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## Smooth Criminals

“Obviously, crime pays, or there’d be no crime.” — G. Gordon Liddy

by Tifinni A. Tegan, CIC

**A** **Community Association Crime Story**  
A typical association—they have cursory annual audits performed on their books. Every other year a comprehensive audit is performed. They carry a \$100,000 crime/fidelity bond. Instead of hiring a professional property manager, the board hires an individual to manage their business affairs.

Unbeknownst to the board, during the second week of managing the association, the property manager starts misappropriating funds. He

uses the association credit card, checks, and cash withdrawals to embezzle association monies. The crime continues over three years before it is discovered.

During an audit the theft comes to light. By this time the association is missing over \$500,000 and facing serious cash flow problems. A claim is made for their Fidelity Bond, but the \$100,000 bond will not make the association whole. The only option is to assess the owners.

### Could Your Association Survive This Type of Crime?

There is no profile of a community association thief. Your association's chosen management style does not make it immune to theft. Association funds are stolen by employees, board members, individuals, property managers, and bookkeepers or accountants every day.

As a homeowner, condominium owner, and/or board member, you should be aware of your exposure to theft. You owe it to yourself, your board, and your community to implement the proper safeguards to protect your association's monies and future.

### Implement Internal Controls

How do association thefts occur? What can you do as a board member to mitigate crime losses to your association?

As in the example above, usually there is not a huge sum of money that goes missing at one time that would be easily noticeable and caught immediately. The thief may take small sums here and there over long periods of time. These small amounts go unnoticed in monthly statements, but over time can add up to hundreds of thousands of dollars.

So how do part-time board members protect their associations from employee theft? First, ask yourself, how many individuals have access and are authorized to handle your association's funds? The more people who are touching association funds, increases the likelihood for someone to misuse those monies. On the other hand, having only one person with access to the association accounts also presents a problem: who is overseeing this person's activity?

The key is to have checks and balances in place that include:

- Annual comprehensive audits performed by an outside party (CPA firm, preferably)
- Countersignatures for checks
- Separate individuals reconciling bank statements from those depositing funds
- Use of "Positive Pay" or similar online banking control tool

### Today's Smooth Criminals Use Computer Fraud

Although employee theft is the largest exposure for an association, thieves outside the association are finding ways to utilize computers and wire transfers as their vehicle for stealing. They access account information and fraudulently transfer money from unsuspecting associations.

You can protect your association from computer fraud or wire transfer fraud by working with your bank to:

- Make sure you have documentation with your banking institution identifying the individuals authorized to initiate wire transfers

**So much time is dedicated by the board determining how your association will spend its money. How much time do you take to ensure that your association's money is well protected?**

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- Request that your banking institution verify by telephone any transfers that have not been prearranged
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### What You Need to Know About Crime Insurance

All crime insurance products; crime, fidelity bond, employee dishonesty, employee theft, transfer the risk of crime losses, but are they all the same? What does an association need? And, why does Fannie Mae require associations to carry crime coverage?

There are many different crime insurance policies that can be purchased; crime policies can cover an “inside job,” theft committed by an employee, or an “outside job,” theft committed by a non-employee. Associations have specific exposures that are not addressed in all crime policies. It is important to be aware of these areas to be sure that you are getting the coverage you need.

Fidelity bonds, employee dishonesty, and employee theft are all different terms that are used interchangeably in the insurance industry. They all mean the same thing: an insurance policy to cover an association’s money and securities from theft by employees.

Crime insurance policies may use one or more of the above terms in the policy language, but most have similar definitions, and the intent of the policies are the same. A community association’s biggest crime exposure is employee dishonesty or employee theft.

A traditional crime/fidelity, employee dishonesty insurance policy covers theft of money or securities by employees of the insured organization.

How does the crime policy or bond define “employee”? An association has a board with several part-time, volunteer board members, a property manager(s), and maybe an accountant. Does the policy definition of “employee” include these individuals?

If it does not, there is a significant coverage gap, and the association would not be covered should a theft by one of these individuals occur. It is important to remember that sometimes the theft can occur over multiple policy periods and result in a loss to the association that far exceeds the policy limit. (That is why having internal controls is so essential!) Your insurance agent can assist you in determining the policy limits needed for your association.

### Fannie Mae Requires Crime Coverage to Protect Their Mortgage Holders

Fannie Mae lenders recognize the employee dishonesty, employee theft exposure to condominium associations. As a result, when loaning money to condominium unit owners, Fannie Mae lenders are looking at the employee theft insurance limits carried by condominium associations more closely than ever before. Why? Because of what happens to their mortgage holder when the condominium’s reserves are stolen or completely wiped out by a board member, property manager, or employee, and there is no insurance policy in place or the policy limit is not adequate to make the association whole.

The mortgage holder could be subject to a significant

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assessment to replace the reserves. This additional financial stress could impact the property owner's ability to pay the lender. The one thing the lender can do is ensure that the association has adequate crime insurance and sufficient limits in place in order to lessen the financial burden on their mortgage holder should the association's reserves be stolen.

Computer fraud and wire transfer communication fraud insurance is also available for your association. This coverage insures against loss from individuals (not an employee) fraudulently transferring money out of the association's accounts. Your insurance agent can assist in placing this coverage and ensuring that adequate limits are purchased.

Is your association protecting its financial assets? So much time is dedicated by the board determining how your association will spend its money. How much time do you take to ensure that your association's money is well protected? Who is reviewing bank statements, drafts, and balances? Do you have controls in place to detect an "inside job" or an "outside job"? Do you have insurance in place to help cover a loss should one occur?

Don't be a typical association. Protect your community's future from smooth criminals.

*Tifinni A. Tegan, CIC, is an Assistant Vice President at Ian H. Graham Insurance, a division of Aon, the world's largest insurance broker. For more information, visit [www.ihginsurance.com](http://www.ihginsurance.com). ■*



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