

05

most

SCANDALOUS

FRAUD CASES

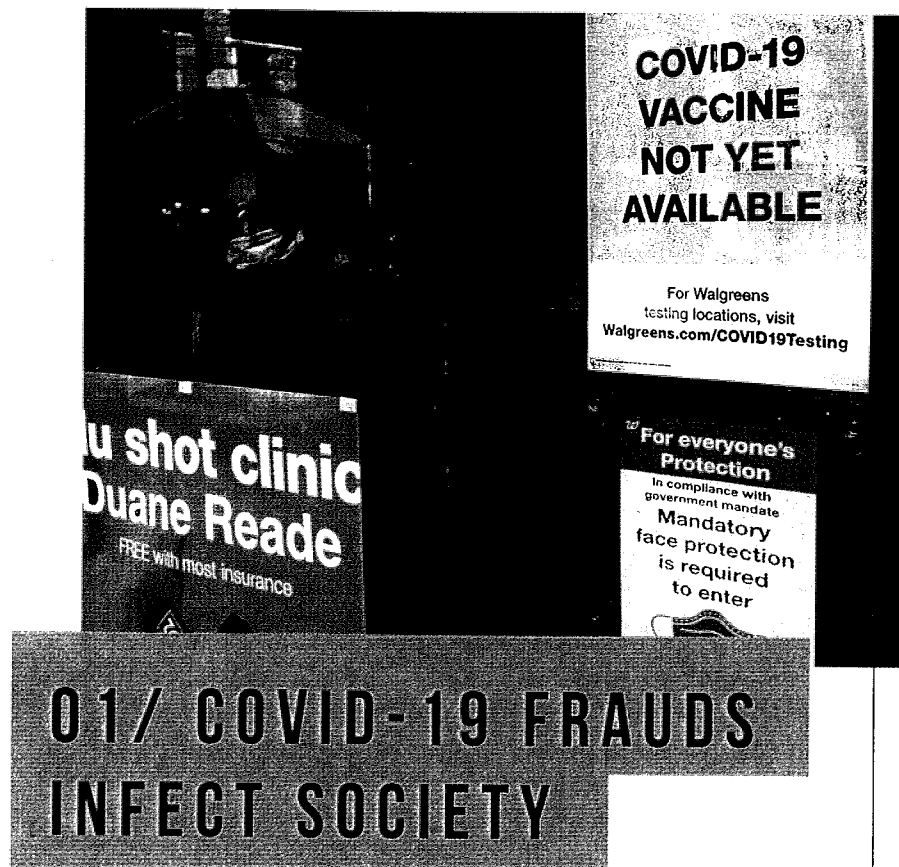
of **2020**



We were all glad to discard our 2020 calendars. Fraudsters took advantage of COVID-19 conditions, but not all of them needed a pandemic to pull off some big frauds. We've distilled a long list of cases to give you a few shockers.

BY HALLIE AYRES AND MASON WILDER, CFE

Despite the seemingly unending and unpredictable chaos of 2020, one aspect of contemporary culture was entirely — and unfortunately — unprecedented: the continued prevalence of big frauds. To take stock of last year and its implications for the anti-fraud profession, the ACFE compiled a list of the top five most scandalous frauds of 2020, as well as a few dishonorable mentions, with the assistance of the ACFE Advisory Council. These fraud cases will not only live on in infamy, but also provide meaningful insights for anti-fraud professionals.



Perhaps, unsurprisingly, the most widespread and impactful frauds of this year were directly connected to the novel coronavirus. As the pandemic led to massive shutdowns in many nations, governments responded with a wide range of stimulus measures, including loans, enhanced unemployment benefits, direct payments to citizens and more.

Some fraudsters were quick to exploit these government stimulus plans, while others used COVID-19 as a premise for a plethora of cyberfraud and consumer fraud schemes ranging from phishing attacks to sales of counterfeit personal protective equipment, testing kits and bogus cures.

