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Managing the risks of fraud, waste, and  
abuse in COVID-19 Stimulus Programs



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# Introduction

**As 2020 began, awareness of the SARS COV-2 virus heightened, but few people envisaged the devastating effects it would have on economies and public health worldwide. Many governments reacted rapidly to prop up their economies. These responses included grants, payment checks, or salary coverage. The exceptionally short lead-in times in these initiatives unintentionally increased the risk for fraud, waste, and abuse.**

New phases are now being entered, with a 'recovery' stage well underway, characterized in part by the expansion of business loan provisions, equity support, and wide-ranging grants. These financial aid and support programs are already worth between \$8 to \$10 trillion globally<sup>1</sup>, and that figure is rising sharply. After the first wave of responses, there is an opportunity to implement Program Integrity: transforming existing or designing new programs that are suitably robust against fraud, waste, and abuse. Governments can mitigate negative long-term consequences and be better prepared for future threats by focusing on monitoring, oversight, and design when implementing new programs and distributing funds. By doing so, the funds can reach their intended targets with the desired effects delivered.

False or fraudulent claims being made under existing programs can be identified, along with waste, as a starting point for improving overall efficiency. Thereafter, types of losses not previously identified will also need to be understood, predicted, and prevented. Setting up authoritative oversight bodies will be essential in verifying program usage and transparently reporting on it. Proper program design and targeting, backed by careful ongoing management, can enable successful distribution.

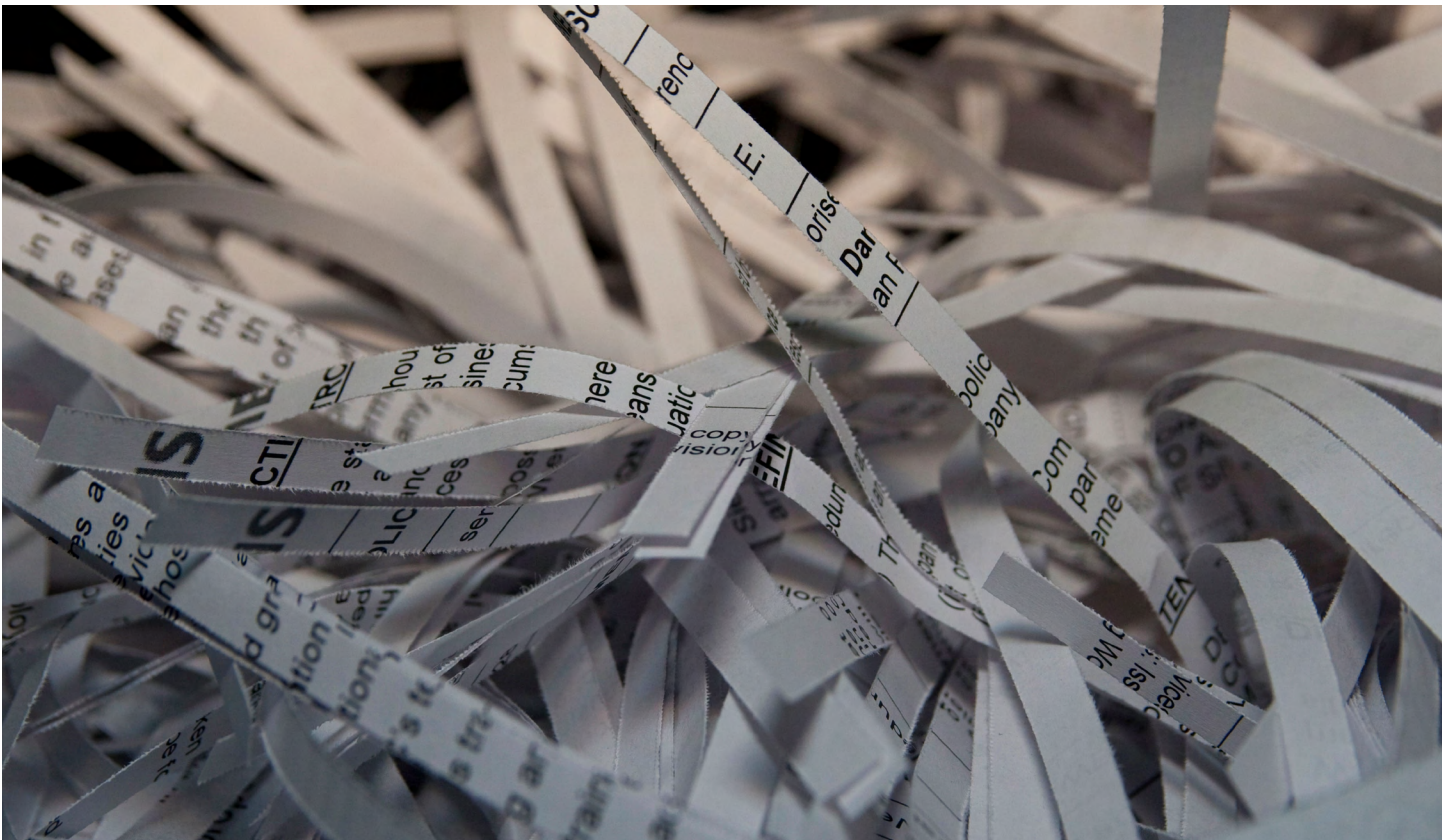
Deloitte is committed to helping clients reduce fraud, waste, and abuse. In this paper, we discuss specific challenges facing authorities in these contexts; considerations on how to shape, support and drive it; and ways to monitor and report on progress as it is made. The race is on for governments to deliver effective programs quickly, but with precision, with the knowledge that only by doing so, can they position their countries well to deal with the current crisis and lay a strong foundation for the future.

