

# FRAUD TALK – EPISODE 104

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## The 5 Most Scandalous Fraud Cases of 2020

Episode 104 of *Fraud Talk* is the ACFE's latest Facebook Live recording during which ACFE President and CEO Bruce Dorris, J.D., CFE, CPA, ACFE Communications Manager Mandy Moody, CFE, and ACFE Senior Research Specialist Mason Wilder, CFE, unveiled the five most scandalous fraud schemes of 2020. The article is available now on [Fraud-Magazine.com](https://www.fraud-magazine.com).

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### *Transcript*

**Mandy:** Hello, everyone, welcome to our Facebook Live discussion today. I'm Mandy Moody, with the ACFE. I am the communications manager here. With tradition, we are going to be discussing the five most scandalous fraud cases of 2020. I know you thought 2020 was over, but we still have something that we can learn from the cases last year.

Hello to everyone who is here live. Thanks for joining us, and hello to all of you who might be watching this later, I know that you might want to watch a recap if you're not able to watch it live.

I'm coming to you from Austin, Texas, where we're headquartered, and I'd love for you to let us know in the comments where you're tuning in from. I know we typically have a lot of people from all over the world and we are so excited that you're joining us today.

I know that 2020 was an unprecedented year, so we want to talk about those stories that were also unprecedented for the fraud world and what we learned. Everything we discuss today, you'll be able to find on [Fraud-Magazine.com](https://www.fraud-magazine.com). That's Fraud-Magazine.com. It's under the title of "5 Most Scandalous Fraud Cases of 2020."

I am so excited to be joined virtually today by Bruce Dorris, our president and CEO. Hello, Bruce.

**Bruce:** Hello, everyone. Thanks for joining us.

**Mandy:** And Mason Wilder, our senior research specialist at the ACFE and our in-house newsman who knows about everything in the news related to fraud. Right, Mason?

**Mason:** That's right, yeah. Thanks for that flattering introduction and thanks, everybody, for spending a little bit of your time with us today.

**Mandy:** Awesome. Well, let's dig right in. It's no surprise that one of the top cases that we're going to be discussing — really, many cases — are the frauds related to COVID-19. As all of us know that when there is a new pandemic or a new something, there's going to be a lot of fraud associated with it because that's where the fraudsters see vulnerability.

Bruce, kick us off and tell us about some of the scams that we saw and what made them so scandalous this past year.

**Bruce:** Well, again, thanks, everyone, for being a part of this and thanks to our Advisory Council at the ACFE. For those of you who are members of the ACFE not familiar with that, I really encourage you to go to [ACFE.com](https://www.acfe.com), log in and become a member of that, because that is how we got to this point.

There are so many frauds that occur, despite a pandemic or because of it. This first one, that we were able to through that council, and through the internal committee here at ACFE and staff, in looking at all of the submissions from around the world.

As Mandy mentioned, this first one touches everyone, whether you are here in the United States, where we are, or in Europe, Asia. It doesn't matter. COVID-19 impacted you and what you do as a fraud fighter. As Mason will talk about as well, this is something that has many, many tentacles, depending on where you are.

The first one, probably one of the largest, is related to, at least in the United States, with what's called the CARES Act, and the European Central Bank and others with stimulus money that was used in order to keep the economies going around the world.

There was basically a shutdown in the beginning in late December, depending on where you are, and into March and April. This obviously impacts the economies and the ability for people to work and to earn. Central banks had to come in and give those monies in order to stimulate and keep economies afloat.

Now, with that said, fraudsters are also going to take complete advantage of that because we have to get that money out quickly. No one has seen a pandemic like this before, and so in trying to keep people safe and alive for that matter, governments are putting money into place.

A lot of times when you move that quickly, a lot of the typical controls that we as fraud examiners are used to aren't front and center as they normally would be and fraudsters are there to take advantage of that. You've got that perfect storm for fraud, that you've got less controls, but you've got large amounts of money. In the case of the United States, you had over \$2 trillion U.S. flooding into an economy at one time, with limited safeguards along the way.