By the beginning of August, Reuters reported that U.S. losses related to coronavirus fraud had reached \$100 million, with a large swath of cases originating in identity theft. Cases like these were especially common with fraudsters who used stolen personally identifiable information (PII), such as Social Security numbers (SSN), to file for unemployment benefits as more and more workers faced furloughs and desperately sought funds. (See U.S. coronavirus fraud losses near \$100 million as COVID scams double," by Steve Gorman, Reuters, Aug. 4, 2020, tinyurl.com/yyfwz5fq.)

Myra Walker, a New Jersey retail worker who was furloughed in March, found she'd been victimized by this type of scheme in the same way many others have discovered these frauds: when she applied for unemployment benefits.

The U.S. Department of Labor informed her that someone had already created an account under her name and had used her SSN to receive payments starting in February. While the U.S. Federal Trade Commission (FTC) received more than 3.2 million reports of identity theft and other consumer frauds in 2019, these numbers are often severely understated, and will no doubt be much higher this year. (See "Woman tries to file for unemployment but can't. Someone else is getting benefits in her name." by Karin Price Mueller, NJ.com, May 12, 2020, tinyurl.com/y2ucxucq.)

The same breed of identity theft remained prevalent after Congress passed a bailout package that included stimulus checks to an estimated 150 million eligible households. Scammers posing as government employees attempted to swindle taxpayers out of funds by asking for financial information, claiming it was necessary for the victim to receive their promised funds. (See "Coronavirus stimulus check scams are out to swindle you out of \$1,200: What you need to know," by Susan Tompor, Detroit Free Press, March 28, 2020, tinyurl.com/tmnwwz2.)

A woman walks out of a drugstore in Times Square Nov. 15, 2020. (Photo by Paul Marotta/Getty Images)

Stolen PII has also been the catalyst for frauds that originate through contact tracing text message scams. Fraudsters devised schemes to masquerade as contract tracers, sending fake text messages, which contained links that installed malware onto their victims' phones thus allowing the fraudsters to access banking information and SSNs. (See tinyurl.com/y9qdg99u, FTC.)

While identity theft and types of financial fraud dominated the fallout of the pandemic, the coronavirus also exposed the medical and public health industries to a range of scams. In May, the city attorney of Los Angeles sued Wellness Matrix Group for selling coronavirus testing kits they claimed had been approved by the FDA and a "virucide" that purportedly killed the virus. City attorney Mike Feuer said the company "attached false government registration numbers to these products and fabricated phony scientific studies and white papers to substantiate their false claims." (See "LA Sues California Company, Alleging 'Sophisticated' COVID-19 Fraud," by Tom Dreisbach, May 27, 2020, NPR, tinyurl.com/ydbvaxhe.)

A majority of coronavirus-related scams feature fraudsters preying on those who are dependent on government aid or simply trying to keep themselves safe and healthy. However, some business owners committed another brand of coronavirus fraud to scam the U.S. government.

After the Small Business Administration (SBA) rolled out the Payroll Protection Program, valued around \$650 billion in loans to small businesses, a moving company owner in Florida received nearly \$4 million in loans, which he'd declared would cover his company's monthly payroll. However, an investigation revealed that his company's monthly expenses averaged around \$200,000. The man was arrested, and charged with fraud, after he was involved in a hit-and-run while driving a luxury Lamborghini, which he'd bought with money from his loan. (See "He bought a Lamborghini after getting a \$4 million PPP loan. Now he faces a fraud charge," by Jay Weaver, Miami Herald in Tampa Bay News, tinyurl.com/y66uk9gp.)

Assistant U.S. Attorney Michael Berger noted that SBA loan scammers had become increasingly common because the agency was so overrun with applications that it had stopped checking the accuracy of applicants' claims. The Florida man's criminal affidavit recounts, "In the ordinary course of providing the loan guaranty, neither the SBA nor any other government agency checked IRS records to confirm that the applicant had paid the payroll taxes represented in the PPP applications."

