

Covid19 Fraud:

Law enforcement and where we are now

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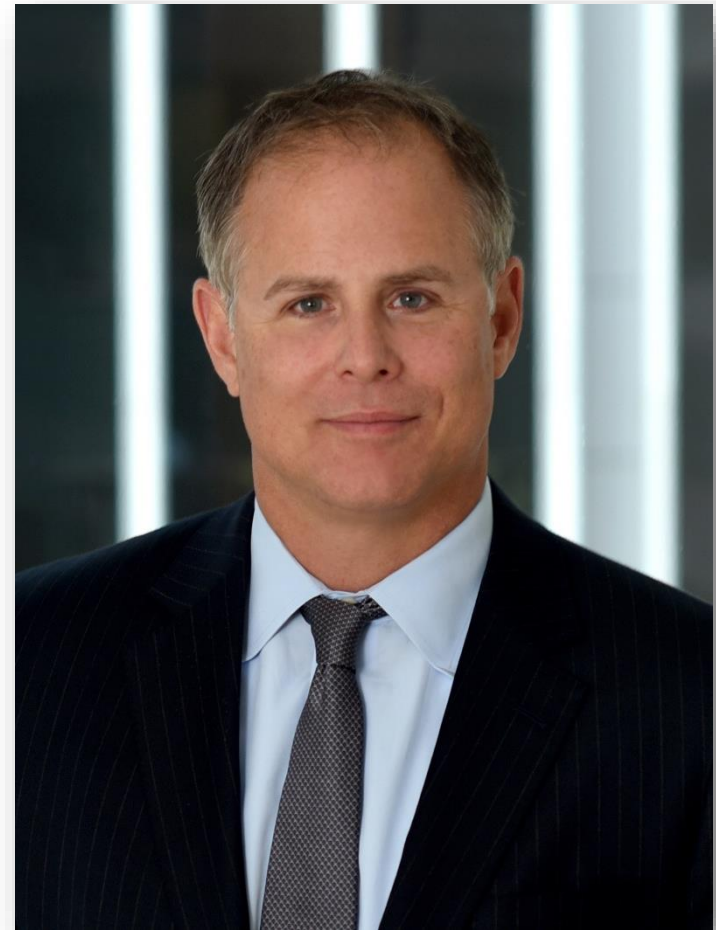
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How Bad is the Fraud?



How Much Fraud

- Paycheck Protection Program: \$80 Billion (10%)
- Unemployment Benefits: \$100 - \$400 Billion (10%-45%)
- Classic Case: PPP Fraud
 - Loans to Small Businesses to Maintain Employment
 - Create Fake Companies / Fake Employees / Fake Payroll
 - No Checks / No Due Diligence/ No Questions Asked ...





Law Enforcement Response

- May 17, 2021: DOJ Announces Covid-19 Fraud Task Force
- DOJ recently announced over 240 pending investigations into over 1,000 suspects for alleged fraud totaling over \$6 billion relating to covid relief programs
- Through March 2022, DOJ has filed criminal cases filed against over 1000 individuals alleging thefts exceeding \$1.1 billion



Law Enforcement Response

April 2022

- DOJ Announces Charges Against 21 Defendants Across the US:
 - Healthcare Fraud
 - Fake Covid Vaccination Records
 - Fake Negative Test Results
 - Fake Cures for Covid: “homeoprophylaxis immunizations”
 - Securities Fraud (not really Covid Fraud)
 - Kickbacks
 - Unemployment Fraud
- March 2022, One Prosecution of the CEO of a PPP Lender
 - For Lying to Become a PPP Lender AND For Lying to Get a PPP Loan



Law Enforcement Response

Acting Assistant Attorney General Brian Rabbitt, September 2020:

I would like to take a moment to explain the two general categories into which you'll see our PPP cases fall.

This first category involves individuals – or small groups – who lied about having legitimate businesses, or who claimed they needed PPP money for things like paying their workers, but instead used it to buy splashy luxury items for themselves.

