Selecting and Working with Professional Community Association Managers:

A Guide for Condominium Association Boards

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NEW ENGLAND CHAPTER
community
ASSOCIATIONS INSTITUTE

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INTRODUCTION

Community association boards have many responsibilities, but few are more important or more challenging than the selection of a professional manager. Finding a good manager isn't difficult; there are many. The challenge is finding the "right" manager for your community, and then creating a working relationship that allows the community to benefit fully from the skills, knowledge and resources the manager can offer. This guide is intended to help boards negotiate the selection process more easily and more confidently. It is divided into five sections:

- Understanding what managers do
- Selecting a manager
- Negotiating the management contract
- Working with the manager
- Evaluating the manager's performance

You will find general advice, best practices, strategies and tips in each section. We hope this guide helps you find the manager you need and reduces the likelihood that you will have to repeat this process any time soon.

CHAPTER ONE

What Professional Managers Do – and Why Associations Need Them

Do we really need a manager? What do managers do that owners can't do themselves? The questions are reasonable, and here's how some industry professionals who work with managers respond:

"Managers provide a range of services that help communities operate smoothly and efficiently. They handle accounting, enforce rules, select vendors, oversee maintenance and repairs, supervise major projects – and that's a short list. Eliminating the manager eliminates the management fee, but it doesn't eliminate the need for all of those services."

"Managers are like the association's central nervous system. They bring all the parts together for the benefit of their clients. Having a professional manager improves the operations of the association – there's no doubt about it."

"Managers aren't engineers, or lawyers or accountants, but they have to know almost as much as those professionals. The manager sees the whole picture and has some understanding of issues that board members are usually learning about for the first time."

"It's not just what managers know that makes them valuable. It's whom they know and the relationships they have established with other professionals and service providers. There is no better illustration of a manager's [worth] than to have a plumber respond to an emergency call at 2 in the morning on Thanksgiving eve."

"The question about whether a manager is necessary usually arises in communities that are running well. Owners don't realize that the reason the community is running well is because of everything the manager is doing behind the scenes to make sure it does."

Doing it Yourself

Self-management is a viable option for some communities. But it requires board members with the time, energy and skills to handle the management functions. Boards that attempt self-management often discover that it is more difficult and less cost-effective than they anticipated. A la carte services may be a good alternative for communities that want professional management but can't afford a full-service management fee. In this hybrid structure, boards handle some management tasks, but turn over others – usually financial ones – to a professional manager. More management companies are offering this option, but some are better suited for it than others. Make sure the time and commitment the company is willing to invest will produce the range and quality of services the board expects.

CHAPTER TWO

Finding the Right Manager

Your search for a manager should begin with a clear assessment of your community: its make-up, its physical structure, its challenges, its priorities and its needs. Communities, like people, have different personalities. You want to find a manager whose personality, skill set and experience will be a good match. For an older community facing major capital improvements, project management experience will be essential; a newer community will want a manager with experience handling transition issues. The manager of a town house community spread 200 acres in the suburbs needs to know a lot more about grounds maintenance and landscaping and a lot less about facilities management than the manager of a downtown high rise with three elevators and a complex HVAC system. You want a manager who has worked with communities similar to yours.

You want a manager to have basic skills – excellent communications skills, the ability to juggle multiple tasks, a working knowledge of finances, budgets and legal issues, and a general understanding of facilities management are all essential. But management style is also important, so you should consider: Does the board prefer someone who will be proactive or deferential? Do you want a manager who will guide the board and even lead it, or one who will just implement the board's decisions and wait for direction?

Once you've identified your community's personality, priorities and preferences, you're ready to begin the selection process. The following list highlights the essentials:

- **Develop a "Request for Proposals" describing your community and detailing the qualifications, experience and management style you want.** Send the proposal to four or more companies you've identified as potential candidates. Review their responses and select two or three finalists to interview.

◆ **Check references.** The best predictor of a company's future performance is how it has performed for communities similar to yours in the past.

