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NOTES FROM THE TEAM

What Are You Doing to Prevent Embezzlement?

-by Jeremy Stilwell



Associations: What is your association doing to protect against embezzlement?

Management Companies: What are you doing to prevent embezzlement by your employees?

If you don't know the answer to these questions, it's time to take some action.

No corporation is immune to the threat of embezzlement. Associations, by their very nature, involve the management and use of "OPM" or "Other People's Money." Managing OPM creates an inherent risk of mismanagement due to lack of ownership. Additionally, because associations and association managers are entrusted with management of funds that are not their own, abusing that trust can be tempting.

Consider the following examples:

- This management company in Portland misplaced \$1.5-\$2 million of monthly dues for more than 30 of the homeowners associations that they managed. Read the full story here: [Northwest Empire Community Management has money missing from 30 homeowner associations.](#)

· Just last month, this small-scale bookkeeper in Oak Harbor, WA was accused of stealing more than \$200,000 from two community homeowner associations. Read the full story here: [Oak Harbor bookkeeper accused of embezzlement](#).

· This article published by the Center for Association Leadership speaks about the increasing trend of financial fraud and community associations' particular susceptibility to it, as well as offering tips for preventing fund mismanagement: [Alarming reports of association financial losses due to fraud and mismanagement turn the spotlight back on fiduciary responsibility](#).

The loss of funds by theft can be devastating to a community association. Recurrent consultation with a CPA, your bank or financial advisor can help to mitigate the risk of theft or loss. Similarly, keeping meticulous track of your association's funds and their location is essential, and insuring your accounts against embezzlement is prudent.

Additionally, we recommend including a provision for fidelity insurance in your association's Declaration. Sample language can read as follows:

Fidelity Insurance. The required fidelity insurance shall afford coverage to protect against dishonest acts on the part of officers, directors, trustees, and employees of the Association and all other persons who handle or are responsible for handling funds of or administered by the Association. The Managing Agents shall maintain fidelity insurance for its officers, employees, and agents who handle or are responsible for handling funds of or funds administered by the Association. All such fidelity insurance shall name the Association as an obligee and shall be not less than the estimated maximum of funds, including reserve funds, in custody of the Association at any time during the term of each policy, but, in no event, shall the aggregate amount of insurance be less than three months' aggregate Assessments. The policy shall contain waivers of any defense based upon the exclusion of persons who serve without compensation from any definition of "employee" or similar expression.

For more ideas on steps that you should take to avoid embezzlement, the *Community Association Institute* has published this quick and helpful [reference](#). Additionally, [this article](#) from the *Washington Post* offers eight easy-to-follow suggestions for protecting your association.

Association funds mean buildings kept in good repair, budgets for community building activities, and most importantly, happy homeowners, so be proactive in keeping track of your money.

Best regards,

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