


Property Management Trust Accounting


By Mike Mumford, RMP®, MPM®
Bennett Property Mgmt, CRMC®



General Trust Accounting:

Trust accounting is used by several different types of businesses:

- Real estate sales
- Law firms
- Escrow & title companies
- Property managers



Trust Account Defined:

Trust funds are funds that are received in the course of performing real estate activity on behalf on another person by a Broker, Licensee, or Property Manager (Agent). These funds do not belong to the agent but are being held for the benefit of others. A "Trust Account" is a bank account into which trust funds (and only trust funds) are deposited.

Trust Account Defined:

By depositing funds into a trust account, the funds are protected should the Agent become involved in a legal action, become incapacitated or die. The funds are also FDIC insured up to the federal limit for each depositor.

Commingling Funds

- Definition: The act of combining the Broker's personal funds with Clients funds
- Legal vs. illegal

Conversion of Funds

- Definition: Use of client's funds for unintended purpose or personal use.
- Common causes
- Prevention methods

General Trust Accounting Rules:

- No Owner fund commingling

Owner A's money has nothing to do with Owner B's money. Although they are keep in the same account, each owner's funds are considered completely separate from those of all your other owners. In other words, you are not allowed to use one owner's money to pay another owner's or your own obligations.

General Trust Accounting Rules:

- Commingling continued

Using the Trust account for the company owner's or employee's rentals is also considered commingling. This also violates the NARPM code of ethics.

General Trust Accounting Rules:

- No negative balances:

If you are following proper accounting policies, you no owner should ever have a negative balance.

General Trust Accounting Rules:

- Audit Trail:
Trust accounts require that you maintain an audit trail for ALL transactions. Checks should include detailed payor, payee, invoice number, and purpose. Deposits should include individual payment details, dates, names, check numbers, etc.

Accounting Records

- Accounting practices follow G.A.A.P.
- Be properly descriptive
- Minimum monthly reconciliations

Forms of payment

- Cash, personal checks, money orders, cashier's checks, traveler's checks
- When are funds "Good"?
- Company receipt policies

Three Way Reconciliations

BANK STATEMENT
=
CHECK REGISTER
=
CLIENT LEDGERS

Client Ledger Balance

Individual totals (cash plus liabilities) of:
Owners funds
Tenant funds
Management funds

Owners Funds:

- Cash

- Liability accounts (set asides, reserve accounts, etc.)

- Tenant funds – considered a liability on owners balance sheet

Tenant Funds:

- Security deposits
- Other refundable deposits
- Advanced payments, over payments, open credits, etc.

Management Funds:

- Fees collected waiting to be paid out
- Cash reserve
- Liability accounts for management funds are not a normal practice

3 Way Reconciliation:

- Should be done on a regular basis.
- All three totals should be equal to have balanced a three way reconciliation.
- Looking at ledgers individually will help identify posting errors (liability accounts, security deposits, etc.) or any negative balances.

**Section Two:
Accounting "Best" Practices**

- Employee Theft Prevention
- Process Automation

Employee Theft:

- 35.5% are 41-50 years old
- 52% been with company more than 5 years
- Median duration 27 months
- 63% from accounting/mgmt

Most common schemes:

- Skimming
- Check Tampering
- Billing / Invoice fraud

Access:

- Where is program & data?
- Password Protection
- User restrictions

Skimming prevention:

- Always cash related
- Set policy not to accept cash
- Add other controls – video cameras, cash for only certain items (i.e. app fees), only manager on duty can accept cash, etc.

Check tampering prevention:

- Use blank check stock
- Limit who can print checks
- Limit who can void or change check info.
- Two party review of checks before mailing
- Void after 90 days

Check tampering continued:

- Check signature controls –
 1. Restrict who can sign – person printing checks can't sign them.
 2. Don't pre-sign blank checks
 3. Don't use signature image or stamps
 4. Set max amount over which 2 signatures are required.

Check tampering continued:

- Owner/broker review actual bank statement every month, must be in a timely manner

- Owner/broker review hard copy of cashed checks every month

Check tampering continued:

- Owner/broker review should include:
 1. Review bank statement with software balance report and bank balance breakdown
 2. Review daily bank balance
 3. Uncleared deposits – over 2 weeks
 4. Uncleared checks – over 90 days

Billing / Invoice fraud prevention:

- Limit who can enter or change vendor information
- Limit who can enter or change invoices
- Separate invoice entry and check processing
- Follow all check writing protocols

Accounts Payable

- Contracting work on behalf of the Owner
- Exceeding Owner's available cash, loans to Owners, etc.
- Mortgage, Tax and Insurance payments

Income

- Audit income on a regular basis
- Audit fee structure and make sure you are collecting all fees owed
- Have written policies to ensure all fees are charged

Expenses

- Audit expenses monthly
- Compare actual expenses versus budget or historical data
- Renegotiate contracts regularly

Automation:

- Improves accuracy and efficiency
- Allows more time for auditing vs data entry.
- Track tasks by time and look at automating those that take the most time.

Automation examples:

- Owner distributions – ACH
- Owner statements
- Owner documents (PMA's, renewals, notices, etc.)

Automation examples:

- Tenant Payments – check readers, online payment integration, etc.
- Tenant notices and letters
- Leases and renewals

Automation examples:

- Accounting software set up – mgmt fees, new profiles, etc.
- Other software integrations

Question & Answer Session
