



Eight Ways to Protect Your Association From an Embezzlement Loss

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Fidelity/Crime coverage is readily available (and recommended) for community associations of all sizes. Despite the availability of coverage, nobody wants to contemplate the discomfort, anxiety and inconvenience of having a loss. Here are eight sure-fired ways to reduce the potential of having a claim:

1. Request Duplicate Monthly Bank Statements

With Adobe Photoshop and similar software programs it has become increasingly easy to doctor bank statements and investment reports and fool the most sophisticated board member. Want to make sure the report you're reading is legit? Ask your bank or financial institution to send two copies of each statement: one to you and one to your management company. Make sure they come to you directly from the bank. Most financial institutions will offer this service at no charge. This will help you to keep an eye on fellow board members and the management agent can keep an eye on you!

2. Careful Handling of Signature Cards

It's critically important someone doesn't add their signature to your bank's authorization form while it's on its way to the bank. To protect against this, once the last board member has added their signature, make sure you draw a line (with an ink pen) through the remaining slots on the form. Otherwise you risk having an unauthorized person with check signing authority on your accounts. Granted that a second control would be to require two signatures on each check (it's far less likely two individuals would conspire to steal association funds).

3. Don't Be Cheap; Require an Annual Review or Audit by a CPA



It's surprising how many embezzlement losses could have been thwarted or, at least, significantly reduced if the Association had simply spent the money to have their CPA conduct an Annual Review or an Audit. Unauthorized purchases, unusual endorsements on checks, missing bank reconciliations, duplicate invoices - these are just a few of the irregularities that would surface on a review or audit. Yes, audits and reviews are expensive but the reward of having an embezzlement loss uncovered in the early stages can reap huge benefits. Besides, many CC&Rs require an audit at least annually.

4. Reconcile Accounts Monthly

Monthly bank reconciliations conducted by someone not authorized to deposit or withdraw from the account represents a critical financial oversight for the Association. The objectivity of using a third party (not a signer on the account) increases the possibility that any financial irregularities will be caught early on.

5. Don't Pay Something Without an Invoice to Back it Up

In the typical HOA with professional property management, checks are brought to a board meeting once a month for signature. With so much time elapsing between meetings it's hard to remember what was paid previously and what might represent a new invoice/amount due. Embezzlers prey on poor memories and will often present the same invoice several times for payment. To avoid duplicate payments, make sure there is a valid invoice for every payment and the invoice number appears on the memo line of the check.

6. Run Background Checks When Hiring Employees/Vendors



You might be a top-rate interviewer and ask all the appropriate questions and still be unable to determine if a potential employee/vendor has an unsavory past. Everyone wants to believe in the power of rehabilitation but do you want to wager your Association's finances in the hopes that the candidate has truly turned the corner and left the former misdeeds in the past? For as little as \$30 per report, you can use companies like www.goodhire.com to verify that your potential hire does not have a history of criminal activity.

7. Careful Controls on the Reserve Account

The funds in the association's Reserve Account are a huge target for a potential embezzler. It's important for the Board to determine who, if anyone, has the authority to withdraw and, more importantly, has the authority to transfer electronic funds. For example, the management agent should be allowed to deposit or transfer IN to the Reserve Account, but never have the authority to transfer out.

8. Fight Apathy; Mix it Up!

A fresh set of eyes on the Association's financials is always a good idea. Granted not all volunteers have the background or experience to read financial statements, but a financially-savvy volunteer who has served as the Association's treasurer for five years may begin to fall victim to a loss of enthusiasm and perspective. If

there is one deadly attribute for HOA treasurers it's apathy. Rotating board positions will ensure there are less road-weary eyes taking a look at the monthly financials and asking the right (albeit sometimes awkward) questions.



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