So, You're Going to Change Property Management Companies

An Accountant's Perspective

By Stewart A. Grubman, CPA

There are all sorts of reasons that a property needs to transition from one management company to another. Perhaps there are issues with high vacancy or tenant relations, or they may be entangled in legal troubles and are no longer able to easily manage the property. You may also have a company that has decided to sell to another company. The list goes on.

Whatever the reason for the transition, there are a number of factors that need to be looked at when it comes to actually making the change. Beyond the planning and due diligence that go into the decision – from what to look for (and avoid) in a new property management company to a walk through to identify infrastructure issues – there are important issues relating to accounting and auditing to be considered.

Though there are more nuances in managing a large affordable housing property in a city than a 20-unit complex in the suburbs, there needs to be a focus on the following aspects to ensure a smooth transition no matter the property type.

Timing of the Transition

When changing management companies, timing can mean everything. To ensure a smooth transition to the new management company, if possible, schedule the change to coincide with either your calendar or fiscal year end. There are a number of benefits for favorable timing:

- **Resource efficiency** – "Matching up" the timing of the transition to the new management company with the annual financial statement reporting period enables the new company to start off with a new, audited opening balance.
- **Cost efficiency** – Parties involved can save money, and a lot of it. There is an added cost by splitting the transition over the course of multiple reporting periods, whether it is a calendar or fiscal year.
- **Effective payroll management** – Poor timing can affect how payroll — which is often the largest financial obligation — is handled. Companies can be forced to deal with complex situations, figuring out who needs to be paid and when. If a transition can't happen at the end of a calendar or fiscal year, it is worth considering doing it on a calendar quarter to coincide with payroll reporting requirements.

Delivering Documents and Fulfilling Legal Obligations

When a property switches management companies, it is imperative to make sure that all necessary documents and records change hands. There needs to be an agreement in place that all backup documents will be delivered, and it needs to specify who (i.e., owner, agent, etc.) will receive them and when. This step should not be overlooked as affordable housing property owners have a fiduciary responsibility to maintain most records for a period of five years and some records even longer.

Depending on regulatory and lender requirements, there is most likely a formal procedure to be followed and approval requirements to qualify the new management company.

It should also be determined under what federal Employee Identification Number (EIN) employees are being paid. If they are being paid using the number from the previous management company, this issue needs to be addressed to ensure that payments are being made in an accurate and timely manner. Employees also need to be informed if they will be receiving multiple W-2 forms for the year.

Relaying and Changing Sensitive Access Information

Following a transition, the predecessor management company will likely be in possession of multiple account access credentials and other proprietary information. These codes are critical, as they can deal with everything from bank accounts to mortgage company and vendor information. There may be information in the former company's possession that may never make its way to the new management company simply because no one thought to ask for it.

It is important to note that there are added responsibilities when dealing with affordable housing properties, whether housing is being provided for low income, elderly, or disabled individuals. For instance, if there are low-income properties located within cities, there is specific information that needs to be maintained for federal agencies, such as providing account numbers to the Department of Housing and Urban Development, the Office of Management and Budget and state agencies related to the auditing process.

When changing management companies, it's critical to have a plan in place to ensure that logins and other important information are exchanging hands – and ending up with the right people in the process.

Another important question relates to the use of property management software. Ideally, if the new management company uses the same software as the predecessor management company, this can potentially alleviate confusion in the short and long run and keep operations running smoothly.

Having a Reconciliation Plan in Place

When transitioning from one management company to the other, you need a plan in place detailing handoffs – who will be reconciling accounts and how it will be done. Without a plan, things can get messy very quickly. Lingering transactions and balances can lead to issues, such as employees who are owed money and do not get their checks on time. Or, there may be problems when it comes to handling cash balances and making deposits. For example, you may have a company that has $50,000 in the bank on July 1st and then the new management company takes over on July 15th and that balance is down to $39,000.

Create a detailed checklist that addresses items, such as security deposits, signatory rights, differences in the Chart of Accounts, lockboxes and tenant notifications.

When dealing with affordable housing properties, the owner may also have additional fiduciary responsibilities under HUD or other regulatory agencies to submit reports in a timely manner. If records are not proper or up-to-date, they will be unable to meet the requirement.

Having a detailed reconciliation plan in place can help avoid all of these issues. It allows for a faster and much smoother transition. Looking at aspects, such as the timing of a transition and ensuring that there is a staff for the reconciliation process, can make an immense difference. If there is no plan in place, it can take a long time to get everything settled, because once the new management company has taken over, there isn't much of an incentive for the former company to pick up the phone and help set everything up.

Making Sure to Cover All Foreseeable (and Unforeseeable) Issues

Having a slow or messy transition can cause a slew of problems. For instance, you might have a repair issue arise with the property that does not get taken care of and becomes compounded because the new management company isn't prepared to deal with it. Another way that a poor transition can have a detrimental effect is by cultivating poor relationships with tenants who become frustrated by not having an attentive management company in place.

There are a number of other issues that can arise as a result of a poor transition, from budget-related problems to vacancies created on a property. These issues can become amplified and cause long-lasting trouble for the new management company. You might see something that could have easily been taken care of, such as a plumbing issue within a unit. However, due to lack of oversight by the new management company, that issue can expand into something much larger that hampers the entire building. Sometimes these are the types of problems that also can end up attracting media attention, as well as legal issues, and create long-lasting reputational and financial damage for a management company.

Ultimately, being prepared for a transition can make the weeks and months — even years —after a management change much easier. By focusing on having a detailed plan in place and open lines of communication, the transition can benefit all parties.

About the Author

Stewart A. Grubman is the Partner-in-Charge of the PKF O'Connor Davies' Bethesda, MD office and has over 35 years of experience in public accounting. His main focus is on auditing and tax services for affordable and special needs housing.

Stew is a specialist in insured and subsidized multifamily housing with expertise in the areas of Syndicated Lower Tier and Upper Tier Partnerships, Low-Income Housing Tax Credits (LIHTC), HUD, RD, and state financed housing programs. In addition, he is nationally recognized as a lecturer on HUD and LIHTC audit-related topics.

Contact Us

Stewart A. Grubman, CPA
Partner
sgrubman@pkfod.com | 240.534.2810