S. Hrg. 118–242

EXAMINING FEDERAL COVID–ERA SPENDING AND PREVENTING FUTURE FRAUD

HEARING

BEFORE THE

SUBCOMMITTEE ON EMERGING THREATS AND SPENDING OVERSIGHT

OF THE

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS UNITED STATES SENATE

ONE HUNDRED EIGHTEENTH CONGRESS

FIRST SESSION

NOVEMBER 14, 2023

Available via the World Wide Web: http://www.govinfo.gov

Printed for the use of the
Committee on Homeland Security and Governmental Affairs

U.S. GOVERNMENT PUBLISHING OFFICE
54–421 PDF WASHINGTON : 2024

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EXAMINING FEDERAL COVID-ERA SPENDING AND PREVENTING FUTURE FRAUD

TUESDAY, NOVEMBER 14 2023

U.S. SENATE,
SUBCOMMITTEE ON EMERGING THREATS AND SPENDING OVERSIGHT,
OF THE COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:46 p.m., in room SD–562, Dirksen Senate Office Building, Hon. Maggie Hassan, presiding.

Present: Senators Hassan [presiding], Ossoff, Romney, and Scott.

Also present: Senator Ernst.

OPENING STATEMENT OF SENATOR HASSAN[1]

Senator HASSAN. Good afternoon. Our hearing today focuses on Federal spending in response to the Coronavirus Disease 2019 (COVID–19) pandemic, efforts to conduct oversight of those funds, and opportunities to work together to prevent fraud in the future. I want to begin by thanking Ranking Member Romney for his work on these critical issues and for his proposal to hear from our distinguished panel of witnesses on how Congress and the Federal Government can strengthen efforts to prevent waste, fraud, and abuse of emergency spending.

In early 2020, few could have imagined the impact that the Coronavirus would have had on global health and our economy. It quickly became apparent, however, that Congress had an obligation to respond. In those early days, Congress came together to pass the bipartisan Coronavirus Aid, Relief, and Economic Security Act (CARES Act). This package included the first round of economic stimulus payments to individuals and families.

It also established the Paycheck Protection Program (PPP) designed to provide loans to small businesses to ensure that they could stay afloat and continue to pay their employees. It expanded access to healthcare and life-saving personal protective equipment (PPE). As the world grappled with the fallout of the global pandemic, over the next 2 years, our country faced additional medical and economic challenges requiring additional emergency relief packages that we passed into law. The majority of those funds were provided in the forms of loans, grants, and direct financial assistance.

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[1] The prepared statement of Senator Hassan appears in the Appendix on page 29.

These programs were overwhelmingly successful. Investing in our economy during the pandemic helped limit negative effects on our economy and prevent a recession. These programs also shored up supplies and resources for hospitals, expanded access to crucial medical care, and deployed COVID–19 vaccines to slow the disease's rapid spread and save lives. All of that allowed us to get back to work and to school.

The Federal Government's response to the pandemic was obviously unprecedented though in its size and scope. Because of that, Congress also put in place mechanisms for strong oversight. Toward that end, Congress provided funding for the Government Accountability Office (GAO) and inspectors general (IG) across the government to oversee COVID–19 spending. Congress also established the Special Inspector General for Pandemic Recovery (SIGPR), as well as the Pandemic Response Accountability Committee (PRAC) to better coordinate oversight and promote transparency among COVID–19 relief programs.

These oversight entities have uncovered hundreds of billions of dollars in scams, fraud, and improper payments involving pandemic relief programs, and are working with law enforcement officials to hold fraudsters accountable. The staggering amount of fraud that they have uncovered is outrageous and unacceptable. With what we know now, it's incumbent upon agencies and Congress to improve our stewardship of taxpayer dollars. We can and we must do better.

Again, I thank our witnesses and all of their colleagues for their tireless work and for appearing today. I look forward to a robust bipartisan discussion on the Federal Government's response to COVID–19, and how we can work together to hold criminals accountable for stealing taxpayer dollars, and how we can prevent fraud in the future. With that, I will now recognize Ranking Member Romney for his opening remarks.

OPENING STATEMENT OF SENATOR ROMNEY

Senator ROMNEY. Thank you, Chair Hassan. I am pleased to see a number of colleagues that I respect enormously who are here telling us how we can use our money better and, assure that it is being spent wisely. I hate taking you away from your work and having you have to sit here and speak with us, and yet this becomes part of our record. As part of that, I guess we each get a chance to speak, and I apologize for slowing you down by listening to me speak, but I also want to make this part of the record. Far be it for me to change the traditions of the U.S. Senate.

We agreed that the CARES Act was critically important for the country at a critical time. I applaud the efforts that were carried out then as I do today, but it has become clear, particularly as a result of the work that you all have done, that the oversight of funds tied to the CARES Act and other COVID relief legislation was lacking.

I looked just that better to understand how we can recover some of the things which have been fraudulently taken, but what we can do to prevent mistakes like this in the future. In April 2020, a week after the passage of the CARES Act, Senator Tester and I wrote a letter to then President Trump, asking him to provide Congress with a detailed plan on how the government would execute the use of those funds and accountability measures that would be put in place to ensure that our dollars were spent efficiently and effectively. We also noted the vital role played by inspectors general in ensuring the public's trust in our government.

Chief among those concerns was the level of fraud reported by the Small Business Administration (SBA). It concluded there was some $36 billion of waste, fraud, and abuse in the Pandemic Assistance loan programs. But General Ware and his team have estimated the true number closer to $200 billion. What the true number is, we won't know precisely, but it is an alarming figure in and of itself.

I am also concerned about the pending expiration. The Treasury Department's Special Inspector General for Pandemic Recovery, currently scheduled to sunset at the end of March 2025. Considering this timeline also coincides with the maturing of loans at the Treasury Department's Main Street Lending Program (MSLP). It would be wise to have these authorities expire at that time.

The COVID pandemic was, of course, a unique crisis. It upended much in our country. But I believe we have much to learn for how we can do a better job in the future when there are tragedies of that nature. That is the purpose I believe of, at least for me in our hearing today. I look forward to hearing you with regards to your testimony from what you have learned, but also your advice on what you think we can do in the future to be better guardians of the people's money.

