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**Insurance and Real Estate Committee
Public Hearing 03/04/2025**

Testimony in Support of H.B. No. 7068 (Raised), An Act Concerning Court-Ordered Accountings Of Common Interest Community Financial Records.

Esteemed members of the Insurance and Real Estate Committee, my name is Rachel M. Baird and I have had the privilege of practicing law in the state of Connecticut since 1992. I am honored to submit this testimony and appreciate the opportunity to address H.B. No. 7068 (Raised). This bill would allow unit owners of a common interest community to petition the Superior Court for an accounting of an Association's financial records. Such an action only would become necessary if an Association's Board of Directors refuses to act appropriately in response to, or ignores, unit owner claims of financial improprieties or if the property manager ignores a request for or refuses to provide financial records to the Board that are necessary to a forensic accounting.

Since 2023, I have witnessed events at one particular condominium community in Rocky Hill, referred to hereafter as the "RH Association," and become aware of similar events in many Connecticut Associations which have demonstrated to me that there is very little, if anything, an Association unit owner can do when he or she witnesses what I will generously refer to as "financial improprieties" when the Board and, often, Association counsel take no action. I have learned that a unit owner who identifies a problem often becomes the problem, at least from the perspective of Boards who work with and become dependent upon property managers to run Associations. Unit owners reasonably believe that there are laws to protect them and reign in the conduct of Boards and property managers. In one respect, unit owners are correct. There are laws that protect them. In another respect, they are wrong. The laws can fail to provide the accountability needed to curb financial improprieties. Community association management in Connecticut is a small world. Attorneys and property managers may belong to the same professional organizations and encounter each other frequently, possibly serving side-by-side on the boards of professional associations. Boards often rely on the input of Association counsel when selecting property managers. Property managers may have input into a Board's selection of an attorney.

My support for this bill, which would permit unit owners, under specific circumstances, to request a court order to conduct a forensic accounting of Association finances arises from my failed efforts over the course of nearly two years to obtain records from an Association. A forensic accountant needs records and, despite the law that Boards must provide financial records to unit owners, this is impossible if property managers withhold the records from Boards. When a Board's loyalty shifts from the unit owners to the property manager and Association counsel views his or her role as supporting the Board, this group can circle the wagons to prevent a unit owner from obtaining the records he or she needs to conduct a forensic accounting, even if the

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owner is willing to pay. Unfortunately, in the RH Association, we just found out that the Association's counsel in 2023, who refused to provide me Association records, personally represented the property manager in a collection action filed against the property manager and his wife unrelated in any manner to the Association, at the same time that I was demanding the financial records maintained by the property manager for the Association. This attorney was advising the Board, representing the Association, and representing the property manager and his wife in a personal matter all at the same time.

Financial improprieties in the RH Association first became known to me in June 2023 when a unit owner, Ed Peruta, asked why the property manager was charging \$95 an hour for labor instead of the \$65 contractual hourly rate. The unit owners were unaware that, between October 1, 2021, and June 2023, the property manager had charged a \$95 hourly rate for labor performed by his company rather than the \$65 hourly rate. The invoices did not include the number of workers, the hourly rate, or the cost of materials. The \$95 hourly rate applied to such mundane tasks as picking up sticks, a task that it is difficult to prove was even done.

After five months of relentless questions, Association counsel, who, unknown to the unit owners had personally represented the property manager in 2023, "reviewed" invoices with the property manager and concluded, based on his estimate, that a payment of \$25,000 from the property manager to the RH Association would be an appropriate settlement amount for the property manager to pay for the overcharges. This settlement was made without the involvement of an accountant. We maintain the amount of the overcharges could range well into a six-figure range.

I retained a forensic accountant, Stephen Pedneault ("Mr. Pedneault"), CPA, CFE, CFF, but the Board refused to provide records to the accountant that would have allowed him to assess the actual hours worked. Mr. Peruta filed a bill of discovery in the superior court on or about March 26, 2024, not for monetary damages, but simply to obtain a court order directed at the Association and the property manager to produce records necessary to Mr. Pedneault's agreement to conduct a forensic accounting. Mr. Pedneault provided a sworn affidavit to the court describing with specificity the necessary financial records. The court dismissed Mr. Peruta's bill of discovery immediately because Mr. Peruta, acting on his own behalf, did not have standing to bring an action on behalf of the RH Association. Only the Board had standing to pursue court remedies on behalf of the RH Association. The financial records, which Mr. Peruta and other unit owners have a statutory right to request under § 47-260, have not been provided to date.

An election of Board Directors was held on December 12, 2024, and six of the seven Directors were replaced based on the overwhelming number of proxies collected by Mr. Peruta, his wife Lois, and two other unit owners. Mr. Peruta was the only Board Director who remained on the seven-member Board after the December 12, 2024, election. This occurred despite a coordinated smear campaign to discredit Mr. Peruta on the part of the old Board, the property manager, and Association counsel who had represented the property manager. Mr. Peruta was called a felon, which is not true. He was blamed for the lapse in FHA coverage, which is not

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true. He was blamed for the increased insurance rates, which is not true, and will be addressed in more detail below.

Two days before the new Board was elected on December 12, 2024, the old Board signed the \$25,000 settlement agreement with the property manager and then presented the agreement to the Association's long-standing accountant who had performed annual end of year accountant audits, not forensic accountings, for years under different property managers. The old Board asked the accountant to sign off on the 2021 and 2022 audits. He had not done so after Mr. Peruta brought the \$95 vs. \$65 hourly labor rate overcharges to his attention because one financial impropriety is a red flag that others may exist. The old Board hoped to have the Association's accountant sign off with the execution of the settlement agreement. But he refused and has informed the new Board that he will only sign off on the 2021 and 2022 audits and conduct the 2023 and 2024 audits after a forensic accounting.

There is more to this story including the property manager's use of his property management business to provide the no-bid, no contract services to the RH Association and his use of his insurance business to procure insurance for the RH Association. This conduct is prohibited under 20-459 and is commonly known as self-dealing. The accusations against Mr. Peruta related to increased insurance costs benefited the property manager, who then procured insurance for the RH Association at unconscionable rates and used all the \$197,309.44 from reserves held in a Webster Bank CD and \$62,116.83 in reserves from a Webster Bank checking account to pay the premium in full to secure a large commission for the insurance company owned by the property manager, before his departure less than three months later

Other bills that also would provide much needed protections for common interest community unit owners and support the goals of H.B. No. 7068 (Raised) include, but may not be limited to:

- S.B. No. 1357 (Raised), § 16(g).
AN ACT CONCERNING THE DEPARTMENT OF CONSUMER PROTECTION'S RECOMMENDATIONS REGARDING VARIOUS STATUTES CONCERNING CONSUMER PROTECTION.
My written testimony related to the General Law Committee Public Hearing on February 26, 2025, is attached.
- Proposed S.B. No. 816.
AN ACT CONCERNING RESERVE FUNDS IN COMMON INTEREST COMMUNITIES.
"To require the executive board of any common interest community to perform an annual study of the association's funds in reserve and make recommendations concerning the allocation of funds to such reserves."
- Proposed H.B. No. 6350
AN ACT REQUIRING ACCESSIBILITY OF RECORDS TO UNIT OWNERS IN COMMON INTEREST COMMUNITY ASSOCIATIONS.
"To improve transparency for unit owners in common interest community associations."