As we allege in our charging documents, these defendants used lies to obtain millions of dollars in PPP funds and then spent those funds on things like luxury cars, homes, renovations, jewelry — and even adult entertainment and gambling in Las Vegas.

The second category of cases that I'd like to focus on are the coordinated criminal rings that have engaged in systematic, organized conduct to loot the PPP.



Crime Does Pay ... If You're a Bank

PPP FEES TO LENDERS:

- 5,460 Lenders Processed Loans Totaling US \$525 Billion
- Total Fees: Between \$13.7 - \$20.9 Billion
- **Washington, D.C.** (May 28, 2021) — Yesterday, Rep. James E. Clyburn, Chairman of the Select Subcommittee on the Coronavirus Crisis, sent letters to four financial technology (FinTech) firms and partner banks seeking documents and information related to their handling of Paycheck Protection Program (PPP) loans.

Global COVID-19 Relief Programs



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Bridging loan program for SMEs:

- Max. 10% of annual turnover, not exceeding CHF 500,000 at 0% (until March 2023).
- Fully secured by public loan guarantee cooperatives, backed by the Confederation.
- 136,725 loans worth ca. **CHF 14 billion** granted (as of 11 May 2022)
- **20.8 %** of the loans (ca. CHF 4.5 billion) paid back.
- **3.5%** of the loans defaulted (ca. CHF 400 million), secured by cooperatives.

Loans exceeding CHF 500,000:

- Max. of CHF 20 million at 0.5% interest rate for 85% (until March 2023).
- 85% secured by the public loan guarantee cooperatives, backed by the Confederation.
- 1,133 loans worth ca. CHF 3 billion granted (as of 11 May 2022).
- **36.5%** of the loans (ca. CHF 1.2 billion) paid back.
- **6** loans defaulted (ca. CHF 11 million), 85% secured by cooperatives.

Switzerland

COVID-19/PANDEMIC-RELATED RELIEF PROGRAMS



Fraud (as of 11 May 2022):

- **2.9%** of the loans (3,917) under investigation for fraud.
- In **1.5%** of the loans (1,570), total worth ca. CHF 199 million, criminal proceedings are pending.
- In **0.28%** of the loans (384), total worth ca. CHF 33 million, the criminal proceedings have been concluded.

Money laundering (as of 31 December 2021):

- The Money Laundering Reporting Office Switzerland has received 1751 reports related to Covid loans (total amount of CHF 229 million).
- In 1401 cases, the Money Laundering Reporting Office Switzerland filed a criminal complaint.

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Prominent direct/ indirect schemes to tackle the impacts of COVID-19 by Government of India (GoI)



- GoI announced the decision to provide free vaccine doses to all Indians above 18 years of age. So far, more than 188 crore doses have been provided by GoI free of cost to the states. The cost incurred by GoI on the same is expected to be approximately Rs. 50,000 crore.
- More than 60,000 ventilators worth over Rs. 2,350 crore were procured and distributed among the states.
- Rs. 23,220 crore were spent on funding and hiring of medical and nursing students along with increasing the availability of ICU beds, oxygen supply at central, district and subdistrict level.
- A relief package of Rs. 1.7 lakh crore was announced and implemented under 'Pradhan Mantri Garib Kalyan Yojana' whereunder:
 - Food grains and pulses were made available to 80 crore Indians in double quantities than what they were earlier entitled to receive
 - Free insurance cover of Rs. 50 Lakh was provided to over 22 lakh health workers.
 - Free LPG gas cylinders were provided to over 8 crore beneficiaries.
 - Rs. 30,952 crore was digitally transferred to women account holders of Pradhan Mantri Jan Dhan Yojana.
 - Rs. 17,891 was digitally paid to farmers as an advance instalment under the PM Kisan Yojana.
 - Rs. 4,987 crore was digitally distributed to support Rs. 1.82 crore construction and building workers.
 - Rs. 2,476 crore was digitally contributed to the employee provident funds (EPF) accounts of 0.43 crore employees.

