

Threats From Within - Federal Relief Programs Targeted by Insider Fraud

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At the height of the pandemic, billions of dollars flowed through federal aid programs – but not all of it reached its intended recipients. As investigators are now discovering, fraud was rampant – and some of the instigators were insiders.

Government aid programs have a tendency to prioritize speed over security, making them a lucrative target for opportunistic criminals. If fraudsters know the system from the inside, they also know how to cover their tracks and can do a lot of damage before they're caught.

Bank employees, state officials, IRS workers, and contractors – all have been charged with pandemic-related fraud in recent months, prompting [the Council of the Inspectors General on Integrity and Efficiency to sound the alarm](#). These cautionary tales should serve as a warning to both public and private organizations to follow all security best practices before, during, and after involvement in any federal relief programs.

Pandemic Scams

In October 2022, [five current or former IRS employees were charged with defrauding the Paycheck Protection Program \(PPP\) and Economic Injury Disaster Loan \(EIDL\) Program](#). By submitting fraudulent applications, the employees allegedly stole close to \$500,000 and spent their ill-obtained gains on vacations, jewelry, and cars.

That same month, [two bank employees in North Carolina were indicted for filing fraudulent PPP loans](#), using their positions at the bank to wave through the falsified paperwork.

And it seems even elected officials weren't immune to temptation. In March 2023, [a Connecticut State Representative was charged with conspiring to steal over \\$1 million](#) in COVID-19 relief funds, much of which he spent at the local casino according to court documents.

That sum pales in comparison, however, to the [\\$3.8 million siphoned off federal and state unemployment assistance funds by a contractor in Michigan](#). Working for the State of Michigan Unemployment Insurance Agency, the contract employee took bribes from co-conspirators to green light over 700 false claims, many of which were made using stolen identities.

Preventing Insider Fraud

Organizations should always be on guard against bad actors trying to manipulate internal systems for their own benefit. These criminals have the motive, the means, and - most importantly - the access to do significant financial harm before the alarm is raised.

When the threat originates from within, it's much harder to spot. These fraudsters aren't just taking advantage of lax systems or poor controls, they're deliberately circumventing security protocols that are already familiar to them. Recovering stolen funds is notoriously difficult, involving prolonged legal battles. That's why we advise you to develop a comprehensive risk management framework that focuses on early detection and continual oversight.

If you've received benefits from federal programs and are concerned about your exposure to potential fraud, a team of financial investigators and consultants highly experienced in detecting and resolving fraud in both private-sector businesses and public-sector organizations can help you implement stringent security controls, manage your risk and, if fraud has occurred, act quickly to uncover the extent of the damage and remediate it.

Services such as computer cross-matching to prevent identity theft and verify applicant claims, and post-award audits to ensure that funding met the program requirements can offer peace of mind that you're as protected as possible against loss and liability.

To discuss your organization's fraud protection needs or learn more about the work of Anchin's RCI division, contact [Brian Sanvidge, Principal & Leader, Regulatory Compliance & Investigations Group](#) or your Anchin Relationship Partner.