◆ **Insist on interviewing the president of the company or a senior executive as well as the manager who would be assigned to your property.** You want to gauge the personality and style of the manager with whom you will be interacting, for obvious reasons. But you also want to assess the corporate culture, its professionalism and its commitment to clients. The president's philosophy and style will set the tone for the entire company. Also, if your community doesn't warrant high level personal attention during the interview process, you're not likely to get it after the contract is signed.

◆ **When interviewing candidates, ask specific, detailed questions and insist on specific, detailed answers.**

✓ What services does the company provide as part of its basic fee, and what services will trigger additional fees?

✓ If you're dealing with a portfolio manager responsible for multiple properties, ask how many properties are in the manager's portfolio and how much time he/she will devote to yours. Make sure you understand the frame of reference: One-fifth of a manager's time will mean something different for a manager who has two administrative assistants and an in-house accounting staff than for one who has less back-office support or none at all. Again, this is about ensuring a match between the services you expect and the services the management company is able or willing to provide.

✓ What are the experience, education, and other requirements for managers in the company? What professional designations does the manager who will be assigned to your property hold? Most association managers will tell you this question – about professional designations – is the one boards should ask first, because these credentials provide a helpful barometer for gauging a manager's knowledge of and commitment to the profession.

✓ How does the company support and supervise its managers? What training does it provide? Does the company provide any training for board members?

✓ Probe for detail behind stock answers: If the company prepares financial reports, ask to see a sample. If the company says it will pay association bills, what does that mean? Does the same person who pays the bills also balance the checkbook? If so, what controls are in place to guard against fraud? Fraud isn't a theoretical risk for community associations. It is all too real, all too common, and largely preventable.

The A to Z of Professional Designations

The Community Associations Institute (CAI) awards three professional credentials to association managers, all of which require candidates to complete a specified course of study, pass a national exam, and commit to some level of continuing education. In addition to establishing base line requirements for education and (in some cases) hands-on experience, the professional designations also mandate adherence to a set of ethical standards.

A professional credential doesn't guarantee professionalism, nor does it ensure that a manager has the skills, knowledge and personality required to oversee a community. But it does indicate that a manager has exerted the effort and invested the time and money required to meet the credentialing requirements. And it is that commitment, as much as the training and professional grooming they acquire, that distinguishes managers who obtain credentials from those who, for whatever reasons, have not followed the professional credentialing path.

The professional manager credentials are structured as building blocks: Earning the CMCA (Certified Manager of Community Associations) is a prerequisite for obtaining the AMS (Association Management Specialist) or the highest (Professional Community Association Manager) PCAM designation. The credentials are summarized below and for more details visit www.caionline.org.

Certified Manager of Community Associations (CMCA®)
The CMCA certification, administered by the Community Association Managers International Certification Board (CAMICB) is the first step in demonstrating the fundamental knowledge required to manage a community association.

Association Management Specialist (AMS®)
The AMS designation is the second level in the nationally recognized CAI development track for professional managers.

Professional Community Association Manager (PCAM®)
The pinnacle of community association management, the PCAM is the highest professional recognition available.

In addition to the designations for managers, CAI offers designation for management companies.

Accredited Association Management Company (AAMC®)
This accreditation demonstrates a company's commitment to providing the unique and diverse services community associations need. The AAMC is the only recognition awarded to companies that specialize in community association management.

