

## Not on my watch: Avoiding financial fraud in communities

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*Contributed by Mike Ramsey*

Things have stabilized at the Hammocks Community Association near Miami more than three years after local prosecutors began filing criminal charges against previous board members for allegedly defrauding owners of more than \$2 million in a financial fraud scheme.

It's not unusual to hear the occasional story about fraud or embezzlement at community associations — [on the importance of better vigilance and the need for safeguards and controls.](#)

"Sometimes, there are a couple of bad actors. It's still a small percentage overall in our marketplace, but it happens more frequently than any of us want," says Russell Munz, CEO and founder of Community Financials in Sarasota, Fla.

The basics still apply where [protecting community funds](#) is concerned, Munz says. He recommends using electronic banking and accounting systems rather than paper records and physical checkbooks, separating financial duties, and having independent experts conduct periodic audits, even if it's not mandatory.

In some cases, former auditor Jeff Westendorf, CMCA, AMS, says communities may even try to resolve embezzlement scandals internally to avoid public scrutiny — a move he does not recommend.

"It's people trying to cover up one mistake with another mistake," says Westendorf, community manager at West Property Management in West Des Moines, Iowa. "There's a lot of shame. People don't want to admit that it was allowed to happen under their watch."

California attorney Thomas Ware, who has advised [communities victimized by fraud](#), says the devil can be in the details.

"If (a board) suspects there is theft, they need to immediately contact their attorney and their insurance agent," says Ware, partner at KGSW in Sherman Oaks and a fellow in CAI's College of Community Association Lawyers.

The most common warning sign that someone may be embezzling money is when a person lives beyond their means. Other red flags include the display of a "wheeler-dealer" attitude; an unusually close association with a vendor or customer; irritability and defensiveness; and behaviors of bullying or intimidation.

Often, there are no obvious warning signs before communities discover a theft from within. The self-managed Summit House Owners Association in Des Moines, Iowa, was blindsided by the embezzlement of more than \$160,000 in reserve funds in the early 2000s, says Judy McCoy Davis, current board president.

In response to the embezzlement Davis says, Summit House codified its anti-fraud controls and hired an outside accounting firm to provide financial reports and do an annual review of agreed-upon procedures.

Westendorf, the community manager in Iowa, recommends that boards set up finance committees to help them screen monthly financial statements and look for irregularities. That doesn't absolve board members of their fiduciary duties, he notes.

"It comes down to well-educated board members overseeing and holding the financial levers accountable — the management company, the treasurer, the investment people, whoever they're working with to execute financial operations," Westendorf says.

Professionals and observers say they don't think fraud is widespread at community associations, contrary to the perceptions of some residents who don't trust their boards or management companies.

"I believe the vast majority, even of small mom-and-pop management companies, are good people who want to do the right thing," says Munz, the Florida accounting services provider. "Sometimes, bad things can happen because they're in a rush, or they don't have the time to invest in systems and training people."

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