

Sample language from an auditor's management letter

High arrears

At the end of the fiscal year, the co-op's housing charge arrears were approximately \$28,000, unchanged from the previous year. This is quite high for a co-operative and we suggest that you review your collection procedures. In particular, we recommend that you ensure that members who miss a scheduled payment and are unable to meet a repayment plan should meet with the Board before a second payment can be missed.

Policy for board members in arrears

We were told that the co-op does not have a written policy to cover board members who are in arrears. Although there were no board members in arrears at the time of the audit, we recommend that a policy be developed.

When a director falls into arrears, a conflict of interest arises. The director may not be diligent in enforcing the co-op's collection policies and, over time, arrears may climb significantly. Good internal controls should prevent or remove the possibility of conflicts of interest such as these from occurring.

The co-op should develop a policy that clearly states what process must be followed by board members who are in arrears. The policy should cover the following topics:

1. What must happen when a board member is in arrears? Should the member resign? Should the member declare a conflict of interest for any discussion about arrears? Should the member stop attending Board meetings until the matter is resolved?
2. A board member in arrears should be treated exactly the same as any other member in arrears. A repayment plan should be signed and if necessary, eviction proceedings should start.
3. If eviction proceedings against a board member have been started, should the board member resign?
4. If a board member is on a repayment plan, can that member still participate in arrears discussions or do they have to declare a conflict of interest?
5. Can a member in arrears stand for election to the board?

Follow-up

In last year's management letter, we recommended that the co-op consider reviewing its policy about board members in arrears. We understand that this issue has not yet been addressed. We continue to be concerned about the risk of arrears increasing without an effective written policy.