

The background features abstract, overlapping geometric shapes in various shades of green, ranging from light lime to dark forest green. These shapes are primarily located on the right side of the page, creating a modern, layered effect. The rest of the page is a plain white background.

# Crime

Protecting the HOA

# Some types of fraud....

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## Types of Fraud

Check Fraud

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Embezzlement

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Ghost vendors/Kickbacks from Vendors

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Fraudulent Billing Schemes

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Theft of Cash or Assets

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## Behaviors to watch for:

It is important to maintain a healthy level of skepticism and always remember that trust is a professional hazard; if you do not verify information, your HOA could become a victim.

- ▶ Divorce, death, health or family problems
- ▶ Past employment-related or legal problems
- ▶ Unusually close association with vendors or recipients of grants or services
- ▶ Control issues and a general unwillingness to share duties
- ▶ REFUSAL TO TAKE VACATIONS
- ▶ Irritability or defensiveness
- ▶ Complaints about lack of autonomy or authority.
- ▶ Uncharacteristically helpful

# Warning signals - Red Flags



## Common threads

Invoices for unspecified or poorly specified services

Unfamiliar Vendors

Vendors with no street address (only PO Box)

Companies whose names consist only of Initials

Sudden Increase in purchases from one vendor

Vendor billings issued more often than once per month

Vendor addresses that match Employee Addresses

Large payments that are broken into multiple smaller invoices - falling in authorities

Allowing person who processes payment to approve new vendors

# Documents:



- ▶ Missing or altered Documents
- ▶ Backdated Documents
- ▶ Missing or unavailable originals
- ▶ Documents that conflict with one another
- ▶ Questionable or missing Signatures

# Controls

- ▶ Implementing controls rests with Management
- ▶ Avoid complacency -
  - ▶ Do not Assume because the HOA is managed by an outside firm, that the Management Company is faultless.
  - ▶ Do not assume that “the auditors will catch it”
- ▶ Establish term limits - the threat of losing the position may be a deterrent
- ▶ If you have employees - do a background check before allowing them to handle cash/checks/inventory.

# Controls

- ▶ Separation of Duties:
  - ▶ The person who makes deposits to accounts should not make payments or reconcile its statements.
    - ▶ Example: Paul was the best bookkeeper on the Board. Over the years he took on many jobs that others did not want and he never taught anyone else many of the functions that he performed. Paul suffered a heart attack and the temporary accounting help brought in to do his work quickly informed the Board that his diligence had cost them more than \$400,000 in misappropriated funds.
- ▶ Check Handling - All Checks should be countersigned by two or more authorized persons. NOTE: Banks will cash checks with only one signature.
  - ▶ If the HOA has a high turnover of vendors or employees, it may not be noticed if a former vendor or employee is still receiving checks.
- ▶ Outside Audits - An outside CPA independent of the HOA should conduct an annual audit.

## Insurance

What's at risk?

- ▶ **Employee Fidelity** is the coverage that will respond to the Loss of Money
  - ▶ Many policies have a limit - make sure your Associations limit is adequate
  - ▶ Subject to the policy limit and deductible, loss of money is recoverable.
- ▶ **Directors & Officers** -
  - ▶ If the loss is significant enough, your HOA and Board members might be sued by any of the members of the HOA for the lack of adequate management. Breach of the duty of diligence, obedience or Loyalty to the HOA.
    - ▶ Make sure the D & O Coverage includes coverage for each of the Directors & Officers as well as the organization. This protection should extend to the past, present, and future spouses (or domestic partners).
  - ▶ If you employ a management firm, make sure they have adequate coverage in force to protect your HOA from their employees' actions.
    - ▶ Review your contract -