

INSURANCE MAY BE

# GREEK TO YOU

IT'S *not to us*

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## FPMA NEWS | SPRING 2019

### IS AN EMBEZZLER IN YOUR MIDST?

**Rich Jungman, Fraternal Practice Leader |  
Shareholder**

I'm going to kick off this blog by telling you a couple of stories. You can decide if they're real while you're reading.

Sarah was a single mother going through a messy divorce. She was trying to feed her kids, and the money just wasn't there. Sarah was the treasurer for a local organization and, even though she was an accountant and knew it was wrong, she borrowed money from the organization without anyone knowing. She was in the process of paying it back when the chapter president noticed the financial irregularities.

After serving as a house corporation treasurer of a national organization for four years, Abby was elected to house corporation president. The chapter board had a pretty smooth transition, but about six months into their year, the current treasurer, Paula, started missing meetings. When asked about the financial reports, Paula gave vague answers and didn't provide any additional information. Even though Abby was a bit uneasy with Paula's lack of reporting, she was more uncomfortable about confronting her. After all, they were all volunteers doing the best they could to find the time in their busy schedules to serve the organization. Over time, Paula's attendance at board meetings continued to be sporadic with little-to-no financial reporting. Her responses to board questions became even more evasive, and she finally became non-responsive. At this point, Abby took matters into her own hands and, after reviewing copies of the

bank statements sent from the bank, discovered there was more than \$500,000 missing over the course of two years.

So, what's your thought — true stories or not? While I changed the names of the people involved, unfortunately, they're all true situations that involved local entities of our fraternity and sorority clients. In both situations, the missing funds were discovered by elected board members who had financial backgrounds and were committed to taking the extra time to dig into the details to figure things out.

Don't think this could happen in your fraternity or sorority? Neither did any of the board members of these groups. Sadly, these types of situations happen more frequently than anyone would like to admit. Theft by employees and volunteer officers is a significant exposure for not-for-profit organizations including fraternities and sororities. Many times, these organizations are easy targets because they don't take the time to implement basic financial management practices, and many times board members ignore the red flags.

So, what can you do to reduce the risk of being a victim of an embezzlement? While there are several recommended strategies to reduce the exposure to an embezzlement claim, the most critical and most effective is to make sure you segregate duties. The officer responsible for paying bills shouldn't be the officer who reconciles the financial accounts. Reconciling the accounts should be done monthly. A consistent process of checks and balances is a big deterrent to a would-be embezzler. And even if it's not, you will be more likely to catch the theft before it grows into a big loss to the organization. For more financial best practices, check out this resource on our website:

<https://www.holmesmurphy.com/fraternal/wp-content/uploads/sites/2/2019/03/Crime-Prevention2019.pdf>.

Always be on the lookout for red flags. Behaviors like the following should be further investigated. The person:

- Is living beyond their means.
- Is unusually close with vendors.
- Has control issues, specifically those who don't want others involved in the financial management of the organization.



Remember, when you look at the characteristics of an embezzler, they're usually well-educated, dedicated, trustworthy, often have a great personality, and have no criminal record. They tend to be in a trusted position for the organization with access to the finances and often would be the least likely person to be suspected. It's impossible to know from outward appearances who is likely to steal and who isn't. The bottom line is that someone who was once viewed as trustworthy, later may prove not be.

My best advice...always be diligent in managing this risk your organization faces and certainly don't hesitate to reach out to us for help!



## SUMMER BREAK CHECKLIST

Summer break, or the months of May through August, is a high-risk time for chapter houses. It is important you take the time to properly prepare your chapter house for the summer break period.