From benefits fraud, loan fraud, identity theft and non-delivery scams, to counterfeit products, telemedicine fraud, insurance fraud, contact tracing scams and supply-chain fraud, fraudsters exploited the global COVID-19 pandemic like no other crisis in recent memory. / 01

02 / WIRECARD'S MISSING \$2 BILLION

When the German financial technology company Wirecard delayed the public release of its 2019 financial results in June 2020 after revealing it couldn't account for more than \$2 billion in cash assets, the news reduced the company's stock price by more than 90 percent and prompted the resignation of CEO Markus Braun. Soon after, Braun and several other executives were arrested on accounting fraud and market manipulation charges.

Founded in 1999, Wirecard, which processes payments and sells data analytics services, was at one point considered to be one of Europe's foremost technology firms. Between 2013 and 2018, the company's reported revenues quadrupled, coming in at nearly \$2.2 billion in 2018. With nearly 6,000 employees spread over 26 countries and a place on Germany's list of top 30 companies, the fintech behemoth must have thought itself too large to fail. (See "Wirecard CEO quits after \$2 billion goes missing and fraud accusations fly," by Charles Riley and Eoin McSweeney, CNN Business, June 19, 2020, tinyurl.com/yxlssj9v.)

After a series of fraud allegations and investigations into its accounting practices over the course of 2019, Wirecard confessed to the disappearance of more than \$2 billion from its assets. Shortly before the explosive announcement, Wirecard was worth more than \$26.9 billion but plummeted to less than \$3.6 billion by the end of June 2020.

Though the announcement of the missing \$2 billion sank Wirecard's value drastically and nearly immediately, the company's downfall began in January 2019, when the

03 / FINCEN FILES EXHIBIT HUGE MONEY-LAUNDERING CASES

In September 2020, leaked documents provided to BuzzFeed News, and passed along to the International Consortium of Investigative Journalists (ICIJ), implicated major international banks — including Deutsche Bank, JPMorgan Chase, HSBC, Standard Chartered and Bank of New York Mellon — in the laundering of more than \$2 trillion linked to oligarchs, criminals and terrorists from 1999 to 2017. (See “Dirty money pours into the world’s most powerful banks: The FinCEN files,” by Jason Leopold et al., BuzzFeed, Sept. 20, 2020, tinyurl.com/y434smjo.)

The ICIJ’s reporting involved analyzing more than 2,100 suspicious activity reports (SARs) filed by banks and other financial firms to the U.S. Financial

Crimes Enforcement Network (FinCEN). After receiving the trove of documents from BuzzFeed News, ICIJ enlisted the assistance of more than 400 journalists — dispersed among 88 countries and 110 news organizations — to investigate the inflammatory materials. The ICIJ thoroughly investigated these 2,100 reports, but they’re only a minuscule fraction of the 12 million SARs reported to FinCEN from 2011 to 2017. (See “Global banks defy U.S. crackdowns by serving oligarchs, criminals and terrorists,” ICIJ, Sept. 20, 2020, tinyurl.com/yxfkbec.)

The ICIJ’s report noted that even though the guilty banks had been fined for money laundering violations, they kept processing transactions without

identifying involved parties and only filed SARs years after the transactions in many cases.

JPMorgan, the largest U.S.-based bank based in the U.S., was found to have transferred more than \$1 billion for one of the key figures in Malaysia’s 1MDB fraud scandal and more than \$2 million for a Venezuelan energy company that allegedly scammed the government and played a role in causing electrical blackouts that consistently left millions of people without reliable access to energy. Of the total \$2 trillion identified in the complete investigation, around \$1.3 trillion moved through Deutsche Bank, while JPMorgan handled \$514 billion.

Elizabeth Rosenberg, a former U.S. Treasury Department sanctions official, told The Wall Street Journal, “The FinCEN files illustrate the alarming truth that an enormous amount of illicit money is

Dishonorable MENTIONS

The unfortunate deluge of fraud cases each year makes it impossible to highlight all but the most inflammatory stories, so we’ve included a few dishonorable mentions that feature fraud cases notable for the brazenness of the fraudster or the sheer shock at the degree of ineptitude or scandal.

