THE POWER OF BEING UNDERSTOOD

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FRAUD RISK CONSIDERATIONS

in the COVID-19 Environment

July 19, 2021 – Association of Certified Fraud Examiners

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Speaker



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“Coronavirus Pandemic Is a Perfect Storm for Fraud”

-Bruce Dorris, J.D., CFE, CPA
President and CEO of the Association of Certified Fraud Examiners



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“Almost every crisis brings out not only those who seek to help others, but also exploit those who try to exploit the situation for their own unlawful purposes and financial gain”….Acting Assistant Attorney General Brian Rabbitt, Sept 10, 2020



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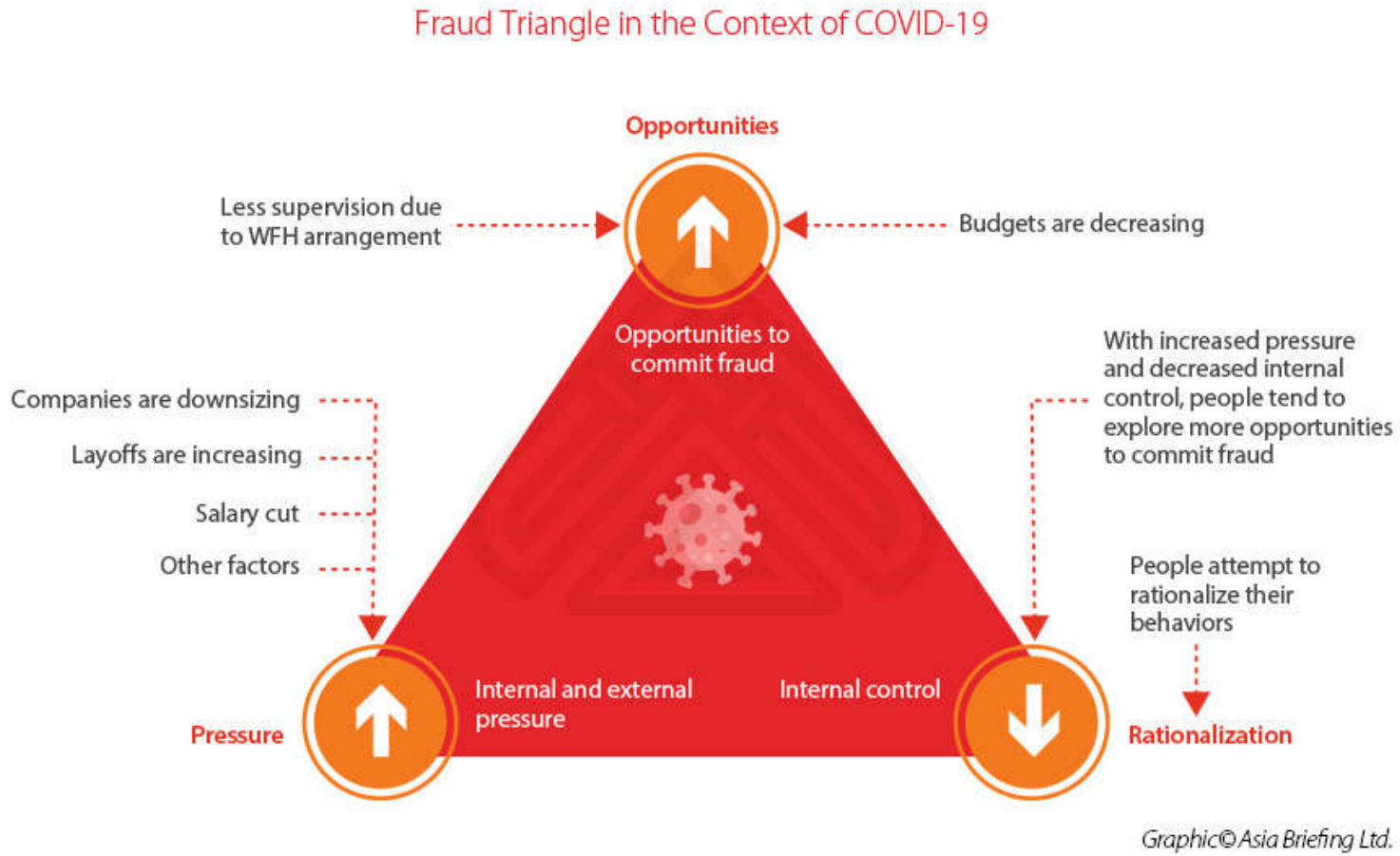
Economic Downturn Impact

