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Fraud in the Wake of COVID-19

We hope that our country's response to limit the unprecedented impact of the COVID-19 pandemic will save many lives. While we do what we can to protect at-risk populations from exposure, we must also protect our government and businesses from the types of frauds we can expect to emerge. As we've learned in recent past crises, there are always some who will see opportunity for fraud in our rush to help those in dire need.

In addition to frauds against emergency relief funds, a variety of financial fraud will come to light as a result of the current crisis. As companies scrutinize budgets in challenging economic times, they may even uncover existing employee-related frauds that were previously obscured by prosperity.

Lessons from history have given us valuable tools to prevent crisis-related fraud.

Emergency relief fund frauds

Emergency relief fund frauds are likely to involve the falsification of financial damage. There are a variety of healthcare frauds related to COVID-19, along with False Claims Act/Procurement fraud that relates to medical equipment and services.

Steps to prevent and mitigate:

A thorough understanding of government relief program criteria and requirements is needed to build effective compliance procedures. Institutions involved in supporting government relief programs will have to quickly develop anti-fraud controls without slowing access to critical relief programs. These efforts will have to include:

- Early warning detection, such as claims sharing a common email, phone number or mailing address
- Program-specific whistleblower procedures
- Capabilities to monitor, track and analyze program effectiveness
- Fraud identification, escalation, investigation and reporting procedures

In a state of emergency, financial institutions and others will also have to consider enhanced law enforcement referrals for fraud-identified and related suspicious activity reporting.

Financial frauds

Many types of financial fraud are revealed at times of crisis and economic downturn. These often include Ponzi schemes, insider trading, financial advisor frauds, and employee theft/embezzlement.

Early warning signs:

- Increased client complaints about inaccurate statements
- Substantial changes to client identifying data
- Trading ahead of news

Steps to prevent and mitigate:

- Respond quickly to client complaints – using people who are knowledgeable about fraud
- Look for anomalies in procurement and accounts payable, and scrutinize newly established vendors
- Establish appropriate 4-eyes review for back office procedures that are now managed remotely from home

As companies grapple with the current crisis, organizational weaknesses may become apparent. Once immediate concerns are addressed, attention will turn to focus on reducing the ongoing risk of fraud.

KEN JONES
+1 212 651 7141
Ken.Jones@fticonsulting.com

ANDREW ROSINI
+1 212 841 9324
Andrew.Rosini@fticonsulting.com