SAMSUNG’S SUCCESSION GONE WRONG

Authorities in South Korea indicted Lee Jae-yong, the vice chairman of Samsung and arguably the most influential South Korean businessman, along with 10 other current and former Samsung officials. The charges include stock price manipulation, unfair trading and audit-rule violations. They stem from an allegedly systematic effort to help transfer managerial control of Samsung to Lee from his father, Lee Kun-hee, who was incapacitated by a heart attack in 2014. (Lee Kun-hee died Oct. 25, 2020.)

Lee Kun-hee was previously convicted twice of bribery and other corruption charges, and Lee Jae-yong previously spent a year in confinement on charges that he bribed the impeached and ousted former president of South Korea, Park Guen-hye. However, as of press time, Lee Jae-yong hadn’t been arrested because the Seoul Central District Court has refused to issue a warrant for his arrest. (See “Samsung’s heir faces fraud charges,” by Kang Jin-Kyu, Asia Times, Sept. 1, 2020, tinyurl.com/yxzmkxft; “Samsung Chief Lee Jae-yong To Be Arrested On Fraud Charges,” by Tom Grater, Deadline, June 4, 2020, tinyurl.com/y28jf8wk; “Samsung Heir Is Indicted but Avoids Jail,” by Choe Sang-Hun, The New York Times, Sept. 1, 2020, tinyurl.com/yyydjssp.)

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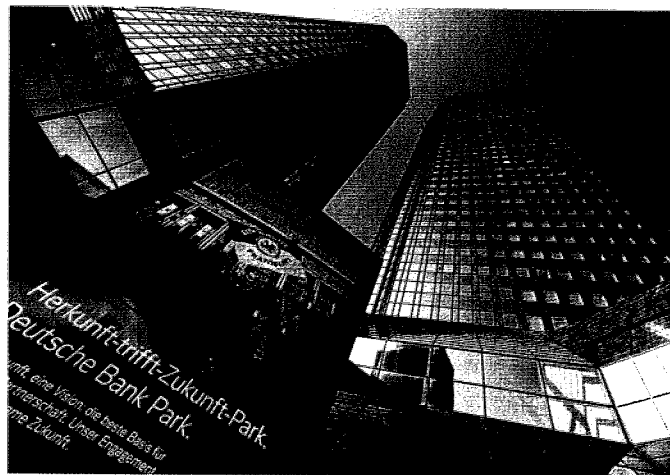


(Photo by Chung Sung-Jun/Getty Images)

sloshing around our financial system, and that U.S. banks play host and facilitator to rogues and criminals that represent some of America's most insidious national security threats." (See "Leaked Treasury Documents Prompt Fresh Calls for Updated Anti-Money-Laundering Regulations," by Ian Talley and Dylan Tokar, *The Wall Street Journal*, Sept. 21, 2020, [tinyurl.com/yxhgchuj](https://www.wsj.com/articles/leaked-treasury-documents-prompt-fresh-calls-for-updated-anti-money-laundering-regulations-11603288000).)

While the FinCEN Files have exposed the vast and rampant culture of money laundering that has plagued the highest echelon of the American financial system, they've also unearthed the ways in which Treasury is unequipped to properly surveil the trillions of transactions that pass through U.S. banks every day.

Banks tend to file a staggering number of SARs to satisfy supervisors and auditors, but this strategy obscures Treasury officials from sifting out potential laundering cases, especially when they're filed years after related transactions occur. "That formula is not the ideal way to protect America from security threats and crime," Rosenberg said. / 03



The headquarters of Deutsche Bank in Frankfurt, Germany (Photo by Thomas Lohnes/Getty Images)

CARLOS GHOSN'S DISAPPEARING ACT

In May 2020, U.S. authorities arrested a former U.S. Green Beret soldier and his son, both of whom were wanted by the Japanese government for assisting Carlos Ghosn, the former CEO of Renault and Nissan, in escaping from Japan to Lebanon in late 2019.

