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## Forensic Accounting

### Keep an Eye Open for Fraud after Disaster

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Amid each natural disaster, there are inspiring tales of rescues, generosity, and hope. Unfortunately, you invariably also will find tales of scams, frauds, and survivors revictimized by those looking to capitalize on the relief system. The problem has become so bad that, after Hurricane Katrina in 2005, the U.S. Department of Justice (DOJ) established the National Center for Disaster Fraud (NCDF), which receives hundreds of calls every month, even in the absence of a natural disaster.

In a DOJ release dated Aug. 29, 2018, Deputy Attorney General Rod Rosenstein said, "It is important for people to be on the lookout for fraudsters who seek to profit from natural disasters through identity theft schemes and solicitations for fake charities." Being proactive and vigilant is a good first step in combating fraud. Katrina was an expensive lesson learned, as about \$108 billion in claims were paid out, with an estimated 1 percent, over a billion dollars, being fraudulent (some say more). The NCDF and state governments have been more aggressive in prosecuting fraud since Katrina, and their ongoing support in combating fraud is a positive step toward reducing such instances.

CPAs can play an important part by understanding and raising the awareness

of fraud schemes. CPAs are often on the front line advising clients on the propriety of those offering help to others through various methods of funding.

#### Disaster Fraud Types

Disaster fraud can be divided up into five primary categories: charitable solicitations, contractor and vendor fraud, price gouging, property insurance fraud, and forgery/identity theft.

Charity fraud is often the first to occur, with false or misleading websites set up to collect donations. When the National Weather Service releases its storm names each year, it has been reported that people immediately buy domain sites such as "Irma Relief" or "Help Harvey" in the hopes of fooling donors. After Katrina, investigators found 5,000 questionable websites.

Contractor and vendor fraud happens when individuals pose as a contractor, then take a deposit never to be seen again; use inferior products in a rebuild; request that Federal Emergency Management Agency (FEMA) benefits be assigned to them to do the work, and make inflated claims for that work; among other scams. These people have no intention of properly doing work for the claimant.

Price gouging is done by opportunists

who buy goods in demand or in limited supply, and then sell them at a price many times over cost to people in real need. An example would be selling cases of water at \$100 each.

Property and insurance fraud is perhaps the most common scheme. It is simply making false claims, inflating losses, creating losses in a disaster zone, or impersonating homeowners, Red Cross workers, FEMA workers, or others to obtain kickbacks or receive payments from storm victims based on false promises. During the recovery from Katrina, fraudulent claims were made by persons or businesses from almost every state in the country, many of whom had no connection with the affected areas of Louisiana, either directly or indirectly.

Forgery and identity theft examples include stolen reimbursement checks, submission of false building permits, and impersonating homeowners and filing claims. Request for relief payment by those who were not affected may be one of the largest types of fraud in this area. The extent of this fraud can include creating false tax forms, IDs, and other documents to support a bogus claim.

#### What Can CPAs Do to Help?

Preparing a business interruption claim

or evaluating catastrophic loss damages becomes more complex after a natural disaster because of all the frauds. The three most common business interruption frauds in a claim include the following:

- Overstating sales
- Manipulating expenses to inflate profits
- Inflating extra costs

In determining a business interruption loss, with an eye on the three issues above, the key issues while investigating and analyzing documents and facts are as follows:

- Independently identify the insured or claimant. You need to be sure if the claimant is who they say they are and live where they say they live. Copies of tax returns, driver's licenses, and other generally acceptable forms of ID are usually fine, but given the volume of fraud in past catastrophic events, not sufficient. Seek independent sources of property ownership and ID, such as property or county tax records, photo IDs made prior to the event, and even social media, if entries can be corrob-

rated and time-stamped.

- Tax returns, business records, and other documents typically used to determine a loss may be gone after a disaster and hard to replicate. Many fraudsters try to recreate and use these missing records with a computer and color printer. Seek to receive these documents independently from the source. Have the insured sign a form to have tax returns sent to you, and get bank statements directly from the bank. In this way, you can be sure you are not getting fraudulent documents.
- After you authenticate the insured and the necessary business records to determine a loss, you have to keep an eye out for other red flags:
  - The business has a track record of reported losses to the IRS as shown on their tax returns, yet the insured is making a big claim in the future.
  - The insured is overly assertive in pushing for a quick settlement.
  - The insured's financial documents (after authentication) include irreg-

ular information, out-of-sequence checks, missing or photocopied key documents, and inconsistent accounting and procedure policies.

- The insured fails to provide customary documents: reports, agreements, and other data kept in the normal course of business.

Preparing a business interruption claim after a catastrophic, singular event is challenging. Doing so after a widespread natural disaster is even more difficult. The lessons of Katrina, Harvey, Irma, and others, regarding the types and proliferation of frauds, require CPAs to be ever more vigilant and prepared when providing claim services. 

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