Organizations	Individuals	Global Economy
Shift of resources	Financial and health threats	Economic downturn
Significant job cuts	Layoffs	Volatile markets
Supply chains significantly disrupted	Working Remotely	Record unemployment

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Fraud Triangle



WFH = Work From Home

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Fraud Triangle - Financial Pressures

- Company shut downs or reduced operations
- Business interruption coverages denied by carriers; **no "physical damage" sustained to trigger coverages.**
- Companies facing significant cash shortages with dismal cash flow forecasts
- Looming possibility of bankruptcy
- Stock market volatilities
- Record unemployment due to virus impact **(1/7th of the US into unemployment)**
- Operational pressures to maintain revenue and profit levels

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Fraud Triangle - Opportunities

- Federal/State/City government financial relief programs with less stringent oversight/audit process
- Workforce working remotely = possible compromise in IT controls
- Reduced staff = reduced management oversight/approval
- Employees in new/adjusted roles to fill gaps
- Supply chains significantly disrupted
- Need for new suppliers/vendors; onboarding shortcuts
- Companies in “survival mode”

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Fraud Triangle - Rationalizations

- Loss of employment, “nobody’s fault, virus related”
- Health/medical issues
- Falsifying information on loan program applications
- “Survival mode” all hands on deck mindset; need to survive by any and all means
- Business interruption insurance coverage denials
- It’s only a short term loan, will pay it back

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COVID 19 Economic Programs – PPP Loan

- Federal government allocated billions of dollars under the CARES Act, Paycheck Protection Program (PPP) over a very short time period.
- Intended to bring financial relief to small business primarily to cover payroll costs, rent, utilities and interest on mortgages.
- With understanding that the loan would be forgiven if funds were utilized according to program requirements.
- From inception of the PPP Loan program through August 2020; 5.2 million loans issued totaling $525 billion.

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PPP Loan Fraud Fallout

- *"Arkansas Project Manager Pleads Guilty to Bank Fraud and False Statements in Connection with COVID-Relief Fraud"*
- *"Texas Man Charged with COVID-Relief Fraud, False Statements and Money Laundering"*
- *"Nine Charged with $24 Million COVID-Relief Fraud Scheme"*
- *"Seven Charged in Connection with a COVID-Relief Fraud Scheme Involving more than 80 Fraudulent Loan Applications Worth Approximately $16 Million"*
- *……and many more examples of PPP Loan fraud; DOJ has charged 209 individuals in 119 cases to date, and counting.*

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Common Fraud Scheme Actions

- Creation of fake companies or using defunct companies as applicants
- Fabricating payroll records with non-existent employees
- Falsifying actual payroll records
- Falsifying tax returns and bank statements
- Making false statements and representations to lenders and on the application
- Fraud rings recruiting others and receiving kickbacks from assisting others in filing fraudulent PPP Loan applications

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PPP Loan Fraud - Opportunities

- Push to expedite funding process resulted in significantly less diligence in loan evaluation and funding, in some cases recommended by the SBA
- Loan program indicating only those that received more than $2.0 million would be subject to an official audit
- Applicants required to sign a “good faith certification” not a strong deterrent to submitting false and fraudulent applications
- The massive numbers of applications received by lenders under the loan program placing bank employees under significant stress to complete loan process

MASSIVE SUMS INVOLVED, SHORT TIMEFRAMES, LIMITED RESOURCES AND UNPRECEDENTED CIRCUMSTANCES AND DEMANDS IMPACTING EVERYONE = OPPORTUNITIES

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PPP Loan Fraud – Lessons Learned So Far

