



TOTAL
ASSOCIATION



HOW TO PREVENT THEFT AND EMBEZZLEMENT IN YOUR ASSOCIATION



+1(954)955-9316



Info@Total-Association.com



Total-Association.com

At Total Association, we prioritize the safeguarding of association funds. Our system is equipped with tools to combat embezzlement and theft within the community. We take pride in leading the way in ensuring the financial integrity and security of associations.

Embezzlement and theft pose significant challenges for condo and HOA associations, impacting their financial stability and trust among members. These issues can arise from various sources, including management companies, board members, or collusion between the two.

Firstly, embezzlement and theft can occur when there are inadequate internal controls or oversight. Management companies or board members may exploit their positions of trust to siphon funds for personal gain. This can lead to substantial financial losses for the association, affecting maintenance, repairs, and overall operations. Secondly, the complexity of condo and HOA finances can make detecting such theft challenging. Limited financial expertise among board members or reliance on management companies for financial management can create opportunities for theft to go unnoticed for extended periods.

The consequences of embezzlement and theft are devastating for associations. They can lead to increased fees for members, deferred maintenance, legal battles, and damage to the association's reputation. Recovering stolen funds can be difficult and costly, further exacerbating the association's financial woes. To mitigate these risks, associations must implement robust internal controls, conduct regular audits, and provide transparency in financial reporting. Educating board members and residents about the signs of embezzlement and promoting a culture of accountability and oversight are also crucial steps in preventing and addressing these issues.

In this article, we'll explore common ways embezzlement occurs in condo and HOA associations and how to prevent them. Implementing simple checks and balances can save an association from significant financial losses and damage to its reputation.

1: GENERAL PRACTICES



Before we delve into specific embezzlement methods and prevention strategies, let's first examine some general practices that need to be implemented to safeguard the association. These methods are crucial, as without them, preventing and recovering from embezzlement and theft would be challenging. These practices should be integrated into the association's operations at all times.

MAKE SURE HOA IS INSURED FOR FRAUD

Insuring an HOA's association for fraud is crucial in safeguarding its financial stability and reputation. Fraud insurance provides coverage against losses resulting from various fraudulent activities, including embezzlement, theft, and other dishonest acts. By having this insurance, the HOA can mitigate the financial impact of fraud and protect its assets. Additionally, fraud insurance demonstrates the HOA's commitment to transparency and accountability, reassuring homeowners that their association is proactive in managing risks and ensuring their financial security.

SEPARATION OF POWER

The separation of power within a condominium or HOA association is crucial to its effective governance and financial integrity. Just as in governmental systems, it is vital to ensure that no single individual holds complete control over the entire financial system. This separation of power helps prevent potential abuse and fraud. By having distinct roles for approving and executing financial transactions, the association establishes checks and balances that safeguard its funds. Regular audits conducted by third parties serve as an additional layer of oversight, providing independent verification of financial records and practices. Furthermore, audits of the entire board of directors' help maintain accountability and transparency. Ensuring that those who approve payments are different from those who execute them further strengthens the association's financial controls and accountability measures.

Total Association has developed independent systems for the management, the board of directors, and even to the association's members, ensuring transparency and efficiency in association management. While the manager maintains the association, the board has full access to financial information at any given time, right at their fingertips. Additionally, the members' portal provides complete access to their property's financial records. This extensive access for all parties involved makes it easier to oversee and verify the integrity of the association's financials, promoting accountability and trust within the community.

DO NOT ALLOW CASH IN THE ASSOCIATION

An association must not deal with any cash to safeguard against theft and embezzlement. Cash transactions are inherently difficult to track and reconcile, making them vulnerable to misuse and manipulation. Without a clear paper trail, it becomes challenging to verify the legitimacy of transactions and hold individuals accountable for their actions. By avoiding cash transactions and conducting all financial transactions through checks or electronic payments, an association can establish a transparent and accountable financial system, reducing the risk of theft and embezzlement.

