



## PPE supplier vetting during the coronavirus pandemic

### Balancing urgency and risk

*Deloitte's Forensic series around COVID-19 business impacts and steps you can proactively take to help respond to and recover from the outbreak and mitigate potential fraud and financial crime risks.*

#### **PPE Supplier Vetting During the Coronavirus Pandemic—Balancing Urgency and Risk**

As the spread of coronavirus (COVID-19) has accelerated across the world, health care providers, governmental entities, and businesses have been working to secure scant supplies of personal protective equipment (PPE) for workers and caregivers. As a result, purchasing agents may face pressure to eschew traditional means of vetting suppliers and potentially expose themselves to doing business with fraudulent or inexperienced suppliers.

Conducting accelerated supplier vetting, even at a high-level, can help provide purchasing agents with answers to pertinent questions about their potential business partners, thereby helping to inform their decision-making process. Following are some of the considerations that may be weighed in this process.

First, it is necessary to define which type of mask will be necessary for your company: sanitary masks intended

for healthcare professionals (such as surgical masks supervised by the national public health regulatory body or respiratory protection masks type FFP2), or non-sanitary masks (for professionals in contact with the public, or protective masks). Surgical masks are medical devices and are subject to strict regulations and supervision by the national public health regulatory body. They are only manufactured by certain suppliers. Non-sanitary masks are not medical devices and are not subject to regulatory monitoring.

#### **How to identify mask suppliers?**

In France, over the last few weeks, many public and private actors have been mobilized to:

- determine the technical features for non-medical masks,
- identify manufacturers who may supply masks,
- test of the products: the Direction Générale des Armements in France (body within the French Army) published the results of its tests on 7 May 2020<sup>1</sup>,

- set up platforms enabling companies to place orders or connect with suppliers, such as: <https://stopcovid19.fr/>, <https://masques-pme.laposte.fr> or <https://savoirfaireensemble.fr/>, partner of the French Ministry of Economy and Finance.

#### **If the PPE supplier is listed on these platforms, what diligences should organizations perform?**

These platforms carry out an initial selection, either technical or administrative, and help with the identification of potential suppliers. They bring more transparency and increase visibility. However, they do not replace a detailed analysis, carried out by each company to reduce their sanitary, operational and legal risks.

#### **What additional steps can be taken to identify information on a potential PPE supplier?**

Potential steps may include the following:

- If applicable, search the national public health regulatory body databases, such as the Agence Nationale de Sécurité du Médicament et des produits de Santé (ANSM) in France, for reports of adverse events or recalls, or whether the entity has been issued a warning letter
- Confirm corporate registration information and status, identify the entity's principals, and understand the history of the entity, the principals and the shareholders (for instance, in France, with the Court Registry at the Tribunal de Commerce)
- Review online presence, including the entity's website, for legitimacy
- Perform a review of global regulatory and sanctions searches on the entity and its principals
- Conduct pinpointed searches for adverse or relevant media on the entity and its principals
- Identify litigation involving the entity and its principals
- Determine whether the entity or its principals have filed for (past and current) bankruptcy

### What risks arise from insufficient vetting?

By not conducting a degree of third-party due diligence, purchasing agents may find themselves entering into high-value business transactions with entities and individuals that are unknown and unverified, leading to several potential short-term and long-term consequences:

#### Fraudulent or fictitious suppliers

The scramble to obtain PPE has created a space for fake and counterfeit products and unscrupulous or inexperienced suppliers to make deals for products they do not actually have. Prestige Ameritech, the largest maker of medical face masks in the US, warned consumers on its website in late March of a proliferation of individuals using fake websites and email addresses to pose as the company or its employees. Despite the uptick in fraudulent activity, wary health care providers desperate to locate PPE for their staff may feel compelled to pursue all solicitations, hoping to avoid the scams.

#### Inexperienced suppliers

Newly established entities or those not previously involved in the manufacture and supply of PPE may—intentionally or unintentionally—overstate their output capacity or underestimate the challenges of meeting unprecedented demand for their products. A relative lack of experience raises red flags for potential purchasers in a time when prompt receipt of functional goods is vital.

#### Reputational damage

Organizations, particularly private companies, have faced scrutiny from within their organizations and from the media for perceived failures to protect employees. Negative consumer sentiment could have a carry-over effect on these organizations, damaging their reputations and brand integrity when they resume normal operations. When an unvetted supplier fails to timely provide the PPE that is critical to the safety of employees, this issue may be exacerbated.

#### Legal liability

Some attorneys predict that the post-COVID-19 landscape will be fertile ground for lawsuits. Health care providers and other organizations may face claims that they did not take, or took too long to implement, proper precautions to protect employees, customers, patients, and even shareholders. Companies that decide to forego vetting procedures on their suppliers may be more susceptible to lawsuits.

#### Laws and regulations

Organizations may turn to foreign suppliers to obtain PPE, perhaps for the first time, and should be aware that some countries operate state-owned entities ("SOEs") involved in the production of PPE. In addition, SOEs may have ownership stakes in private companies in other countries. Contracting with such companies creates potential exposure to violations of the Foreign Corrupt Practices Act in the US, or Sapin II in France, which may be unfamiliar territory for some.

#### Closing Thoughts

Deloitte's Corporate Intelligence Services can help organizations develop a flexible due diligence plan that acknowledges the need for quick decision making while still delivering meaningful intelligence that can help organizations identify potentially fraudulent or untrustworthy business relationships.

#### Endnotes

1. <https://www.entreprises.gouv.fr/covid-19/liste-des-tests-masques-de-protection>

## We're here to help

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