Ghosn was awaiting trial on charges of alleged financial misconduct when he was smuggled onto a private jet and taken to Lebanon, via Istanbul, despite being prohibited from leaving Japan. In September 2020, U.S. Magistrate Judge Donald Cabell approved the extradition of the men, sending the final decision up to the U.S. State Department. Despite attempts by the men's lawyers to block Japan's request, on Oct. 29, 2020, the State Department declared the men will be sent to face trial in Japan's court system. (See "Men accused of helping ex-Nissan chief Carlos Ghosn escape from Japan arrested," by Luke Barr, *ABC News*, May 20, 2020, [tinyurl.com/y5cagthf](https://www.abcnews.com/news/2020/05/20/men-accused-of-helping-ex-nissan-chief-carlos-ghosn-escape-from-japan-arrested/); new source for approved the men's extradition; "2 Americans accused of helping ex-Nissan Chair Ghosn escape fight extradition," by David Yaffe-Bellany, *Bloomberg News in The Detroit News*, Oct. 18, 2020, [tinyurl.com/y3xekhlt](https://www.detroitnews.com/story/news/international/2020/10/18/two-americans-can-be-extradicted-to-japan-in-carlos-ghosn-escape-case-state-department-rules/). "Two Americans Can Be Extradicted to Japan in Carlos Ghosn Escape Case, State Department Rules," by Mark Maremont and Nick Kostov, *The Wall Street Journal*, Oct. 29, 2020, [tinyurl.com/y658nsbn](https://www.wsj.com/articles/two-americans-can-be-extradicted-to-japan-in-carlos-ghosn-escape-case-state-department-rules-11603988000).)

OH, THE IRONY

Sometimes, those closest to the anti-fraud profession end up on the criminal side of fraud examinations. Despite their seemingly good intentions, our final dishonorable mentions are almost laughable for their callousness in turning their anti-fraud work on its head.

In Nigeria, Ibrahim Magu, the acting chairman of the country's Economic and Financial Crimes Commission, the agency responsible for looking into and charging companies and individuals with financial crimes, was arrested for involvement in re-looting recovered funds. (See "Nigeria's anti-corruption boss arrested for corruption," by Aanu Adeoye, *Mail & Guardian*, July 9, 2020, [tinyurl.com/y4vdrnmg](https://www.mg.co.za/2020/07/09/nigeria-anti-corruption-boss-arrested-for-corruption/).)

On the other side of the world, the Las Vegas-based fraud prevention startup NS8 was forced to lay off hundreds of employees after the SEC announced an investigation that alleged the company had reported fraudulent revenue and customer information. Adam Rogas, the CEO of NS8, resigned following the investigation announcement and has been charged with securities fraud and wire fraud for lying to investors after securing \$123 million in venture capital — \$17 million of which Rogas kept for himself. On Oct. 28, 2020, NS8 filed for bankruptcy. (See "Fraud Prevention Startup NS8 Lays Off Hundreds, CEO Departs Amid SEC Fraud Investigation," by David Jeans, *Forbes*, Sept. 11, 2020, [tinyurl.com/y3zt5dkg](https://www.forbes.com/sites/davidjeans/2020/09/11/fraud-prevention-startup-ns8-lays-off-hundreds-ceo-departs-amid-sec-fraud-investigation/); "CEO Of Cyber Fraud Startup NS8 Arrested By FBI, Facing Fraud Charges," by David Jeans, *Forbes*, Sept. 17, 2020, [tinyurl.com/yynaku4g](https://www.forbes.com/sites/davidjeans/2020/09/17/ceo-of-cyber-fraud-startup-ns8-arrested-by-fbi-facing-fraud-charges/); "CEO's fraud charges push Las Vegas tech firm into bankruptcy," by Jonathan Ng, *Las Vegas Review-Journal*, Oct. 28, 2020, [tinyurl.com/y39vfssm](https://www.reviewjournal.com/news/ceo-s-fraud-charges-push-las-vegas-tech-firm-into-bankruptcy/).)

