

Fraud and Corruption in Times of Disaster



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Introduction

If one studies carefully the reaction of people during and after man-made and natural catastrophic events such as floods, tornadoes, hurricanes, fires, oil spills, terrorist attacks, and wars, it is remarkable to see the great contrasts in human behavior. One witnesses the heroic actions, particularly from the first responders, those who give aid in the form of money or personal services, and also the minority who use the event as a way to enhance their own finances through fraud, scams, and corruption, often further victimizing those whose lives were already devastated.

Looking at fraud and corruption in a historical view, many examples of corruption and fraud were recorded during wars. Various scams were directed toward Union soldiers returning to their homes after the end of the US Civil War. For example, Jordon (2016, p. 28) notes, “Rascals and quick charlatans began offering ex-soldiers up to \$300 in exchange for army discharge papers, with which they could pretend to be Union veterans and petition for government employment, bounty equalization, disability pensions, or homestead lands.”

Drastic changes in a government generally result in an increase in fraud and corruption. Plywaczewski (2000), Kratcoski (2000), and Edelbacher (2012) note that during and after the breakup of the Soviet Union, the “black market” was extensive, often organized by former Soviet government officials. The Vietnam War provided ample opportunities for corruption and fraud, the perpetrators often being military leaders, government officials, private businesses, and individuals who were in positions to engage in such deviant behavior.

The recent hurricanes, floods, tornadoes, and terrorist acts that occurred in the United States resulted in numerous instances of heroic deeds, self-sacrifice, and assistance to the victims of the catastrophic events. However, numerous cases of

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fraud and corruption on a grand scale were also uncovered during and after such events. For example, a Federal Bureau of Investigation report (2011) documented billions of dollars bilked from the government by fraudsters after Hurricane Katrina devastated a good portion of New Orleans and other parts of Louisiana in 2005. The example given in Box 1 illustrates some of the best in terms of response to disasters.

**Box 1 Examples of a Caring Society
(Akron Beacon Journal 10/22/2017 A 1, A14)**

Five past presidents attend concert to raise money for the victims of Hurricane Harvey, Irma, and Maria.

“Hurricane Harvey slammed into the Texas Gulf Coast as a category 4 hurricane on Aug.25, eventually unleashing historic flooding in Houston and killing more than 80 people....”

“Hurricane Irma subsequently hit Florida and Hurricane Maria battered Puerto Rico, while both affected the U.S. Virgin Islands.”

“George Bush senior appeared in a wheel chair at the event. His wife Barbara and George W. Bush’s wife Laura Bush, were in the audience.”... “There is a precedent for former presidents joining forces for post-disaster fundraising. George H.W. Bush and Bill Clinton raised money together after the 2004 South Asia tsunami and Hurricane Katrina and the next year Clinton and George W. Bush combined to seek donations after Haiti’s 2011 earthquake.”

Sustenance for body and soul after floods.

Max Becherer and Emily Wagster Pettus – Associated Press (Akron Beacon Journal, A8 8/22/2016).

Walker, LA.: “As waters rose amid torrential rains earlier this month, National Guard rescue crews dropped people off at South Walker Baptist Church because it sits high on ridge of relatively high ground in Livingston Parrish near Baton Rouge. Even as the flooding has receded, in recent days, the church- like many other places across hard – hit south Louisiana- has continued providing sustenance for the body and soul.”

“It sheltered 96 people in the days after the storm, and the Rev. Mark Carroll, pastor, said the sanctuary is still a dormitory for over 20 people who lost their homes, including a man who had been living in his car until Saturday. It is also housing volunteers who have come to help people rebuild.”

Cooperative policing for coping with crisis situations.

Yokoyama (2016, pp. 97–118)

“The largest earthquake ever recorded in Japan, with a magnitude 9.0 occurred at 2:46 p.m. on March 11. A number of smaller earthquakes, or after-shocks, occurred for several months.” (p.99).

“About 30 minutes after the first large quake, a large tsunami began to come ashore along the Pacific coastline.”... “At 3.27 p.m., the tsunami hit

(continued)

Fukushima No.1 Nuclear Electric Power Plant and caused all electric power to be lost in the plant. Due to the seriousness of the situation, a second meeting of the Emergency Headquarters to Cope with the Disaster was held a short time later.” (p. 100).

“Numerous victims who had been rescued were taken to temporary shelters, set up in schools and other buildings. Basic necessities such as water, food medications, natural gas, fuel, and gasoline were in short supply. Working with the Self-Defense Forces, the police assisted in bringing the necessary goods to the victims by truck and helicopters. A few days after the quake, enough basic goods to meet the survivors’ needs were donated by many people and supplied by governments and various organizations.” (p. 110).