Total Association does not allow cash transactions in its accounting system. Cash transactions can introduce unnecessary risk and open the association to theft and embezzlement. By requiring all transactions to have a paper trail, Total Association ensures transparency and accountability in financial management, reducing the potential for fraud and financial mismanagement.

MINIMUM OF 2 SIGNATURES ON CHECKS

It is imperative that an association requires two signatures on a check. This way, for every payment, three people review it: the two signatories and the management that issued it. The more people involved in a payment, the lower the chance of embezzlement.

For this reason, Florida law prohibits an association from using bank wires and debit cards, as these payment methods can be executed by a single person, potentially leading to problems and opening the door for embezzlement. A good rule of thumb is that if a payment can be made by a single person, it should never be used. For example, using a credit card instead of a debit card would require a check to be written to the credit card company. This means that three individuals would need to review the payment, making it a much more secure method.



Total Association maintains strict controls to prevent fraud and ensure accountability in financial transactions. Debit cards and cash transactions are not allowed within the system, mitigating the risk of theft and embezzlement. Additionally, all checks require a minimum of two signatures, recorded digitally or manually, with each signer notified of their involvement. The system tracks the signing process and verifies that checks are issued correctly to vendors. Furthermore, a two-step verification process, including SMS notifications, adds an extra layer of security to safeguard against unauthorized transactions. These measures demonstrate Total Association's commitment to transparency and integrity in association management.

HAVE BOARD REVIEW FINANCIAL DOCUMENTS

The board of directors' review of the financial records of the association is paramount in ensuring transparency, accountability, and the overall financial health of the community. As fiduciaries, the board members have a duty to diligently oversee the association's financial affairs, including reviewing financial statements, budgets, and expenditures. This oversight helps to identify any discrepancies or irregularities, prevent potential fraud or embezzlement, and ensure compliance with applicable laws and regulations. By maintaining a clean financial system and records, the board not only fulfills its fiduciary duty but also helps to maintain the trust and confidence of the association's members.

Total Association offers a board of directors' portal that grants every board member instant access to detailed financial reports, without the need for permission or assistance. With effortless login access, board members can review the association's financial status at any time, enhancing oversight and transparency. Total Association's user-friendly interface and streamlined access to financial documents significantly increase the likelihood of thorough oversight from the board of directors, ensuring informed decision-making and accountability within the association.

MAKE SURE ELECTIONS ARE CONDUCTED ACCORDING TO THE LAW

Conducting an election according to the law in a condo association is crucial for safeguarding the integrity of the community. Cheating or not conducting an election at all can severely damage the association's credibility and trust among its members. Additionally, election fraud is often indicative of broader issues within the community, such as embezzlement or corruption. Fair elections allow for transparency, accountability, and the opportunity for change within the community, ensuring that decisions are made democratically and in the best interest of all residents.

Total Association's digital verification package includes a streamlined digital election process that is simplifying the entire election process into a few simple steps. This process not only makes voting easier but also protects against potential manipulation by management or board members. With digital elections, there is no risk of editing, destroying, or tampering with digital ballots. This increased security and convenience can lead to higher election participation within the community, ensuring a fair and transparent voting process.



2: STEALING MEMBERS' SECURITY DEPOSITS



A common practice of embezzlement is to mishandle security deposits from renters or new owners (depending on the bylaws) by not depositing them into the association's escrow accounts. It's crucial to understand that these security deposits do not belong to the association; they belong to the entity that provided them as security. The association merely holds them. These funds cannot be mixed with the association's money, making them more challenging to account for. They are not part of the budget, and there is no clear formula for determining how much money should be in the escrow account. The only way to securely manage these funds is to maintain a clear ledger of who paid and how much.

Total Association's reporting feature provides detailed report of the movement of people and deposits side by side, allowing for easy identification of any discrepancies regarding security deposits. This simple yet powerful tool ensures transparency and accountability. Additionally, security deposits are displayed on the ledger without affecting the property's balance, allowing members to easily track their deposits. This level of transparency and detail makes it harder for embezzlement to occur, as any discrepancies can be quickly identified and addressed.