Prominent direct/ indirect schemes to tackle the impacts of COVID-19 by Government of India (GoI)



- In addition to the above, as a part of the economic package to lift the economic activities in the country that had been severely hit due to lockdown and other COVID 19 factors, lakhs of crores were spent on initiatives like:
 - Credit to small businesses at concessional rate through banks.
 - Guarantees by GoI to banks for loans that were issued to small borrowers.
 - Funds for medium, small and micro enterprises through various funds.
 - Reduction in Tax Deducted at Source (TDS)/ Tax Collected at Source (TCS) rates
 - Moratorium on loan repayments and providing collateral free loans to small and medium enterprises.
- It is very difficult to comment on the extent of corruption/ fraud at the level of GoI in the above schemes as very few procurements like those of vaccines, ventilators, food grains were done by GoI, and in majority cases the funds were provided by GoI to the states for procurement/ construction activities within their respective states. Further, the distribution of procurements done by GoI like food grains was also done through the public distribution system of the state governments, and the extent of corruption/ fraud therefore varies from state to state. Further, since transfers to beneficiaries by GoI are now directly made to the bank accounts of all the beneficiaries digitally through the direct benefit transfer mechanism, the scope of corruption at GoI level is negligible. However, greater corruption could be noticed at the state/ municipal corporation level that were carrying out execution works like construction of COVID sheds/ makeshift hospitals etc. as considering the emergency situations, usual procedures like tender process, e-bidding etc. were bypassed in several cases. Depending on the procurement/ nature of work, at the lower levels, corruption could vary from 3% of the works contract amount to 80%.

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Coronavirus Business Loans



The Main Government Schemes

Loan type	Value of loans approved	Total loans approved	Total number of applications
Bounce Back Loans (BBLs)	£47.36 billion*	1,560,309	2,094,858
Coronavirus Business Interruption Loans (CBILs)	£26.39 billion	109,877	251,342
Coronavirus Large Business Interruption Loans (CLBILs)	£5.56 billion	753	1,152
Future Fund	£1.1 billion	1,190	2,206

- By May 2021, the UK Government had paid out over £79 billion in business loans.
- The Bounce Back Scheme counted for 93% of loans made and almost 60% of funds disbursed.
- The UK Government currently estimates in total it provided £100bn worth of loans and grants to over 1.5 million businesses, as well as over £16 billion in business rate reliefs and VAT cuts.



Coronavirus Job Retention Scheme

- Operated from 1 March 2020 to 30 September 2021. Extended several times and qualifying criteria altered.
 - CJRS initially covered 80% of an employee's wage up to £2,500 per month as well as National Insurance and pension contributions.
 - 1 August 2020, pension contributions removed.
 - September 2020 & October 2020, CJRS only covered 70% and 60% of wages, employers were required to top up to 80%.
 - CJRS closed in September 2021.
 - The Job Support Scheme was later introduced as a replacement. Employers could furlough employees who worked a proportion of their hours. This scheme was amended multiples times.
 - Self Employment Income Support Scheme - 2.9 million self employed workers also received a grant.
- £70 billion was claimed under the CJRS.**
- 11.7 million jobs were furloughed.**
- 1.3 million employers claimed under the scheme.**
- At its peak – 8.9 million jobs were furloughed at one time.**
- The scheme was mostly used by employers in food services, arts and entertainment.**
- The Government states that currently unemployment is at 4.1%, not 12% as was predicted.**

Fraudulent Claims

Committee of Public Accounts – February 022 Report

Department and scheme	Estimated loss from COVID-19 support schemes		
	Lower estimate (£ millions)	Central estimate (£ millions)	Upper estimate (£ millions)
Department for Work & Pensions & Universal Credit		3,850	
HM Revenue & Customs & Coronavirus Job Retention Scheme	4,065	5,279	7,281
HM Revenue & Customs & Self-Employment Income Support Scheme	355	493	631
HM Revenue & Customs & Eat Out to Help Out	43	71	99
Business, Energy & Industrial Strategy & Bounce Back Loan Scheme	3,615	4,944	6,725
Business, Energy & Industrial Strategy & Local Authority Grant Scheme (figures do not include all local authority grant schemes)	514	1,038	1,562
Total	12,442	15,675	20,148

HMRC expects employers to *‘check their claims and repay any excess amounts’*.