I know that it is not your job to tell Congress how to do our job better. That is not why you are inspectors general, but nonetheless you have been around long enough to say, "Why did these guys not do this? They should have done that instead." We want to learn from that, that experience. With that Madam Chair, I am happy to turn back to our testimony.

Senator HASSAN. Thank you Ranking Member Romney. It is the practice of the Homeland Security and Government Affairs Committee (HSGAC) to swear in witnesses. If you will all please stand and raise your right hand.

Do you swear that the testimony you give before this Subcommittee will be the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. HOROWITZ. I do.

Mr. WARE. I do.

Mr. MILLER. I do.

Ms. SHEA. I do.

Thank you very much. Please be seated. We will now proceed to each witness. I will introduce you and then you will go for 5 minutes of testimony in turn.

We will start with our first witness, who is Michael Horowitz, who serves as Inspector General for the Department of Justice (DOJ) and the Chair of the Pandemic Response Accountability Committee. Mr. Horowitz was confirmed to be the Inspector General of DOJ in 2012 and was tapped to lead the PRAC in 2020.

Prior to becoming an IG, he served a 6-year term as the Commissioner on the US Sentencing Commission, worked as an attorney in private practice, and spent several years as an Assistant United

States Attorney (AUSA). Welcome Inspector General Horowitz, you are now recognized for your opening statement.

TESTIMONY OF HON. MICHAEL E. HOROWITZ,[1] CHAIR, PANDEMIC RESPONSE ACCOUNTABILITY COMMITTEE, INSPECTOR GENERAL, U.S. DEPARTMENT OF JUSTICE

Mr. HOROWITZ. Thank you, Chair Hassan, Ranking Member Romney, Members of the Subcommittee. Thank you for inviting me to testify at this very important hearing and for the Committee's continued support of the IG community and independent oversight.

The Pandemic Response Accountability Committee partners with IGs to oversee more than $5 trillion in Federal pandemic relief emergency spending. Over the past 3½ years, the PRAC and its partner IGs have, among other things, promoted transparency by developing a state-of-the-art website, pandemicoversight.gov, that allows the public to see how its money has been spent, and provides links to over 1000 audits and reviews by Federal IGs, the GAO, and our State and local oversight partners.

We have also established close working relationships and shared information with our State and local oversight partners at a level not previously seen in Federal oversight efforts. We have also used advanced data analytics to improve program integrity, prevent and detect fraud, and hold accountable those who have defrauded public programs. The PRAC has issued two lessons learned reports to date, detailing how to improve program integrity and prevent fraud—I am looking forward to talking about those during today's hearing—and we have heard repeatedly from individuals in our work about the important role pandemic programs have played in helping individuals, businesses, and communities respond to the pandemic.

However, we have also reported on the serious failures that occurred in implementing many of these programs, including at the outset of the pandemic, failing to use even the most basic fraud prevention controls. These failures resulted in hundreds of billions of dollars in taxpayer funds going to fraudsters, instead of the small businesses, unemployed, and other individuals and entities for whom that money was intended. It also resulted in historic levels of identity fraud, leaving scores of identity theft victims.

How do we prevent fraud in the future? In addition to implementing basic program controls, agencies must collect and make public complete data on how money is being spent. There are far too many data gaps currently, which we will talk about I am sure today. Additionally, existing data sources and data analytics must be used to improve program integrity, and prevent fraud before funds are sent out.

Unfortunately, when the pandemic hit in March, 2020 and the PRAC was created, we did not have a data analytics tool because in 2015 when the Recovery and Accountability Transparency Board sunset, the IG community's highly successful Analytics Pro Platform also sunset, despite controller General Gene Dodaro's plea to Congress and the administration at the time.

[1] The prepared statement of Mr. Horowitz appears in the Appendix on page 31.

Six years later in 2021, Congress had to appropriate $40 million for the PRAC to build a new analytics center, the Pandemic Analytics Center of Excellence (PACE), and give us the funding, which it did, to operate it through our sunset in September, 2025. Congress also importantly provided us with special hiring authority that enabled us to attract remarkably talented data scientists, that was critical to our efforts. The PACE has been instrumental in advancing our efforts to improve program integrity.

Earlier this year, we used the PACE to analyze over 33 million PPP and Economic Injury Disaster Loan (EIDL) applications to identify questionable social security numbers (SSNs). We then had the Social Security Administration (SSA) tell us, pursuant to legal authorities Congress gave us in the CARES Act, whether the names, dates of birth, and social security numbers used in those PPP and EIDL applications match the information in the Social Security administration's database.

As we publicly reported at the time, we determined that over 69,000 questionable SSNs had been used to obtain $5.4 billion in PPP and EIDL funds, and that another 175,000 questionable social security numbers had been used in applications that were ultimately not paid. We identified another $38 million in funds that were sent to applicants using social security numbers of deceased individuals, all of that through our effort to match data using the PACE.

Had the PACE been available to us at the outset of the pandemic, we could have worked with SBA and the Small Business Administration's Office of Inspector General (SBAOIG) to flag these suspicious applications before the money went out. By the way, the $5.4 billion is over 300 times the annual cost for the operation of the PACE, which is $16 million. The PACE is also providing investigative support to more than 600 pandemic related investigations that are currently ongoing, with an estimated fraud loss of about $1.8 billion.

The PACE's ability to prevent and detect improper payments and reduce the instance of fraud cannot be overstated. That is why it is critical for Congress to pass legislation, allowing IGs to use it to oversee all Federal spending and to make it permanent. The extension would not create a super IG that duplicates the audit, investigative, and oversight efforts of IGs. Rather, it would simply ensure that IGs continue to have access to this critical fraud prevention tool.

Thank you for your time, for holding the hearing, and I look forward to answering your questions.

Senator HASSAN. Thank you very much. Our next witness is Mike Ware, who serves as the Inspector General of the Small Business Administration. During the COVID–19 pandemic, SBA played an important role in distributing emergency grants and loans to small businesses during the pandemic. The SBA Office of Inspector General led by Mr. Ware was tasked with ensuring that those funds were used to help small businesses continue to operate in the face of a historic economic downturn.

