



Insurance Insights—Crime Coverage

True Stories from the Community Association Crime Files!

- The *St. Louis Post-Dispatch* reported that a St. Louis condo association president diverted more than \$109,000 from the association funds to pay for personal expenses.
- A bookkeeper for ten Florida community associations pled guilty to scanning the signatures of trustees and using the image to forge checks totaling \$856,126 during a three-year period. She allegedly spent the money on her own Mary Kay products so that she could qualify for a pink Cadillac.
- The *Washington Post* reported that Jeffery S. Kroger stole over \$3 million from more than 400 associations his company managed in the Washington, D.C., area. He used the money to open a restaurant, remodel his home, build a health club, and purchase a vacation home.

Theft Can Happen In Many Different Ways

Though you may feel that trustees, volunteers, bookkeepers or even your own neighbors would never steal association funds, the cases above—and the hundreds more like them—illustrate that volunteers and advisors sometimes are lured by easily accessible cash.

The following examples represent common types of association theft:

- Keeping two sets of books.
- Charging inactive accounts.
- Increasing amounts on checks and invoices after they have been paid.
- Paying bills to companies that do not exist and then cashing those checks.
- Reducing amounts of outgoing invoices in the books, then paying the reduced amount in cash and then appropriating the customer's check.
- Padding payroll and cash expenditures.
- Not crediting cash payments.
- Breaking into an Association's online bank account and making fraudulent transactions.
- Stealing incoming payments and applying that money to subsequent remittances.

Protect Your Association Against Illegal Acts with Crime Coverage

- **Employee Theft Coverage:** Protects the association against theft, both from inside the organization and out. It is important that the definition of "employee" includes association employees, volunteers, trustees, property managers and third party agents.
- **Depositors Forgery or Alteration Coverage:** Protects against losses by forgery or alterations of checks, drafts, promissory notes, orders or directions to pay money that is drawn upon your accounts by someone acting as your agent.
 - Also protects against forgery losses inflicted by people other than employees.
- **Theft, Disappearance, and Destruction Coverage:** Protects against loss of money and securities by way of theft, disappearance or destruction while the property is on your business and/or banking premises.

- Protects against losses as a result of attempted or actual robberies while the property was on your premises.
- Protects against loss to other property in a safe or vault from an attempted or actual robbery within your premises.
- Outside of your premises, coverage protects money, securities and other property in the care of a messenger.
- Covers losses inflicted by those other than employees.
- **Computer and Funds Transfer Fraud Coverage:** Protects against loss of money, securities and other property via computer fraud.
 - Covers money that that is directly related to the use of a computer to fraudulently cause a transfer of property from your premises or banking premises to someone or some entity outside of your premises.
 - Pays for the loss of money through fund transfers communicated to a financial institution.
- **Money Orders and Counterfeit Currency Coverage:** Protects against losses that are not paid upon presentation or are in the form of counterfeit currency paid in exchange for goods or services.

Other Safeguards against Theft

In addition to purchasing insurance protection against theft, consider implementing these safeguards for your association clients:

-
-

Establish a line of authority within every association and ensure that everyone is acting responsibly. Written procedures are recommended.

- Associations should separate their accounting and operating functions—no one should be able to control a check process from beginning to end.
- Never accept cash payments for association dues.
- Require two signatures on all checks over \$500—this is a requirement of some crime insurance policies, and failure to comply may result in denial of claims.
- All vouchers and supporting records should be stamped “PAID” when checks are signed.
- In Missouri, you can find out if trustees with access to association funds have prior theft convictions by entering their name at www.courts.mo.gov/casenet
- Reconcile bank accounts quarterly, at a minimum.
- Make sure that the enforcement of association financial guidelines is consistent and constant.

Many Lenders Now Mandating Crime Coverage

Most lenders have adopted FHA requirements for community associations—even for developments not required to do so under the FHA guidelines. All Associations should now carry Crime Coverage, or Unit Owners may face delays when closing a loan. The FHA requirements include limits equal to “the maximum funds in the custody of the association at any time, but no less than the sum of three months of assessments on all units in the project, plus reserves.” If you’re unsure of which limit to use, a good rule of thumb is three months of assessments, plus current reserves.

If you or your clients have any questions regarding their current crime coverage, the professionals at The Daniel & Henry Company are here to help. Our financial risk and bond department can access several programs designed specifically for community associations.

The Daniel & Henry Company • Jim Ruebsam • Phone: 314.444.1993 • www.danielandhenry.com