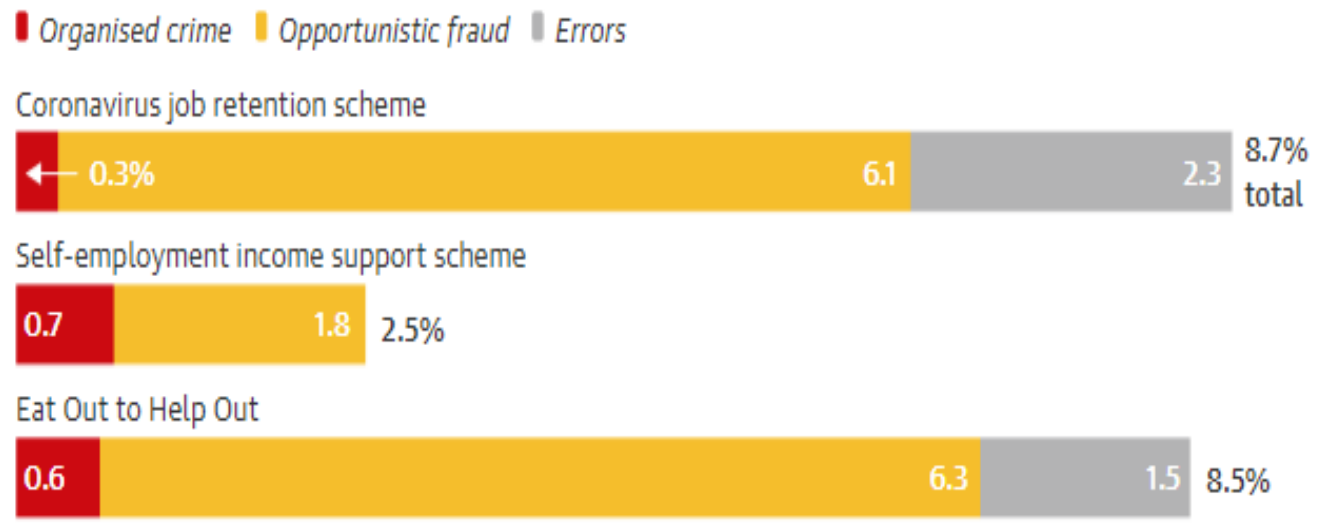
By November 2021, £1.3 billion in furlough cash had been paid back to HMRC in terms of voluntary disclosures.

National Audit Office - £47 billion paid out in Bounce Back Loans, approx. £17 billion will not be re paid and £4.9 billion was fraudulently claimed.



Fraudulent Claims

Estimated rate of error and fraud in the 2020-21 Covid-19 support schemes



Guardian graphic. Source: National Audit Office analysis of HM Revenue & Customs data

Approx. £5.3 bn was lost to fraudulent claims under the Coronavirus Job Retention Scheme.

Approx. £493m was lost to fraudulent claims under the Self-Employment Income Support Scheme.

Approx. £71m was lost to fraudulent claims for the 'Eat Out to Help Out' **Scheme**.

Committee of Public Accounts – ‘HMRC’s unambitious plans for recovering overpayments could lead to the Government writing off at least £4 billion.’

Action Taken

- Taxpayer Protection Taskforce – HMRC established the £100m taskforce which is expected to recover £1bn over the next two years.
- Joint Fraud Taskforce – relaunched in October 2021.
- Public Sector Fraud Authority – announced in Spring Statement 2022. Funding of £48.8m over three years.
- Cabinet Office Counter Fraud Function has been working to recover fraudulently obtained business loans.
- The National Investigation Service has made 49 arrests in relation to Bounce Bank Loans, the National Crime Agency has also made 17 arrests.
- The Insolvency Service has achieved 106 director disqualifications, 48 bankruptcy restrictions and 13 companies have been wound up in the public interest.