The Senate confirmed Mr. Ware to be the Inspector General of SBA in 2018. In total, he has 30 years of experience in the Inspector General community, including as Deputy Assistant Inspector

General for Management at the Department of the Interior (DOI), and before assuming his current role as deputy and later Acting Inspector General of SBA. Welcome Inspector General Ware. You are now recognized for your opening statement.

TESTIMONY OF HON. HANNIBAL "MIKE" WARE,[1] INSPECTOR GENERAL, U.S. SMALL BUSINESS ADMINISTRATION

Mr. WARE. Thank you, Chair Hassan, Ranking Member Romney, Senator Ernst, and distinguished Members of the Subcommittee. Thank you for the privilege of testifying before you today and for your continued support of the Small Business Administration's Office of Inspector General.

I am proud of the dedication of the men and women of my office who work hard every day to detect, deter, and combat fraud in SBAs programs for the benefit of the American people, particularly their work in providing oversight of SBAs more than $1.2 trillion in pandemic assistance programs. Since 2020, SBAOIG has been leading the charge to uncover pandemic fraud and hold fraudsters accountable, providing an exponential return on investment.

Our work has resulted in more than $13 billion in dollar accomplishments, including investigative recoveries, fines, and forfeitures, representing a nearly 200 full return on investment (ROI) to the taxpayer. Additionally, our work has resulted in another more than $8 billion in EIDL funds returned to SBA by financial institutions, $20 billion in EIDL funds returned by borrowers, and over $1 billion in United States Secret Service (USSS) bulk seizures.

Our investigations involving SBAs pandemic programs have resulted in almost 1,200 indictments, 940 arrests and 630 convictions as of October 31st of this year. We have issued 37 pandemic related reports, with 95 recommended corrective actions to strengthen internal controls and promote integrity, efficiency, and effectiveness within SBAs programs.

Our recommendations for corrective action to the agency have resulted in SBA tightening their internal control systems, and our work continues to focus on ensuring only eligible recipients received funds, facilitating the return of funds received by ineligible recipients, and bringing those who willfully exploited the programs to justice.

We have leveraged data analytics to prioritize our investigative efforts in conjunction with our law enforcement partners. To date, hotline complaints have exceeded more than 270,000 from which our office has identified more than 104,000 actionable leads. This represents more than 100 years of investigative case work with our available resources.

Now, this was possible through data analytics that leveraged machine learning as well as our partnership with the PRAC. The unprecedented level of fraud in SBAs pandemic programs led us to publish our fraud landscape report in June of this year. In our comprehensive review of potential fraud in SBAs pandemic assistance loan programs, we estimate that SBA disbursed more than $200 billion in potentially fraudulent COVID–19 EIDLs and PPP loans, representing approximately 17 percent of disbursed funds.

[1] The prepared statement of Mr. Ware appears in the Appendix on page 45.

Specifically, more than 4 million loans totaling 136 billion COVID–19 EIDLs, and $64 billion in PPP funds. Now, the growth of SBAs programs coupled with an estimated 200 billion in potential pandemic related fraud, has significantly expanded SBAOIG's oversight responsibilities. Our oversight capacity is very much dependent upon the availability of sufficient budgetary resources.

Support of the President's proposed Fiscal Year (FY) 2024 budget of 63.3 million is vital, since it would allow our office to maintain its current staffing levels, while also allowing for much needed increase in our investigative resources. Absent the proposed budget for fiscal year 2024, we will be unable to capitalize on the laws that extended the statute of limitations for fraud in the PPP and EIDL programs to 10 years, as well as provide effective oversight of SBAs flagship programs that present significant management and performance challenges.

Quite simply, more resources to my office means more investigative capacity and more wrongdoers brought to justice. We have the authority, the proven track record, the expertise, and an engaged workforce that is singularly focused on this mission. We will continue leading the fight against fraud along with our law enforcement partners. We will leverage data analytics, agile methodology, and our expertise in SBAs programs, to course correct and bring those who abused the programs to justice.

Rest assured, with these additional resources, taxpayers will continue to receive significant return on investment as well as benefit from a more efficient and effective SBA. Thank you for the opportunity to speak to you today. I am happy to answer any questions you may have of me.

Senator HASSAN. Thank you very much, Mr. Ware. Our next witness is Brian Miller, who serves as the Special Inspector General for Pandemic Recovery. Before being confirmed to be the Inspector General in 2020, Mr. Miller held positions as Inspector General of the General Services Administration (GSA), Senior Associate White House Counsel, and as an Assistant United States Attorney. Welcome Inspector General Miller. You are now recognized for your opening statement.

TESTIMONY OF HON. BRIAN D. MILLER,[1] SPECIAL INSPECTOR GENERAL FOR PANDEMIC RECOVERY, U.S. DEPARTMENT OF THE TREASURY

Mr. MILLER. Good afternoon Chair Hassan, Ranking Member Romney, and Members of the Subcommittee, I am Brian Miller, Special Inspector General for Pandemic Recovery. Thank you for the opportunity to appear here today. We appreciate it. We appreciate your support for our office.

As I explained in my submitted written testimony, it is essential for Congress to promptly extend SIGPR beyond the current sunset date of March, 2025. SIGPR is investigating cases nationwide with potential fraud totaling over $565 million. So far, SIGPR has opened a total of 64 complex fraud investigations, with 130 potential defendants. SIGPR's investigations have resulted in multiple arrests, indictments, guilty pleas, in addition to millions in court

[1] The prepared statement of Mr. Miller appears in the Appendix on page 59.

ordered restitution, forfeiture, seizure orders, and a large civil settlement.

We have made 22 recommendations for suspension and debarment to the Treasury debarring official. In addition, approximately $21 million in multiple Main Street Loan Program funds have been returned and repaid by borrowers because we contacted them notifying them that we were looking into their loan and they immediately repaid.

What is particularly notable about SIGPR is that we have developed these cases by our own initiative. It is our own proactive work in developing these cases. 89 percent of our investigations were started by our office. SIGPR has also completed several audits related to Treasury's direct loans to air carriers and businesses critical to national security, and is in the process of auditing the Main Street Lending Program and the effects the program's loan losses are having on Treasury's investment in the program.

