve account:** The association is obligated by law to establish a Reserve Account. This should be a separate account from the Operating Account. If the previous management company has not done so, funds should be placed in an interest bearing, low risk, money market or saving vehicle, preferably at the same bank as the Operating Account. This account should be set up so that two Board member signatures are necessary to transfer or withdraw funds. The Reserve Account is used to establish the mandatory reserves for future repairs to the property, as dictated by the ICPA and the Association’s Declaration/By-Laws.

**3) Board Signatures:** To ensure a proper checks and balance of the Association’s funds, it is imperative that at least two current board members be signers on all accounts as well. This allows more than one board member access to all account information, communication with the banking facility, and gives an added protection of monitoring all account activity in addition to the monthly financial statements. It may not be necessary to require two signatures for checks, as that could be cumbersome and create payment delays, so a procedure must be agreed upon. (*See Category 4C- Budget & Financials*) This should be reviewed annually and/or as Board’s change.

**B) Utilities:** File should include electric, gas and water. A file for each should be set up, including meter numbers, account references, paid bills, contact information, payment directions. Effort should be made to ensure that all meters are accurately marked with proper unit and common area addresses. It is also important that any previous late payments be so noted, and that deposits on utilities, required when several late payments have been made, are noted. Generally, one year of on-time payments will result in a deposit refund; therefore, every effort should be made to identify and document the amount of any deposits paid with an eye to obtaining the funds back.

Immediate notification should be made to the utility companies as to where future billing should be sent. Information contained on the bills will instruct the process of how to do this. It is recommended that this be done both by phone and mailing. A sample letter *Board/Mgmt Letter to Vendor(s) Stating Change* can be used for this purpose.

4	2.MgmtTrans_F4.doc	<i>Board/Mgmt Letter to Vendor(s) Stating Change</i>
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Utility companies are notorious for not making the proper changes and bills will continue to be sent to the wrong address. This process must be monitored for several weeks or months to ensure completion and may need to be repeated, as necessary.

**C) Insurance:** File should include policy, premium payment information, agent/contact information, claims direction, etc. Thoroughly review coverages and obtain consulting guidance if unclear as to the adequateness of current coverage. Insurance that should be checked may include, but not be limited to: Package Policy, Director’s & Officers (D&O), Workman’s Comp Policy, Umbrella Policy, Fidelity Bond, etc. It is highly recommended that you consult with an agent/broker that specializes in condominium associations and instruct them to compare your Association’s Declaration with the current Illinois Condominium Property Act requirements to ensure that your policy complies with the current laws. Do not skimp on coverage! Again, all future correspondence must be directed to the proper person on the Board to handle insurance matters. Use of the *Board/Mgmt Letter to Vendor(s) Stating Change* is also recommended in this regard.

4	2.MgmtTrans_F4.doc	<i>Board/Mgmt Letter to Vendor(s) Stating Change</i>
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**D) Services/Vendors/Contracts:** After reviewing files from the former management company, establish what contracts for vendor services are in place and will remain, and which are yet to be determined. The existing contractors should be notified to send all future billing and contact information to the board representative that will be handling this aspect of self-management. Generally, bills are sent to the treasurer. Use of the *Board/Mgmt Letter to Vendor(s) Stating Change* is also recommended in this regard and can be modified to give the accurate information required.

4	2.MgmtTrans_F4.doc	<i>Board/Mgmt Letter to Vendor(s) Stating Change</i>
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After determining what additional vendors will be needed to complete the cycle of management, it is suggested that each board member take one area of responsibility to deal with, solicit at least 2 (preferably 3) proposals to present to the other board members for consideration. Once chosen, negotiate contracts, where applicable, and set up a file for that vendor as well.

**The following vendor/services should be considered, but are not limited to, as possible requirements for your property:** Rubbish removal; maintenance/janitorial; elevator service contract; garage door service contract; security system/cameras; exterminators; landscapers; snow removal; insurance agent; attorney; financial outsourcing; etc. (*See Category 3A-Operations Manual for full list of vendors for consideration*)

Whether existing or new, the Board should strive to establish good vendor protocols to create professional working relationships with each.

**9) Obtain Final Funds:** Past management will be required to ensure that all checks written through the day of termination will clear the account. For this reason, they will need to retain some cash in the account for a minimum of 30 days. Within 45 days of the final turnover of files and materials from the out-going management company, solicit all final cash from all accounts, bank statements, and final financial statements through the last day of past management. Once received, a thorough review of all cash flow processes, balances and accounting practices should be done. If necessary, hire a professional accountant to do a review or full audit to determine that all cash management by the previous company was done appropriately.

## **D. NEXT STEPS**

In general, you should review the other How-To categories either in order or jump ahead as the need arises. Other self-management transition initiatives that are recommended priorities include:

- a) Review and communicate Emergency Protocols (*See Category 3-Operations Manual*)
- b) Review all vendors and create Operations Manual (*See Category 3-Operations Manual*)
- c) Review Financial Reporting & Outsourcing (*See Category 4C-Budget & Financials*)
- d) Create Board Meeting Schedule for year and ratify decisions at next Board Meeting (*See Category 4-Meetings, Agendas, Minutes & Action Items*)

- e) Review or create Annual Calendar & Schedule (*See Category 3-Operations Manual*)
- f) Review the Annual Budget, if needed (*See Category 4B-Budget & Financials*)
- g) Maintain Records of the Association (*See Category 2E-Management Transitions & Records*)
- h) Sales/Lease Packet (*See Category 5-Sales/Lease of Unit*)
- i) Rules & Regulations (*See Category 8-Rules and Regulations*)

## **E. RESOURCES**

The following resources may be further sources of information based on your association's needs:

1. Condo law attorney
2. Accounting firm for audit, as applicable, and/or financial outsourcing consideration
3. Maintenance firm to handle 24/7 Emergency Protocols or Troubleshooting services
4. Organization providing vendor lists specializing in condo associations (i.e., ACTHA, CAI)
5. Board Training educating the Board on its roles and responsibilities and providing an understanding of the Association's Declaration/Bylaws and the ICPA



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