04 / AIRBUS' ROUTINE BRIBERIES

In January 2020, France-based aviation company Airbus agreed to pay combined penalties of more than \$3.9 billion, the largest fine ever recorded in a bribery case, to settle foreign bribery charges from authorities in the U.S., France and the U.K. The settlement put an end to nearly four years of investigations surrounding allegations that Airbus hired third parties to bribe government officials in various countries to purchase Airbus' planes, helicopters and satellites — instigated by Airbus' ongoing competition with rival Boeing.

The company also entered into a deferred prosecution agreement with the U.S. Department of Justice as a result of the settlement, after facing charges in the U.S. of conspiracy to violate anti-bribery provisions of the Foreign Corrupt Practices Act and conspiracy to violate the Arms Export Control Act and its implementing regulations, the International Traffic in Arms Regulations. (See "Airbus to Pay \$4 Billion to Settle Corruption Inquiry," by Liz Alderman, *The New York Times*, Jan. 31, 2020, [tinyurl.com/t22s7cu.](https://www.nytimes.com/2020/01/31/us/politics/airbus-corruption-settlement.html))

Prompted by a March 15, 2020, report by *The Wall Street Journal* that documented Airbus' \$4 billion bribery settlement, multiple law firms filed a class-action lawsuit in August 2020 on behalf of shareholders who claim that Airbus misled them and misrepresented their operations from 2016 to the present. (See *Andrew J. Korneck, et al. v. Airbus*, [tinyurl.com/y6bjnk9g.](https://www.wsj.com/articles/airbus-settlement-lawsuit-11615844000))

Airbus A320 assembly at Hamburg, Germany, factory (Photo by Sean Gallup/Getty Images)

In late 2012, the U.K. Serious Fraud Office investigated GPT Special Project Management Ltd., a subsidiary of Airbus, for compliance issues in contracts with Saudi Arabia. The same office launched a criminal investigation into Airbus in late 2016 in response to suspicion that Airbus actively engaged in fraudulent dealings predicated on bribery and corruption. (See "SFO Charges Airbus Unit, Three Individuals in Saudi Probe," by Ellen Milligan, *Bloomberg*, July 30, 2020, [tinyurl.com/y3wvvgw6g](https://www.bloomberg.com/news/articles/2020-07-30/sfo-charges-airbus-unit-three-individuals-in-saudi-probe)"; "Airbus to pay SFO €1bn in corruption settlement," *BBC News*, Jan. 31, 2020, [tinyurl.com/yy36ehdz.](https://www.bbc.com/news/business-55888888))

As a result of the Serious Fraud Office's allegations after their probes, U.S. and French authorities joined the investigation, which led to the nearly \$4 billion settlement, split between the countries with 2.1 billion euros going to France, 984 million euros to the U.K. and the remaining 526 million euros to the U.S. (See [tinyurl.com/t22s7cu.](https://www.bbc.com/news/business-55888888))

Though Airbus was the subject of these investigations, the company initiated the probes after finding a trail of questionable business practices during an internal audit in 2016. Airbus subsequently reported these findings to French authorities — a strategic move that's estimated to have saved Airbus a fine that likely would've been closer to \$8 billion. (See "Airbus Enters Into A Coordinated Resolution Of Foreign Bribery Investigation With U.S., U.K. And French Authorities For A Total Of €3.6 Billion," by Jonathan S. Kolodner et. al., *Mondaq*, March 2, 2020, [tinyurl.com/yywbsvwy.](https://www.mondaq.com/fr/1000000))

In the DOJ's announcement of the settlement, U.S. Attorney Jessie K. Liu underscored the importance of the international scope of the investigation with the cooperation of three nations. "This case exemplifies the ability of our prosecutors and law enforcement to work with our foreign counterparts to ensure that corruption around the world is prevented and punished at the highest levels," Liu said. (See [tinyurl.com/v3h3lel.](https://www.justice.gov/opa/record/20200131)) / 04