### The leading risks to a chapter facility during the summer break period are:

Fire

Vandalism

Theft

Water damage

Wind

Hail

### Fraternity Insurance Claim Facts

If you take a look at the loss history of fraternity property claims, it is easy to see why summer break preparation can make a big difference. Here are the simple facts:

- Each year, fire has been the leading risk factor with the majority of the serious fires occurring during summer break. In our recent claim study, 76% of all claim dollars were paid as a result of fire damage. **The average expense from a fire loss is nearly \$400,000.** In all the fires, the common denominator was human error and lack of leadership within the chapter.
- Water damage represents 38% of the number of claims filed. This problem, if unchecked, can lead to a large loss. **The average expense from a water damage loss is more than \$14,000**
- Vandalism is also a significant cause of truly preventable losses. **Damage as a consequence of vandals entering an unsecured chapter facility has resulted in over \$700,000 paid in damage.**



### What can you do to avoid these types of losses?

Only two perils on the list are truly unavoidable, that being wind and hail. However, the risks and resulting claims from wind and hail often occur to the roof and structure of the facility, emphasizing the need to have the facility inspected by a professional on a regular basis to assure it is structurally sound and current damage is repaired.

Most incidents involving water damage could have been minimal if someone had taken the time to prepare the house for break. The plumbing issues creating damage often went unchecked for days, weeks and even months. As a result, what would have been a few hundred dollars in clean up and a small plumbing repair turned into a costly claim.

Avoiding a claim can make a significant difference in the cost of property insurance and ability to provide a safe and healthy environment for undergraduate members. Use the *Summer Break Checklist* to help minimize your exposure to a property claim.

### What are the benefits of being prepared for Summer Break?

- Avoid the expense and the time associated with a claim and restoring the damaged area.
  - With a large loss, you may risk having an uninhabitable house for the fall semester.
  - Water damage, when left unaddressed, combined with heat and humidity can lead to mold growth. Many insurance policies limit coverage in this area.
  - Protect your legacy and history from thieves and vandals. A price can be put on everything except sentimental value.
- 
- ☐ Inspect all rooms/suites, document damage and collect payment from security deposit
  - ☐ Complete routine maintenance on furnace/boiler/AC
  - ☐ Clean and inspect all roof drains and gutters (contact a local professional for this service)
  - ☐ Repair all broken windows and doors to prevent damage from inclement weather; ensure that doors latch completely
  - ☐ Have a roofing contractor inspect the roof, provide a written recommendation and repair any immediate concerns
  - ☐ Contact emergency service company to conduct an inspection and service emergency lighting, alarm equipment, fires suppression and sprinkler systems
  - ☐ Clean exterior and interior of chapter house and check security/safety lighting
  - ☐ Clean/service fireplace and chimney and check for defects or debris
  - ☐ Inspect the hot water heater and exposed water lines and drain pipes for slow leaks
  - ☐ Remove and dispose of lumber, mattresses or other debris outside the facility, especially near the dumpster
  - ☐ Unplug and store unused appliances
  - ☐ Service and clean stoves, ovens, hood ranges and other kitchen equipment
  - ☐ Inform the host institution (college/university) as to whether the residence will be occupied or not and provide proper contact information for the facility

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### If members will be attending school and living in the facility over the summer period:

- ☐ Have each sign a housing agreement, specific to the summer period

If the appropriate officers will not be living in the facility, appoint someone to oversee daily maintenance, collect rent and pay bills. Consider hiring a professional property manager to work in conjunction with a resident manager

### If the chapter facility is unoccupied over the summer, make sure the following is completed:

- ☐ Securely lock the property and limit access to only designated alumni/alumnae or undergraduates
- ☐ Have a responsible alumnus/alumna, undergraduate or professional property management company check the property daily to ensure a loss has not occurred. **A consistent daily presence will deter thieves and vandals. Hiring a professional property management company is strongly recommended**
- ☐ Inform local police and/or campus security the property will not be occupied. Provide them with a key/code for access to the facility and ask them to patrol frequently
- ☐ If it will not affect the function of your fire sprinkler system or other systems requiring water, turn the water off at the main supply line (contact a professional for this service)
- ☐ When not in use, remove all hoses and store in an appropriate place, preferably inside facility
- ☐ Remove spigot knobs or install locks at each spigot location. Many vandalism claims involve turning on the attached hose and placing it near or in the house with the water turned on
- ☐ If the property will not be occupied in the fall, contact Holmes Murphy to ensure you are meeting the necessary conditions required of a vacant property to not limit coverage in the event of a loss
- ☐ Hire a mature caretaker to reside in and look after the property in exchange for free/reduced rent if a house mother and/or resident advisor is not available



Caretaker provided with:

**1. A Master Key**

The key should allow access all areas of the house including individual rooms.