3: STEALING MEMBERS' MAINTENANCE PAYMENTS



Another common practice of embezzlement in a condo or HOA association involves a manager receiving checks from members intended for the association but instead of depositing them into the association's account, they deposit them elsewhere. Usually, by opening another account not authorized by the association but on the association name. To conceal this fraud, the manager must hide the member's delinquency (as the money paid by the member does not arrive in the association's accounts), from both the member and the board of directors. This scheme allows the manager to withdraw the funds for personal use.

Total Association has implemented multiple safeguards to prevent embezzlement scenarios involving member's payments. Recognizing that Stealing members' payments Causes the member to be delinquent, and it is crucial for the embezzling party to keep this delinquency a secret, for such practices to succeed, Total Association immediately notifies members of their delinquency through automated emails and notifications on their portal or app. If these notifications are ignored, after 90 days of delinquency, the property is automatically sent to Axela, a free debt collection agency. Axela employs various communication methods, including written



and digital communication as well as voice phone calls, to collect the debt. This thorough process ensures that members are repeatedly informed of their delinquency and provides ample opportunity for them to rectify the situation. This proactive approach significantly reduces the risk of embezzlement by exposing any attempts to manipulate financial records.

4: CREATING SHELL COMPANIES AND PAYING THEM



Yet another common way to embezzle money from an association is by creating shell companies, such as fake accounting, security, or landscaping firms, and then issuing checks to these companies as if they provided services to the association. The funds paid to these shell companies are then siphoned off for personal use by those who set up the scheme. To prevent this type of fraud, several measures can be taken:

REQUIRE BOARD APPROVAL FOR ALL NEW VENDORS

Allowing the manager to hire vendors exclusively and without oversight can create opportunities for embezzlement. To prevent this, it is safer to have the board of directors as the sole authority to hire vendors. Implementing a thorough vetting process for vendors, including reviewing their bids and paperwork, can significantly reduce the risk of embezzlement. This approach ensures transparency and accountability in vendor selection, mitigating the potential for fraud.

IT ONLY TAKES FEW MINUTES TO VERIFY A COMPANY VALIDITY. DO IT!

Usually, a quick phone call and a search on the internet can verify if a company is real or not. One can always make a short trip to their address on file to see if it is real. If there is any doubt, verify.

Total Association's Board of Director's portal features a comprehensive report for vendors, containing all relevant information such as vendor info, details, balance sheets, bills, and payments. This centralized report simplifies the process of verifying vendor validity and allows for easy identification of any discrepancies in payments. By providing a clear overview of vendor transactions, this feature enhances transparency and accountability in vendor management, helping to ensure that the association's funds are used appropriately.

MAKE SURE BIDS ARE OPEN TO EVERYONE AND ALL BIDS ARE CLOSED UNTIL THE BID IS DONE

Hiring a company through a legal bidding process open to everyone offers several benefits and is a valuable tool in preventing embezzlement. This process ensures transparency and fairness by allowing multiple companies to compete for the contract, resulting in competitive pricing and quality services. It also reduces the risk of favoritism or collusion, as the selection is based on objective criteria rather than personal relationships. Additionally, a legal bidding process provides a clear paper trail, making it easier to track and audit transactions, thus deterring potential embezzlement. Overall, this process promotes accountability, integrity, and efficiency in vendor selection, safeguarding the association's finances and reputation.



Total Association's project bidding feature ensures transparency and fairness by keeping bids secret until the bidding process is complete. This prevents any manipulation by the existing board of directors or management. Everyone in the association is notified of the bid, and anyone can offer the bid to a contractor. Contractors can then submit their bid secretly on the association website. Once the bidding period ends, all bids are revealed, allowing everyone to see them, but not manipulate them, and make an informed decision. This process promotes accountability and integrity in the selection of contractors for association projects.

