

The Name is Bond, Fidelity Bond

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Temptation: it surrounds us every day. Whether it's that extra doughnut in the morning, or that found wallet on the floor, or maybe even just the thought of putting the pedal-to-the-metal on that lone stretch of deserted highway—tempting, huh? That same urge follows us every day where we work, where we play and even where we live, especially when it's a community association.

Community associations collect monthly fees from their unit owners to cover costs of maintaining, insuring, protecting, and beautifying their neighborhoods. Depending on the size of the association and what the monthly fees are, these homeowners associations can end up with a sizable amount of money that is basically managed by a friendly board of directors. With all of this temptation following us around, what's an association to do? Well, the simple answer is to call Bond. Fidelity Bond!

Most governing documents require an association to purchase insurance, including a Fidelity Bond (which is often times referred to as Employee Dishonesty). The Fidelity Bond protects an association from financial loss due to dishonest acts of a covered employee. The loss can be the result of the employee's theft of money, securities, or other property of the insured.

There was a recent case in which a volunteer board member of an association was responsible for collecting the coins from the on-site vending machines. Well, guess what happened? Someone noticed that the amount collected from these machines had been reduced a bit over the years. Turns out this friendly board member was skimming coins and heading out to the local casinos! After some research and an embarrassed confession they figured out that he had gambled away a few thousand dollars of the association's money. Now in cases like this, the police are not normally involved, so who comes to the rescue? You got it! Bond, Fidelity Bond.

An association should have its insurance agent review its governing documents to determine how much coverage the association is required to maintain. Many CC&Rs have unique wording under the Fidelity Bond topic as well as distinct suggestions for amounts of coverage to purchase, therefore many

community associations do not meet the minimum requirements of the institutional lenders, such as Fannie Mae or Freddie Mac. Per these lenders, coverage must equal no less than the maximum amount of funds in the association's or management firm's custody at any one time. In general you should specify three times the monthly assessments plus reserves or the equivalent.

Some Fidelity Bond policies are written so that only theft by a board member is covered—be very careful here. You want to make sure your Fidelity Bond covers the board of directors and volunteers as well as the property manager, the property management company, the intern at the property management company, and everyone else involved in your association's money-chain. Another recent case involved a property management company that had slowly swindled almost \$80,000 from an association. The company was in financial straits and figured they would just "borrow" some money from this association and pay it back later. Cases like this confirm the latest statistic which shows that 80% of corporate fraud involves an "employee," not just a member of a board.

Millions of dollars are lost every year due to employee dishonesty. It happens in every industry—whether you're a corporation, a small town business, or even a local church—temptation is everywhere! Community Associations can suffer severe financial damage and end up in bankruptcy when money has been stolen. Associations will never be able to eliminate the temptation of employee dishonesty altogether especially since there is usually a large amount of money, with only a few board members and a property manager involved. However, your association can prevent fraudulent losses by making sure countersignatures are required for all checks, you have an independent audit annually, and most importantly you keep the responsibility of accounting, deposits and withdrawals, between two people at all times. Don't forget—Eve went to the apple tree by herself. Damn temptation!

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