- ✓ What vendors does the company use and what are the criteria for selecting them? The length and quality of their vendor list, most managers will tell you, is far more important than the size of the management company's staff.
- ✓ Ask about the company's communications policies: How quickly do they respond to e-mail, return phone calls and respond to questions from board members or owners?
- ✓ Ask about the company's technology: Does it have a Web site and will it create or maintain yours? Can board members and owners access information and transact business (make payments and track work orders, for example) on line? If those options are important to your community, you want to make sure the company can provide them.
- ✓ Articulate clearly what the board expects from a manager, but also ask what the management company expects from boards.
- ✓ Ask candidates to describe some of their more difficult residents and explain how they deal with them. Ask how the manager would handle a specific problem the board is confronting currently or has confronted in the past.
- ✓ Ask how, if at all, the manager proposes to encourage and expand owner participation in the association.
- ✓ Ask how the manager proposes to work with the board and make sure you are comfortable with the decision-making process and allocation of responsibilities the manager describes.
- ✓ Ask candidates what suggestions they would make for your community based on what they have learned about it. Ask them to identify the strengths and weaknesses they perceive in your association. You're looking for honesty and insight, not flattery. You want to select a company you can trust to tell you what you need to know, not what you want to hear.

◆ **When describing the community, be clear, open and honest.** Don't disguise or sugar coat its problems. A doctor can't treat you effectively if you hide your symptoms; managers can't provide the services you expect or even determine if they are a good fit for you if they don't know what you need.

Common Sense Fraud Prevention Measures

Fraud is a risk for all community associations. No defenses can eliminate that risk, but strong internal controls, anchored by a system of checks and balances and grounded in common sense, can significantly reduce the likelihood that your community will become a fraud victim.

- Divide responsibilities. Don't make the individual with check-writing authority also responsible for reviewing the bank statements.
- Require original invoices to document expense payment requests.
- Review financial reports and bank statements monthly. Require the bank to return canceled checks or provide electronic images of them along with the monthly statements.
- Require dual signatures on checks above a specified amount.
- Segregate reserve funds in a separate account and require the signatures of at least two board members for withdrawals.
- Shop for bank services. Make sure the bank you select enforces dual signature requirements and verifies electronic funds transfer requests.
- Know the association's federal tax identification number and use it to verify existing accounts and open new ones.
- If you have a management company, require it to maintain separate accounts for your association, in the association's name. Don't allow the company to comingle your funds with those of other associations.
- Conduct background checks on association employees.
- Make vacations mandatory for any employees or board members who handle association funds.
- Obtain an audit or a financial review annually.
- Obtain insurance policies providing both fidelity coverage (for employee dishonesty) and crime coverage (for crimes committed by non-employees) and review those policies annually. The fidelity policy should:
    - ➤ Cover directors, officers, association employees and property managers; and
    - ➤ Provide coverage equal to the greater of: The total of the association's funds at risk, the amount required by the association's bylaws, or the minimum required by the secondary mortgage market – three months of assessments plus current reserve funds.
- Require the association's management company to have its own fidelity policy, and make sure the policy covers directors and officers of the company as well as its employees. A policy that covers employees only wouldn't cover a theft committed by the company's owner.

Understanding the Management Fee

Most of us shop for food, clothing and other basic "commodities" by comparing prices. But professional managers aren't commodities and boards shouldn't shop for them in the same way. The management fee is a consideration, of course, but it's not the only factor nor the most important one when you are comparing managers and management companies.

Most companies quote a 'per-door' fee. That has been the industry standard for a long time. It's an easy way to compare management costs, but it doesn't tell you anything about the amount or quality of the work managers do, the training and experience they have, their professionalism, or their commitment to their association clients – all much more important indicators of the service they will provide.

The most important thing to understand about the management fee is that it doesn't just cover the manager's salary; it also covers the management company's operating expenses. The companies charging higher fees will probably provide more administrative support for their managers and more back-office support for association clients than lower-cost competitors. Companies that charge more are also more likely to pay their managers more, select them more carefully, assign them fewer associations to manage and retain them longer for those reasons.

If your association wants bare-bones services, you can get them from a lower-priced company. But if you want your manager to be a college-educated, experienced, well-trained professional who manages six communities rather than 12, the companies charging the lowest 'per-door' fees aren't likely to meet your needs.

