

Protecting Your Business From Fraud in the “Pandemic Economy”

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On Thursday, March 11th, President Biden signed the newest in a series of around \$5 trillion in COVID-19 stimulus packages into law, authorizing an additional \$1.9 trillion in aid to the U.S. people. By any measure, the sums committed by the government in its efforts to cure the severe economic symptoms of COVID-19 and temper the financial impact on the American people, businesses and institutions, are staggering.

Unfortunately, experience in prior crises shows that well-intentioned efforts to quickly provide aid in the form of large sums of funds to people in need can leave the door open to fraud. [The Small Business Administration - Office of the Inspector General Report on January 14, 2021](#) found that the SBA's efforts to hurry capital to businesses occurred at the expense of controls that could have reduced the nearly [\\$4 billion](#) in purported fraudulent PPP loans doled out by the SBA.

Even in “normal” times, organizations worldwide lose an estimated five percent of revenue to fraud each year, according to the [Association of Certified Financial Examiners](#) (ACFE). If this ratio were to hold true for the over \$3 trillion in pandemic aid appropriated thus far, the potential fraud-related losses could reach more than \$150 billion. To put that into perspective, the Metropolitan Transit Authority's five-year capital plan included nearly [\\$55 billion](#) of investments for subways, buses,

railroads, bridges and tunnels. Therefore, the amount of potential fraud would be enough to cover the capital investment needs for the entire region almost three times over! On a more personal level, think of the millions of individuals, families and organizations potentially “robbed” of much-needed assistance due to pandemic-related fraud.

Notable Cases of PPP Fraud

On February 5th, 2021, Oakland, California resident Christina Burden was charged with bank fraud after allegedly submitting multiple fraudulent PPP loan applications and one fraudulent EIDL application and collecting around \$4.5 million, which was purportedly spent on luxury items such as automobiles and designer goods.

On January 28, 2021, six individuals in the Northern District of Georgia were charged with the following: conspiracy to commit bank fraud, bank fraud, false statements to a financial institution and money laundering, and the indictment charges that each individual applied for a \$300,000 loan, totaling \$1,800,000 in misallocated PPP loans.

On December 21, 2020, Leon Miles of Brooklyn, New York was charged with wire fraud in connection with a scheme to obtain over \$1.9 million from the PPP program by submitting fraudulent personal and business tax returns and forms. Within days of receiving the loans, he had withdrawn hundreds of thousands of dollars and spent a portion of them on luxury cars.

Financial and Reputational Risks for Businesses

Business owners and managers – especially those that have received COVID-19 relief payments or have participated in government-sponsored programs – are well advised to prepare for, and defend against, the prospect of fraud. A robust fraud detection and prevention effort will help businesses avoid losses at a time when many balance sheets are already in the red. It is equally as important for companies to take pains to avert the reputational risk resulting from a government fraud investigation.

The possibility of such an investigation is high. In fact, Congress created a Special Inspector General for Pandemic Recovery (SIGPR) as part of the CARES Act. The

SIGPR's job description includes conducting audits and investigations of key relief programs. Funding has been allocated to open regional SIGPR offices, and enforcement is expected to be aggressive. In fact, the Small Business Administration (SBA) Office of Inspector General has already raised ["serious concerns of potential fraud"](#) in some SBA disaster loan and grant programs, including more than 5,000 complaints of suspected fraud. In addition, U.S. Attorneys' offices around the country are [announcing](#) pandemic-related prosecutions.

An Action Plan to Prevent Fraud

In my experience as the leader of Anchin's Regulatory Compliance and Investigations Group, and as a former Inspector General, there are a number of actions business owners and managers should consider taking to reduce vulnerability.

Being informed and aware is the first line of defense. [Statistics](#) show that the typical internal fraud goes undetected for roughly 14 months, with U.S. companies experiencing a median loss of \$120,000. Most corporate fraud is committed by someone in a position of trust, with 54 percent of the perpetrators at the manager, owner or executive level. Armed with this knowledge, companies should consider the [following steps](#):

- **Set the right "tone at the top."** Management should make clear, from the highest levels of an organization that there is zero tolerance for fraud and abuse. Having a strong code of conduct is part of this effort, but setting the right example in day-to-day behavior is equally important.
- **Maintain strong internal controls.** It is essential that businesses have robust controls for functions such as procurement, hiring outside contractors, revenue recognition, payroll and expense approval. Controls also should be updated regularly to ensure they remain relevant and viable in the current environment. For example, do the controls still make sense in a work-from-home setting?
- **Segregate duties.** One way to protect against theft, insider dealing and conflicts of interest is to make sure the same person is not responsible for requisitioning and approving contracts or payments. Job rotation and

mandatory vacations, similarly, can be tools in identifying fraud.

- **Test your systems to ensure they are effective.** For example, if you have a process to open new vendor accounts, make sure fraudulent vendors cannot be entered into the system. External audits of systems and controls, as well as data monitoring, have proven effective.
- **Establish mechanisms for reporting fraud, waste and abuse.** Frequently, managers become aware of fraud through a tip to a “whistleblower” hotline or similar channel. Fraud training is essential to educating employees about the warning signs of fraud.
- **Provide help for employees who may be under financial pressure.** The ACFE reports that 26 percent of employee fraud perpetrators experienced personal financial difficulties, and COVID-19 will likely increase individual financial pressures. Resources such as Employee Assistance Programs (EAP) may help staff cope with problems before they escalate to fraud.
- **Take a firm stand against fraud.** Make it clear across the organization that illegal activities will be subject to internal discipline, at a minimum, and will be prosecuted where appropriate. Otherwise, the lack of consequences may encourage malfeasance.

No organization is immune to the risk of fraud, waste and abuse. However, the unprecedented sums now being pumped into the U.S. economy and individual businesses may increase the temptation for some perpetrators. As businesses struggle to contain the economic impact of the pandemic and win back the trust of customers, they can ill afford financial losses or the reputational risk of an investigation.

By taking extra measures to prevent and detect potential stimulus-related fraud, businesses can mitigate these risks, and ensure that vital financial resources are used for their intended purposes. If you have any questions about protecting your organization from fraud, please contact [Brian Sanvidge](#) or your Anchin Relationship Partner.