What we're seeing now here in January of 2021 as we record this, and even through the summer and fall, fraud related to that, the Small Business Administration (SBA) within the United States and dealing with loan fraud related to the CARES Act, unemployment fraud, so many different things that are coming to light.

In the U.S., there is a new stimulus package out that was just signed into law last week. But there are more safeguards in place now because a little bit more time and learning from some of the issues that had taken place before. In fact, Mike Ware, who is the newly elected regent for the ACFE, also the appointed Inspector General for the SBA in the U.S., has talked about that. He and I have talked about that personally about a lot of the safeguards that they're trying to put in place now to prevent this continuation of fraud.

COVID-19 impacted everyone. I'll give Mason a little bit of time here to also talk about some different aspects as well.

**Mason:** Thanks, Bruce. Of course, there are some of the bigger price tag items were hit very hard by fraud and that's some of the loan programs or unemployment insurance. For example, here in the United States, there were major schemes in Washington State and California that had similarities but were also very different.

It was more systematic in Washington, and there's hundreds of millions of dollars in fraud losses from just unemployment benefits. Luckily, they were able to figure out what was going on and how people were exploiting the application system and shut that down relatively quickly. They recovered several \$100 million worth of the losses. That was a positive aspect to that.

Aside from just the government benefit programs, this was just practically unprecedented explosion of consumer fraud-related one topic here with the Covid-19 pandemic. It was an evolution and it's still going and still evolving and will continue to do so as long as this is the major news story that affects everybody.

Using anything COVID-related as a phishing lure or the kind of prompts for a social engineering scheme, or just the topic of some other fraud scheme is something that's going to resonate with literally everyone on the planet, which is really rare.

Things that we saw at the beginning, it was really heavy on personal protective equipment (PPE) scams, hospitals and other agencies scrambling to find this PPE. There would be fake product listings or companies that were set up to try and get some government contracts, even though they just didn't know what they were doing and there was a lot of fraud there.

There were so many different phishing lures or phishing emails, phone calls related to coronavirus tests, coronavirus cures, coronavirus vaccines now and also PPE products. Then as everybody's sitting at home and shopping online, there were a ton of fake product listings and e-commerce scams. I mean, it just goes on and on and on.

Some of the latest statistics put out by the Federal Trade Commission (FTC) regarding coronavirus or COVID fraud, they indicate that there are more than \$300 million in fraud losses reported just in the United States alone, and almost 320,000 individual reports of fraud related to COVID with the average loss being about \$300, and online shopping was the top category of complaints by a pretty significant margin.

Every disaster produces disaster fraud, and this was just a whole different level with the variety of schemes targeting different industries, services, so many different cons and they're still going to continue evolving and affecting people.

Once COVID is hopefully in the rearview mirror, I think some fraudsters will adapt their tactics based on what they learned during the pandemic, whenever the next crisis or a disaster comes around. We're still not through the worst of it yet, and we're going to continue to see a wide variety of fraud scams ripped from the headlines, just so that they really resonate with everybody.

**Bruce:** I just want him to elaborate on what he had just said there. I mean, we have had to completely adapt where we had been before in terms of our investigations, our fraud prevention, because we're now all working remotely, depending on where you are and in some areas of the world coming back slowly but still. It changed our way and how we're able to go in and fight fraud.

With all of that, knowing that this — as Mason said — this will continue for a while. I look back about ten plus years ago here in the U.S., after the financial crisis in '08 and in 2009, with the amount of money of course, it was just a pittance of what it is now. We think about \$800 billion U.S. going into an economy related to the financial crisis. That seems small almost, in comparison.

But with the SIGTARP (Special Inspector General for Troubled Asset Relief), the inspector general for all of these monies coming in, and in terms, that group is still alive and working. It's not as robust and large as it was ten years ago, but it's still around. When you start thinking about the amount of monies coming into the economies to help and fraudsters going after that, this is going to take a while to unwind.

**Mandy:** No, that's exactly what I was going to ask you about. You answered my question.

**Mason:** There are going to be a lot of fraud examiners that are going to have careers pretty much solely focused on investigating fraud related to COVID and benefit programs for the next decade.

