

Property Owner Loses Over \$60,000! 5 Ways to Prevent Employee Theft by Craig Tice

The bookkeeper who has been handling the preparation of your monthly financial statements, making and accounting for bank deposits and cutting checks to vendors suddenly stops coming to the office. After trying for a day or two to reach this valued employee, you are convinced something has gone terribly wrong. You start to look through your records and realize many items are missing. A quick call to the bank uncovers the fact that the operating account does not have that hefty balance you believed was present. Then, reality sets in –your trusted employee has stolen from you for many years and is nowhere to be found. As you dig deeper into the records, interview tenants and reconcile bank accounts, you find that over the past 18 months, bills you thought were paid were in fact unpaid. Funds that were collected by your employee never made it to your bank account and in the end, you have lost over \$60,000.00. The employee was not reported because they were receiving free rent for their services, so the insurance company denies your claim.

The story outlined above actually happened to a long time property owners of a few small apartment buildings in Los Angeles. This owner was left with many bills that he thought had been paid and lost prepaid rent from tenants that he would never see again. The police often are not in a position to help until the losses can be verified, which takes time and money. In this case, by the time the police became involved, the employee was long gone, thus the matter has gone unresolved for many months and most likely will remain unresolved.

Owners of the multifamily residential properties hear stories such as this about other owners who have lost large amounts of money due to employee dishonesty. There are literally thousands of ways employees can steal from a property owner. Resident managers can move in tenants early or allow tenants to move out a little later than they were supposed to for a small fee collected by the manager. Tenants pay managers for extra people living in their units without the owner's knowledge. Bookkeepers embezzle funds. There have been instances where managers and bookkeepers kept two sets of leases. One set is given to the property owner and a second set is given to the tenants. The tenant's version contains a slightly higher amount required at the time the tenant moves in. The employee pockets the difference between the amounts on the tenant's version and the landlord's version. Employees have created business entities that do not exist. They set up a DBA, open a checking account and begin paying the nonexistent vendor for services allegedly rendered at the property. They will also use relatives or friends as these fraudulent entities. The list of ways employees can steal is virtually endless.

While there are steps an owner can take to help limit their exposures, there is no sure-fire method of completely eliminating the possibility that an employee will steal from the property. When an employee decides to steal, property owners often find themselves left with big losses and no one to turn to for assistance. Some insurance policies include employee dishonesty coverage, which will cover a portion of the loss, but the deductible will always come directly off the bottom line of the owner's operating statement.

In instances wherein a bookkeeper or manager is a particularly crafty, they are able to make it very difficult to track down these losses. Tenants are often a valuable source of information and will often help in these instances. However, keep in mind that once a tenant moves, it is very difficult to locate that individual. Even when an owner locates a former tenant, there is no guarantee that those individuals will cooperate. They simply do not have a vested interest in helping the former landlord.

So, what can owners do to protect themselves? Below are a few recommendations that may help owners identify if they have a problem and possibly deter employee theft:

1. Conduct random audits of lease information, deposits and cancelled checks.
2. A strict "NO CASH" policy is a must.
3. Independent of any employees – send directly to the tenants a verification of amounts paid at the time they moved in and monthly rent amount.
4. Audit the electricity meters to see if tenant's names match the lease information and if the dates the utility was turned on or off coincides with the move in and move out dates of particular tenants.
5. Handle all banking transactions personally. This includes deposits and check writing.

The above list represents only a few steps an owner may take, but all the ideas take a personal investment of time from the property owner. The most effective method of protecting yourself as an owner is to employ the services of a professional property management company. When a property management company employs the building staff, they also assume the responsibility for any losses incurred, as a result of the employee's dishonesty. Professional management companies carry some sort of employee dishonesty coverage or Fidelity Bond. A strong company will also carry employment practices coverage, which further insulates an owner from losses. Should a loss occur, an owner might then look to the management company to recover any losses caused by employee dishonesty. Having a management company involved also increases the likelihood that the records will be intact which help quantify the losses suffered. The Department of Real Estate has specific requirements regarding record keeping. Those companies that do not comply lose their license and ability to conduct business.

Owners who have gone through such an ordeal and have had to try to rebuild records from scratch and track down to recover their losses learn the hard way. One bad apple can end up quickly costing them tens of thousands of dollars and a huge amount of time.

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