- **When comparing management companies, don't focus exclusively, or even primarily, on the fee.** You will get what you pay for in management services as in any other area. You will pay less for a portfolio manager responsible for 10 properties than for an on-site manager, but you won't get the same level of attention. Your price point may affect everything from how much time a manager spends on your site, to how many meetings they will attend and how responsive they can be. There is a direct relationship between the price you are willing to pay and the services you can reasonably expect. Decide what is important to the community and what tradeoffs you are willing to accept.

- **Focus as much on the questions candidates ask you as on how they answer the questions you ask.** Has the company researched your community? Do company representatives demonstrate a serious desire to understand your needs, or are they interested only in detailing what the company will do for you?

- **If you are replacing a management company with which you weren't satisfied, make sure you understand what went wrong and articulate that to the companies you interview.** If you don't understand and acknowledge the problems with your former manager, you risk repeating them with the new one.

CHAPTER THREE

Negotiating Management Contracts

The management contract should describe what the manager will do (the scope of the work) and what the association will pay for those services. That sounds simple enough in theory; in practice, it is anything but. The most common problem with management contracts, and the reason some of them produce disputes and often litigation, is the lack of detail. It is impossible for a management contract to be too detailed. The rule of thumb you should follow: Spell out everything, assume nothing, don't leave any expectation, however insignificant, unstated or unexplained. Some attorneys suggest that associations attach the management company's proposal as an exhibit to the contract, incorporating by reference all the services the company described when presenting itself as a candidate for the job. This would make it difficult for the company to argue that it never intended to provide the services it described, and equally difficult for an association to insist that it expected services neither the proposal nor the contract specifies.

The following illustrates the level of detail your contract should provide, but it isn't a contract or even a template for one; it doesn't cover every provision a management contract should contain or every detail it should include.

- **Explain clearly and unambiguously what the management fee will cover.** Distinguish between "recurring routine services" included in the base fee; "periodic routine services" that are included in the manager's job description but involve additional costs for example, mailing or document preparation – for which the manager would be reimbursed; and "non-routine" services for which the association will be billed separately. Examples of "non-routine" services would include oversight of a construction project or preparation for litigation brought against the association or initiated by it. The contract should specify how the company will bill for these "non-routine" services.

- **List all the services the management company will provide and all the tasks the manager will be expected to perform.** Again, detail is critical. The contract should not just say "the manager will attend board meetings"; it should specify how many meetings – one per month, three per year – the manager is expected to attend. Some management companies will insist on capping the length of meetings, charging a flat fee or an hourly rate for any that exceed a specified limit. If the association expects the manager to produce a newsletter, the contract should specify how many newsletters the association expects. If the manager is required to produce information packets prior to board meetings, the contract should specify how long before each meeting the information should be delivered.

- **Specify the level of performance required.** It isn't enough to say the manager is required to conduct regular inspections of the property; the contract should specify what is included in those inspections (the exterior of buildings only, interior as well, rooftops, grounds….) and what is meant by "regular" – once a month, once a year, once a week?

- **Describe the manager's authority to make decisions (including the authority to write checks) and the limits on that authority.** The contract should include an emergency provision, waiving these limits (within reason) when circumstances, which the contract should define, require the manager to act without prior board approval.

- **Ask if the management company has errors and omissions (E&O) insurance, which would cover claims that they were professionally negligent in exercising their contractual duties.** Managers are covered, or should be, under the association's general liability and directors' and officers' liability policies. But if they can tap their own E&O policy to defend a claim, the association won't incur the policy "ding" that could trigger a premium increase. Also, the association's coverage won't apply if the association itself sues the manager. If the manager doesn't have separate E&O insurance, there is no guarantee that the association could recover damages a court might award.

- **Include a properly-worded indemnification provision.** Managers typically insist on this "hold harmless" language, which requires the association to defend the company and pay any damages resulting from the company's performance of its contractual duties. Indemnification typically covers the negligent performance of management duties, but excludes "gross negligence", willful wrongdoing, or criminal acts. Many attorneys suggest that the hold harmless language mirror the association's insurance coverage. If the association's commercial general liability policy includes the manager as a named insured, as it should, the policy would cover defense costs and any damages awarded for negligent acts by the manager resulting in personal injury or property damage.