**Mandy:** Yes, let's move on. We could probably talk about coronavirus-related frauds for another few hours. I think Courtney posted in our messages, you can find a lot of the resources we've created at

ACFE.com/coronavirus, and as always, a huge reminder to use these outlets like Facebook, our online community to talk with other fraud fighters from around the world about what they're doing in their cases and what they're seeing to use that group to get information that can help you in your own cases.

Our second scandalous fraud case in 2020 is Wirecard. This one is just, I mean, this *will be* a movie. I think we can all agree that this will someday be a movie, someday star somebody really famous. Two billion dollars went missing. Now, we have a missing COO.

Mason, tell us quickly what happened for those people who aren't familiar and where are we now?

**Mason:** Right, so really at the heart of this is financial statement fraud, where company leadership inflated assets so that they could attract investment and help grow the company. Wirecard is a German financial technology or fintech company that was working with a lot of different third parties all over the world, on payment processing technologies and services.

They had grown, they were a European tech darling, and nothing but positive reviews and hype and everything. Then, all of a sudden, I think if I'm not mistaken working on some tips, an investigative reporter from the Financial Times named Dan McCrumb wrote a series of articles. I think the first one was back in January 2019.

It started raising some questions about some of Wirecard's business practices around the world. That led to Wirecard responding to these articles by commissioning KPMG to conduct an investigation, and ultimately KPMG found irregularities and had trouble confirming the existence of cash assets that Wirecard had claimed in financial statements previously.

Wirecard's regular auditors, EY, who had been signing off on the company's annual financial statements for the prior three or four years, took another look after KPMG's report and they refused to sign off on Wirecard's 2019 financials this past summer. That's when the wheels just came off of the whole Wirecard scheme.

I mean, all related to \$2 billion in cash assets that Wirecard claimed were just sitting in bank accounts in the Philippines. EY had apparently just been relying on documentation provided by Wirecard or those banks and not doing an independent investigation or confirmation of those balances. EY refused to sign off on the financials, the stock price plummeted, the CEO resigned and was then arrested. Several other executives were charged by German authorities.

Then the COO, Jan Marsalek — I'm probably mispronouncing that — but he fled, and to this day is still MIA, despite being on Interpol's most wanted list for about six months now. There were apparently some faked documents that indicated that he had traveled to the Philippines.

Then, another investigation said that they had pinned him down in Belarus or Russia. It's still ongoing. Wirecard's main office in Germany declared insolvency, and they sold off basically any business units that still had any value to other companies.

Wirecard's done. There are legal proceedings still, and there will be shareholder lawsuits, I'm sure, and class action lawsuits, but it was a dramatic fall from grace for a European tech darling, all based around something that could have been prevented by basic bank account confirmation procedures.

**Bruce:** I don't know if you want to add some context to this, but that's the general gist of the who, what, where, when, why?

**Mandy:** Yeah, Bruce, I know we talked before this. It looks like Enron, it smells like Enron. Where do you see those connections?

**Bruce:** You're absolutely right, Mandy, and there's a lot of similarities to Enron. Not literally in terms of scale and the money that is at stake, but still, you've got a lot of those similarities. I mean, you've got a very gregarious leader, with their CEO, with Braun, and you've got a board that is not necessarily informed because a lot of the transactions. If you look at Wirecard and how they came to be, it's a lot of acquisitions, a lot of opaque transactions along the way. As Mason was mentioning, with its purchases and acquisitions in Southeast Asia and particularly the Philippines.

I think it was Dan McCrumb who figured this one out, but you're looking at the location of where they were talking about this acquisition was actually a home with like ten people living in it.

It was a residential address if looked at a lot closer. When you see that, when you see a Dan McCrumb, someone who is being threatened by not only the individuals who are leading Wirecard but also government agencies as well, based off Wirecard's influence with them at that time.

It just takes me back to when Bethany McLean was starting to unravel... "Is Enron overpriced?" back in 2001 and some of the snarky comments made at that time by Jeff Skilling, who was lead CEO at Enron. Then when you start seeing it implode. It was just a lot of similarities to me in watching how this plays out.