**2. Alumnae/Alumni House Corporation Contact**

Name: \_\_\_\_\_

Telephone #: \_\_\_\_\_

**3. Emergency Response Contact**

Name: \_\_\_\_\_

Telephone #: \_\_\_\_\_

**4. Emergency Repair Company options**

ServiceMaster 888.927.4877 | [www.servicemastercat.com](http://www.servicemastercat.com)

**5. Insurance Claim Reporting Information**

Insurance Agent: \_\_\_\_\_

Insurance Company: \_\_\_\_\_

Policy #: \_\_\_\_\_

Contact Information: \_\_\_\_\_

Insurance Broker: Holmes Murphy, [www.holmesmurphyfraternal.com](http://www.holmesmurphyfraternal.com)

Holmes Murphy Contact: MK Mashek at [mmashek@holmesmurphy.com](mailto:mmashek@holmesmurphy.com)

800.736.4327 ext. 5500

After Hours Contact: 800.736.4327 ext. 4189

**Completed by:** \_\_\_\_\_

**Date Completed:** \_\_\_\_\_





## IS YOUR PROPERTY VACANT?

### What do you need to know

#### Rob Meraz, Client Advocate

For various reasons, a number of chapter houses insured under the FPMA Property Insurance Program will become vacant during the policy period. To ensure that coverage on your chapter house is not jeopardized, it is important you understand when it is considered vacant and that you deal with the vacancy immediately.

The FPMA policy forms address when a location is considered vacant and the effects the vacancy has on a chapter house's coverage.

*When is a property considered vacant under the policy?*

- If the policy is issued to a tenant, it is considered vacant when the suite or unit rented or leased does not contain enough business personal property to conduct customary operations.
- When the policy is issued to the owner of the building, it is considered vacant when 70% of its space is not rented or used to conduct customary operations. This requires active use of 30% or more of the facility space.
- A chapter house under renovation is not considered vacant. To meet the special needs of fraternal organizations, the FPMA policy, by endorsement, does not consider a chapter house vacant over summer or winter break contingent upon being occupied the preceding semester and will be occupied the following semester.

*What effect does the vacancy have on coverage afforded under the policy?*

After a property is vacant under one of the scenarios addressed above for more than 30 consecutive days, there are serious implications on coverage afforded under the policy in the event of a loss after the 30 day grace period.

- The vacancy results in the elimination of coverage for vandalism, sprinkler leakage unless the system has been protected against freezing, building glass breakage, water damage, theft or attempted theft.
- All other payments for losses otherwise covered under the policy will be reduced by 15% and subject to a \$10,000.00 deductible.

*What should you do if your chapter house becomes vacant?*

- Immediately contact Holmes Murphy and advise us of the vacancy. We can issue a vacancy warranty which will restore coverage for the causes of loss listed above contingent upon measures taken to secure the property being met and your chapter house passing an inspection.
- Immediately secure the premise by boarding up all windows accessible from the ground, decks or fire escapes.
- Maintain the heat at a minimum of 60 degrees or shut off the main water supply and have all plumbing drained and water blown out.
- Hire someone to walk through the property daily to ensure the property is secure and a loss has not occurred.
- Many organizations elect to have a caretaker reside in the property to deter vandals and mitigate the damage should a loss occur.

*What has FPMA done to address vacant locations and their impact on the premium you pay?*

- The program no longer will insure a new location that is vacant. Only properties that were insured under the program prior to the vacancy will be written.
- Upon notice that a property is vacant, a 30-day notice of cancellation is issued. The cancellation will be rescinded when the vacancy warranty provisions are met, the additional premium is paid and the property passes an inspection.

Vacant properties present a significant risk to the vitality and affordability of your chapter's property insurance. While they only account for approximately 1% of the locations insured within FPMA, they account for over 12% of all claim dollars paid. Collectively, FPMA and its members can make a difference and stabilize the premium for property insurance by properly addressing the risks associated with a vacant property.

Other Holmes Murphy resources can be found on our website: [www.HolmesMurphyFraternal.com](http://www.HolmesMurphyFraternal.com), including links to our recorded webinars. Please don't hesitate to contact us for more information.