Borrowers who received direct loans or Main Street Lending Program loans, were not required to make payments whatsoever in the beginning. That is, no principal, no interest, for the first year of the loan. Even before principal became due in year three, SIGPR observed an alarming rate of defaults by borrowers who failed to make interest payments. Interest payments became due in year two. Even the interest payments people were defaulting on.

As a result, SIGPR is concerned that the default rate will grow exponentially in years three through five of the MSLP program, as repayment of principle becomes due. The MSLP program loss figure reported by the Federal Reserve has steadily increased and even this morning, they reported $310 million in loan losses. We believe that this trend of increasing defaults will not only continue, but is likely to accelerate as MSLP loans reach their 5-year maturity date when borrowers must repay 70 percent of the loan principal. These balloon payments will undoubtedly lead to significant numbers of borrower defaults, just as my office sunsets.

Not all the defaults will necessarily indicate fraud, but a default is a red flag that merits further investigation. SIGPRs recent review of information about MSLP loans that are either in default or considered impaired resulted in the opening of criminal investigations. Thus, in mid-2025, we are going to enter a period in which an even larger number of frauds may be revealed. But by the terms of our authorizing statute, SIGPR is scheduled a sunset in March, 2025. At the time when SIGPR is needed most. We will not be able to undertake the thorough and effective investigations that will be warranted at that time.

For this reason, I ask Congress to move quickly to authorize extending SIGPRs operations to September 30, 2030. SIGPR is the only agency that focuses specifically on potential fraud that has been committed by Treasury's direct loan programs and the Main Street Lending Program, and it should be permitted to continue doing that. For these reasons, I urge this Subcommittee and Congress in general to move quickly as possible to extend SIGPRs operations. I welcome any questions, and thank you for the opportunity to be here.

Senator HASSAN. Thank you very much. Last, testifying on behalf of the Government Accountability Office, is Rebecca Shea. Congress authorized GAO to conduct sweeping oversight and analysis of pandemic relief programs. To date, GAO has authored more than 200 reports on the pandemic, and made nearly 400 recommendations to improve service delivery and prevent waste, fraud, and abuse of pandemic relief funds.

Ms. Shea is a director of the GAO's forensic audits and investigative service team, which conducts audits to identify waste, fraud, abuse, and mismanagement of taxpayer dollars across numerous Federal programs, including those created to provide relief during the pandemic.

Ms. Shea has more than 20 years of audit experience, and she and her team frequently employ advanced data analytics to help agencies predict and prevent fraud. Welcome, Ms. Shea. You are now recognized for your opening statement.

TESTIMONY OF MS. REBECCA SHEA DIRECTOR,[1] FORENSIC AUDITS AND INVESTIGATIVE SERVICE, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Ms. SHEA. Thank you, and good afternoon. Chairwoman Hassan, Member Romney, and Members of the Subcommittee, thank you for inviting me to discuss insights into fraud prevention, based on cases of COVID–19 fraud and the recommendations and resources GAO has developed to address fraud and payment integrity risks.

Congress and the Administration have provided trillions in COVID–19 relief funds to help the Nation respond to and recover from the pandemic. Many of these funds went to the right recipients in the right amounts, providing needed assistance to unemployed workers, small businesses, and many others. These programs were critical for assuring public health and economic stability.

Along with the good these programs offered, comes the fact that fraud is inevitable where there is opportunity for gain, and with the trillions of dollars in program benefits, along with certain risk factors present in many of these relief programs, there is an unprecedented opportunity for fraudsters to gain.

For example, many of the COVID–19 relief programs had known risk factors for fraud, such as those that were new, expanded, or significantly changed, that made a large volume of payments and quick disbursements that involve payment or eligibility decisions made outside of the agency, such as by grantees or States; or lacked information or data systems to confirm eligibility, along with a reliance on self-certification.

Although we will never know the full extent of fraud associated with these programs, estimates for the two largest, SBA and Department of Labor (DOL) programs, indicate hundreds of billions lost to fraud. Given its inevitability, finding fraud when it does occur, is a good thing, and preventing it from occurring in the first place is the goal, to avoid costly pay and chase.

Looking at fraud schemes from pandemic programs to identify where things went wrong, can provide insights into better controls, analytic readiness, and policy design choices for normal operations, as well as emergency situations. For example, misrepresentation is

[1] The prepared statement of Ms. Shea appears in the Appendix on page 67.

the hallmark of fraud, and many cases saw falsified eligibility and identity information.

This is the basis for two insights from GAO's written statement. Self-certification alone is not sufficient as a fraud control, and agencies should assume identity information is compromised and apply upfront verification controls.

Data analytics are a key way agencies can move beyond insufficient controls like self-certification, but the cases reflect challenges in doing so. This is the basis for another two insights, that agencies need to address interoperability issues to support data analytics, and use free resources for fraud prevention and detection like Treasury's Do Not Pay system for flagging ineligible recipients, as well as data available across their own programs.

All of the cases and challenges associated with preventing COVID–19 fraud—reinforce the importance of strategic fraud risk management, the basis for two other insights. These include agencies consider emerging and complex fraud schemes affecting similar programs when developing their fraud risk assessments, and ensuring payment integrity checks and fraud controls are part of program design, with an emphasis on assuring data access and use.

Congress and agencies can learn from and act on these insights as well as from the numerous recommendations and resources GAO has provided for fraud risk management. For example, GAO has suggested actions Congress can take, including increasing oversight by reinstating requirements for agencies to report on their progress with fraud prevention, making permanent a data analytics function in the oversight community, and making permanent Treasury's access to Social Security's full death data to help prevent payments to deceased individuals.

Requirements have been in place for many years for agencies to manage fraud risk and the importance of prevention is the cornerstone of GAO's Fraud Risk Framework that we issued in 2015. Using that framework as a guide, we have made 173 recommendations to over 40 program offices for improving fraud prevention and detection. 95 of those remain open. Implementing these recommendations would help ensure programs safeguard taxpayer dollars.

