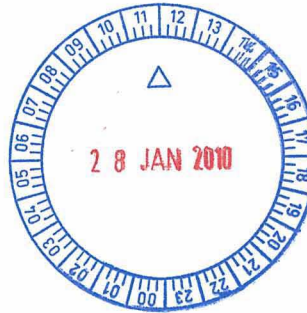


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PUBLIC



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28 January 2010

Standing Committee on Public  
Administration Committee  
Legislative Council  
Parliament House  
Perth WA

ATT: Cassandra Stephenson

Dear Cassandra

RE: SUBMISSION ON INQUIRY IN WESTERN AUSTRALIAN STRATA MANAGERS

My name is Eleanor Logiudice and I am a licensed real estate agent and one of two directors of Logiudice Property Group. My organization specializes in strata management, but also has a property management department.

I am writing to the Standing Committee to provide evidence to support the urgent implementation of formal licensing laws for strata managers in WA: the same laws that govern Real Estate Agents.

I have personally seen mismanagement of funds from several strata companies that goes undetected and when brought to the attention of strata owners nothing is done. No laws currently exist to penalize the person responsible for the mismanagement of the funds. This is because there is no where to go to report these misdemeanors and the costs to get the evidence is usually beyond what these strata owners want to pay.

In my recent investigations I phoned the Fraud Squad at the WA Police. The information I gained from speaking to them was astounding as they are aware that some strata managers commit fraud but admit they can do very little about it because of lack of funds to carry out investigations. The police have received several complaints from strata companies but can be of little help. I was told by the fraud squad that owners need to engage the services of an auditor to ascertain the information that would lead to a conviction. The police do not have the resources to help the public in proving fraud.

I have listed below a number of matters that I have uncovered due to taking over managements from other strata managers. I have not included names or strata schemes but will provide that information if requested. At this stage I deem that it is not necessary to name people or strata companies.

**Strata Company 1**

I was appointed to manage this scheme 4 years ago and in the first weeks of managing this complex I found that there were several invoices from the cleaning company that did not appear correct. The cleaning company engaged to clean the building was owned by the chairman of the strata company. The invoices included payments to fire services, gardeners, pool service contractors etc. I had received two invoices both for \$10,000.00 each.

When I queried the invoices with the chairman I was told that she was allowed to pay the accounts on behalf of the Strata Company and charge a 15 to 30% fee on top. The chairman told me she was authorized to do this by the strata manager.

I then notified the council of owners and asked if they were aware of this procedure and had they approved the extra facilities payment. The answer was no. From this point on a forensic auditor was engaged to check all invoices for the past twelve months for that year and the result was astounding. In one year alone there was a deficit of approximately \$30,000.00 that had been paid out without authority. One particular item that stood out was a payment of \$7,000.00 for upgrade to the gardens but there are no gardens in this complex. In the end the owners did not want to press charges as the strata management company had closed down in Perth and the directors had all been terminated from their

head office in Sydney. The strata manager that was involved in this matter was terminated when the strata management company closed their office in Perth. The chairman sold her unit and has since left town. A copy of the auditors report is available if required.

In summary the strata manager authorized this to happen without authority from the strata company. The previous strata manager sent a letter to me when the matter was raised with the coo stating that she did give permission to the chairman to pay accounts and charge the extra fees. I believe that the chairman asked her to write the letter so that the chairman would not get into trouble.

### **Strata Company 2**

I was engaged to manage this strata company in January 2009 and I again discovered payments made by the previous strata manager to the building manager were not all authorized. The payments were in effect for over time supposedly worked. The council of owners engaged a forensics auditor to audit the financial records for the past year as there had been several financial issues with the previous managers.

It was found that there were several payments made that were not authorized by the council of owners. It was further revealed that the strata manager at the time had a personal relationship with the building manager.

As the amounts were not significant the owners did not pursue the previous managers. A copy of the auditors report is available if required.

In summary this strata company was managed in a very poor manner with the financial documentation not being accurate. Tighter controls need to be put in place, which should include a yearly audit and all funds held in a trust account.

### **Strata Company 3**

I was engaged to manage this strata company November 2007 and again found several issues that appeared to be a case of mismanagement of strata funds.

Once we took over the management several owners complained to us that they had not received their credits for the payment of their strata levies. The financial records of the strata company were in such a mess that we could not work out who had paid their levies and what date they were paid to. The previous strata managers also rented out the office suites on behalf of the owners but did not account for the payment of levies. There was also no help from the previous managers in helping the owners with their queries. Phone calls to the managers would not be returned and no answer to several emails.

As the problems were with individual owners no action was taken by the strata company but I believe one owner has taken the matter to Fair Trading.