A lot of it's still to come. This one has been playing out for about a year, but I think that we'll start getting more and more. I don't want to say it's going to be the fraud of 2021, but we're going to learn a lot more, I think, as German authorities start unveiling their prosecution and what they're going to do.

**Mason:** To add on just a little bit more of that... there's so many incredible details about the actual Wirecard operations in some of these sketchy jurisdictions where they're handling payment processing for online gambling, potential money laundering concerns. I encourage everybody to go read Dan McCrumb's work on this stuff because there's some really incredible details.

**Mandy:** Speaking of Dan McCrumb, I'm going to tell everyone tuning in a little secret that we haven't officially announced yet, but not only will Dan McCrumb, the investigative reporter who first reported on Wirecard, be speaking at our upcoming European conference in March (our virtual event), he will also be keynoting our annual conference this summer and will be receiving our Guardian Award for his reporting on the case.

We are so excited to give that to him. I think it will come as no surprise to us that with a lot of these big frauds and a lot of the frauds over the years, there is the running theme of a whistleblower, of a reporter, of people who pursued things relentlessly, sometimes over years to bring something to light. That's something that we're really, really excited to honor Dan with.

**Bruce:** I think attacking his wife as well? There are just so many elements to this, and kudos to him. He's also a cover story on *Fraud Magazine* coming up, I think in March.

Just a great, sad story, but one that shows that perseverance by investigative reporting and what we do as fraud examiners. It's a great story for *that* aspect.

**Mandy:** That it pays off. It's not for nothing. I want to give a special shout-out to Zena Kuzor, she is watching right now and she recently passed her CFE Exam. Woo hoo!

**Bruce:** Congratulations Zena.

**Mandy:** I just wanted to give that quick shout-out and then we can move on.

**Mason:** Apologies if we mispronounced your name.

**Mandy:** I know, I apologize if I did, I tried my very best and we are so excited for you.

We're going to move on to our third case of 2020, and it's the FinCEN Files. A lot of people remember the Panama Papers, the Paradise Papers, the Luanda Leaks, and our latest edition of leaked documents from the ICIJ are the FinCEN Files, which really put a spotlight on money laundering.

Mason, kick us off.

**Mason:** All right. We're not going to go super duper in-depth on all this stuff, but I know I've written an article for the Fraud Examiner newsletter about it. You can just go to [FinCENFiles.com](https://www.fincenfiles.com) and read all the series and stories that have come out of the investigation.

This is just like Wirecard, kind of reporter-driven, or investigative reporter-driven story and that main reporter is Jason Leopold with BuzzFeed news, who coincidentally, I'm going to be doing a webinar with about the FinCEN files in about an hour or so. Feel free to tune into that if you aren't sick of me by the end of this, or you can watch it on demand later.

Anyways, he was contacted by a whistleblower who delivered to him about 2,100 suspicious activity reports (SARs), which those are documents that the financial institutions are required to file with FinCEN or a financial crimes enforcement unit, which is the United States' financial intelligence unit.

Any suspicious transactions or things that are red flags of money laundering, the banks are supposed to be filling these out and getting them to FinCEN. They got their hands on 2,100 of them. Then Leopold brought in the ICIJ, which is the international consortium of investigative journalists that had produced the Panama and Paradise Papers and Luanda leaks.

He got them all together, about 400 journalists, started going through these documents, doing follow-up interviews and investigation and reporting out all the different threads and new stories. That amount of suspicious activity reports is a very small fraction of the total amount that FinCEN receives.

Just that small portion represented about \$2 trillion of potentially illicit funds that were moved through big banks, big international financial institutions for drug dealers, terrorists, kleptocrats, politicians, and a variety of other bad actors, organized criminals.

In some cases, these were banks that had previously been warned by authorities about not fulfilling their anti-money laundering obligations or not complying with regulations and doing business with people they shouldn't be doing business with.

