

Ripped From the Headlines - Fraud in the World Today

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Key Points

- * What is fraud?
- * Why are they committing fraud?
- * Fraud in Pandemic Times
- * Other Frauds in the Headlines

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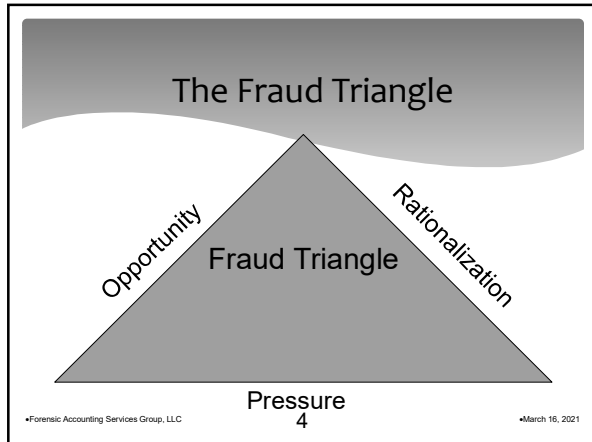
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Why do people commit fraud?

- * Unitarianism – offenders will calculate potential gains and losses before they decide to disobey the law
- * Routine activities theory - motivation to commit and supply of offenders is constant
- * Biological theories – caused by the physical traits of the criminal
- * Psychological theories – criminal behavior is the product of mental processes – born that way or conditioned
- * Sociological theories – all people have the potential to become criminals
 - Donald Cressey – the fraud triangle

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- ### Pressures That Cause Fraud
- * STRESS
 - * Crisis in personal life
 - * Financial pressures
 - * Gambling or other vices
 - * Life situation changes
 - * Career or job pressures
 - * Peers / family
 - * Market pressures (Wall Street / shareholders)
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- ### Rationalizations
- * They owe me.
 - * No one will notice or get hurt.
 - * I deserve it.
 - * I see others doing it, why not?
 - * I need it more than they do.
 - * Subtle – comes when least expected!
 - * Conscious decision to place their needs above needs of others.
 - * In summary – can always be rationalized!
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Opportunities - Internal

- * Lack of segregation of duties
- * Lack of internal controls
- * Lack of appropriate system of approval hierarchy
- * Overrides not controlled
- * Lack of vacation policies
- * Attitude of management / employees
- * Lack of understanding of processes

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Opportunities - External

- * Poor general controls
- * Poor IT related controls
- * Lax atmosphere
- * Too customer service oriented
- * Deviation from policies
- * Panic / Rush to react to situation
- * Pressure from public

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Concealing the Crime

- * Lack of audit trail or documentation
- * Alteration or destruction of records
- * Substitution of same type product
- * Set up of fictitious records / companies / employees

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Where Can We get Fraud Statistics?

- * ACFE Report to the nation – acfe.com
 - * Only reports on cases performed by CFE’s
- * FBI – fbi.gov
 - * Internet Crime Complaint Center (IC3)
 - * National White Collar Crime Center (NW3C)
- * Justice Department Website – www.justice.gov
- * Consumerfraudreporting.org

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Fraud in the News

- * Covid-19 fraud
- * Personal scams – still happening!
- * Business scams

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COVID – 19 – Fraud related crimes

- * Fraud tends to increase when crisis are upon us
- * Every day cases of fraud related to Covid-19 are popping up in the headlines
- * Major types:
 - * Unemployment Fraud
 - * Paycheck Protection Program (PPP) Loans
 - * Vaccine Fraud
 - * Stimulus check fraud
 - * Misappropriation of funds designated for medical providers
 - * Kickbacks to providers

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FinCen released an advisory on unemployment fraud

- * Issued 10/13/2020
- * Many types:
 - * Fictitious employer/employee fraud
 - * Employer/employee collusion
 - * Misrepresentation of income fraud
 - * Insider fraud
 - * Identity-related fraud

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Fictitious employer/employee fraud

- * Creation of a fictitious company with fictitious employees that got laid off
- * Filers falsely claim they work for a fictitious company

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Employer/employee collusion

- * Employee gets unemployment while still receiving wages – under the table – usually reduced
- * Employer is in on it – that’s why employees wages are reduced

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Misrepresentation of income fraud

- * Individual returns to work and fails to report the income
- * Individual claims higher wages than was previously being earned

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Insider fraud

- * State employees use credentials to access or change UI claims
 - * Approval of unqualified applicants
 - * Improper payment amounts
 - * Movement of UI funds to accounts that are not on the application

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Identity related fraud

- * Applications using stolen or fake id's to perpetrate account takeover

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Unemployment Fraud

- * Consumers are starting to get 1099-G forms from the department of labor for unemployment funds
- * Except they did not collect the unemployment!
- * Identities were stolen and unemployment filings done under their name and social security number
- * Or they were able to access previously filed unemployment benefit information and submit the claims

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Perfect arena for fraud

- * Pressure to get the funds out the door
- * Volume of applications crushed unemployment agencies
- * Mobile banking apps being used - multiple transfers
 - * Green Dot, Venmo, Paypal, CashApp and Walmartzalmart
- * \$600 additional benefits being sent
- * In a large number of companies – no one in HR to verify information!