In addition, GAO has developed resources like our web-based Antifraud Resource, and the recent Framework for Managing Improper Payments, in Emergency Assistance Programs which provide a roadmap for fraud prevention and payment integrity. We have also started examining the challenges agencies face in strategically managing fraud risk, and possible incentives to do this better. We will be exploring this in greater depth in the coming year.

With insights from past fraud schemes, taking actions GAO has recommended to agencies and Congress leveraging available resources to prevent fraud, and by considering possible incentives for fraud prevention, the Federal Government as a whole will be better able and positioned to prevent fraud in any environment. I thank you for this opportunity and I look forward to answering your questions.

Senator HASSAN. Thank you very much, Ms. Shea. We are now going to start with a round of questions for each senator. I am going to begin and then we will alternate off and some other senators may be in and welcome Senator Ernst, who is not generally a Member of this Subcommittee, but who asked to participate and we are very glad to have her here.

I am going to start with a question to Inspector General Ware. As I mentioned in my opening statement, Congress moved quickly in the early days of the pandemic to provide critical relief for healthcare facilities, businesses, schools, and families. However, while Congress intentionally strengthened oversight over COVID spending, criminal fraudsters, were able to take advantage of COVID relief programs and steal billions of taxpayer dollars.

With the benefit of hindsight, what could Congress do differently in the future to strengthen oversight and accountability with regard to emergency spending, even when we need to act quickly?

Mr. WARE. Thank you. It is interesting in that with the benefit of hindsight, often everybody at this table says that we are in the hindsight business. But I tried from the very beginning to get way out of the hindsight business. I am going to get there, but to put what we thought should be done at the onset of the programs, which we did with the first two lesson learned reports that went out before the first loan went out, and we kind of detailed at that point what we thought should be done on the onset.

It is the same thing that IG Horowitz and myself and many others in the community have been discussing. It is one of the things I know that he probably will speak about is leaving a legacy document that defines just that. Many of us are already working on that very document at this moment.

But relative to hindsight, I believe one of the things that has to be a critical part of our thought process, is internal controls as a primary ingredient when baking, if you will, the Bills and the Acts. In this case, the controls that would have normally been in place, let us say for the flagship programs—and I know this was not designed to be that, right—were gutted and removed from the onset.

Many of the control mechanisms that would have been in place to catch things on the onset simply were not there. That is why about, 14, 30 days later, I was sounding the alarm saying, we have a problem. We have to improve the control environment. But that is one of the primary things. One other is also ensuring that we have the ability to share data across government agencies. I understand the Privacy Act concerns, I get that. But it could be for key reasons at key times. In my opinion, I feel that this would have been a key time. It would have allowed us to set up controls in the beginning, and not end up in the pay and chase model that we are in currently. It would allow us to more quickly catch wrong doers as well, if we were able to share that information.

Senator HASSAN. I appreciate that. Then of course, one of the key issues here is making sure that as we exercise internal controls, we have the resources to do it quickly and effectively in this kind of setting.

Ms. Shea, a question for you. As Inspectors General and GAO have pursued their important oversight work, they have made hundreds of recommendations to Federal agencies and to Congress to improve program operations and avoid additional fraud. Earlier this year, GAO issued a report that included several recommendations to Congress for preventing improper payments and other forms of waste, fraud, and abuse of taxpayer dollars, specifically by mandating stricter anti-fraud controls within agencies.

How would congressional action on these recommendations help improve program delivery and prevent fraud in future emergency spending efforts?

Ms. SHEA. Yes. Thank you. So the Comptroller General in our previous testimony talked about 10 matters for Congress. I will mention two here that could help address these payment integrity issues. The first is partly what IG Ware was talking about the preparedness issue. One of the matters that we have recommended is helping agencies get better prepared by Congress reinstating reporting requirements for agencies in their annual financial reports to report on their progress with fraud risk management.

That requirement sunset in 2020, right as we were entering the pandemic, and agencies had not made significant progress on that. Had they been better prepared, had they established dedicated entities for fraud risk management, had they assessed their fraud risk, had they identified data sets and got them in place and addressed some of those interoperability issues prior to the emergency situation, they would have been better able to pivot when they had to plus up those programs.

Reinstating that reporting requirement, we think would help with that. That provides needed transparency for oversight for the IG and the GAO community, but also for Congress. I also think that having that reporting requirement each year they have to report it, kind of, nudges the behavior that you are looking for. That would be one significant thing.

Another thing that we have recommended Congress do, is to continue the oversight and analytic capability of the PACE. As Chair Horowitz mentioned earlier, that capability existed in our experiences with the Recovery Act. When we had that capability, there were data Memorandum of Understanding (MOUs), there were expertise in place, and all of that sunset right before the pandemic and all of that expertise was lost. This expertise exists now. They were able to accomplish 95 MOUs, data sharing MOUs, all of that would be lost.

There's a significant upfront investment that was made in the PACE. We think it is cost effective to continue that. The capability exists there, with Council of the Inspectors General on Integrity and Efficiency (CIGIE) to be able to carry forward those MOUs and those data analytic capabilities.

Senator HASSAN. Thank you. I think one of the concerns people express is that sometimes the concern is implementing stricter controls prevent or slow down relief from reaching those in need. Can you explain why that may not be the case?

Ms. SHEA. Yes. I won't say it isn't the case. There is always a friction there when you think about eligibility and identity verification versus getting things out quickly. But I think the important thing to think about is: there is a distinction between getting any payment out the door and getting reasonably accurate payments out the door. You do want a little bit of friction there.

I think also it is important to think about how because of the scope and scale of identity theft, there were a large number of people who legitimately deserved unemployment and other benefits.

When they went to try and claim those benefits, the benefits had already been claimed by fraudsters. When you think about that friction, it is actually in the benefit of the taxpayers to have a little bit of friction there so that they can make sure that they access their needed benefits, that they are rightly deserved.

Senator HASSAN. I will follow up a little bit more, but there is obviously technology that can help us do some of those fraud prevention measures very quickly in this day and age. Senator Romney.

Senator ROMNEY. Thank you. I am going to yield my time to Senator Scott.