# Challenges

There are a myriad of challenges facing COVID-19 economic programs, not the least of which includes grappling with the massive sums involved, short timeframes, limited resources, and the uniquely complex demands presented by unprecedented circumstances.

There is a high risk of loss, with up to 10% of funds<sup>2</sup> estimated to disappear through fraud, waste, and abuse. In the worst situations, Deloitte believes this tally may rise to 15%<sup>3</sup>. Ensuring these programs work well as early in the process as possible can create a basis for real growth, as well as establishing new ways of working and preparedness for future risks. To achieve these outcomes, governments should begin by detecting, investigating, and prosecuting fraud, waste, and abuse in existing support and stimulus programs.

Many programs have been or will be rapidly created, leaving limited scope for comprehensive oversight, thorough project management, robust governance around processes and technology, or an ability to report precisely on outcomes. However, citizens and the media will demand transparency where taxpayer funds are being deployed, making it necessary to determine and report on how money is being distributed, how it has been used, and why. Any program will likely face government and independent scrutiny for some years afterward, with high-profile inquiries investigating how they were designed, monitored, targeted and delivered.



Governments will be challenged to create dedicated design taskforces with the resources, time, and ability to act wisely even in the shortest of timeframes. These teams must consider carefully how their 'recovery' phase program designs can be efficient, while ensuring effective delivery, visibility, and adaptability.

At the distribution level, such as with the local implementing bodies or banks involved with loans, there is a challenge to obtain a clear real time view of fund application; delivery and utilization; and to properly limit fraud, waste, and abuse - starting with detection of existing losses.

In Germany, for example, flaws in verification processes allowed fraudsters to successfully claim what is thought to have been tens of millions of Euros in COVID-19 support funds<sup>4</sup> before those mechanisms could be tightened up. Meanwhile in the UK, the Counter Fraud Function expects up to £21 billion of Britain's £420 billion stimulus packages could be lost due to fraud or error<sup>5</sup>, with leaders of the Ministerial departments for the UK being urged to carry out targeted checks after payments have been made and invoke claw backs on incorrectly utilized funds.<sup>6</sup>

Waste is common when public funds are distributed. This can include overpayments, duplicate payments, processing errors, and support being given to organizations that have no need of it. Abuse can encompass organizations or individuals bending the rules to take advantage of support, or companies accepting rescue funds to spend on shareholder dividends or executive bonuses. Then there is outright fraud such as those not entitled to funds claiming them, sometimes through stolen credentials; invented organizations; or fictitious financial needs. These types of fraud are already emerging as themes within cases leading to prosecutions in the US<sup>7</sup>. Given the huge sums involved in support and stimulus programs, there is an elevated risk of bribery and corruption.