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Scammers got \$36B

- * Scammer said he compiles a list of real people
- * Pays \$2 in cryptocurrency for date of birth and social security numbers
- * Can find mother's maiden names, high schools, where you were born on family trees online or social media
- * Successful 1 in 6 times when applying

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States became alarmed

- * State of Washington – claims were 10 times what were expected
- * The state stopped all payments for 2 days to regroup and analyze
- * Started noticing out of state bank accounts, duplicate email addresses and multiple names using the same bank account
- * Since March 2020- have identified 122,000 fraudulent claims - \$600 million stolen – recovered \$357 million

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States tried to stop it

- * Two-factor authentication systems established
- * Third party ID verifications tools
- * Analyze and block suspicious IP addresses that were being used
- * Also a national shared database to detect suspicious activity

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Estimated Losses

- * New York - \$5.5 billion
- * California - \$2 billion
- * Massachusetts - \$242 million
- * Michigan - \$200 million
- * Rhode Island - \$18 million
- * Arizona - \$8 million
- * Wisconsin - \$6 million

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Red Flags You Are A Victim

- * You receive a debit card or an unemployment insurance letter but have not filed for any benefits.
- * Your employer notifies you that a claim for benefits has been filed, but you are still employed.
- * You attempt to file a claim and one under your name already exists.
- * The IRS sends you a letter about you receiving unreported unemployment insurance benefits.
- * You get a notice of a state or federal tax offset.

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Red Flags for FI's

- * Financial Institutions need to monitor accounts for this type of crime:
 - * UI payments coming from out of state
 - * Multiple state UI claims coming into same account
 - * Payments coming in for different names than accountholders
 - * UI and direct deposits occurring
 - * High # of UI claims being deposited
 - * Deposits are quickly withdrawn or transferred

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Paycheck Protection Program (PPP) Loan Fraud

PPP loan fraud occurs when people **intentionally** obtain – or attempt to obtain – funds through the CARES Act that they are not entitled to. Five examples of **PPP loan fraud** include:

1. Falsely claiming the company has **fewer than 500 employees** to qualify for the loan.
2. **Falsely claiming** the coronavirus crisis hurt business to qualify for the loan.
3. Inflating average monthly **payroll costs** to get more loan money. (Note that payroll costs cap is **\$100,000 per employee.**)
4. Falsely claiming all the loan money is going towards **qualified expenses** (payroll, rent, mortgage, utilities) in order to get the loan forgiven.
5. Not **disclosing** if employees leave (thereby reducing payroll expenses) in order to get more of the loan forgiven.

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Cases started back in 2020...

- * The first federal accusation of PPP loan fraud was announced by the US DOJ on May 5.
- * Two men, one from Massachusetts and the other from Rhode Island, were charged with conspiracy to commit bank fraud, among other accusations.
- * They are alleged to have applied for a PPP loan totaling \$543,881; in the application they certified that they had "dozens of employees earning wages at four different business entities when, in fact, there were no employees working for any of the businesses."
- * The DOJ further alleges that the businesses "were not operating prior to the start of the COVID-19 pandemic." In one instance, the DOJ adds, a PPP loan was allegedly requested for "a business the loan applicant did not own."

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Hip Hop Star Gets Involved

- * Reality star is accused of applying for a PPP loan for his company – Flame Trucking
- * He had posed as the owner of a profitable trucking business, conning 20 people out of \$5 million from 2014-2020
- * Submitted an application for a \$3.7 million PPP loan – claiming he had 107 employees with an average monthly payroll of nearly \$1.5 million

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But what did he buy?

- * \$40K for past due child support
- * \$50K for past restitution for a fraud case
- * \$65K in cash withdrawals
- * \$85K for custom jewelry
- * \$136K to lease a 2019 Rolls Royce
- * \$230K to associates to help with the Ponzi scheme
- * \$907K to help an associate start a new business
- * \$617K seized from bank accounts

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This one was planning his investment strategy!

- * May 13, the sole proprietor of a business in Texas was charged with "wire fraud, bank fraud, false statements to a financial institution, and false statements to the SBA."
- * He "allegedly sought approximately \$10 million from one bank and \$3 million from another in PPP loan proceeds by fraudulently claiming to have 250 employees with an average monthly payroll of approximately \$1.2 million."
- * In garbage outside the man's residence, they found "handwritten notes that appear to reflect an investment strategy for the \$3 million, which is the amount of money that [he] allegedly sought from the second lender."

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Florida man gets a mansion!

- * Bradenton, Florida man was indicted this week in federal court after being accused of spending \$7.2 million of funds from the PPP to purchase a seven-bedroom mansion and three luxury vehicles.
- * Indicted on two counts of wire fraud, three counts of aggravated identity theft and three counts of illegal monetary transaction
- * In July, he and his girlfriend purchased the Chuluota, Florida, mansion after he was investigated for using fake information to get a loan for his business, known as MagnifiCo Inc.
- * Records show he established MagnifiCo in 2014. MagnifiCo was listed as a consulting company with few or no employees and had no website.
- * He is accused of saying the company had 441 employees with an average monthly payroll of \$2.88 million

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How about one more?

