



Fraud Risk Update- Post COVID-19 – August 5, 2020

2020 Jefferson Wells Finance

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Deron Rossi Background

- **Joined Experis (now Jefferson Wells) p/t role in March 2020.**
- Founded DJR Consulting in January 2019. Fraud and Investigation Services, including Industry Speaking on Fraud, Investigations, Controls and Interviewing.
- Retired from IBM June 2018, 35+ years experience in Corporate Accounting, Management, ERP/Accounting Systems Installations, Internal Audit and Business Controls.
- **Final 11 years as Fraud and Business Conduct Investigator. Experienced in well over 750 cases, including cases in North America and Europe**
- Vice-Chair - Coastal Credit Union Board of Directors (\$3.8B)
- Previously served on the Supervisory Committee of two large credit unions in two states
- IIA Raleigh-Durham Chapter Board of Directors
- UNCW Accounting Advisory Board

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Polling Question #1

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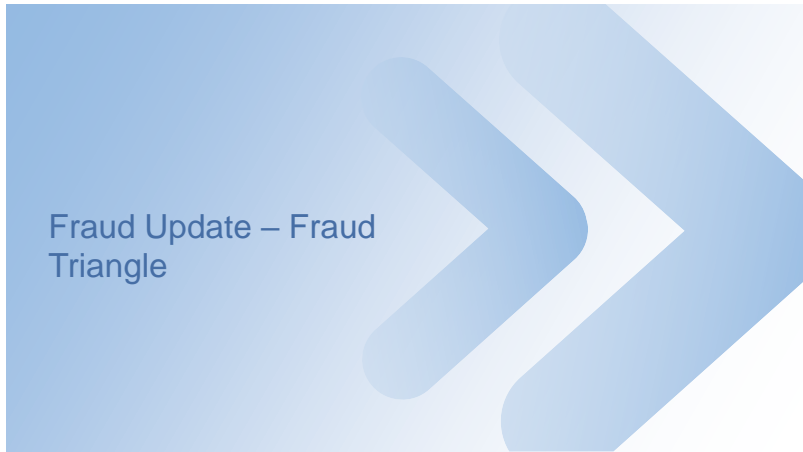
Our Time Today



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Fraud Triangle

Dr. Cressey's Fraud Triangle



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Dr. Cressey's Fraud Triangle

Three core concepts when taken together, create a situation ripe for fraud.

1. **Pressure** – Think motive - financial, personal vices or other pressures
2. **Rationalization** – Important component of most frauds; people need to reconcile their behavior (ex. I am underpaid, I deserve this.)
3. **Opportunity** – Open door for solving a non-shareable problem in secret by violating a trust relationship; accomplished by generally weak or no controls

Each element must co-exist with the other.



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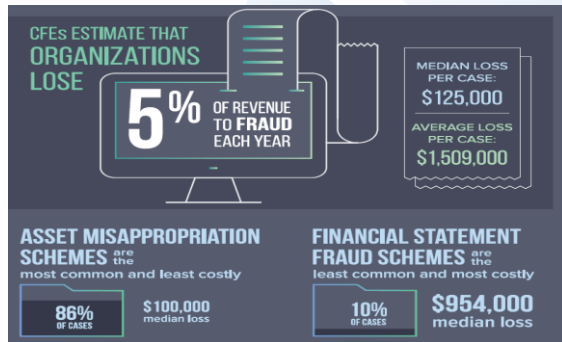
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2020 Fraud Statistics



2020 Fraud Statistics

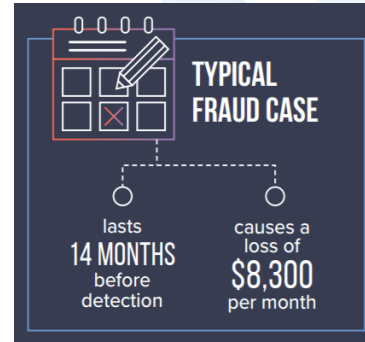
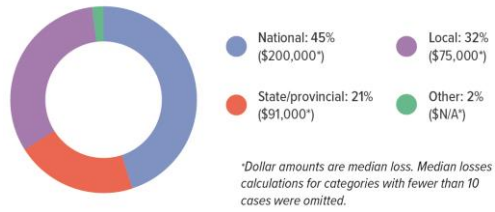
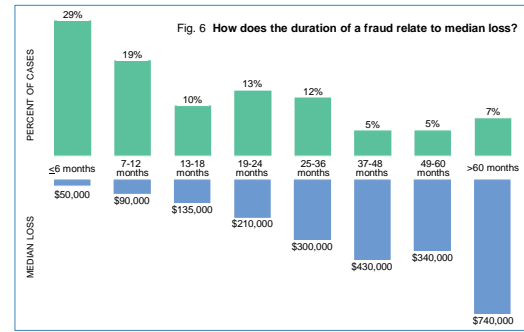