Large-scale destruction of the environment and the death of humans resulting from human error or planned destruction as well as from natural forces bring out those who wish to profit from such catastrophic events by engaging in various criminal activity, including fraud and corruption. The examples given in Box 2 illustrate some of the types of crimes that are perpetrated by fraudsters during and after such events.

Box 2 Examples of Fraud and Corruption During and After Disasters

FBI joins locals in task force to fight disaster fraud after North Bay fires
(Jill Tucker (2017, p. 1), SFgate)

“The fires were still smoldering in Santa Rosa and other North Bay communities when the first signs of disaster-related fraud appeared, targeting victims and well-meaning donors. And illegal schemes continue to be reported, two months after the fires killed 44 people and flattened entire neighborhoods, said FBI spokesman Prentice Danner.”

Mallonee (2017, p. 2)

Fraud inevitably follows disasters, so authorities in Texas, Florida, prepare for post-storm scams.

“The Texas attorney general’s office said Thursday that it has received more than 3,200 complaints about scams, fraud and price gouging since Aug.25, for things such as \$99 for a case of water. In Baton Rouge, where the National Disaster Center is located, the number of fraud reports went from 79 the week before Hurricane Harvey to 425 in the week after the storm hit, center director and U.S. Attorney Corey R. Amundson said.”

Contractor fraud grows 5 years after Sandy; (Shawn Marsh- Associated Press) Akron Beacon Journal, A14, 11, 2017.

(continued)

“Trenton, NJ: After superstorm Sandy flooded the first floor of his New Jersey home with 4 feet of water, Rich Bindell shelled out tens of thousands of dollars to a contractor he knew was approved by the state and had done other work in his town.

Five years after the storm, the construction projects remains unfinished and the contractor faces up to 10 years in prison after admitting this month to scamming more than 30 homeowners and employees of about \$ 1.9 million.”

“James ‘Jaime’ Lawson is one of more than 200 people charged in New Jersey with \$11 million worth of Sandy- related fraud in a list that continues to grow five years after the storm. Most of those cases involved homeowners filling fraudulent applications for relief funds, but others have been contractors like Lawson.”

Akron Beacon Journal (2017a, 2017b).

“Washington: White House disavows deal”.

“The Trump administration scrambled Friday to distance itself from the decision to award a \$300 million contract to help restore Puerto Rico’s power grid to a tiny Montana company from Interior Secretary Ryan Zinke’s hometown. The White House said federal officials played no role in the selection of Whitefish Energy Holdings by the Puerto Rico Electric Power Authority. The administration disavowed the contract amid a growing number of investigations and a bipartisan chorus of criticism.”

FBI: fighting fraud – Oct. 2008.

“Hurricanes and other natural disasters- like the summer’s California wild-fires- bring out the best in people, who volunteer to help with cleanup efforts and make charitable contributions to victims. But disaster also brings out the worst in people-and not just crooks and scam artists. Sometimes, when it appears there’s easy money to be made and no one is watching, otherwise law-abiding citizens can get caught up in crime (FBI 2008, p. 1).”

“How else to explain the case of the fire chief who’s now serving 14 years in jail? The Louisiana resident, who had no previous criminal record, volunteered to organize medical relief efforts in Baton Rouge shortly after Hurricane Katrina devastated the Gulf Coast in 2005. He then proceeded to steal and sell nearly \$500,000 worth of government –owned defibrillators.

When the theft was discovered and an investigation was begun, the fire chief tried unsuccessfully to hire a hit man to kill a witness that could link him to the crime.”

B.S. Charles (2015, p. 2).

Disaster fraud: criminals capitalize on catastrophes.

“A couple in Huntsville, Alabama, were ordered to return \$2.1 million (http://www.al.com/news/index.ssf/2015/06/alabama_couple_says_they_cant.html) they received as compensation for alleged revenue loss after the oil spill occurred. The couple concocted an elaborate scheme to move money through bank accounts so it would appear as a financial loss and subsequently allow them to collect relief funds.”

Fraud, Corruption, and Organized Crime during Economic Depression and Political Instability

Schopper (2012, p. 23) notes, “We can assume that even in prehistoric times a quest for security against physical violence, extreme weather conditions, and famine was pursued. However, technical skills were minimal, production of goods was not very effective, and rural economies depended on the unpredictable upturn of the annual harvest cycles.” Schopper continues by stating, “To a certain extent, the family, the clan, and the neighborhood were able to help when serious threats arose. People commonly had the conviction that fate affected everyone’s life, no one could escape fate, and everyone had to come to terms with his fate.”

Over the centuries, societies changed, countries became economically developed, and the rise of capitalism and democratic governments led to changes in the determination of who had the responsibility to provide some type of relief when people suffer catastrophic losses due to natural and human disasters. The governments of the developed countries have taken on a greater responsibility to provide assistance to those who are unable to assist themselves during and after a calamity such as an economic depression, flood, earthquake, tornado, or hurricane.

