



Preventing disaster fraud — The winds of change

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"Corruption, embezzlement, fraud, these are all characteristics which exist everywhere. It is regrettably the way human nature functions, whether we like it or not. What successful economies do is keep it to a minimum. No one has ever eliminated any of that stuff." ¹

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¹ Oriol Amat. (April 2019). *Detecting Accounting Fraud Before It's Too Late*. Wiley

The preceding quote from Alan Greenspan, the former chair of the Federal Reserve, is relevant to the discussion of fraud in all aspects of our economy; however, how it relates to “the way human nature functions” is key to this discussion about fraud arising after natural disasters.

Although the aftermath of natural disasters brings with it stories of human bravery, rescues, and good deeds, sadly, it often brings tales of scams, frauds, and those who fall victim to the dark side of human nature, as well.

Disaster fraud, the act of defrauding victims after a natural catastrophic event, such as an earthquake or hurricane, among others, can harm its victims in several ways. Although additional aspects of fraud can occur after such an event, this article focuses on the following major categories:

- ▶ Charity fraud
- ▶ Insurance fraud
- ▶ Contractor fraud
- ▶ Identity theft

Charity fraud

Charity fraud is perpetrated by using deception to obtain money from people who believe they are making donations to legitimate charities. The AARP notes that although disasters bring out the best in people to “pick up the pieces,” they also bring out the worst in fraudsters. The AARP notes that the U.S. Justice Department’s National Center for Disaster Fraud (NCDF) has fielded over 95,000 complaints on more than 100 events, including hurricanes, floods, wildfires, and tornados.

The AARP also warns of fraudsters impersonating Federal Emergency Management Agency (FEMA) or other agency employees and soliciting deposits from victims for future repair work.²

Walt Green, the former U.S. Attorney for Central Louisiana, noted that problems often begin before a disaster occurs. He used the example of the National Weather Service releasing 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. In fact, after Hurricane Katrina, investigators found 5,000 such questionable websites.³

Insurance fraud

The FBI estimates that insurance fraud, or the act of obtaining an improper payment from an insurer, costs over \$40 billion a year, making it an important scam to be aware of in the wake of a natural disaster.⁴ However, it also comprises many different aspects, including making false claims, inflating losses, or creating losses that allegedly occurred in a disaster zone. Some criminals have been known to impersonate homeowners, FEMA workers, Red Cross workers, or others in order to solicit kickbacks or receive payments from storm victims based on false promises. Many stories highlighting the aftermath of Katrina and the fraudulent claims made by people or businesses can be heard in almost every state. Many of them had no connection with the affected areas of Louisiana, either directly or indirectly.⁵

Another danger is identity theft. Thieves make it their business to know not only the extent of damage in a particular area but also which insurance companies are handling the claims. These thieves sometimes even go to the extreme of changing an individual’s address with their insurance company, so claim checks are delivered to a mailbox selected by the thieves, instead of the policy holder’s mailbox. Subsequently, forgery (the act of pretending to be someone you are not for financial gain) becomes another aspect of disaster fraud, when fraudsters sign and cash stolen or fraudulently acquired checks.

² “Disaster Scams,” AARP, April 22, 2019, <https://www.aarp.org/money/scams-fraud/info-2019/disaster.html>. (accessed January 15, 2020)

³ Tom Jackman, “Fraud inevitably follows disasters, so authorities in Texas, Florida, prepare for post-storm scams,” Washington Post, September 8, 2017, <https://www.washingtonpost.com/news/true-crime/wp/2017/09/08/fraud-inevitably-follows-disasters-so-authorities-in-texas-florida-prepare-for-post-storm-scams/>. (accessed January 15, 2020)

⁴ FBI.gov, <https://www.fbi.gov/stats-services/publications/insurance-fraud> (accessed January 15, 2020).

⁵ Sarah Westwood, “10 years later, extent of Katrina fraud still unknown,” Washington Examiner, August 28, 2015, <https://www.washingtonexaminer.com/10-years-later-extent-of-katrina-fraud-still-unknown>. (accessed January 15, 2020)

Contractor fraud

Although contractor fraud is not unique to the events following a natural disaster, it certainly presents opportunities to the unscrupulous during a time of need. Price gouging is a common complaint in these circumstances. Prior to, or in the aftermath of hurricanes, contractors purchase items, such as generators or building materials, at normal cost and then offer to sell them to victims for many times that price.