- **Include a termination clause.** No one likes to contemplate the end of a relationship when it is just beginning, but the contract should spell out the terms that will govern a separation if it becomes necessary. The contract language should note the association's right to dismiss the manager both with and without cause, state the advance notice required before termination and specify that if the termination cause is misappropriation of funds, the association is not required to provide either advance notice or an opportunity to "cure" the problem. The contract should also require the manager to turn over all association records and provide a full accounting of money owed to the association under the contract within a specified time after termination.

One additional, essential point about the management contract: You should have an attorney review it before you sign it. You should also be aware that the association's attorney may not be willing to do this. In the relatively insular community association world, attorneys typically represent many different associations, and they develop close working relationships with the fairly limited number of management companies in the field. This can put them in an awkward position when the interests of the managers and the associations diverge, as they almost certainly would in a contract negotiation. For that reason, many condominium attorneys will neither negotiate management contracts nor review them for association clients, preferring to refer them to other law firms for that advice.

CHAPTER FOUR

Working with the Manager

The relationship between a board and a manager is often likened to a marriage. Many of the characteristics that create a good marriage also create a solid working relationship. Communication tops the list. Managers need clear direction from boards and boards need clear and honest input from managers. Both sides need to articulate clearly what they expect from each other. They also need to communicate regularly, identifying what's going well and what isn't. If you allow minor annoyances and small problems to accumulate without addressing them, the minor annoyances will become infuriating, the problems will become insurmountable, and the relationship will be at risk.

Good communication and a well-drafted contract that defines the manager's duties and the board's expectations will avoid most problems and lay the groundwork for resolving conflicts that do arise. But like any relationship, the board's relationship with its manager requires attention and care. A few suggestions for board members:

- Treat the relationship like a partnership in which both parties have responsibilities, and to which both make valuable contributions.
- Be respectful. Managers are professionals; you should treat them as such. That doesn't mean blindly accepting any advice they offer; it just means acknowledging and making it clear that you value their experience and expertise.
- Be decisive. If boards don't make decisions, managers can't implement them.
- Be realistic. Set reasonable, achievable goals and state the board's expectations clearly.

- Express concerns. Let managers know when they haven't achieved goals, responded appropriately to requests or met expectations. But also acknowledge exceptional service or extra effort. An occasional thank you will go a long way.

- Don't rush to judgment; don't overreact to problems or perceived problems with the manager. You don't want to retain a company that isn't working any more than you want to remain indefinitely in a bad marriage. But there are costs involved in terminating a management contract. Whatever its faults or perceived faults, the existing management company understands the association's operations and has acquired some institutional knowledge that a new company won't have, at least not right away. The longer the relationship, the more valuable that knowledge will be and the more acutely the association will feel its loss.

CHAPTER FIVE

Evaluating the Manager

A periodic, formal evaluation of your manager is an excellent idea. It can provide valuable feedback to the manager and helpful information and insights to the board.

Among other benefits, evaluations:

- Formalize the give-and-take between the manager and the board, allowing both to identify small irritations and resolve them before they become irreparable.
- Identify criteria the manager can use to ensure that they are "on track," and a yardstick against which the board can measure the manager's performance.
- Force board members and owners to be specific about their complaints.
- Allow the board to describe what they think the manager has achieved and identify areas in which they may have fallen short; and give the manager an opportunity to articulate their concerns and highlight achievements they perceive.

These benefits are valuable, but the evaluation must be structured properly to achieve them. A good starting point is the management contract –the tasks it outlined, the goals it set, and the expectations it defined.The evaluation should highlight the positive (what the manager is doing right) as well as the negative (areas in which the manager is falling short). Equally important, the criteria you use should be general enough to avoid pettiness, but specific enough to provide clarity and guidance to the manager.