In some cases, these banks were carrying out these transactions while under a deferred prosecution agreement for previous violations with the U.S. Department of Justice. Some of the banks that were featured most prominently in this specific report were Deutsche Bank, JP Morgan, HSBC, Standard Chartered. Those were the main ones, and it really shows how big of a problem money laundering is and how difficult it is to get these banks to really crack down on it and how prevalent it is.

It's generated a lot of calls for improved or enhanced regulations, and especially with shell companies, which have been a major feature of all these reports, like the Panama Papers and Paradise Papers. The U.S. recently passed the Corporate Transparency Act, which should make it much more difficult to set up shell companies where the beneficial ownership is hidden or obscured.

Hopefully, that will help with this, but it's a big story. There's lots of resources to read further into it. If you don't have anywhere to be in an hour, hear it straight from Jason Leopold too as I talk to him.

**Bruce:** To Mason's point, recently under — I think it was the Defense Act if that's correct, Mason?

A lot of the shell companies in getting that information out and making it more transparent and it's a huge step forward in AML. I think, Mason, you may even be going over that more in your webinar here shortly,

but I think that's a tremendous impact because if we look at all the SARs related to the FinCEN files, it goes back probably what? Ten years, I think.

**Mason:** The earliest ones were from 1999, I think.

**Bruce:** Even more. Okay. I think that coupled with that and with the new legislation, at least in the U.S., and you'll probably see some adoption around the world as well. I think that we're going to take some step forward in terms of, at least from the anti-fraud side of things, in getting some more transparency in shell companies.

I know that a lot of members deal with this issue and are experts in this issue. So a good step forward happened just within the last couple of weeks, but we're getting more information out for you as members very, very soon. In fact, in an hour, if you're watching live right now with Mason.

**Mandy:** Mason is our ACFE celebrity. He's everywhere.

**Mason:** Yeah, I guess so.

**Mandy:** Let's move on to Airbus. I know Airbus was actually the largest fine ever recorded in a bribery case last year. Bruce, tell us a little bit about how this was a lot about teamwork and multiple different countries doing different things, but working together and, and what we saw with Airbus.

**Bruce:** When you look at the Airbus scandal, like a lot things, it had gone on for a number of years, some self-reporting also associated with Airbus and how this came to light. Mandy, as you mentioned, it was about a \$4 billion fine collectively. That's with the United States, the U.K. and France, but going back and looking at violations of at least within the U.S. Foreign Corrupt Practices Act, UK Bribery Act and how they were trying to get not just defense contracts within China and in other countries as well, and then commercial aviation, too.

A lot of bribes associated with this, a lot of luxury trips for officials in various countries, but there again, there was a self-reporting. If you think about that in terms of a compliance side and whether or not had they not had that aspect of what would that amount have been. The primary amount of that \$4 billion U.S., was in France, but to your point, Mandy, when you've got this collective synergy between the U.S., the U.K., and the France government coming together to fight fraud and to share that information is something that we have really pushed at the ACFE for a long, long time.

If you look at ACFE.com in terms of our law enforcement and government alliance and how we're able to pull different agencies together. I knew going back when I was a prosecutor many, many years ago within the U.S., how federal, state and local law enforcement come together in order to fight, at least in my case, in terms of financial crimes.

Watching and seeing how the jurisdictions of various countries come together, especially with a company like Airbus who's around the world, and in pulling that together, it's a good sign. This is back, I think, in January of 2020, a little bit more challenging in the COVID world, but it's a good sign to show how collaborative various governments and regulators are.

**Mason:** One other potential takeaway from this, a good anti-fraud angle for other similar corporations that are multinational, big corporations... If you find something during an internal review, no matter how that's prompted, I think in this case it was a U.K. Serious Fraud Office investigation that prompted an internal review and internal auditing where Airbus did find some irregularities and some indications of bribery.

They self-reported that to French authorities and had they not self-reported that, the fine probably would have been about twice as much. A little bit of honesty goes a long way, I guess, about \$4 billion in this case.

**Mandy:** Yes, honesty pays off, literally. A little bit. Last piece we're going to mention, we're on number five now, is Luckin Coffee. This is one that I know we were watching for a long time here. There are a lot of parallels to Wirecard.