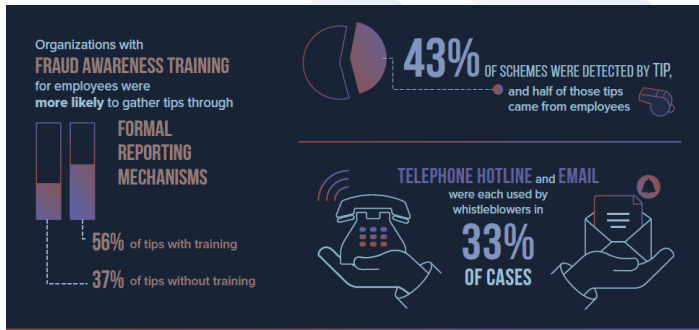
FIG. 15 What levels of government are victimized by occupational fraud?



2020 Fraud Statistics

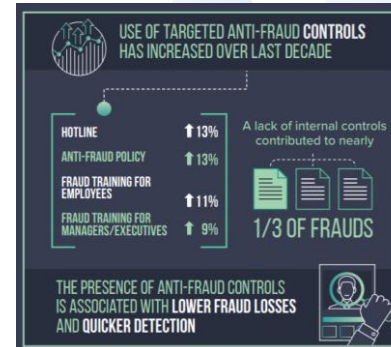


2020 Fraud Statistics



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2020 Fraud Statistics



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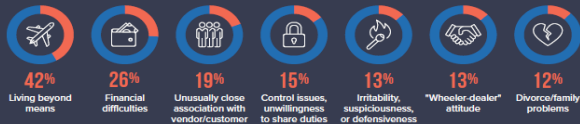
Behavioral Red Flags of Fraud

Behavioral Red Flags of Fraud

Recognizing the behavioral clues displayed by fraudsters can help organizations more effectively detect fraud and minimize their losses.

85% OF ALL FRAUDSTERS displayed at least one **BEHAVIORAL RED FLAG** while committing their crimes.

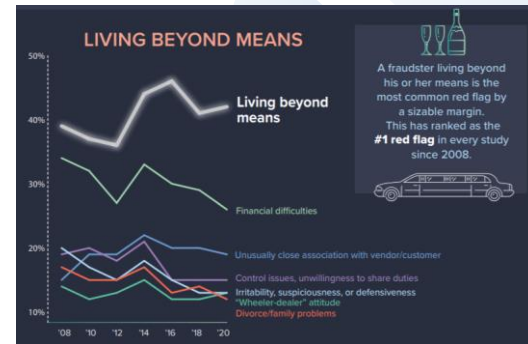
7 KEY WARNING SIGNS



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Behavioral Red Flags of Fraud



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Polling Question #2

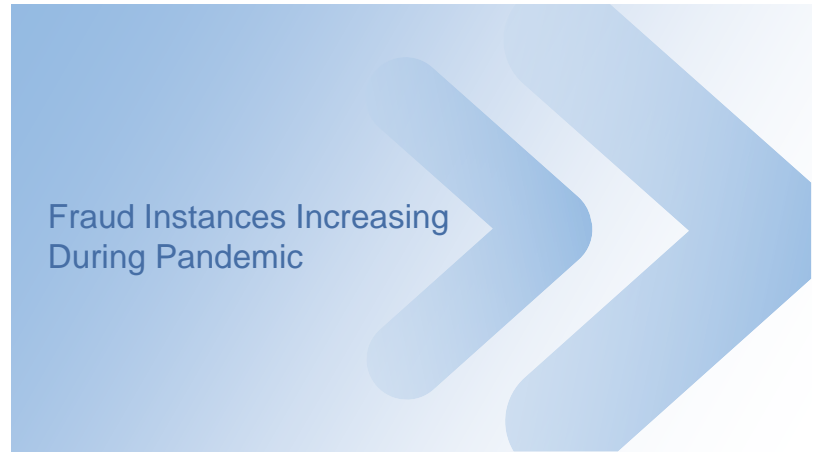


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Fraud Instances Increasing
During Pandemic



