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CREDIT CARD FRAUD

COULD IT HAPPEN
TO YOUR ASSOCIATION?

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I was reading *The Washington Post* recently and two articles caught my attention. One was about the members of the Montgomery County School Board misusing board-issued credit cards for personal expenses, including hotel stays, personal meals, and travel. The other was about a former Girl Scouts executive who pled guilty to embezzlement for using a Girl Scout-issued credit card to pay for lavish personal expenses (hotel stays, sporting event tickets, a beach house rental, and spa services) of nearly \$23,000. As I was reading the articles, I thought about the homeowners associations, condominiums and housing cooperatives that my firm audits and how often my firm is asked if it is appropriate for associations to have credit cards. The conservative and risk averse accountant in me says "No!"

Property managers, on-site managers, and board members often want to simplify the process of paying for goods and services for the association. They insist that a credit card is necessary because they cannot find vendors or contractors who accept payment in the form of a check. Sometimes a well-intentioned individual wants to reduce costs for the association through buying supplies or equipment from on-line retailers or on-line sites, such as eBay or Craigslist. These on-line sites do not provide the goods without pay-

ment up-front with either a debit or credit card. Other times, the well-meaning individual, also thinking of savings for the association, suggests the association could open a cash back credit card or a credit card that earns points. When goods or services are paid for with a credit card, the association's internal controls are bypassed. There is no review of the invoice or receipt before payment is made, as would happen if payment were made via check. Having a credit card opens the door for someone to intentionally or unintentionally misuse the credit card. In addition, if the balance on the credit card is not paid in full or is not paid timely, the association may be charged steep late fees and finance charges. Any savings the association might recognize through accumulating points or purchasing goods on-line could be wiped out by the cost of fraud or credit card related fees.

Before obtaining a credit card, the association needs to determine whether it is *absolutely necessary* for the association to have a credit card. Sometimes it is. Some associations have vehicles or landscaping equipment and need credit cards to pay for the gasoline. If there is no other way for the association to function without a credit card, then the proper internal controls must be established to protect the association. The increased time in properly administering

the internal controls over credit card use may outweigh the perceived time savings in paying the vendor with a credit card. The following are suggested internal control procedures:

- Purchases using the credit card should be limited to situations where payment cannot be made by check. Using the credit card bypasses the association's established internal control procedures.
- Original receipts should be submitted with the statements for payment.
- The original statements should be mailed to someone other than the authorized user and a copy should be sent to the authorized user to reconcile. The statement and receipts should be reviewed and approved by someone other than the authorized user each month.
- The credit card should be kept in a secure location and used only by authorized individuals.
- The association should periodically review the credit limit and should keep the credit limit at a minimum amount.

In my opinion, the risk an association takes on when having a credit card is too high and any potential savings in either time or costs would not be worth the risk. You don't want fraud to occur at your association and you certainly don't want your association to end up in an article in *The Washington Post* about fraud. 📺