One would expect that the quest for security that has existed in humans since the beginning of civilization should now be realized. However Schopper (2012, p34) states “In reality, in today’s world we are confronted with management mistakes, management waste, fraud, corruption, and other illegal behaviors, along with insufficient equity bases and other problems that are hard to control.” These problems, along with the blending of legal and illegal practices during and after times of disaster in a community or country, can lead to a decline in the security of the people, despite the efforts of the government and other agencies to provide assistance to those who have suffered tremendous losses due to natural or man-made disasters

Dovoysek and Mastnak (2012, p. 3) note that “in some countries, particularly those in a state of economic development, both the economic sector and the political sector may become dependent on organized crime, resulting in widespread corruption in those countries.” Kratcoski (2017, p. 6) states, “Research on citizens’ perceived corruption of the police reveals that there seems to be a direct correlation between the stability of the government and the economic system and the amount of corruption.”

Hetzer (2012, p. 222) contends that the failure of governments to recognize the collusion and corruption between the corporate enterprise and many political leaders has not only resulted in an increase in fraud and corruption during a world economic crisis as in the case of 2007 but this form of collusion actually played a major part in the inception of the economic crisis. He states, “The profit-making intentions of economic agents, the ambitions of politicians, the financial requirements of parties, and the greed of public officials have become increasingly interconnected and can no longer be ignored.” He contends that the activities of the political leaders and business leaders are such that they are difficult to control, even if such activities are corrupt. Hetzer (2012, p. 225) states, “Corruption always signals failure of leader-

ship, as is evident in all EU member states where economic interests, personal ambitions, and political objectives are linked. A particular form of corruption that has recently developed is corruptibility as a result of incompetence. Overloaded state bureaucracies rely on the assistance of private individuals who supposedly have special superior knowledge that enables them to pursue their own economic interests even within a legislative procedural framework. The discussion about the economic prerequisites for and consequences of corrupt behavior in business appears to have taken on a puerile or childlike quality recently. In particular, the comments that other competitors make. For example, on foreign markets, 'everyone is doing it' and 'contracts cannot be won without the payment of bribes' reflect a childish mentality or a debased sense of right and wrong."

The assertions made by Hetzer are reiterated by Tomasic (2012, p. 177). He contends, "The global financial crisis has revealed massive financial frauds and misconduct that have long been aspects of our markets but were submerged by the euphoria that dominated these markets in good times." Tomasic believes that corporate crimes have penetrated markets. Such crimes are difficult for the legal system to prosecute, since those responsible for committing the crimes are powerful and the financial institutions they represent are often considered so important to the economic welfare of the country that the government must overlook the criminal activity. Tomasic (2012, p.177) contends, "This is especially so where these crimes are of enormous proportions or involve powerful individuals or corporations. Their seeming invulnerability to regulation is enhanced in boom times, and this is furthered buttressed by powerful political forces supporting risk taking. These political forces have served to muzzle or curtail the activities of enforcement agencies directly through the lack of adequate resources and indirectly by promoting ideologies that legitimize the minimal role of government in marketed and industry self-regulation." Tomasic argues that the financial enterprise is driven by a culture of greed whereby powerful corporate leaders and bankers are able to operate with a minimum of government regulation. A call for stronger regulations only occurs after a financial crisis, and if new government regulatory laws are enacted, they either receive minimum enforcement or are softened once the crisis is considered to be over.

Terrorism, Organized Crime, Fraud, and Corruption Relating to Disasters

Raghavan (1999, pp. 64) stated that in India, "Dissatisfaction with the government may occur because of shortages of food, fuel, or water, labor disputes, or what may appear to be disrespect for religious traditions. Any of these could trigger protests, violence, or terrorism."

Kratcoski and Das (2003, p. 17) note, "Terrorist groups have access to vast funds from the illegal drug trade and other criminal activities. They have used these proceeds to buy heavy weapons and high-tech communications equipment in

Eastern Europe. Seized military equipment includes armaments of exclusively Russian origin, suggesting links between Russian organized crime and Colombian guerrillas. The relationship between the guerrilla terrorist groups and macro-terror-ism has become so intense that it has been impossible to separate the two.”

Edelbacher and Kratcoski (2010, p. 86) observe that “Currency counterfeiting, document forgery, and document theft are examples of crimes frequently committed by terrorist groups. In a world characterized by anonymity and impersonality, in which officials increasingly rely on documents to establish a person’s identity, the possession of a complete set of documents is the only way a person can establish that he or she exists. These documents give the bearer certain rights, entitlements, and services. Counterfeited, forged, or fraudulently obtained documents are useful for all criminal activities, as they help hide the real identity of the perpetrators. Organized crime groups and terrorist groups often use the identities of persons who have died, a form of identity theft. The appropriate identification documents are forged with ease.”