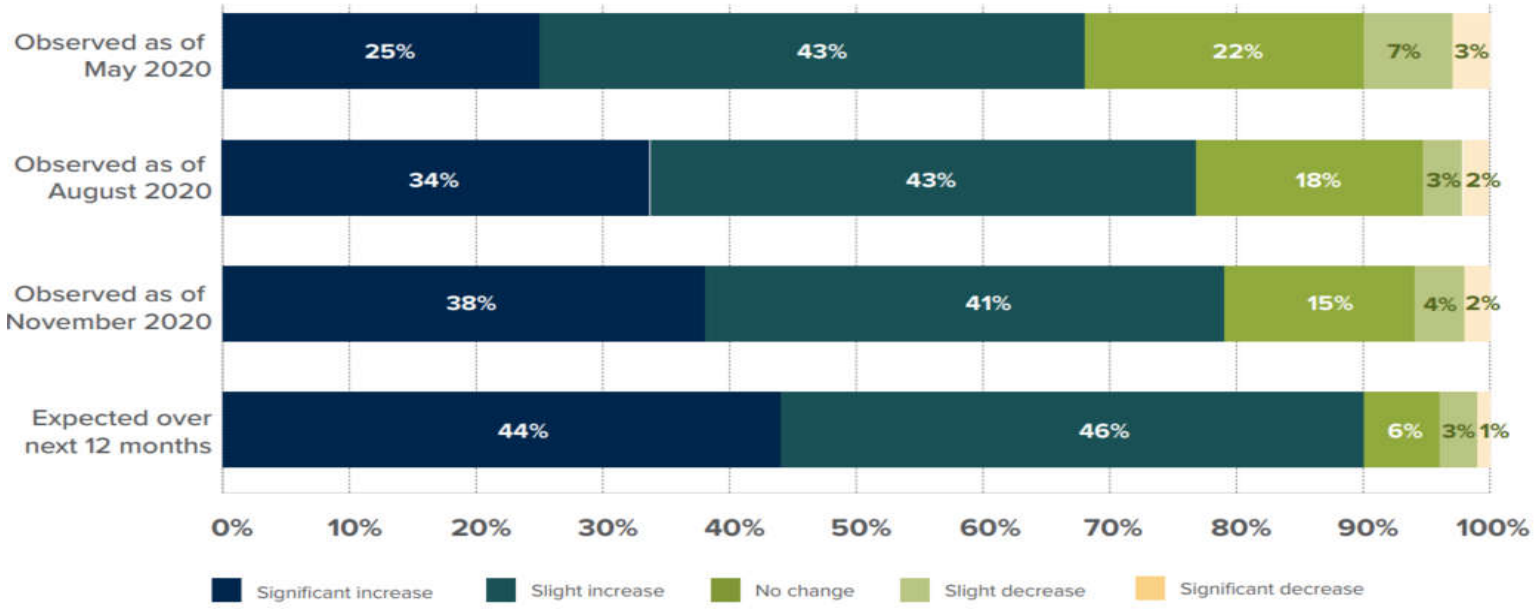
- Learn from the actual fraud perpetrated within the PPP loan program; both from the process and the fraudsters
- Fraud, waste and abuse experienced in the PPP Loan program can be and will be repeated in other current and future governmental programs when disbursing of funds are involved; therefore today review inwardly
- Review options to gain efficiencies in the approval and disbursement process; data analytical software options are powerful tools in that regard
- Review design, oversight and monitoring roles and needs within economic/financial programs; increase proactive approach to lessen the need for reactive responses

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COVID-19 Benchmarking Report by the ACFE

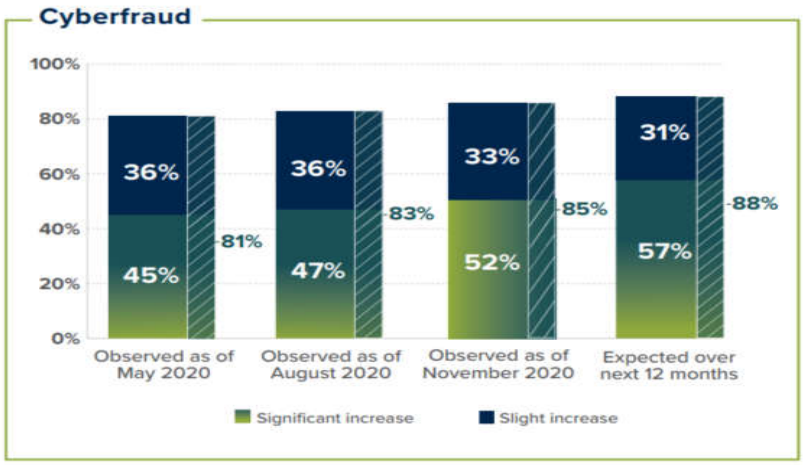
Actual and Expected Change in the Level of Fraud