OPENING STATEMENT OF SENATOR SCOTT

Senator SCOTT. Thank you, Senator Romney. First of all, I want to thank you for what you do. I have been up here 5 years, and I think the Inspector Generals, the Independent Inspector Generals, the GAO, the control and currency, they actually give us pretty good information to be able to do our oversight job. I want to thank you for that.

In my State, people are sort of sick and tired of the Federal Government. There is not a lot of trust left in the Federal Government. It was not before, but with the pandemic, they just see this unbelievable waste. I have talked to people that say, "We got money when we are not supposed to get, and they told us, 'Eh, just keep it.'"

This stuff's crazy. From the day we looked at the CARES Act, I opposed the State and local bailouts because I did not believe the revenues were going to go down that much. I had been a Governor, and I knew where my tax base was going to be, and it was not going away. But it happened. I think the State and local bailouts total about $500 billion. $500 billion. I think the total revenue under the State budgets, the collection by the States is about a trillion dollars.

That is a lot of darn money. But here is some of the headlines. "Biden administration to fund crack pipe distribution to advance "racial equity". Out of State and local bailout money. That is one. "Vaccine bonuses aid to businesses and a golf course." I thought the money was supposed to go over COVID and to save people's lives. "Cities and States put $350 billion stimulus windfall to widely varied use." "Flash with COVID–19 aid schools steer funding to sports." That's interesting. "Connecticut City used COVID relief funds to hire a marching band." Probably we all like marching bands but does not seem smart.

I have a list. I have a mile long of different things. Examples, luxury hotels, golf courses, boathouse construction, aquarium maintenance, basketball hall of fame, art festivals, municipal anniversary celebrations, weeded eaters, weed eaters, auto repairs, horse feed, sea urchin hatcheries, walkways at zoos, fire hydrants and trash cans and swag bags. State and local bailout for to save people's lives.

Now, here I try to think about how my voters think about this. I think we have been in a rush, we went to a fast food place, and we ordered a meal through the darn line. We rushed out, we got our food, and we got on the highway, and we found out those darn

French fries were not there. Sort of way I think a lot of people think of the Federal Government now.

They say, “I am willing to pay my taxes, but I am not getting what I paid for.” Then I also thought about we have all bought houses, right? Remember how we always hire those darn inspectors that cost us money? We think we are going to know what we got. Then afterwards we find that the pool does not work. It was, “Oh, they did not check that.” Oh gosh, there is a leak in the roof.

You guys bust your butts. You do. I like all your reports and everything. So put yourself in my position. I got the people in my State saying, why do we spend the money like this? You guys are trying to do your job. Why does this not work? First off, have you guys had the experience with the fast food place? Probably have, right? Houses? We all have.

I just talked to a friend of mine that said she had no idea, they did not even check her pool, and she just bought a house. But what would your response be to people in Florida? Any of you. Because this fraud is just rampant.

Mr. HOROWITZ. Yes. Look, I think this is something we have seen over and over again. Particularly, the problem here was, as the legislation was put forward and the agencies implemented it, the legislation did not require, for example, certain checks and controls. The legislation could have been tightened up to do that. Then the agency’s view was going back to the chair’s question all about speed. It was, we just need to get the money out. The country is shut down. This is particularly in March and April of 2020. We just need to get the money out. You IGs, you law enforcement folks, go figure it out later where the fraudsters are, we are just going to get the money out.

That resulted in tens, hundreds of billions of dollars in fraud. Two overlaying concepts I will say is, I think Congress as it legislates, needs to think about with a program like the Coronavirus Relief Fund (CRF), the first $150 billion, which was in the CARES Act for State and local entities, and then the State and local fiscal recovery fund, which was the $350 billion in the ARP bill, both of those had very little parameters as to what they could be used for. They were lawfully used for certain things that people would ask the questions, “Those do not seem tied into the pandemic?”

Congress can legislate better, and agencies certainly can do a much better job. We have written all of us here, hundreds of recommendations, probably thousands at this point, of recommendations, on how the Executive Branch and agencies can do a better job in implementing these programs. I have talked about this over and over again, the problem with sending this money out, is the hundreds of billions of dollars that did not go to the small businesses, that did not go to the unemployed from the unemployment insurance (UI) programs, that did not go to various folks that State and locals perhaps we think should have funded. They did not get the money.

This was not an unlimited sum of money. It was a large sum of money, but it was not unlimited. Every dollar that went somewhere else did not go to the people who really needed it or the businesses that really needed it.

Senator SCOTT. Did you guys even have the power to, to look at the State and local bailout money?

Mr. HOROWITZ. Yes, we did.

Senator SCOTT. You did?

Mr. HOROWITZ. We have. We have worked with the Treasury Inspector General. They have created, for example, with our analytics platform, a risk scoring model taking 27 variables and helping them have that information, so they could assess the risk in both the CRF and the State and Local Fiscal Recovery Funds (SLFRF) program, the two State and local programs.

They have identified in the latest numbers, 2.24 billion in question costs from their work and relying in part on our data.

Senator SCOTT. Ms. Shea, go ahead.

Ms. SHEA. Thank you. We know that requirements for strategic fraud risk management have been in place since 2016 for the agencies. We also know that the lag in implementing those requirements in normal operations led to some of the large gaps in what we saw in the pandemic. We wanted to get behind that, right? What is going on? Why are the these lags continuing?

In a recent survey that we did of the 24 Chief Financial Officers Act (CFO) ACT Agencies, we asked them about the challenges and what might incentivize them to take these actions that we want. Behavioral economics we think is the way to go. Try to figure out what is going on. What is preventing them, what are the barriers, and what can nudge them in the direction that we want.

Now, the challenges are not going to be super surprising. It has access to data, and resources, and analytic capabilities, and tools and techniques. Which we think that a centralized government entity like Treasury's Office of Payment Integrity can address some of those issues.

On the incentive side, there are a number of things that the CFO ACT Agencies mentioned. Like, congressionally directed funding for payment integrity, ability to demonstrate return on investment from fraud risk management activities, a couple of other things. One of the things that we are going to be doing in the new year in GAO is delving into some of these incentives and these barriers to taking a strategic approach to fraud risk management.