Antinori (2012a, b, pp. 148, 157) demonstrates how organized criminal groups are able to gain a foothold in the legitimate financial system of a country during a time of economic crisis, using the Mafia criminal organization in Italy. Antinori (2012a, b, p. 149) contends that the operations of the present-day Mafia centers on, “buying off state officials to gain complicity of state officials in order to engage in the activities that will produce the largest profits.” He states, “The power of the mafia is widely enhanced and favored by collusion with government officials and political representatives, particularly in the Southern territories. Another important factor to consider is the current weakness of political parties in Italy. They are far weaker than they were in the past. As a result, benefits from political participation have decreased. The loss of power led many politicians to adopt a “look out for yourself” attitude that made corruption far more likely.” Antinori (2012a, b, p.152) contends, “The modern mafia is no longer a predator; it has become an entrepreneur. It controls more than a territory; it manages entire market segments. As a result of the economic crisis, usury is thriving and pollutes whole segments of the economy. The free market is secondary. Poor quality products are used to construct major public works despite huge costs of constructions granted to mafia-controlled businesses.”

Although Antinori is referring specifically to the Mafia in Italy, the same conditions can be found to a lesser or greater degree in many countries throughout the world. As previously noted, when a country is in a state of economic crisis and the political leadership is weak, the opportunities for organized criminal organizations to increase their profits increases.

In order to achieve its goals of increasing its wealth, Antinori (2016, p. 43) noted that the Mafia has concentrated on gaining access to several areas of business as fertile grounds to infiltrate, including health-related businesses such as testing laboratories, private clinics, residential homes, and rehabilitation centers. Several other areas include businesses related to sports such as amateur clubs, suppliers of sporting equipment and supplies, and construction of sports facilities and multipurpose centers and clubs. Two other areas of business infiltrated are related to transporta-

tion such as trucking; providing local services, tourism, and professional transportation; and businesses relating to surveillance and private security such as nocturnal security guards, security services in nightclubs, construction site security, and personal protection services. Antinori (2016, p. 44) states, “The infiltration of the Mafia in the socioeconomic fabric may allow, especially in times of crisis and/or economic contraction:

1. Provision of more effective services;
2. Provisions of services in the most favorable trading conditions;
3. Provisions of services that could not have been granted because of
 - a. Lack of a reliable financial lender;
 - b. Small or denied banking support.”

Common Types of Fraud/Corruption during and after Disasters

The types of fraud and corruption that typically emerge after large disasters are similar to those that occur during normal times, with the exception that being a victim of a natural or man-made disaster may motivate one to engage in an act that is illegal, such as claiming losses to property or physical harm that far exceeds the amount of damage the disaster caused, an act that the person would not have engaged in during normal times. In regard to corruption, the disaster provides the public official, corporate leader, or head of an organized crime unit a new opportunity to make profit under conditions in which the risks of the illegal transaction being detected are perceived as being relatively low. Thus one sees fraud and corruption on a very small scale, often involving a few hundred dollars or less, such as a building inspector being paid off for overlooking some structural damage to a building caused by the natural disaster, as well as fraud and corruption on a large scale, involving hundreds of millions of dollars, such as that which occurred after the collapse of the banking industry in 2003 that led to a worldwide economic recession.

Fraud in the Financial Enterprise

Edelbacher, Theil, and Kratcoski (2012, pp. 399) refer to Wolfgang Hetzer, an author who has completed considerable research on white-collar crime, particularly financial crime. Hetzer notes that the crisis in the economic and financial enterprise, in part, was created by a failure in economic policy and the failure to recognize the crisis was created by “individual and collective self-deception, economic interests, and political calculation.” Criminal laws are biased. They apply to “losers’ and are not applicable to the rich. The recent financial crisis has shown that the directors and leaders of corporations and financial firms do not always put the common good

above their own personal interests and that of some of their leaders and that some of these leaders are motivated by greed and are open to corruption.”

Some of the key elements that may have had an effect on the onset of the man-made worldwide economic crisis of the first decade of the twenty-first century relating to fraud and corruption include a high-risk environment and a political ideology, in which the powerful interests of the banking and financial sectors were able to pursue their own interests without interference from government regulations. Some of these activities were later recognized as criminal.

Charles (2015, p. 1) states that disaster fraud can be divided into five major categories. The categories are:

- Charitable solicitation fraud is the act of soliciting funds by posing as a legitimate charitable organization.
- Contractor and vendor fraud is the act of posing as a legitimate vendor, worker, or repairman to collect payment but never complete the tasks in question.
- Price gouging is the act of increasing the costs of goods and services in a disaster zone.
- Property insurance fraud is the act of reporting fraudulent claims or inflated claims to collect insurance premiums.
- Forgery is the act of pretending to be someone you are not for financial gain (i.e., signing and cashing stolen or fraudulently acquired checks).