The UK Government:

“Will not investigate every instance of potential error or fraud, as in many cases it will not be proportionate or viable to do so.”

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Italy



Since the beginning of the pandemic, the measures adopted by the Italian government to deal with the Covid-19 emergency concerned companies, families, individuals, work and health.

The last, which is “Italia Tomorrow”- **the National Recovery and Resilience Plan (NRRP)** - is worth more than **190 billion Euros**.

Fraud in the healthcare sector, misappropriation of public funds, undue compensation of tax credits, money laundering, corruption, organized crime: these are the types of offences most committed in the context of access to and use of public funds.

There are currently no up-to-date “crime statistics” to provide a precise and complete picture of all the crimes committed in this context.



Prominent Schemes to Tackle the Impacts of Covid-19 by the Italian Government



“Cura Italia” Decree (March 2020): 25 billion euros. 4 areas of intervention: healthcare system-civil protection; labour-income; household and business liquidity; suspension of deadlines for payment of taxes, social security contributions

Liquidity Decree (April 2020): transformed the SME Guarantee Fund into an instrument capable of providing **up to 100 billion euros in liquidity**; tax measures, including tax credits for the purchase of PPE

Relaunch Decree (May 2020): 155 billion euros grants. This includes Superbonus and Sismabonus

Transition 4.0 Plan (July 2020): 7 billion euros. It incentivizes and supports business competitiveness and enhances the value of Made in Italy

“August” Decree (August 2020): 25 billion euros. Jobs and businesses, tax and cash, support for local authorities and healthcare

Restore Decrees (four so far, starting in October 2020): 8 billion euros. Non-repayable grants, suspension of taxes, contributions and payments, emergency income

Support Decrees (three so far, from March 2021): 75 billion euros to fight poverty and support work and businesses

NRRP "Italy Tomorrow" approved by ECOFIN (July 2021): 191.5 billion euros. Digitization, innovation, competitiveness. Green revolution and ecological transition; infrastructure for sustainable mobility; education and research

Simplification bis Decree (July 2021): carries the governance of the NRRP and the first measures to strengthen administrative structures and accelerate and streamline procedures;

Budget Law 2022 (December 2021): 32 billion euros. Aimed at strengthening the NRRP

Fraud/offences most committed in the context of access to and use of public funds



fraud in the healthcare sector

misappropriation of public funds

undue compensation of tax credits

money laundering

Corruption

organized crime

- In November 2021, the **Italian Revenue Agency**, after one year of operation of the credit transfer platform, considers **800 million euros tax credits** deemed to be **non-existent**.
- In connection with **building bonuses**, the Revenue Agency reported **950 million euros in fraud**.
- In April 2022, the **Financial Intelligence Unit (UIF)**, in its **Report No. 3/2022**, represents that it received reports of **suspicious transactions related to the Covid-19 emergency for 13.4 billion euros**, over the years **2020 and 2021**.

Corrective Measures Aimed At Preventing Fraud

Anti-fraud Decree Law (No. 157/2021) - 11.11.2021

- urgent measures were introduced to counter fraudulent behaviors and strengthen the measures that preside over the way in which certain tax credits and deductions are used
- the assessment and recovery activities by the Italian Revenue Agency have been regulated, rationalized and strengthened
- it is compulsory to endorse the data relating to the documentation attesting to the existence of the conditions entitling to the tax deduction and the affidavit in relation to the assessment of the appropriateness of the costs incurred

Circular 16/E Revenue Agency - 29.11.2021

- urgent measures to combat fraud in the area of tax and economic benefits

Budget Law 2022

- repealed the Anti-Fraud Decree but preserved its effects. It changes the regulatory instrument, but in practice the provisions remain the same

New Anti-Fraud Decree Law (No. 13/2022) - 25.02.2022

- expanded mesh of public disbursement crimes
- criminal penalties for licensed technicians who expose false information or fail to refer relevant information

Questions