The owners engaged the services of a forensic auditor who found that the management of strata funds was in a total mess. A copy of the auditors report is available if required.

### **Strata Company 4**

I was engaged to manage this strata company in January 2009.

The financial records were not complete when received from the previous strata manager. The owners engaged a forensic auditor to audit the records. Again it was found that there were unauthorized payments made to the strata manager from funds without authority. Auditors report is in draft form at present. The reason it has taken so long is that the previous strata manager did not answer any phone calls or emails from the auditor. So the auditor has had to do the audit on what records were given.

Pending the release of the audit report to the owner's, action unknown at this stage.

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The above are only a few actual cases that I have found that mismanagement of strata funds does occur. It appears there are many more cases that go undetected.

It is too easy to open up a business in Perth, call yourself a strata manager and then proceed to get hold of strata companies to manage. Strata Owners are only too willing to take the cheapest quote when looking for a strata manager without checking into the performance of that strata manager.

The funds that accumulate in strata accounts is huge and way beyond what most people would ever think possible. Unless managed properly many thousands of dollars can be misappropriated.



## **Steps to take to implement licensing laws**

### **1. Strata Titles Institute of WA (STIWA)**

STIWA is an institute for strata managers. The constitution allows other members to join as a full member even if they don't manage strata companies.

There are currently 65 actual strata management companies, 20 Real Estate Companies, 9 Settlement Agents, 5 Solicitors, 7 Surveyors, 2 Valuer, 4 Insurance agents, 6 Strata Consultants, 1 Property Developer, 1 Property manager, 1 Painter, 1 Home repairs, 2 Sinking Fund Forecast, 1 Strata Lending and 1 building Inspector registered with STIWA as members.

There are other individual members but they work for one of the above companies.

Due to the diverse membership anyone can join STIWA as a member with out any previous experience in the industry.

If strict licensing was to be brought in then only 65 companies would be effected and need what ever training was proposed to gain a license. The other members are only members for other reasons.

Real Estate Agents are already licensed and hold a Triennial certificate to operate. Strata Managers could fall under the REBA regulations which would meant that a strata manager would need to work for a Real Estate Agent but still hold an individual license the same as a property manager.

STIWA could still play a part in the industry by offering training to all members. Membership would properly increase once licensing was law.

### **2. Functions and responsibility of Strata Managers**

All strata management companies carry out different duties with each strata company. Not all managers carry out all functions of the strata titles act.

This is where the public are confused over what the strata manager should be doing for the fee being charged. The following are what is considered some of the duties of the strata manager.

|                        |                                                                                   |
|------------------------|-----------------------------------------------------------------------------------|
| Building Management -  | Repairs and maintenance, administration, cleaning and gardening.                  |
| Financial Management - | Budgeting, levies, receipt and payments, Book-keeping Reporting.                  |
| Administration -       | Record keeping, Community relations, Meetings, insurance, and by-law enforcement. |

### **Education of Strata Managers**

There is no formal training for Strata managers. STIWA offer information sessions, and some courses but they are basic.

There are a couple of consultants in the industry that offer training for a fee but little else is available.

REIWA have had a strata management course in the past but I believe that at present this is not well attended.

I believe that all strata managers must have training in Accounting, Law, Building Maintenance, Administration and Business Practice. There are other subjects that strata managers should be educated in such as Work Safe and Occupational and Safety.

The training that I had to undertake as a Real Estate Agent included 1 year of Law and Accounting Practice. This is vital to the managing of strata companies.

### **Whether Strata Managers Should be Licensed**

I believe that strata managers should be licensed and licensed under the Real Estate and Business Board the same way that property managers are licensed. The laws governing real estate agents are strict and do provide protection for most consumers.

A Property manager must have a license to operate under the direction of a Real Estate Agent who holds a Triennial License.

Due to the fact that there are only 65 Strata management business that operates in WA the fall out for these businesses would not be too great. My suggestion would be to offer them a two year term to either get licensed or sell their business. This would possibly get rid of any strata manger at present that is disreputable.

**Note:** The main strata company management companies that operate in Perth are all Licensed Real Estate Agents. It appears that more and more real estate agents are managing strata companies.

### **Summary**

If licensing is not bought in then in the very near future you will find that further funds will go missing from strata accounts, more strata companies will be mismanaged, no sinking funds are put in place to cover large costs for maintenance as a lot of managers do not encourage owners to put funds away.

Licensing should involve studying the core subjects such as accounting, building management, law and administration and being made aware that you could loose your license if you don't follow the regulations.

I am also willing to meet with the committee to discuss my submission further.

Yours sincerely



ELEANOR LOGIUDICE  
Principal