Those responsible for providing relief to victims of disasters, such as the Federal Emergency Management Agency (FEMA), recognize some predictable phases that occur before, during, and after a natural disaster. First, there are fraudsters who, in anticipation of the drastic harm that is expected to occur as the result of a flood, hurricane, tornado, or forest fire, begin to target disaster relief money provided by the government or donations offered by private individuals and organizations for the victims of the disaster. For example, Jackman (2017, p. 2), quoting Walt Green, previous US attorney in central Louisiana and head of the Fraud Center, noted, “Green said charity fraud is often the first to occur, with false websites set up to collect donations. When the National Weather Service releases its list of storm names each year, he said, people buy up domain sites as ‘Irma Relief’ or ‘Help Harvey’ in hopes of fooling well-intentioned donors.” Investigators found 5000 questionable Katrina-related websites after the storm, not just from the area of the disaster but nationwide. While Katrina was still slamming into Louisiana, a man in Florida launched “[AirKatrina.com](#)” claiming he was a private pilot performing rescues and needed money for fuel. He wrote that he saw people huddled on roofs and that “I will hear these screams for the rest of my life.” He was nowhere near Louisiana, but he raised \$40,000 in 2 days, authorities said.

Unfortunately, the number of victims of natural disasters who need assistance in making their homes livable far exceeds the number of reputable contractors available to provide the assistance needed. Thus, some victims, out of necessity, sign agreements with companies without having the opportunity to check out their credentials and later find out that they were not only victims of the disaster but victims of fraud.

Harman (2017, p. 5) notes “Fraudulent contractors will also prey on homeowners. Interestingly, after a large catastrophe, people who have no business working as contractors think they can make a lot of money by pretending to do all sorts of home repairs. These bad actors should not be confused with legitimate companies that are insured, bonded, have well-trained staffs, and may be from out of town because they are part of a much larger network and are bringing in additional resources to help a local company that is inundated by the amount of work to be done.”

The fraudsters who pose as legitimate contractors and vendors who obtain contracts to do cleanup work and repairs after the catastrophic event is over are very plentiful and perhaps the most difficult to prosecute, once their scams are detected, as noted by Jackman (2017, p. 2). He states, “As the storm passes, contractors swoop in to clean up debris, take down trees, and perform other clean-up tasks. Some will take the money and simply disappear. Some will have FEMA benefits signed over to them. Some will actually do the work. Experts said victims can only tread carefully, do their homework, and hope they don’t get fleeced.” The following exemplifies a case of this type of fraud. Charles (2015, p. 2), quoting a news outlet, wrote, “A website was seeking donations (<http://www.komonews/local/Wildfire-website-seeking-cash-made-inaccurate-claims-32,818,901.html>) for food for firefighters. It claimed that the group was hosting the official command center for over 150 firefighters combating the local wildfires in the state of Washington. Upon investigation, it became clear to local authorities that this was untrue. Authorities questioned the website and it was promptly taken down- but funds went unaccounted for.”

Insurance Fraud (Health, Home, Life)

Brody (2006, p. 1) notes, “Disaster-related property insurance fraud against insurance companies include losses, faking repairs, claiming loss services, and in some cases, deliberately causing damages to property to collect on insurance policies in the wake of a disaster. ‘Hard insurance fraud’ occurs when someone deliberately fabricates a claim, ‘soft insurance fraud’ (also known as opportunistic fraud) occurs when a normally honest person pads a legitimate claim.”

Harman (2017, p. 4) provides examples of the different ways that some insured will try to scam insurance companies after a major natural disaster, such as a flood or hurricane. For example, if flood waters sweep people’s possessions away, it gives them a chance to claim the loss on possessions that they never had or to inflate the value on possessions they owned. Others may claim damages for property that was not damaged by the natural disaster or make claims on potential healthcare matters such as mold and viruses that contaminated their home, as in the case of a flood.

Identity Impersonation and Identity Theft

Reporting on fraud involving identify impersonation and theft relating to the Irma hurricane disaster, Mallonee (2017, p. 1) noted, “Fraudsters are impersonating FEMA officials and asking hurricane victims for personal identifying information. The complaints also involve charity fraud, suspicious ads for inspectors, and threats of disconnection of services.” Mallonee (2017, p. 2) obtained information from a FEMA official who contended that the stealing of identities of the victims of a disaster or the impersonation of a relief official are the most common forms of fraud committed after a major man-made or natural disaster has occurred. Referring to statements made by Don Cazayoux, a former US attorney and now connected to the National Center for Disaster Fraud (NCDF), identity theft is the most common type. In addition to impersonating FEMA officials, fraudsters pose as workers from relief agencies, such as the Red Cross, insurance adjustors, and representatives of legitimate construction companies or volunteer organizations, or pose as a victim of the disaster by stealing the identity of persons who have a legitimate claim.

