

Real Estate Case Study

Employee Fraud



Case Details:

The insured had decided to take some time off from work and therefore had employed a General Manager to oversee their business. Unfortunately with the diminished responsibility of the insured, the newly employed General Manager saw an opportunity to exploit the situation.

The business was quite profitable with a large book of rentals in holiday destinations, meaning the turnover of tenants was high and seasonal.

This new employee had taken it upon themselves to run the book, requesting bonds and rentals to be paid into a bank account of which the tenants believed as a 'Trust Account'. Unfortunately the money was directly deposited to the employee's bank account instead of the trust.

The result being deceptive behaviour with the intention to provide financial gain. This was proven by the fact that all traces of the monies which were to be deposited in the insured's bank account could not be accounted for.

Unfortunately this only became apparent once the new employee had resigned from their role and the insured had gone through their books. The insured realised that the rentals income did not balance in the trust.

The insured's failure to properly manage their books and recognise irregularities in everyday business activities created an opportunity for an employee to take financial advantage.

Upon further investigation, it was evident within the files of the property that the monies were transferred into another account number noted with the rental files.



Case Outcome:

Policy Response

The trigger of the policy under 'Fidelity' occurred when the loss adjuster and forensic accountant compiled their reports showing monies had been withheld from the insured's trust accounts and trailed the monies back to the suspect employee's account. The loss was clearly identified and a recovery was placed in progress against the now ex-employee to repay the funds.



Reduce Your Risk:

- Adopt a system which requires all financial transactions, incoming and outgoing, to be verified by the director or accountant of the business;
- Run a concurrent report to confirm funds are adequate within the trust. This should be cross checked with all the expected payments that will be coming through;
- If not in place, create a separate ledger to confirm all finances incoming/outgoing are balanced;
- Complete thorough background checks when employing new staff