



## ECHO SEMINAR

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### Fighting Fraud

Although we don't like to think poorly of our employees, fellow board members or managers, the sad fact is that fraud does happen. Once found out – the most commonly heard statement is “but she was such a great person!”

#### Facts on Fraud

- The average fraud scheme lasts 18 months before it is detected.
- The most common method for detecting fraud in the workplace is through tips from employees, customers, vendors, and anonymous sources. The second most common method of discovery is by accident.
- The typical fraud perpetrator is a first-time offender. Only 7 percent of fraudsters in a recent survey had prior fraud convictions.
- The most common types of fraud include payments to fictitious vendors, falsified expense reports, inventory theft, check fraud and skimming of receipts.

#### How Associations Can Protect Themselves

##### I Fidelity – Employee Dishonesty Bonds

###### a. Coverage options

1. There are many options for coverage, including but not limited to:  
Employee theft, theft by outside parties, computer theft, etc.
2. Be sure to review with the association's agent the best coverage for your association's situation.

a) Board members should be endorsed on the policy as non-compensated directors & officers.

b) Management Company or non-board member accountant, bookkeeper should be added as an additional insured.

Note - If these entities are not included, and they do embezzle funds, the association *might* be covered under a bond held by management or the accounting firm, but these companies generally maintain smaller policies to cover their own funds, not yours.

- c) If funds are kept onsite, you need On Premises and In Transit coverage.
  - d) Forgery coverage protects against forgery or alteration of checks by others or using stolen checks.
  - e) With today's easy access to online banking, either be certain that your accounts be sure appropriate safeguards are in place and consider Computer fraud coverage.
  - f) The bottom line is to look at your cash, checks and bank deposits – think about who has access (including outside thieves) and ask your agent to be sure you would be covered.
3. Why should we pay additional premiums in case of outside party theft?
- a) Although you may have all faith in the person handling your funds, they may have employees or others with access to funds or checks.
  - b) The Fidelity insurer will require complete documentation of all losses on a notarized statement form. It may take months to settle the claim and get funds back into association accounts, especially if there are questions about the proper coverage.
  - b) the association may recover its funds from the management/accounting company, but at what cost – many months/years of litigation – the company may not have the funds to reimburse the association.

## II **Signature Cards**

- a. Be sure that all association signature cards are kept up to date. They should be updated with each change of officers and/or management
- b. Signature cards should be very specific about who signs and how many signatures are required on each check – although it can be a hassle, consider requiring 2 signatures on all checks.
- c. There should be an understanding regarding who has authority to transfer funds from account to account within one bank.

## III **Bank Statements**

- a. All association accounts should receive, at a minimum, a quarterly bank statement.
  - 1. If the depository institution does not provide periodic statements the association should think twice about depositing funds.
- b. At a minimum, the treasurer should receive a copy of all bank statements.
  - 1. It doesn't hurt for all board members to receive a copy along with the financial statements.
  - 2. Unless the balance sheet is showing the exact amount on the bank statement, there should be a reconciliation form to explain the differences (deposits or withdrawals in transit.)

3. Minutes of the meeting should reflect the fact that the board has reviewed these statements at least quarterly to comply with civil code 1365.5.
- c. Many banks offer a duplicate original sent to a designated board member. It will be a duplicate of the statement sent to your management company or accounting folks.

#### IV **Officers' & Directors' Responsibilities**

- a. The “buck” stops with the board of directors. If funds are missing or stolen, simply saying that management or someone else took the funds and you are sorry may not be sufficient for your membership.
- b. Board members have a fiduciary responsibility to take measures to safeguard association funds.
  1. Invoices should be reviewed.
    - a) Are they in the association's name?
    - b) Was the work authorized and completed satisfactorily?
    - c) Is the amount reasonable?
    - d) Is this a duplicate billing?
    - e) If management signs on “standard” bills – these should be reviewed periodically for accuracy.
  2. Investments must be monitored.
    - a) Balance sheet should include detailed listing of all accounts.
    - b) If a time account, maturity date should be shown.
    - c) Minutes should reflect board's decisions regarding investment of funds.
  3. Automatic payment of utilities.
    - a) Avoids chance of late payments.
    - b) Association will be sure that only the amount of the bill is deducted.
- c. Consider using a lockbox service for assessment payments.
  1. Avoids having checks sitting on bookkeeper's desk.
  2. Assures prompt deposit of association funds directly into association account.

## V **How do these things happen?**

- a. Boards may not review the financial and bank statements thoroughly
  - 1. “that is the treasurer’s job”
  - 2. “management/bookkeeper is watching out for problems”
  - 3. “we are all honest here”
- b. Changes in the board – lost track of prior investment accounts.
- c. Annual review or audit by CPA is not done.
  - 1. While this is not a guarantee that fraudulent activity will be discovered, at a minimum, the accountant will ask questions to assure that you have appropriate safeguards and internal controls in place, that the beginning and ending balances make sense, etc.
  - 2. Even if your annual gross income is below the \$75,000 and a review is not strictly required, the board should consider at least periodic reviews.

## VI **Miscellaneous Recommendations**

- a. Watch for suspicious behavior. Employees who make \$15 an hour and suddenly start wearing fur coats or driving luxury cars are an obvious tip-off.
- b. Be particularly suspicious of employees who avoid vacations. An employee involved in an embezzling scheme will often hide checks and replace one set of payments with another. These schemes grow so complicated, consultants say, that the employee fears leaving the office.
- c. Use your common sense, intuition or whatever you want to call it when you notice something that seems strange.

## VII **Don’t Be Afraid to Ask Questions!**

- a. An honest manager, accountant or bookkeeper should not be offended or otherwise have a problem with questions asked by board members.
- b. Often the questions will point out an honest mistake.