

### 3.

## ACCOUNTING

### 3.10 Compliance

#### 3.10.3 Bond Coverage for Public Officials and Employees

3.10.3.10 These recommendations are intended to make local governments aware of possible bond restrictions and limitations. Any modifications made in bond coverage should be thoroughly reviewed with your legal counsel.

#### 3.10.3.20 **Cover All Employees**

Bond coverage should be provided for all employees. Since individual position bonds often are limited in coverage, the entity should consider an employee blanket bond.

#### 3.10.3.30 **Increase Amounts of Coverage**

Dollar limits of current bond coverage may be established by the statute; however, this minimum amount may not be enough. The bond coverage amounts should be reviewed to ensure that there is adequate coverage over loss. Costs associated with increased bond coverage are often minimal considering the protection that increased coverage provides.

A reasonable amount of bond coverage will vary with the size and financial activities of each local government. In determining the amount of coverage needed the insurance broker, legal counsel and other municipalities should be consulted when determining amount of coverage needed.

#### 3.10.3.40 **Improve Type of Coverage**

Consideration should be given to the value of the less restrictive coverage of faithful performance bonds. Honesty bonds often require evidence of the employee's dishonesty before recovery can be made. Faithful performance bonds only require proof that a loss has been incurred.

#### 3.10.3.50 **Eliminate Restrictions on Coverage**

Non-Cumulative Coverage – A common restriction in bond coverage is limiting any recovery to the face amount of the bond, regardless of the number of years the loss covered.

For example: Assume losses of \$10,000, \$20,000 and \$20,000 were incurred in three consecutive years, respectively, and a \$20,000 bond was in force for all three years. Non-cumulative coverage would limit the total bond recovery to \$20,000, thereby resulting in an uninsured loss of \$30,000.

The effect of the non-cumulative limitation should be considered when determining amounts of coverage.

Audit Costs – Sometimes an extensive audit is required in order to prove and document a loss. Audit costs are often not recoverable due to limitations in bond coverage. Specifically including audit costs in the bond coverage should be considered when establishing coverage.

Filing on Bond – Restrictions as to who can file for recovery on behalf of the bondholder should be reviewed. Such restrictions could prevent filing by the Attorney General's Office or other regulatory agency, resulting in additional legal costs to the local government.

#### 3.10.3.60 **Bond Coverage does not Replace Errors and Omission Coverage**

A bond is not insurance. Although the bonding company may pay on a loss, it can seek to recover the amount it paid from the bonded official. To protect officials from such liability, local governments should consider carrying errors and omission insurance.