DO NOT LET MANAGEMENT SIGN CHECKS FOR THEMSELVES

All checks must be signed by at least two board members, but never by the management company. Since the management company already handles the association's financial books, allowing them to sign checks would consolidate their power and create the potential for abuse. It's crucial to avoid this scenario to maintain checks and balances within the association and prevent any individual or entity from having absolute control over financial transactions.

Total Association's software does not allow the manager to sign checks; instead, it only accepts signatures from board members who are approved to sign checks. To safeguard the signatures, all signers, whether recorded digitally or manually, are notified of their involvement. The system tracks the signing process and verifies that checks are issued correctly to vendors. Additionally, a two-step verification process, including SMS notifications, adds an extra layer of security to prevent unauthorized transactions. These measures demonstrate Total Association's commitment to transparency and integrity in association management.

4: FORGING SIGNATURES ON CHECKS



In many cases of embezzlement, the perpetrator, often a manager or director, will write a check and forge signatures of board members to cash it. Without proper checks and balances in place, this method can be difficult to detect. Implementing strict controls, such as requiring two signatures on all checks and conducting regular audits, can help prevent and detect such fraudulent activities. Additionally, ensuring that financial transactions are transparent and that there is oversight from multiple parties can further safeguard against embezzlement.

As mentioned previously, to safeguard check signatures, all signers are notified of their involvement, whether recorded digitally or manually. The system tracks the signing process and verifies that checks are issued correctly to vendors. Additionally, a two-step verification process, including SMS notifications, adds an extra layer of security to prevent unauthorized transactions. These measures ensure that the director who signed the check is aware of their involvement. If there are any discrepancies, the director will know that they did not sign their check.

RECEIVING KICKBACKS ON CONTRACTS

One of the most common and elusive ways for management and board members to embezzle money from an association is through kickbacks. For example, let's consider a vendor hired to clean the pools for an association who offers to do the job for \$650. The perpetrator, whether a manager or a director, might tell the vendor to invoice the association for \$2,000 but then return \$1,000 in kickbacks to enrich himself. The vendor benefits by receiving more money than initially proposed, while the perpetrator profits from the kickback. However, the association loses significantly, paying \$2,000 instead of \$650 for the service. This scenario is not hypothetical; these numbers reflect real-life situations in South Florida, where similar schemes have occurred with various vendors, including those for alarm, cable, landscape, security services, etc. Yet, simply conducting price comparisons with other companies can help prevent such embezzlement schemes. If the contract with the association is for \$2,000, and the quick phone call to a competitor company shows the contract only worth \$650, it is safe to assume foul play.

Total Association's Solution

Turn association has several safeguards against these forms of embezzlement. With these tools, it is much easier to fight kickbacks:

REQUIRE BIDS FOR EVERY CONTRACT AND MAKE SURE BIDS ARE FAIR AND OPEN.

Total Association's project bidding feature ensures transparency and fairness by keeping bids secret until the bidding process is complete. This prevents any manipulation by the existing board of directors or management. Everyone in the association is notified of the bid, and anyone can offer the bid to a contractor. Contractors can then submit their bid secretly on the association website. Once the bidding period ends, all bids are revealed, allowing everyone to see them, but not manipulate them, and make an informed decision. This process promotes accountability and integrity in the selection of contractors for association projects.

VERIFY THE CONTRACT AMOUNT IS WITHIN THE INDUSTRY STANDARD

Total Association's Board of Directors' portal provides all the directors with direct access to recorded contracts with all vendors, serving as an effective tool in detecting irregularities. If a contract is missing, it could be a sign of potential issues. If the contract exists, in order to combat kickbacks, the director simply needs to compare the prices in the contract with those of other vendors. A quick phone call to a comparable vendor should do the trick. A significant price difference, may indicate kickbacks. By verifying the reasonableness of the pricing. If the price is considerably higher, immediate action should be taken to investigate and potentially cancel the contract.