Efforts to prevent losses are impeded by the volume of different funds being granted and the complexity of channels required to distribute them. There is also a challenge presented by data being available in huge quantities but limited quality, with information often being outdated or disparate, and accessible in multiple formats. Meanwhile, there is an undersupply of analytical skills and technologies needed to process and interpret relevant data as required. Advanced data processing and analytics capabilities, which might identify suspicious patterns in time to make a difference, can be difficult to implement, deploy, and maintain.

Government bodies might also lack an effective risk management process despite its value in providing an understanding of potential scenarios and providing transparency in support of broader oversight, which can eventually take the form of government level investigations and inquiries. Clearly, getting the right policies, skills, training, process controls, monitoring, and cybersecurity systems in place as early as possible is essential.

## Questions to consider

- Are you in the initial respond (support) phase or the recover (stimulus) phase?
- Is your key challenge designing systems, management, resource/time, providing oversight, or detecting loss?



**FRAUD WASTE & ABUSE in large infrastructure projects**

Large infrastructure projects are initiated to drive economies. Between 5% and 10% is lost to fraud waste and abuse.



**\$1000B**

estimated global losses in economic support and infrastructure projects



**10-15% is lost to FRAUD WASTE & ABUSE**

Historic data shows support measures are partially lost to fraud, waste and abuse.

# Implementing Program Integrity

Governments are seeking to address problems encountered in their initial COVID-19 support and stimulus programs, recovering losses where possible, and moving to deliver successful recovery programs through risk mitigation.

Program success depends on clear prioritization of identifying losses and preventing fraud; a capacity to conduct authoritative oversight and publish transparent assessments; and proper design and management.

## Loss prevention

Governments should understand how existing support programs have been accessed and identify where losses have been incurred through fraud, waste, and abuse. This includes analyzing claim acceptance and financial distribution to understand where losses are happening. It will also be crucial that they act to investigate and recuperate losses. Publicized prosecution of organized crime and sophisticated fraud schemes can act as a deterrent.

They must also carefully manage and control contracts to limit risk. In Italy, for example, emergency procurement measures have been introduced to speed up acquisition of essential products and services while still ensuring the capabilities are there to assess a suitable number of potential suppliers<sup>8</sup>. One way to quickly assess the risk of fraud, waste, and abuse in a large number of supplier relationships is through analysis of contracts to help quickly tier providers according to the risks they are deemed to represent.

With this work underway, governments and other public bodies should then focus on **identifying previously unknown threats** to the successful delivery of their programs. This will require professionals with sophisticated data analytics skills to model risks to predict problems and prevent them -- including the detection of unusual payments through automated scanning of multiple data sources such as public information, blacklists, social media, and the dark web. This will need to be combined with expert analysis to confirm problems, interpret gray areas and understand the intention behind applications requiring extra checks.

Such methodology enables governments to move away from a 'pay and chase' approach around loss and to mitigate many problems before they occur. It is empowered by **machine learning** that can scour the mass of information to identify trends, forecast problems and tier applicants according to risk. The technology also enables **soft 'nudges'** during applications, such as through on-screen pop-up messages, to ensure more accurate information is provided. Such nudges might explain the importance of accurate claims, the number of accurate claims made that month, question a particular piece of input information, or ask for specific confirmation on a piece of data.

## Questions to consider

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It is essential to apply a combination of technology, processes, and human expertise to reduce problems. Forensic accounting helps to trace funds, understand applicants, and manage supplier risk. In this way, governments can block certain losses, speed up genuine applications, and increase accuracy and effectiveness.

### Transparent oversight

**Oversight bodies** are vital to the success of all virus-response programs, given the clear importance of funds reaching their intended recipients. Such a body will need to report on fund distribution and effectiveness to all stakeholders, including different departments and bodies, country premiers, and—ultimately—citizens and businesses. Countries may create agencies for specific programs or aspects of them, as in the United States where there are three mechanisms overseeing the COVID-19 programs and their outlays under the CARES Act (Coronavirus Aid, Relief, and Economic Security - Act), addressing overall distribution, large business relief, and stimulus from the Treasury and the Federal Reserve<sup>9</sup>. When more than one oversight body is created, they must collaborate continuously and be able to share information easily.