Many “contractors” are not who they say they are. Fraudsters pose as various types of builders and other contractors, elicit money from the victims, and never actually work on the proposed project. In some cases, the phony contractors have taken deposits and even request that FEMA benefits be assigned to them to do the work.

The National Insurance Crime Bureau (NICB)⁶ recommends reviewing these tips before hiring a contractor for services in the wake of a disaster:

- ▶ Be suspicious of any contractor who tries to rush you, especially on nonemergency or temporary repairs. If possible, shop around for a contractor by getting recommendations from friends and neighbors. Be wary of anyone knocking on your door offering unsolicited repairs to your home.
- ▶ Never pay for work upfront. Always inspect the work and make sure you are satisfied before you pay. Most contractors will require a reasonable down payment on work, but do not pay anything until you have a written contract.
- ▶ Get three written estimates for the work and compare bids. Check credentials with the Better Business Bureau or state attorney general’s office to see if the firm has any outstanding complaints.
- ▶ Always have a detailed written contract that clearly states everything the contractor will do, including prices for labor and materials, clean-up procedures, and estimated start and finish dates. Never sign a contract with blank spaces, which a crooked contractor can alter after they have gotten your signature.

- ▶ Do not believe a contractor who says they are supported by the government. FEMA does not endorse individual contractors or loan companies. FEMA can be reached toll-free at 800.621.FEMA for more information.
- ▶ Avoid paying with cash; use a check or credit card instead. This creates a record of your payments to the contractor.

Identity theft

Identity theft can occur at any time, not just after a disaster. However, in the aftermath of a natural disaster, there are many ways that personal documents with key information can get into the wrong hands. The destruction from a hurricane can leave many personal documents exposed for all to see — key documents that may have been safely tucked away in a home but now are laid bare. This can include tax returns, Social Security cards, or other documents that contain key personal information and identifiers. Natural disasters can often be followed by looting, when evacuated buildings are broken into, and personal information may be taken. Looting is not limited to homes only; it could be anywhere, such as a physician’s office.

Similar to fraudulent charities addressed earlier in this article, misleading telephone calls, emails, or actual visits from people claiming to work for a charity contribute to the collection of all types of personal information and the potential theft of an individual’s identity.

Although it may seem impossible in the immediate aftermath of a disaster, verification of information is imperative. Despite the presence of federal, state, or local government personnel responding to a situation, it is extremely important to verify the identities of those attempting to get information.

⁶ “Disaster Fraud,” National Insurance Crime Bureau, <https://www.nicb.org/prevent-fraud-theft/disaster-fraud> (accessed January 15, 2020).

Combating disaster fraud

Many federal, state, and local agencies are tasked with combating fraud in the face of natural disasters. The following is an overview of some of the agencies and their respective roles as they relate to disaster fraud:

- ▶ FEMA. The Federal Emergency Management Agency was created in 1979. According to its website, FEMA “coordinates the federal government’s role in preparing for, preventing, mitigating the effects of, responding to, and recovering from all domestic disasters, whether natural or man-made, including acts of terror.”
- ▶ Department of Justice (DOJ)/National Center for Disaster Fraud (NCDF). As part of a joint effort between the DOJ and a variety of law enforcement and regulatory agencies, the NCDF was established with the specific goal of detecting, preventing, investigating, and prosecuting disaster fraud. NCDF was set up in 2005, after Hurricane Katrina.
- ▶ Local agencies. The NCDF partners with various federal, state, and local agencies. After reviewing complaints of alleged disaster fraud, NCDF investigators will refer complaints to the appropriate federal, state, or local agency in the relevant jurisdiction.⁷

Hurricane Katrina resulted in over \$100 billion in claims being paid out, with an estimated 1% (over \$1 billion) being fraudulent (though some say more).⁸ 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 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.

What can CPAs do to help?

CPAs can assist in educating their clients and prospective clients about the red flags of fraud.

For those CPAs who work with insurance companies in the area of business interruption, they can assist insurers in the analysis and preparation of business interruption claims.

The most common business interruption frauds in a claim include the following:

- ▶ Overstating sales
- ▶ Manipulating expenses to inflate profits (for example, “off the books” employees)
- ▶ Inflating extra costs
- ▶ Overstating the value of fixed assets or self-constructed assets that were destroyed

Preparing a business interruption claim after a catastrophe can be challenging because many businesses, especially smaller businesses, do not maintain backups or off-site storage of business records. Doing so after a widespread natural disaster is even more difficult.

CPAs should also educate their clients and prospects about the many resources available, which are included at the end of this article.