PBSO NewsHour (2017, p. 1) reports, “Federal and state officials are warning residents, volunteers and officials in flood zones in Texas and Louisiana that they could be targeted by storm related scams, contract corruption, document fraud, identity theft and other crimes. They emphasize that the easy availability of personal information and documents on the Internet has widened criminal activities and potential victims to anywhere in the U.S.”

Prevention of Fraud Relating to Disasters

A number of government agencies, as well as private organizations, have implemented a number of programs relating to the prevention of disaster-related frauds. Many of the prevention programs are self-serving, as in the case of insurance companies, who obviously want to limit their liability for payments for property destruction or personal injury to those who are eligible for such benefits. Government agencies such as the Federal Emergency Management Agency (FEMA), National Center for Disaster Fraud (NCDF), Multi-State Information Sharing and Analysis Center (MS-ISAC), and the Federal Trade Commission (FTC) also have a mission of providing assistance to only those who deserve assistance, and with the help of federal law enforcement agencies, such as the FBI, the government attempts to prevent fraud and corruption after a natural disaster, as well as bring those who commit fraud to justice. Thus, disaster fraud prevention, investigation, and law enforcement programs are planned and implemented with different goals and use different strategies. The missions and goals of such agencies are similar in content and pursued through:

1. Public service education
2. Enactment of legislation
3. Law enforcement

Many of the prevention programs consist of public service announcements designed to provide information to potential victims to be aware of fraudulent activities and how to communicate with protective agencies if they are a victim of fraud. The goal is to prevent a large amount of disaster-related fraud by making the potential victims aware of the scams that are used by fraudsters during and after a natural disaster and learn how to avoid such trickery.

Fraudsters realize that people are usually extremely generous in their response to aiding victims of floods, fires, hurricanes, tornadoes, and other large-scale disasters. They see the events unfolding on television, with interviews of people who may have lost everything, including their homes and possessions. This leads kind-hearted people to desire to do something to aid those who are in such dire need. Harman (2017, pp. 2–3) notes “Fraudsters may reach out on line, on the telephone, via e-mail, or even face-to-face, using same approaches as legitimate organizations. Any charity or group that does the following should probably be avoided:

- Can’t prove that the contribution is tax exempt.
- Thanks you for a donation you don’t remember making.
- Pressures you into contributing,
- Asks for cash donations or requests that money be wired.’

According to Harman (2017, pp. 2–3), other tricks used by fraudsters to try to separate the potential victims from their money are:

- Phishing (setting up phony website links in which there is a claim that the donations will go to the victims of the disaster, when in reality they go to the fraudsters).
- Fraudulent contractors (storm chasers).
- Informing victims of the disaster that their insurance payments are overdue and if money is not sent immediately, the policy will be canceled.
- Public claim adjusters may charge a large fee to make an estimate on the amount of damage suffered by a policy holder.
- Fraudsters selling damaged equipment or vehicles, such as automobiles, and not disclosing that they were damaged by the natural disaster.

PBSO NewsHour (2017, p. 3) reported, in anticipation of the spike in disaster-related frauds, including charity fraud, in the aftermath of Hurricane Harvey, “On Wednesday, the government-funded Multi-State Information Sharing & Analysis Center reported more than 500 domain names associated with Harvey had been registered over the preceding week. The majority of those names, the center reported, used words associated with philanthropy and aid, including ‘help’, ‘relief’, ‘donate’ and victims. The center warned of ‘the potential for misinformation’ and that ‘malicious actors are also using social media to post false information or link to malicious websites.’”

Legislation

Legislation to prevent fraud related to natural and man-made disasters has been enacted by all levels of government, including local, state, and federal, in the United States. The fallout of the economic crisis in the United States during the first years of the twenty-first century resulted in new legislation designed to curtail and control corruption and fraud in the economic enterprise. Kratcoski (2012, p. 374) noted, “The U.S. financial crisis began in 2007, spurred by the collapse of such enormous investment enterprises as Bear Sterns, Enron, and WorldCom. The U.S. Securities and Exchange Commission (SEC) reacted by beginning to exercise authority it already possessed to investigate and regulate the complex financial structures that developed.” In addition to the changes in the SEC approach to the regulation of the activities of Wall Street, The US Congress enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act in 2010 (Pub. 1. 113–203, H.R. 4173.29) (n.d.). This Act was designed to “promote the financial stability of the United States by improving accountability and transparency in the financial system, to end ‘too big to fail.’ to protect the American taxpayer by ending bailouts, to protect consumers from abusive financial services practices, and for other purposes” (H.R.4173, <http://www.sec.gov/>). Search News (2017, p.1) reported “The Act established a number of new government agencies tasked with overseeing various components of the act and by extension various aspects of the banking system. Several of the key components of the Act included *The Financial Stability Oversight Council and Orderly Liquidation Authority* that monitor the financial stability of major firms whose failure could have a major impact on the economy (companies deemed “too big to fail”). The council has the authority to break up banks that are considered to be so large as to pose a systemic risk. It can also force them to increase their reserve requirements.” Similarly, the new Federal Insurance Office is supposed to identify and monitor insurance companies considered “too big to fail.” Search News (2017, p. 1) reports, “A major part of the Dodd-Franks Act was the creation of *The Bureau of Consumer Financial Protection (CFPB)* (H.R.4173–8). Several of the key provisions of the Bureau include: preventing predatory mortgage lending, the assumption being the subprime mortgage market was the primary cause of the 2008 economic catastrophe), it prevents mortgage brokers from earning higher commissions for closing loans with higher interest rates and higher fees and protects potential borrowers from being steered into loans with high interest rates. The CFPB also governs other types of consumer lending, including credit and debit cards, and addresses consumer complaints.”