I think something to be noted that we've mentioned in all of these cases is just how global they are. This is probably the first year where I've just, when we've been going over these stories, where I've just sat back and been stunned at the dollar amounts. They're just so large and they're so big.

What can we say about Luckin, Bruce? I know there are a lot of fabricated financials. What happened with Luckin and what's going on now?

**Bruce:** Yes. Mandy, this is one of my — I don't want to say favorite frauds — but of 2020, the ones that really stood out to me and I've been following this one for a number of months, was Luckin Coffee, the Starbucks of China, as it's been dubbed many times.

You've got about \$300+ million U.S. overstatement of revenue. This particular company was growing incredibly fast. Looking at a lot of the aggressive push in terms of opening up kiosks with a little bit lower costs than the traditional shop over the last couple of years especially. A lot of deep discounts in terms of the price of the coffee as it was made.

You start thinking about it and a lot of research analysts, Muddy Waters being one of them, really starting to look at it. This is about a year ago now of like, "Hey, how are you able to really sustain this type of net income based off what we're seeing here?" Then, the pandemic hits and yet you start looking at these sales like, "Hey, wait, you're shut down. How are you able to sustain this?"

Then the proverbial cat out of the bag, or whatever you want to call it in terms of, "Hey, we've got some serious problems here". Then that's when that \$300+ million overstatement was released. The CEO, COO both let go from Luckin Coffee. Stock price plunges within minutes or hours of that being released. It's delisted off Nasdaq here in the U.S. It's still being traded in China as I recall.

That was just a huge fraud in watching how it unraveled in just a matter of almost days or months really back in the spring 2020.

**Mason:** Just a couple of extra pieces of context here about this story. Sometimes when a company that's in a jurisdiction that is not quite as friendly to outside researchers, such as China, is listed on a U.S. market, it can make it really hard for due diligence and analysis of what's really going on because of lack of transparency or difficulties getting information from certain jurisdictions.

This is an example of that and, plus, while it's just 300... Well, I mean "just". While it's a \$300+ million overstatement of revenue, the impact of the fraud financially was much larger because of the amount of investment in the company and the growth and increase in the company's stock price that resulted from that overstatement of revenue.

I think that the value of the company that was wiped out when the fraud was revealed was more than a billion dollars. The financial impact is even bigger than just the overstatement fraud.

**Bruce:** Yes, there's still class action suits going on. I think that Luckin, I think, settled with the SEC in the U.S. back late last year for a multimillion-dollar fine and I think that they've settled with regulators in China as well. Still sort of a shift I still think from when I was doing some research prior to coming in here on that.

So a ways before, Luckin would move forward based off analysts that are out there, but it was just a tremendous fraud for 2020 that the Advisory Council and our internal committee here came up with. Definitely one of the top five.



**Mandy:** Definitely. That wraps up our top five, Bruce and Mason. Thank you so much for talking to us about these and giving us your insights. I certainly appreciate it. I know that people who are tuning in do because it means they don't have to go and read a ton about it. They can just listen to you guys summarize it and then use it in their next conversation and sound like they knew it all along. So thank you both.

**Bruce:** If they do want to read it though, Mandy, it's in *Fraud Magazine* for the January-February edition 2021. Go look at it. You want to go and learn more, there are links within the story as well as ACFE.com for membership. Please go and look at that and all the other resources that are there, of course.

**Mandy:** We've also got three dishonorable mentions that we have in the online version that are just as relevant. The Carlos Ghosn story is another one that is just incredible and will leave you speechless. I encourage you to go look that up on [Fraud-Magazine.com](http://Fraud-Magazine.com).

Also, I'm sure there are stories that we missed, so please write those in the comments. Share the links with us. Let us know what cases you saw that blew your mind, what you learned from. I think we can all agree that even though these cases are shocking, there's always something we can take away from it as fraud examiners.

We thank you all for tuning in and we thank you all for the work that you're doing because I'm sure you are working on cases just like these or you might even be working on cases related to these cases. Thank you all for tuning in and we will see you next month or next...

I know we'll see you next year to talk about another top five. Thank you all and have a wonderful day.