



Management Company Defrauds Condo Owners

By Denise Lash on February 14, 2011

Where do unit owners monthly common expense payments go? Usually to pay the operating costs of the condominium corporation. Not so in Chicago where a two individuals represented themselves as Chairman and President of a management company, collected monthly fees from 250 unit owners in 40 condominium associations from 2005 to 2008 and used approximately \$2 million dollars of those monthly fees to pay a personal debt of theirs on a development project.

These two men created false monthly financial statements for the condominium associations - one of the reasons this had gone on undetected for close to 3 years. Needless to say, this management company is no longer in business.



This has left several condominium associations with depleted reserve funds and unpaid operating expenses.

Many of the unit owners were in shock when it became apparent in 2008 that for their funds were missing because it had appeared that the associations were properly managed.

The men were each recently charged with three counts of wire fraud. A preliminary arraignment for the men is pending.

There is an important lesson to be learned from this story. Board members should be ensuring that they are involved in the financial operations of the condominium corporation and that strict controls are put into place.

We are seeing more and more cases of fraud in Canada and those condominium corporations and property management companies that have the appropriate fidelity insurance in place to recover funds, are the lucky ones.

Boards should always check to see what insurance policies that they have in place and those policies that their management companies have. Insurance requirements should be incorporated into management agreements and any renewals. Board members should also be asking property management about the policies and procedures that are in place to protect the corporations funds.



Condo Reporter

Heenan Blaikie

Board members have a duty to govern the condominium corporation. This means taking an active part in the financial management of the corporation. Failure to do so could expose a director to potential personal liability.

The articles and comments contained in this publication provide general information only. They should not be regarded or relied upon as legal advice or opinions. © Heenan Blaikie LLP.