



Embezzlement

SCENARIO

The president of the homeowner association (HOA) board of directors was working with his company's insurance broker, who was also the broker for the HOA. As they concluded their business, the president mentioned that he was glad that the premiums for his business insurance hadn't skyrocketed like those of the HOA. The broker was puzzled, and responded that the HOA's premiums had only increased by about 3%. Sensing that something was wrong, the president reviewed the HOA's financial records. The treasurer of the HOA board, who was responsible for writing checks for the association, including those that paid for insurance premiums, had created a phony account with a name that was almost identical to the HOA's insurance company. The treasurer had been issuing duplicate premium checks, one which was sent to the insurance company and another which was sent to the phony account he had created for himself. An investigation revealed that the treasurer had embezzled almost \$90,000 over three years.

RISK CONTROL TIP

Ideally, all checks should require two signatures to provide additional protection to the HOA. Invoices should be saved for a reasonable period of time, all checks written on the HOA's account reviewed to identify the corresponding invoice, and all bank accounts reconciled periodically.

SCENARIO

A condominium association entered into an agreement with a property manager (PM) to manage the building. The PM maintained the building's operating and reserve accounts, and was required to provide a monthly report of income and expenses to the board. One board member was talking to a friend who mentioned that the PM had been accused of mismanaging other buildings in the past. Concerned, the board member brought this information to the attention of the board. The board decided to request bank statements from the bank and, upon review, found that the bank statements reflected much less money in the accounts than what had been indicated in the PM's reports to the board. Further investigation revealed that the PM had been transferring money from the condominium's accounts into his own account, and providing fraudulent reports to the board. In total, PM embezzled \$150,000 from the association over five years.

RISK CONTROL TIP

Do not rely exclusively on reports provided by your property manager or other third parties. Periodically cross-reference them against third party records such as bank statements to ensure that the reports you receive from your property manager accurately reflect the contents of your accounts.



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