Several provisions of the Dodd-Frank Act were eliminated or revised by the actions of President Trump, who in 2017 issued an executive order to have a review of directed regulations and provisions of the Dodd-Frank Act and a report on the Act with the purpose of making legislative reform.

Preventing Fraud during and after Natural Disasters

At the federal level, the *National Center for Disaster Fraud* was created by the US Department of Justice in 2005. The FBI (2011, p. 1) states “The National Center for Disaster Fraud (NCDF) was originally established by the Department of Justice to investigate, prosecute, and deter fraud in the wake of Hurricane Katrina, when billions of dollars in federal disaster relief poured into the Gulf Coast Region. Now, its mission has expanded to include suspected fraud from any natural or manmade disaster. More than 20 federal agencies, including the FBI, participate in the NCDP, allowing the center to act as a centralized clearinghouse of information related to Hurricane Irene relief fraud.” PBSO NewsHour (2017, pp. 1, 2) reported that “It (NCDF) has arrested and prosecuted defendants for disaster-related crimes, including more than 1,460 in connection with crimes associated with Hurricanes Katrina and Rita. Those prosecutions, between 2005 and 2011, targeted defendants in 49 federal districts across the country- a clear indication that criminal activities spawned by Harvey could originate anywhere.”

The FBI (2011, p. 1) provides the following guidelines for persons to follow to try to avoid being victims of fraudsters in times of natural and man-made disasters:

- Do not respond to any unsolicited (spam) incoming e-mails, including clicking on links contained within those messages, because they may contain computer viruses.
- Be skeptical of individuals representing themselves as surviving victims or officials asking for donations via e-mail or social networking sites.
- Beware of organizations with copycat names similar to but not exactly the same as those of reputable charities.
- Rather than following a purported link to a website, verify the legitimacy of nonprofit organizations by utilizing various Internet-based resources that may assist in confirming the group’s existence and its nonprofit status.
- Be cautious of e-mails that claim to show pictures of the disaster areas in attached files, because the files may contain viruses. Only open attachments from known senders.
- To ensure contributions are received and used for intended purposes, make contributions directly to known organizations rather than relying on others to make the donation on your behalf.
- Do not be pressured into making contributions, as reputable charities do not use such tactics.
- Do not give your personal or financial information to anyone who solicits contributions.
- Providing such information may compromise your identity and make you vulnerable to identity theft.
- Avoid cash donations if possible. Pay by debit or credit card, or write a check directly to the charity. Do not make checks payable to individuals.

- Legitimate charities do not normally solicit donations via money transfer services.
- Most legitimate charities websites end in .org rather than .com.

The FBI is cooperating with numerous local, state, and federal law enforcement agencies in the prevention and control of the types of fraud and corruption that have typically emerged during and after major disasters. For example, even though the fires in Santa Rosa and other North Bay communities were still smoldering, Tucker (2017, p. 1) reports, “The agency (FBI) announced Wednesday that local, state, and federal agencies have launched a task force to combat fire fraud. They will collaborate, share information, and use intelligence obtained from previous disasters, including hurricanes in Houston, Florida and Puerto Rico, to identify crime trends that are already popping up in areas affected by the blazes.”

The Multi-State Information Sharing and Analysis Center (MS-ISAC), started in 2003, is a private nonprofit organization that focuses on improving cybersecurity for federal, state, local, tribal, and territorial governments. Membership in the organization is open to all state, local, tribal, and territorial governments with the only requirements being that a government entity completes an agreement that it will abide by the provisions and responsibilities of the organization when it becomes a member. The MS-ISAC technical manual (2017, p. 5) provides the responsibilities for MS-ISAC members. Members agree to:

- Share appropriate information between and among the members to the greatest extent possible.
- Recognize the sensitivity and confidentiality of the information shared and received.
- Take all necessary steps to protect confidential information.
- Transmit sensitive data to other members only through the use of agreed-upon secure methods.
- Take all appropriate steps to help protect our critical infrastructure.