⁷ “Mission Statement,” U.S. Department of Justice, <https://www.justice.gov/disaster-fraud/mission> (accessed January 15, 2020).

⁸ “Hurricane Katrina’s Widespread Damage to Impact All Lines of Insurance,” Insurance Journal, September 19, 2005, <https://www.insurancejournal.com/magazines/mag-features/2005/09/19/150703.htm> (accessed January 15, 2020)

Practice tips

Keep important family and business documents and files from your personal computers backed up in the cloud using a secure storage service. This might include past tax returns, insurance policies, bank statements, legal documents, and more. Be sure to back up family photos, too.

You may also want to save all of those items on a USB drive or a cloud-based backup and keep it in your bank safety deposit box or with a trusted relative who lives in another location. Make photocopies of the front and back of each family ID (driver's licenses, passports) and put them in the safety deposit box. You might also want to put a copy in your grab-and-go bag or box that you will take if you need to evacuate your home.

CPAs can also provide clients and prospects with other valuable advice, which is relevant in many areas, but none more so than after a disaster. Examples of such advice include the following:

- ▶ Do not give or pay cash to anyone who claims to be a vendor wishing to provide post-catastrophe work.
- ▶ Do not provide your credit card number to anyone over the phone or in person if you have not previously checked out their credentials.
- ▶ If you think the name of a charity sounds similar to an already-known or legitimate charity, beware!
- ▶ Do not agree to do anything via email or telephone — you should get everything in writing and have it reviewed by a CPA or attorney prior to doing anything.
- ▶ Before writing a check to anyone...verify, verify, verify!

CPAs can also provide resources in other areas:

- ▶ As mentioned previously, they can assist legitimate claimants with their business interruption claims. This provides an independent eye and adds credibility to claims. The Association of International Certified Professional Accountants provides many resources to members, such as the following:
 - — [AICPA Disaster Resources](#)
 - — [Help for Disaster Survivors](#)
 - — [Casualty Loss and Disaster Relief](#)
 - — [Business Interruption Documents Request List](#)

- ▶ More education results in less susceptibility to fraud. CPAs can provide public seminars to business owners and others to educate them about the risks of post-disaster fraud.
- ▶ Useful resources are available from FEMA, the DOJ, charities, and other agencies:

FEMA

fema.gov/disaster-fraud

Department of Justice

justice.gov/disaster-fraud

AARP

aarp.org/money/scams-fraud/info-2019/disaster.html

Federal Trade Commission

www.consumer.ftc.gov/taxonomy/term/1676

Federal Trade Commission (charity check)

consumer.ftc.gov/articles/0074-giving-charity

Guidestar (resource for checking charities before donating)

guidestar.org

Red flags for charities fraud⁹

The following is a list of red flags to be aware of when donating to charities:

- ▶ Be wary of emails requesting donations or requests via social networking sites.
- ▶ Be alert to names of organizations with names similar to, but not exactly the same as, a reputable charity.
- ▶ Do not rely on others to make the donation on your behalf – donate directly to the charity.
- ▶ Do not follow a link to a website; verify the legitimacy of the organization first.

Red flags for insurance fraud¹⁰

The following is a list of red flags to be aware of when filing insurance claims:

- ▶ Be on guard if you receive a phone call about an insurance claim; independently verify by calling the insurance company or your agent directly at a number you know is legitimate.
- ▶ Do not give policy numbers or coverage details to contractors or home improvement companies that call you claiming to be partners with your insurance provider.

Red flags for contractor fraud¹¹

The following is a list of red flags to be aware of when dealing with contractors:

- ▶ You should not feel pressure to sign a contract.
- ▶ Be suspicious if a contractor gives you very little time to sign a contract or discourages you from having an attorney review.
- ▶ Do not turn over the check from the insurance company before the work is completed (except for reasonable materials), and do not give the contractor permission to take the money directly from the insurance company.

Red flags for identity theft¹²

The following signs will alert you that you have become a victim of identity theft:

- ▶ Your bank statement doesn't look right or checks bounce.
- ▶ Bills are missing or you receive unfamiliar bills.
- ▶ You receive calls from debt collectors.
- ▶ You are unable to file a tax return because one has been filed.

⁹ Valerie Moss, "Can you spot disaster-related fraud?" CUNA, July 11, 2018, <https://news.cuna.org/articles/114510-can-you-spot-disaster-related-fraud> (accessed January 15, 2020).

¹⁰ "After Storms, Watch Out for Scams," FCC, <https://www.fcc.gov/consumers/guides/after-storms-watch-out-scams> (accessed January 15, 2020).