Senator HASSAN. Thank you. Senator Ernst, I will yield to you.

OPENING STATEMENT OF SENATOR ERNST

Senator ERNST. Thank you very much, Madam Chair. Thanks to all of our witnesses for being here today as well. I do not typically sit on this Subcommittee, so I do want to thank Chair Hassan and Ranking Member Romney for allowing me to join you today.

To our witnesses, thank you all very much for your efforts to hold these Federal agencies accountable, including the Small Business Administration, and to protect our American taxpayers. All the work you do really does deserve recognition. Thank you.

As a Ranking Member of the Senate Committee on Small Business and Entrepreneurship, it is one of my top priorities to ensure that the Federal Government is addressing the more than $200 billion in SBA COVID–19 relief that was fraudulently paid to scammers. However, the Biden SBA has discounted the full extent of fraud, and instead tried to cast doubt on the legitimacy of fraud estimates made by expert investigators.

This new status quo at SBA is unacceptable. This flagrant fraud within government programs, especially when it goes unpunished, hurts taxpayers and harms small businesses the most. Today I ask for unanimous consent (UC) to include in the record my Small Business and Entrepreneurship Committee report titled Small Business COVID–19 Fraud: Three Years Later, State of Play.[1]

Senator HASSAN. Without objection.

Senator ERNST. Thank you, Madam Chair. The report details SBAs refusal at every turn to fully go after fraud and recover taxpayer dollars. I recommend Congress acts immediately to increase investigators' capacity to recover taxpayer funds quickly, ensure loans are paid back, and strengthen Federal Government controls when dispersing funding in the future.

I would like to move into my questions, and I am going to start with Mr. Ware. Thank you so much. I appreciate your work. Your tireless efforts to hold the SBA accountable are commendable. Biden's SBA is in violation of Federal law by prematurely ending active collection activities on more than $63 billion delinquent, EIDL and PPP loans with balances of up to $100,000.

Federal law prohibits agencies from ending collections on fraudulent false or misrepresented claims. When your office recommended for the SBA to not end active collections on fraudulent, false, or misrepresentative claims, the SBA did not fully agree. How many instances of fraudulent, false, or misrepresented loans are you aware of that the SBA has ended collections on?

Mr. WARE. Thank you for the question. It is a significant amount. The exact amount I could get back to you with in terms of in details. We definitely have it, and we share your concern and they know that we share the concern relative to ending collections on those amounts.

Senator ERNST. Thank you. Further, your office reported that SBA did not conduct sufficient analysis to support its decision to end the collections. My Strengthening Taxpayer Recoveries Act would follow your recommendations and require the SBA to simply refer loans over to the Treasury Department, so it can decide the kind of collections that are necessary for the loan. Can you tell us why it is so important that the SBA refer those delinquent loans over to Treasury?

Mr. WARE. Yes. First off, they have a requirement to. That is the most important.

Senator ERNST. Is it the law?

Mr. WARE. It is the law, yes. But second, I think that it sets a poor precedent that—I promise I will not get too much on my soapbox on this—but it sets a bad precedent in that it tells folks that you do not always have to pay the government back. I think that that is central to some of the issues we saw with Senator Scott's concerns that he brought up.

The type of controls that you would have in place for a regular loan, does not have to be in place for the government because it is the government. It is the same thing here. Less than a 100,000

[1] The report refernced by Senator Ernst appears in the Appendix on page 94.

you know, I might be willing to pay it back, but if I do not, what is the penalty?

Senator ERNST. That is the truth of the matter, and that is why we are going after this. Again, I appreciate your work. I am going to move to Inspector General Miller. Thank you very much, sir. I am sure during this hearing, there has been an extensive discussion around the unfair DOJ opinion, which hampered your ability to fully investigate all CARES Act programs.

As a Ranking Member of the Senate Small Business Committee, I would like to see SIGPR fully in the fight on small business fraud. We need to take your already existing skilled investigators with the SBA IG to tackle the more than $200 billion worth of small business fraud. My bill would extend the SIGPR, and make clear we need as many folks across our government to help claw back funds.

How would restoring the SIGPRs authorities contribute to recovery efforts for the unprecedented scale of fraud within the SBAs pandemic programs?

Mr. MILLER. I think we could contribute a lot. We stand ready, able, and willing to assist General Ware in the fight against fraud in those programs. We have a number of very experienced prosecutors. Senator Scott mentioned CRF. That was originally one of my initiatives when I became SIGPR, and I recruited very experienced prosecutors. For example, the chief of the fraud section at the U.S. Attorney's Office in the Eastern District of Virginia had been chief of the fraud section for a decade. He has 35 years' experience prosecuting fraud cases. He is now part of our office.

I have a number of experienced Federal prosecutors on staff, because I think I am old fashioned enough. I am a former Federal prosecutor too. I am old fashioned enough to think the answer is criminal prosecution. That will deter others from taking advantage of these programs. We have had a lot of success with criminal prosecution and getting indictments.

Even in the CRF, we had a number of open cases, some accepted at U.S. Attorneys' offices. We had one involving Stonecrest, Georgia. We had to pull out after the Department of Justice says, "You don't have jurisdiction in that area." The Federal Bureau of Investigation (FBI) took over the case. The mayor of Stonecrest, Georgia pleaded guilty.

I think we could contribute a lot in a lot of areas. But specifically, we are happy doing the Main Street Lending Program and the direct loans from Treasury, and I think we are doing a great job. I would be happy to—under the leadership of General Ware, I am subordinate to him—assisting with PPP cases. We do PPP cases through the PRAC task force, and General Horowitz has highlighted one of the cases we did recently down in Texas. I think it is the largest PPP case that the task force is doing. That is in his written testimony. We led that investigation as well.

We are happy, we are able, and willing, and eager to jump in and do these cases. That is what excites the people in my office and me.

Senator ERNST. I appreciate it. I appreciate the time as well to our Chair and our Ranking Member. Thank you very much for allowing me to join in and thanks to all of our witnesses for the great work that you do for our agencies. Thank you.