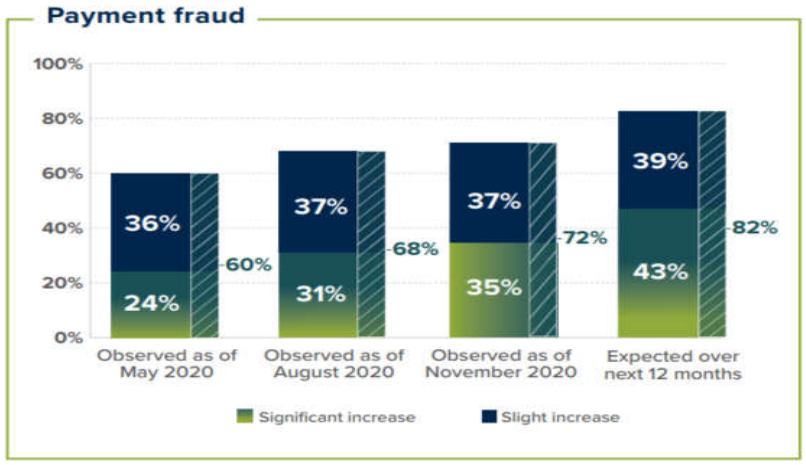


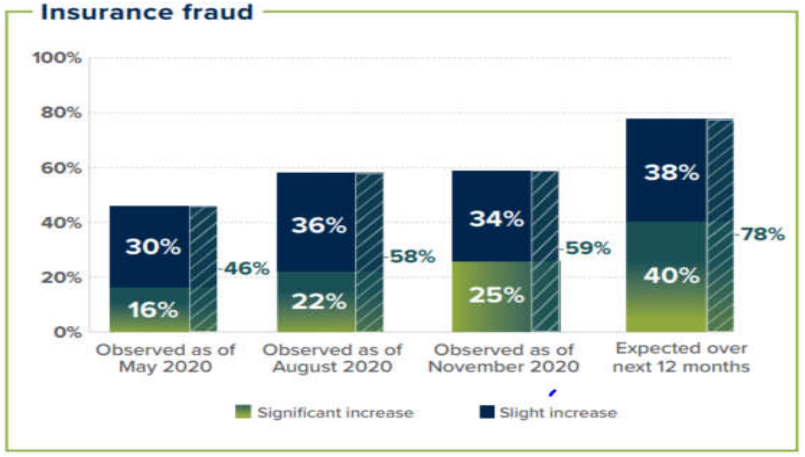
Source: Fraud In The Wake Of COVID-19: Benchmarking Report, ACFE, December 2020

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Fraud Scheme Types in COVID 19 Environment









Source: Fraud In The Wake Of COVID-19: Benchmarking Report, ACFE, December 2020

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Prevention & Detection Preparedness

- Remote Workforce
  - Incorporate secure remote access technology platform
  - Secure access to critical files and applications
  - Consistent communication regarding cyber fraud risks, social engineering and email attacks (BEC)

- Fraud Prevention Discipline
  - Your internal/external relational fraud risks are your fraud risks
  - Know your customers and vendors
  - Fraud prevention risk management; fraud risk gaps and past events
  - Robust cybersecurity systems

- Fraud Detection Discipline
  - Necessary pre COVID-19, more so in a “perfect storm” environment
  - Fraud technologies continue to advance in efficiency and effectiveness
  - Pay attention to your whistleblower/fraud hotline data
  - Learn from internal investigations and make appropriate “loss prevention” adjustments from actual investigations

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QUESTIONS AND ANSWERS

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THANK YOU FOR YOUR TIME AND ATTENTION

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Polling Questions - CPE

- 1) What factor **IS NOT** part of the Fraud Triangle?
  - a) Pressure
  - b) Rationalization
  - c) Employment Position
  - d) Opportunity
- 2) Did your place of employment receive a PPP loan?
  - a) Yes
  - b) No
  - c) Don’t Know
- 3) Do you expect levels of fraud within the following year will _____.
  - a) Increase
  - b) Decrease
  - c) Remain the same
- 4) Has your organization experienced cybersecurity issues during the pandemic shut down period?
  - a) Yes
  - b) No
  - c) Don’t Know

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