Market Matters: Beware of scams amidst the pandemic

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Photo: Contributed Photo: David A. Slossberg

We all know that historic crises, like the COVID-19 pandemic, bring out the best in people — true kindness and extraordinary acts of courage. Unfortunately, crises also bring out the worst in a few, which makes it vital that businesses be on heightened alert for scammers.

One of the most widely used schemes is designed to trick businesses into sending funds or gift cards to a fraudulent recipient. These frauds, sometimes referred to as Business Email Compromise Schemes, come in many shapes and sizes.

Examples:

You might receive an email purportedly from the president of one of your vendors, asking to move up the transfer date of a payment and asking to change the recipient account because of the COVID-19 outbreak and the need for precautions.

Another scheme might involve a request to use a new bank for invoice payments because of claims of COVID-19 audits making the regular bank inaccessible.

Common earmarks for these schemes involve increased urgency, requests for advanced payments, last-minute changes to wire instructions, and communications in email with a refusal to speak by phone or online video.

Sadly, fraud does not only emanate from the outside. When financial pressures increase in difficult times, as during the current pandemic, employees may resort to desperate acts of forgery and embezzlement. These frauds most often are committed by trusted office managers, bookkeepers or others with check-signing authority. Regularly reviewing bank and credit card statements is key. Look for things that are out of place, such as duplicate payroll checks or multiple payments to vendors in the same month.

Once a victim, the practical realities are that it is challenging to recover lost funds. By the time a business might locate the fraudulent recipient, whether with the help of law enforcement or through private investigation, the funds may already be gone or difficult to reach, particularly if the transfer is overseas. Despite this, businesses should seek legal representation as soon as possible after discovering fraud. If the business acts quickly, an attorney may be able to help in certain circumstances. For example, if the fraudster is local, an attorney may be able to obtain a court order, called a prejudgment remedy, allowing the fraudster's assets to be seized.

In cases where a business did not authorize the transfer, such as when forgery is involved, there may be a remedy against its bank for not catching it. Those remedies often require businesses to review monthly statements and quickly notify their bank of unauthorized transactions. Additional remedies may be available when the defrauder is insolvent, whether as a result of the fraud, COVID-19, or otherwise.

So, what are businesses to do to protect against fraud during these difficult times? Most importantly, businesses should educate employees and make sure they have procedures in place to check against deception.

Let employees know that you will never ask them to transfer money by email. They should know that this will not change just because people are working remotely. If they get such a request, they should verify by telephone before acting.

Next, make sure all transfers, checks or withdrawals over a certain amount require approval from at least two people. While COVID-19 precautions may require us to conduct business differently, there is no need to relax security procedures. Find contactless methods to obtain appropriate approvals or signatures, even if that means dropping off checks at someone's house for approval.

Carefully review bank and credit card statements monthly. If your business is closed, ask your financial institution to email statements or have them mailed to your home. Businesses that review statements regularly will be in the best position to catch fraud before damage becomes irreversible. Also, wherever possible, separate financial oversight responsibilities among different employees. The employee who pays the bills should not be the same employee who reconciles the bank accounts.

When a business adopts appropriate oversight procedures, insiders are less likely to commit fraud and outsiders are more likely to be caught.

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