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Fraud Case Examples

3M Sues Vendors for Fraud & Price Gouging N95 Masks

- Fraudulent Vendor claimed ability to sell up to 5 billion masks at 2x list price
- Filed 18 lawsuits as of mid-July to combat fraud
- Internal litigation team and volunteers to combat unethical selling of masks
- Established hotline & website to report offenders



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Fraud Case

“SCATTERED CANARY”



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Scattered Canary Fraud Case – Unemployment Claims

SCATTERED CANARY = Well organized Nigerian crime fraud ring

- A Nigerian cybercriminal group dubbed Scattered Canary has evolved from a one-man operation running Craigslist and romance scams to a large-scale criminal business operating multiple types of frauds simultaneously and coordinating at least 35 threat actors.
- Since 2008, when the group founder named "Alpha" ran basic scams, Scattered Canary has evolved into an organization with credential phishing operations leading to business email compromise (BEC) scams and credit card fraud.
- Their latest target was the unemployment insurance funds at multiple states.

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Scattered Canary Fraud Case – Unemployment Claims

- Struck several states including Michigan, Hawaii, Washington, Rhode Island, Texas, and North Carolina. Likely other states were hit and have not publicized it.

CONTRIBUTING FACTORS

- Exploited a once-in-a-lifetime opportunity
- Chaos of economic crisis, rapidly rising unemployment, coupled with uncertainty
- Political pressure to swiftly pay out claims, without normal scrutiny
- Perfect recipe to steal hundreds of millions in just Washington alone

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Fraud Case Examples

Corporations/Government

- Increased Phishing Attempts
- Increase in Ransomware attempts
- Increase in fraudulent wire transfer attempts via spoofed CEO/CFO request



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Fraud Case Examples

Individuals

- Increase in fraudulent COVID 19 survival funding requests
- Theft of Gov't relief funds via bank account phone scams
- Increase in identity theft
- Increase in home wireless access attempts
- Increase in thefts of home deliveries



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Polling Question #3

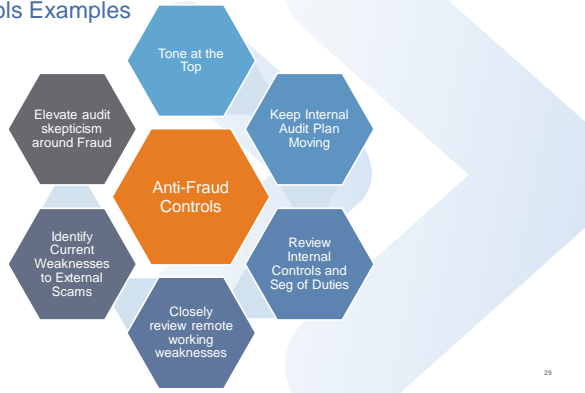


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What Can Internal Audit Do
To Combat Increased Fraud
Pressure Today?

Anti-Fraud Controls Examples



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Internal Audit Focal Points for Remainder of 2020

- Work collaboratively with line management to holistically look at risk, including identifying new risks that emerged over past 4+ months. Review the remainder of audit plan and adjust as needed.
- Document risks taken during the pandemic that were out of the normal, and determine if a separate, focused audit is needed to address these risks.
- What critical IA projects were put on hold and might not be addressed?
- What members of IA were deployed to the business?
- Usage of RPA or other process enhancements?



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Internal Audit Focal Points for Remainder of 2020

- Weakened Defenses
- Significant Increase in Financial Pressure
- Creates the Perfect "Fraud" Storm potential

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Source: June 2020 IA Magazine

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Q&A / Contact Info

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THANK YOU FOR ATTENDING!

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