05/LUCKIN COFFEE'S LARGE MUG OF FRAUD

The Nasdaq-listed, Chinese-based coffee company Luckin Coffee Inc., which managed to overtake Starbucks in total locations within just more than two years of being founded, announced in April 2020 that an internal audit revealed allegations of fabricated sales figures. (See Luckin Scandal Is Bad Timing for U.S.-listed Chinese Companies," by Selina Wong and Matthew Campbell, Bloomberg Businessweek, July 29, 2020, [tinyurl.com/y6xq95dd](https://www.bloomberg.com/news/articles/2020-07-29/luckin-coffee-scandal).)

The discovery resulted in a drop in the company's stock of more than 90 percent within a month and led to the firing of Luckin's CEO Jenny Qian and COO Jian Liu, who also lost their seats on the board of directors.

In July, a filing issued by the U.S. Securities and Exchange Commission (SEC) confirmed more than \$300 million in fabricated revenue that began around the time of the company's IPO on Nasdaq and determined that the stock should be delisted because of public interest concerns.

Luckin took the coffee shop industry by storm in 2017, when Joy Capital — one of the largest venture capital firms in China — along with the Singapore fund GIC, invested in its app-based takeout and delivery coffee service, according to the Bloomberg Businessweek article. The influx of capital valued the company at nearly \$1 billion and allowed the chain to open nearly 5,000 locations throughout major Chinese cities. Bolstered by this initial success, Luckin convinced investors like BlackRock and banks such as Credit Suisse Group AG to back the business. In May of 2019, when Luckin took its shares public, it raised \$561 million and dominated the Nasdaq stock exchange.

In hopes of competing with Starbucks in China, Luckin operated according to an almost opposite business model: instead of building stores with tables and



Luckin Coffee at Beijing Mall, Wangfujing (Photo by N509FZ/Creative Commons Attribution-Share Alike 4.0 International license)

chairs, they operated out of kiosks with no seating to minimize rent and labor costs. The coffee was far cheaper than a cup at Starbucks, though this level of immense discounting didn't make up for Luckin's operating expenses. As company records show, in 2018, Luckin was operating at expenses that were almost triple its total sales.

In January of 2020, Luckin's stock was valued at \$50 a share; the initial value had been a mere \$17. However, at the end of the month, an investigations firm released an 89-page document chronicling results of a consumer research study that claims Luckin had been inflating its revenue and the total number of items sold per day. As a result of the study, Luckin's stocks plummeted, but the company recovered within a month. However, auditors quickly confirmed the truth of the report, which led COO Jian Liu to declare that the company had forged more than \$300 million in revenue, according to the Bloomberg Businessweek article.

By mid-May 2020, Luckin Coffee had fired its CEO and COO, and suspended six other employees who played a part in the scheme. The NASDAQ barred Luckin stock

from being traded beginning in April after its shares had plunged by 83 percent following the exposure of the fraud. As of press time, the chain remains in operation. In fact, app downloads surged directly following the news of the fraud as Luckin attempted to regain its company's value by offering a free cup of coffee to new customers. (See "Luckin Coffee ousts chairman Lu, names GUO as CEO," Reuters, July 13, 2020, [tinyurl.com/yxgxs2m4](https://www.reuters.com/article/lu-luckin-coffee); See "Luckin Coffee fires CEO, COO after sales fraud investigation," by Amelia Lucas, CNBC, May 12, 2020, [tinyurl.com/ycjepyts](https://www.cnbc.com/2020/05/12/luckin-coffee-fires-ceo-coo-after-sales-fraud-investigation.html); "Demand for Luckin app surges as Chinese rush to drink up after admission of fraud," by Sophie Yu and Jennifer Hughes, Reuters, April 7, 2020, [tinyurl.com/yxarp3ep](https://www.reuters.com/article/yxarp3ep).) / 05

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