

## **Financial Hanky Panky** and a couple of ways to watch for it in an HOA

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Anytime there is a collective body that has control over financial assets, there is an opportunity for fraud and embezzlement. This goes for nonprofit and for-profit organizations alike. You hire someone likable for a position, they are competent and conscientious and you begin to trust them. That's great, we all like to bond with the people around us. That is not the problem. The problem often lies in the system of checks and balances.

Just like our government, we must rely on structure to keep us balanced and honest. Even the most trustworthy person can run into a difficult situation where there is no other choice. Don't let embezzlement be an easy choice in your Association.

What can you do as a board member or even a homeowner in a Homeowner's Association? Ask questions, be a part of the check and balance system. Here are a few things you can do to see if what is being paid out on behalf of your Association, is a legitimate expense.

Invoices are your friend. For every payment that is made, a matching invoice or document explaining the request for payment, should be available. Contracts are also a form of invoice.

They are an agreement that certain services or products are exchanged for a certain dollar amount.

1. Does the invoice amount match the amount paid? This seems simple but mistakes often happen, especially when the same person receives the request for payment, authorizes payment and sends out payment. Oversight is crucial.
2. Was this expense approved by the board? All expenditures should be brought before the board and approved by a board motion, not just one person.
3. If this is an on-going expense such as landscaping maintenance or electricity, that has been pre-approved, is it in line with the amount charged previous months? If not, is there a valid reason?
4. Is this expense within the budget? Again, investigate and for board members, make a note in the minutes if the budget is exceeded and why.

More complex ways that have been used for embezzlement:

1. The invoice for an expense is fake. It has happened where a trusted person has submitted an invoice for work that was never done. This is why every expense should go through the board for review and be approved prior to payment. It is the board's responsibility to ensure that what is paid for, was received.
2. Is the amount legitimate. It has happened that a manager arranges for excess payment to be made to a company, in exchange for some of the money to come back to the manager, a kick back. The way to stay on top of this is to be aware of competitive pricing. Is your association being billed a fair price for work that was authorized by the board?

It is easy, in this busy world, to trust someone to handle all the responsibilities, but this is not fair to your Association or to that person. A system of checks and balances keeps everyone honest and in the loop.

In the event that your organization does fall victim to fraud, there is insurance to cover some of the funds lost, but not the trust. Insurance rates inevitably go up and the Association ends up paying more in the long run. Embezzlement is a crime that is rarely prosecuted and always a mess best avoided.

Know your basic systems and divide responsibilities so that the system provides the structure.

*Lynne Rice has a BA in Business Administration from the University of Washington and spent many of her formative years cleaning up businesses after irregularities came to light. She is a firm believer in "an ounce of prevention..."*