The contributions MS-ISAC has made to protect the security of the infrastructure in the United States have been recognized. Its contributions have been particularly important during and after a major catastrophic natural or man-made disaster was experienced in the United States. MS-ISAC (2017, p. 5) states, “The U.S. Department of Homeland Security has designated the MS-ISAC as its key cybersecurity resource for State, Local, Tribal and Territorial governments, including chief information security officers, homeland security advisors and fusion centers.”

Summary

Major disasters in which large numbers of people become victims tend to bring out the best in people as well as the worst in some. Most people feel good about having the opportunity to assist fellow beings in times of disaster, either by

engaging in volunteer work such as assisting in rescue activities for victims of floods, fires, hurricanes, and other disastrous situations or by providing assistance through financial aid. However for some, these catastrophic events provide opportunities for personal gain.

Research has revealed that in times of man-made disasters such as war, dramatic changes in government, or the collapse of the economy there are numerous opportunities for fraud and corruption. In fact, some scholars have indicated that government leaders in collusion with leaders of the financial enterprise have engaged in corruption to the extent that it has had a major impact on the economy of a country, even leading to an economic collapse. Once the economy is in a severe recession or depression, the door is open even wider for additional corruption and fraud from other groups such as criminal organizations.

The aftermath of war and internal conflict often brings in new leaders that can be more corrupt than those that were replaced.

In this chapter, the major types of fraud and corruption that occur during and after disasters were presented and illustrated by examples. For some of the victims of natural and man-made catastrophic events, some individuals see these events as an opportunity to make financial gains that far exceed the losses they experienced from the disaster and what they rightfully deserved. Their fraud is accomplished by “padding,” the assumption being that with the volume of claims being processed, the insurance companies will not have the personnel or resources to thoroughly investigate every claim.

Other types of fraudsters who capitalize on major disasters include those who raise funds for victims but never give the funds to the victims, questionable construction and repair contractors, and those who steal the identities of victims in order to make claims. Building contractor and repair frauds associated with the aftermath of major disasters include over charging, doing shoddy work, or not completing the work.

Efforts to combat corruption and fraud include public service educational programs geared toward informing potential victims how to avoid fraud, legislation, and innovative law enforcement programs. Private profit-making agencies, non-profit organizations, and government and law enforcement agencies have implemented numerous programs designed to prevent fraud during and after major catastrophic events.

A major reform in the financial sector of the United States was made after the recession of the US economy in the early part of the twenty-first century. The Dodd-Frank Wall Street Reform and Consumer Protection Act created the Financial Stability Oversight Council designed to monitor the financial stability of major firms and the Consumer Financial Protection Bureau, designed to protect consumer from predatory mortgage lending, as well as protecting consumers from lenders who charge excessive fees and interest rates. The Act also provided protection for “whistleblowers” who expose corruption and fraud within the organizations in which they are employed.

The Federal Emergency Management Agency, the National Center for Disaster Fraud, and the Multi-State Information Sharing and Analysis Center work/cooperate with other federal, state, and local law enforcement agencies as well as private nonprofit service agencies to provide emergency care and services during and after natural and man-made disasters. These agencies provide information and support to those who become victims of fraud during or after the catastrophic event and assist in the investigations of corruption and fraud related to the event.

Discussion Questions

1. Discuss the types of fraud in which some victims of natural disasters engage. What are the reasons why people who are normally law-abiding are motivated to commit crimes pertaining to a natural disaster?
2. Discuss the reasons why organized criminal groups have new opportunities to engage in corruption and fraud after a country has experienced a major economic recession.
3. What are the major types of fraud associated with the some construction/building trades that develop after a major natural disaster?
4. Discuss several ways fraud is committed via the Internet during and after a major man-made or natural disaster. What methods are used by the Multi-State Information Sharing and Analysis Center to combat Internet fraud related to natural disasters?
5. Some researchers believe white-collar criminal activity in the financial sector played a large part in creating the economic recession in the United States during the first decade of the twenty-first century. What types of crimes (questionable financial practices) committed by corporate and Wall Street executives were considered causes of the economic recession?
6. Discuss several of the major provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act designed to eliminate abuses in the financial sector and protect the consumers from fraudulent practices.
7. What are some of the major guidelines offered by the FBI to assist people from becoming victims of fraud during a natural disaster?
8. What are the five major categories of fraud used by fraudsters to victimize those who have experienced substantial losses from a natural disaster? Give an example of each type.
9. Discuss the reasons why man-made disasters such as war or the collapse of governments open up opportunities for corruption and fraud.
10. Discuss some of the ways fraudsters use the Internet to commit fraud during times of natural or man-made disasters.

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