Broadly subjective questions, such as, "Is the manager doing a good job," don't provide much useful information; More targeted, specific questions ("Does the manager respond to questions within 24 hours?" "If you requested information, did you get it? Was it helpful? Did the manager follow up?") are more likely to provide insights the board can use in evaluating the manager and information the manager can use to improve their performance.

Boards will approach the evaluation process differently, but most will want to use some or all of the following criteria:

1. **Communication.** Does the manager communicate effectively – orally and in writing with the board and owners? This is a huge category, encompassing everything from how the manager provides information to the board, answers phone calls and responds to e-mails from board members and owners, to how the manager deals with complaints and resolves disputes.
2. **Administration.** Stated simply, does the manager get things done? Does the manager handle the association's business effectively and efficiently? This includes paying bills, managing records, scheduling and overseeing property maintenance, preparing financial and other reports, and all the other myriad tasks for which the manager is responsible.
3. **Organization.** Is the manager well-organized? Does the manager: Manage time and prioritize tasks effectively; respond quickly and appropriately to requests from board members and owners; and follow up to make sure the individuals involved are satisfied with the information or services provided?
4. **Leadership.** Is the manager proactive? Does the manager alert board members to potential problems before they surface? Does the manager advise the board and suggest solutions, in addition to implementing decisions the board makes? Is the manager able and willing to make decisions? Does the manager demonstrate good judgment, common sense, and creative thinking in analyzing problems and responding to them?
5. **Interpersonal skills.** This is partly a function of communication, but it also asks whether the manager "plays well" with others. Does the manager interact positively and constructively with board members and owners as well as with the other professionals (attorneys, accountants, insurance agents, etc.) and vendors providing services to the community? How effectively does the manager handle conflicts and resolve disputes? How does he or she respond to criticism or suggestions from others?

6. **Management.** Is the manager a good manager? This sounds a little silly, but it's important. Does the manager do a good job of supervising and motivating staff members (if there are any), overseeing vendors, scheduling and monitoring maintenance work and (if necessary) managing larger community projects?
7. **Crisis Management.** How has the manager handled difficult situations? A crisis doesn't have to be a disaster. Unanticipated challenges requiring fast but thoughtful responses come in all sizes. How does the manager respond to the unexpected?
8. **Personal Growth.** Has the manager demonstrated improvement, or efforts to improve, in areas targeted by previous evaluations?

Because boards and priorities change, you should review your performance criteria annually and revise them, if necessary, to ensure that the board and manager are using the same benchmarks.

The logical time to schedule an evaluation is at the end of the year, as part of the annual planning process, or prior to the manager's scheduled contract renewal. However, if you are working with a new manager or management company, you should consider scheduling an interim review, after the first 100 days or so, so you can quickly address some of the 'getting-to know-you' glitches that are inevitable in any new management relationship.

For other than new relationships, an annual review is probably sufficient, but the dialogue between the manager and the board should be ongoing. If problems develop, you don't want to wait for an annual performance review to address them.

It is best to submit the evaluation in the form of a written report to the manager, give the manager an opportunity to respond (also in writing), and then schedule a meeting at which the manager and board can discuss the results. The operative word is "discuss." This is an evaluation, not a confrontation, and the meeting should be conducted accordingly. The purpose is for the board to provide feedback – positive as well as negative – to the manager; and for the manager to provide useful input to the board. Praise, where warranted, should be generous; criticism, where necessary, should be specific and constructive. The emphasis should be on identifying ways in which the board and the manager can work together more effectively going forward. A well-structured, well-implemented evaluation process can help keep boards and managers in sync throughout their relationship.

The Community Associations Institute (CAI) is an international membership organization dedicated to building better communities. The CAI New England Chapter is one of 63 chapters worldwide. CAI provides information, education and resources to the homeowner volunteers who govern communities and the professionals who support them. CAI members include association members and other homeowner leaders, community managers, association management firms and other professionals who provide products and services to associations.

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