Creating an oversight body that is fit for purpose requires careful attention and proper resourcing. It must have **clear authority** and the ability to collect and assess all relevant information. Aims of such a body should include analyzing implementation, reporting on it, and potentially developing transparent information hubs made accessible to the general public. In the long run, according to the Organisation for Economic Co-operation and Development, OECD, an oversight body can develop analysis that helps shape important changes to programs and informs future policy<sup>10</sup>.

For an oversight agency to succeed, collection of information needs to be highly methodical and conducted by multi-skilled teams, with inter-agency **collaboration** brought to the fore and providing timely access to pertinent data. Formal and informal knowledge sharing should be continuously expanded across multiple agencies, and across other non-profit and (where relevant) private sector partners such as banks, which may be well-positioned to identify problems or new and emerging trends.

Oversight must be a combination of effective analytics empowered by smart technology, established processes, and human experience that can interpret highlighted information in light of context. All this is essential in achieving relevant findings that can be released quickly and transparently in an understandable and accessible format.



### Customized design and distribution

Success in day-to-day operational distribution of funds also depends upon proper **program integrity, meaning the design, management and adaptation of programs**. A careful balance should be struck between the need for fast payment and reduction in fraud, waste, and abuse.

At a central level, governments will be expected to conduct robust risk assessments and proper targeting based on accurate and reliable datasets and smart analytics. They will need watertight policies and methodologies; robust workflows and processes; proper human resource management and training; deep trend and behavioral monitoring; and thorough governance. Taking a **consistent risk management** approach is essential to this, helping set risk appetite and tolerance against which different public sector bodies can identify problems and local distribution agencies can understand expectations.

When implementing programs quickly, governments should ensure they are in full control of their operation. Establishing a dedicated **operations center** is a leading practice, so that application processing and recipient engagements are effective, alongside risk management and stakeholder reporting. At the local distribution level, program management offices can be set up to ensure applications for national funds and their usage—including accounting, tracking and reporting—are managed effectively. Through close monitoring, as well as collaboration with national oversight bodies, transparency can be increased and there can be much greater control of local fund utilization, reducing the risks of improper payments and ensuing claw back demands.

Given the enormous sums of money involved in government-led COVID-19 recovery programs around the world, each of these steps for loss prevention, oversight, and distribution management are critical in helping governments deliver on their obligation to society: that only the right recipients receive their funds and that programs create the economic stimulus that is needed.





# Conclusion

As businesses move into the recovery phase of the pandemic, governments around the world should design and deliver successful and effective COVID-19 economic programs, from inception, oversight and execution to reporting and adaptation. This includes creating new processes with greater efficiency, deploying the right technologies consistently, and drawing together proper expertise for programs that not only function well but also offer demonstrable value for the money.

To achieve these outcomes, governments should consider:

1. Utilizing analytics to detect and prevent fraud - Governments need to understand potential flaws in existing programs and investigate and prosecute crime where it happens. Then they can move to identifying previously unknown threats, requiring clear metrics around threat severity and expected frequency. Fraud modeling allows governments to move to loss prevention based on broad data sources.
2. Establishing oversight offices to observe and report on programs - Authoritative and well-resourced oversight bodies can enable transparent reporting on programs. Such groups should collaboratively assemble and interpret the necessary data. Proper oversight can help identify problems early on, limiting the scale of damage done and creating a culture of improvement.
3. Ongoing management to ensure funds reach targeted recipients - Any new recovery programs will need proper program integrity, robust risk assessment and governance, and close monitoring. At the fund distribution level, establishing program management offices can help to control disbursement and utilization according to centrally-set risk tolerance that is informed by real evidence.

Governments have a huge responsibility to coordinate, lead, and deliver unprecedented recovery programs at scale, speed, and with great precision, while also building in accountability and transparency. While some loss is inevitable, strong risk mitigations, proper oversight, and appropriate designs can lead to well-managed, successful distribution of program funds. Deloitte can assist governments to structure, deliver, oversee and monitor programs with clarity and impact, as governments execute on their missions to support their countries' economic recovery from the pandemic and providing opportunities for them to thrive into the future.

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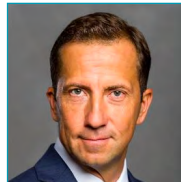
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# Endnotes

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