



Condo-Ology® Advisory (Fraud Insurance) Alert (15-11-25)

Does your Condo Corporation have insurance coverage for fraudulent acts by an employee of the management company? 99.99% chance the answer is **NO**.

“Fraud and theft charges laid against employee of Collingwood-based property management business” (Barrie Examiner 15-11-23)

Fraud can occur anytime and to anyone: Unfortunately fraud is normally committed by those we have placed trust onto and can be very emotional for those affected.

What makes this kind of fraud even worse; after the initial shock of becoming a fraud victim, the aftershock is learning that there is no insurance for this kind of loss.

Not having insurance coverage for this kind of loss is not an oversight of the Board of Directors.

Fraud and fraud insurance coverage is a subject that is rarely discussed (almost as if it were intentional) and continues to confuse the condo public as well as many of those within the condominium service industry.

My current understand is that there is technically insurance coverage available for fraudulent losses by a third party (management companies employees). The problem are the limits seem to be no more than \$100,000.00 and the costs are ridiculous (could be as high as 3% annually or more – in the process of verifying).

There are numerous names for this kind of insurance such as Third-Party Fidelity Bond or Third-Party Crime Insurance or Comprehensive Dishonesty, Disappearance and Destruction (3-D) Insurance for a Third-Party.

I believe the ongoing confusion rests with the general misunderstanding of the term Fidelity Bond/Insurance.

According to Wikipedia - Fidelity bonds come in two types: First-Party and Third-party.

First-Party Fidelity Bonds protect businesses against intentionally wrongful acts (fraud, theft, forgery, etc.) committed by employees of that business.

Third-Party Fidelity Bonds protect businesses against intentionally wrongful acts committed by people working for them on a contract basis (e.g., consultants or independent contractors).

A management company as well as a Condo Corporation should have some form of First-Party Fidelity Bond/Insurance; but in my 30 plus years in the business I am not aware of a management company or a Condo Corporation that had Third-Party Fidelity Bond/Insurance.

Condo Corporations that suffers a fraudulent loss by a management employee(s) should always consider suing; but before proceeding, Boards must carefully and unbiasedly assess (with a competent lawyer's input) the various issues such as the;

- total amount of the loss
- cost of legal services of pursuing
 - normally always underestimated
 - can easily get out of control
 - no guarantee of success
 - if successful, no guarantee that full legal costs will be recovered
- investigate the possibility of a contingency legal fee arrangement – “Call Saul”
- ability to collect - you can't get blood out of stone
- consider additional parties (preferably parties with insurance) to the law suit that may have indirectly contributed to the fraud
- timeline – would be calculated in years

*Owners must be engaged and be part of the decision process.

Suing is a natural first reaction for Boards and their Owners for obvious reasons and this is why, it is so important to understand the risks and rewards. The last thing Owners need is compounding the problem by throwing good money after bad money.

Many management companies continue to assure their Directors that **it can't** happen to their community.

It can, regardless of what you have been told.

So what can Condo Boards do to minimize the risk?

All Boards can easily increase the quality of their Condo Corporations governance immediately by:

- Discussing and verifying the information within this Advisory Alert with the Condo Corporation's management company and those who provide the Corporation's insurance – verify with others and get everything in writing!

- Review the Condo Corporation's financial controls with the Corporation's Auditor; the Corporation's audit;
 - is not a replacement of proper internal controls, and
 - does not guarantee complete assurances but only reasonable assurances that the financial statements are free of material misstatements.
- Request the management company provide criminal checks for all employees (including the Principals, if possible) that are involved in the Condo Corporations management.
- All financial reporting must be consistent and presented in a manner that can be easily explained and understood by all Owners.
- All financial statements must be provided on a timely monthly basis (never quarterly).
- All Board Members must have oversight of the Condo Corporation's financials and not just the Treasurer.
- A minimum of two signatures on all cheques; management and an authorized Director(s).
- Practice extreme transparent accountability governance.
- Include the names of the various vendors which are used over the course of the year within the annual budget.
- Monthly financial reporting should include actual copies of all;
 - reconciled bank statements
 - financial investment certificates
 (Having copies of the above available at the management office is not sufficient)
- Monthly financial reporting should not only include a comparison of actual operating expenditures to the approved budget but it must also include comparisons of actual reserve fund expenditures vs. the Reserve Fund Study annual recommendations.

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