¹¹ "The Storm After the Storm," Baylor University Media and Public Relations, September 19, 2018, <https://www.baylor.edu/mediacommunications/news.php?action=story&story=203151> (accessed January 15, 2020).

¹² Alison Grace, "9 warning signs of identity theft and what to look for," Norton, <https://us.norton.com/internetsecurity-id-theft-5-red-flags-of-identity-theft.html> (accessed January 15, 2020).

Fraud news – recent cases

Charity fraud¹³

After Hurricanes Harvey and Irma, the NCDF received more than 400 fraud complaints. In this large pool, one fraudster stands out. Kai Brockington, of Georgia, took charity fraud to a whole new level. In addition to soliciting individuals to donate to his bogus charity, he convinced them to get matching contributions from their employers so he could double his profit. In some instances, Brockington paid individuals to lie to their employers to get the match.

Brockington's charity claimed to operate medical clinics and other facilities to serve individuals in need. He did register the charity with the IRS and the state of Georgia, but legitimacy stopped there. In four years, Brockington raised \$668,000 in donations. He spent it on clothes, shoes, jewelry, and expensive vacations.

Brockington was caught by his bank when it noted suspicious activity in his checking account. He pled guilty to tax and mail fraud and was sentenced to 41 months in federal prison. Interestingly, two individuals claimed to have donated \$100,000, which was significantly beyond their means. The employers did not verify the charity or question the unreasonable contributions before providing matching funds.

Insurance fraud¹⁴

The Deepwater Horizon oil spill in 2010 is one of the largest environmental disasters in history. The magnitude of damage made it fertile ground for fraud. Joseph Bassler, a licensed tax preparer, was one fraudster who was caught trying to help his clients commit insurance fraud by submitting inflated claims. In exchange for his services, Bassler received a portion of the recovery money. In total, 62 claims were submitted, and at least \$600,000 of inflated value was paid. Bassler was sentenced to 3 years in prison and a financial judgment of \$77,224.

Contractor fraud¹⁵

Imagine having your home destroyed by Superstorm Sandy. Now, imagine having a contractor steal over \$750,000 from you. This is just one offense to which Robert Brower, a 45-year-old New Jersey man, admitted guilt. In addition to taking money directly from homeowners, Brower stole \$225,000 from a U.S. Department of Housing and Urban Development grant. The money was a construction advance for a Seaside Heights home but was converted to personal use. In an attempt to hide the money, Brower used a bank account created in his deceased father's name. Brower has been sentenced to concurrent jail terms in the New Jersey State Prison. In his plea, Brower claimed he spent the money on illegal narcotics.

Identity theft¹⁶

In the wake of a natural disaster, FEMA, the Red Cross, and other agencies provide immediate relief benefits for victims. Criminal organizations have learned how to very quickly benefit from these relatively small dollar amounts, in large volumes. Santa Rosa veterinarian Racelle LaMar was victimized by scammers in 2017. LaMar's Northtown Animal Hospital was destroyed by wildfires. When she applied for FEMA benefits, she learned someone else had already used her Social Security number to apply for, and receive, the FEMA aid. In 2017, a FEMA official indicated that across the country there had been in excess of 200,000 fraudulent applications. A high percentage of these false claims were in California and related to wildfires. Thousands of applications filed in Hurricanes Harvey and Irma were also found to be bogus. The criminal organizations that orchestrate these schemes match breached private information to affected geographic areas to identify their victims.

¹³ "Bogus Charity Operator Sentences," FBI.gov, October 19, 2018, <https://www.fbi.gov/news/stories/bogus-charity-operator-sentenced-101918> (accessed January 15, 2020).

¹⁴ "Fraud News: Fake Oil Spill Claim, Policy Purchased After Damage, Mail Fraud," Claims Journal, June 13, 2018, <https://www.claimsjournal.com/news/national/2018/06/13/285067.htm> (accessed January 15, 2020)

¹⁵ "Sandy Contractor Gets 10 Years in Prison for Theft, Money Laundering," Jersey Shore Online, March 29, 2019, <https://www.jerseyshoreonline.com/ocean-county/sandy-contractor-gets-10-years-in-prison-for-theft-money-laundering/> (accessed January 15, 2020)

¹⁶ Michael Finney, "North Bay wildfire victims discover identity thieves claimed their FEMA benefits," (October 28, 2017), ABC7.com, <https://abc7news.com/wildfire-victims-discover-identity-thieves-claimed-their-benefits/2576527/> (accessed January 15, 2020).



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