- * Also applied to get an Economic Injury Disaster Loan (EIDL)
- * Nine fraudulent loan applications totaling \$1.1 million / got \$700K
- * Owner & CEO of Blackrock Services – received EIDL and PPP funds for company
- * Then used the names of former and current employees of Blackrock to apply for more loans under 4 other companies he controlled
- * Then incorporated a company named BlueLine Capital in June 2020 and applied for a loan
- * On loan application had been in business since 2017, 9 employees

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What caused all this?

- * Banks were inundated with applications
- * Pressured to turn the loans around
- * Never checked payroll records with what had actually been filed!

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Vaccine Fraud

- * Scammers are calling people to “make appointments” for the vaccine
 - * Asking for personal information, like social security numbers and credit card information.
- * Authorities are warning that no one can “buy” their way to the front of the line – as is being promised
- * Are also seeking Medicare information for fraudulent claims

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Stimulus check theft

- * Scammers are using these stimulus payments to try to rip people off.
- * They might try to get you to pay a fee to get your stimulus payment.
- * They might try to convince you to give them your Social Security number, bank account, or government benefits debit card account number.

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Preventing the theft of your stimulus checks

1. Only use irs.gov/coronavirus to submit information to the IRS – and never in response to a call, text, or email.
2. The IRS won't contact you by phone, email, text message, or social media with information about your stimulus payment, or to ask you for your Social Security number, bank account, or government benefits debit card account number. Anyone who does is a **scammer phishing for your information**.
3. You don't have to pay to get your stimulus money.
4. The IRS won't tell you to deposit your stimulus check then send them money back because they paid you more than they owed you. That's a **fake check scam**.

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Misappropriation of funds designated for medical providers

- * Provider Relief Fund – moneys set aside for medical providers that must be used for the medical provider's coronavirus response
- * First indictment happened in February 2021
- * Woman previously owned a home health company shut down due to overbilling Medicare by \$1.6 million
- * Then submitted a claim for approximately \$37K for fictitious claims of helping corona virus patients

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Fake providers

- * California company allegedly
 - * Sold fake corona test kits
 - * Sold virucide – a cure for Corona
 - * Put false government registration numbers on their products
 - * Fabricated phony scientific studies and white papers

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Personal Scams - Covid

- * Contact tracer scam texts – attempting to get personal information pretending to be a contact tracer
- * Non-delivery scams – never delivered masks and gloves ordered
- * Charity scams – trying to get your money for a “cure”
- * US losses are at least \$100 million – still uncovering the frauds

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Personal Scams - Other

- * Debt collections – Harassing phone calls, pay day loans, credit repair companies
- * Fake government officials – IRS phonecalls, FBI – need to send money to settle debts or case
- * Identity Theft, Phishing and Pharming – synthetic identity fraud – talking about next!
- * Phone scams – Your google or Microsoft account has been compromised!
- * Fake prizes, sweepstakes
- * Romance scams
- * Internet auction scams

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Business Scams and Frauds

- * The names change, but not the crime!
 - * BEC Scams
 - * Money Laundering
 - * Bribery
 - * Financial Statement Fraud

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BEC – Business Email Compromise

- * Still a huge issue – 200% increase in 2020 – invoice and payment fraud growing
- * During invoice and payment fraud BEC attacks, attackers pose as vendors, suppliers or customers in order to steal money using tactics such as initiating fraudulent payments or hijacking vendor conversations to redirect vendor payments.
- * *One example: Fraud team detected and stopped an attempted invoice fraud targeting a telecommunications provider, preventing more than \$700,000 in losses. The attacker impersonated a real vendor and methodically engaged numerous employees over the course of two months, eventually convincing the target to change banking details and redirect the payment of a legitimate invoice of over \$700,000 to the attacker's account before the transaction was prevented.*

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Huge Money-Laundering Cases

- * Large international banks found to have transferred \$2 trillion in illicit money and failed to report them
- * \$1.3 trillion flowed through Deutsche Bank
- * JP Morgan – transferred more than \$514 billion
 - * \$1 billion for Malaysia's IMDB fraud scandal
 - * 2 million for a Venezuelan energy company that scammed the government and caused blackouts

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And how about bribery?

- * Airbus agreed to pay penalties of \$3.9 billion
- * Largest fine ever paid in a bribery case
- * Bribed officials in the U.S., France and the U.K.

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Financial Statement Fraud

- * Wirecard – German company announced they were missing \$2 billion in cash accounts at end of 2018
- * CEO and other executives were arrested for market manipulation and accounting fraud
- * Company filed for insolvency
- * Auditors criticized for clean financials 2016-2018

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What is new?

- * Same frauds, different day?
- * Ways and means may have changed, but the underlying frauds stay the same!
- * Controls need to be in place!

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Questions



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