Senator HASSAN. Thank you, Senator Ernst. I will just note that one of the issues that this all raises is, how do we make sure SBA has the resources to both pursue collections and do the essential work to serve small businesses all around the country? I think that that is something that our appropriators are looking at so that the cost benefit analysis that SBA needs to do when it decides not to collect some cases, is not as pressing for them. I appreciate your line of questioning. Senator Romney.

Senator ROMNEY. Thank you. General Ware with his comment about repaying government loans and being honest with funds that one receives of the government reminded me of a movie. I do not think I would have ever imagined the circumstance I would be bringing up a movie named Nacho Libre. But in that humorous comedy there was an occasion when someone was stealing the chips that were going to be going to the orphanage. The main character, Jack Black said, "These are the Lord's chips, so you cannot steal the Lord's chips." He said it with a most interesting accent, which I will not try and imitate.

Senator ERNST. Did you actually watch that movie?

Senator ROMNEY. Of course, I watched that movie more than once. [Laughter.]

Somehow, I understand the sense that taking money from a church is stealing from God, and the Book of Malachi talks about the punishments for that. But I also think stealing from the government falls not far behind, in that we are stealing the resources of people who have worked and have put aside what they have earned to help our government. For people to steal from that, either by not paying back a loan or by being dishonest in their use of the funds, is something I find quite extraordinary.

We have a responsibility to try and minimize that. I am going to ask about who it is that is doing it? From your experience, is it small time individuals that like, "Oh, look, I can make $25,000. I can make $50,000." Is it organized criminals that have a system for doing this? Is it foreign entities organized or disorganized? Who? I presume it is going to be different for different programs, different for SBA than it might have been for unemployment insurance and so forth.

But based on your experience, who are the folks doing this today in these programs? It may be different than other government programs, but for those associated with the COVID relief programs, who is doing it? Mr. Horowitz.

Mr. HOROWITZ. Yes, thank you, Senator. It is sort of all of the above. Yes, and the problem is, it was so easy for some of these programs that it was almost an invitation to come in. We have foreign entities. Nobody checked foreign Internet Protocol (IP) addresses to see if they were foreign IP addresses. We have state actors.

Senator ROMNEY. They did not even have to put a U.S. address and so forth now. They could even put in anything and we just said, "Oh, OK. Here's the money."

Mr. HOROWITZ. Nobody checked. In fact, to the point of controls we are trying to look at SBA data to see the IP addresses. They did not keep the IP addresses because it was not required for them to maintain it. We do not even have a way of going back to try and figure that out. So that, just for example, a basic issue.

Senator ROMNEY. Mind numbing.

What proportion would you think is foreign entities or is it just impossible to know at this stage?

Mr. WARE. We issued a report on loans that went to foreign IP addresses. I cannot recall what the number was, but it was significant enough that I led a U.S. delegation earlier this year that went to Nigeria to discuss partnerships in getting some of our money back that went to bad actors over there.

Senator ROMNEY. I wondered why I had stopped receiving investment opportunities from Nigeria. [Laughter.]

I think I know now.

Mr. HOROWITZ. To give you a sense also of the opportunistic nature of this. For the UI program, we have identified a bunch of social security numbers that were used across various States. We have one number that was used in more than 40 States because the States did not speak to one another. That program is so decentralized.

We see this in a large and a small scale. One of the concerns I think we all have, is we have trained people at some level to say, go try and defraud a Federal program because it is easy to do it, and that is a bad message.

Senator ROMNEY. Mr. Miller.

Mr. MILLER. Yes. We participate in the Department of Justice COVID–19 task force. In that capacity we look at a number of cases, and our staff member, a prosecutor of course, has told me in my notes, he says, we have seen volumes of overseas IP addresses identified and associated with unworthy individuals obtaining CARES Act funds.

It is hard to quantify, but we are seeing money going to IP addresses overseas. In some of our other programs, Main Street Lending, for example, we have seen money going to South America, to the Middle East, and to China.

Mr. WARE. I found the figure was 5 billion. 5 billion was what we reported that went to foreign IP addresses.

Senator ROMNEY. 5 billion?

Mr. WARE. $5 billion.

Senator ROMNEY. That is extraordinary. Why is it, do you believe that people are so willing to defraud the government, to steal from the government? Are our penalties too small? Should we have far more punitive measures to go after people who, who steal from our government?

Mr. WARE. Perhaps. I have two examples of this. One is, in one of the cases our agents was working, as they started to pull the text messages and the emails, they were saying, “They are not checking anything,” is what was routinely being said across the board. There was a second one that when questioned as to why would you do this? He said, “I would do it again.” He said, “It was worth it. It was highly unlikely that I would be caught doing this.”

Which brings me back to the beginning in talking about the importance of having a proper control and risk framework in place to mitigate this. There were folks that committed fraud probably, who would not normally commit fraud, and they were being told things.

We see this in the record, like the government is just giving away money.

Senator ROMNEY. I want to underscore the outrage and frustration that you all feel, that I feel, and that the people in our country feel as this goes on. I just note that if something like this were attempted with a credit card, your visa, or if you are trying to do a charge account at a store of some kind, this could not happen or they wouldd be out of business. Yet it happens with our government all the time. I wonder why we are singularly ineffective in being able to control this to the extent that basically every corporation is able to control, or they would be out of business, or their Chief Executive Officer (CEO) would be out of a job.

I want to conclude by saying, I concur that we need to continue the PACE program and to continue to get data and I also believe we need to get the Social Security data and other data. I recognize privacy concerns, but when we are losing through fraud, hundreds of billions of dollars—that is the number that I have heard from you today, hundreds of billions of dollars—we have to recognize that is money that could go to Americans in need, it could go to help Israel and their defense of their land, it could help the Ukrainians.

The idea that we are using this money for fraud, is just simply outrageous. I also agree that we should extend the life of SIGPR, well beyond 3/25 because the timing is not propitious. Thank you, Madam Chair.

Senator HASSAN. Thank you, Ranking Member Romney. Before I move to Senator Ossoff, I was noticing that Mr. Horowitz seemed to want to say something in response, so I just wanted to give you the opportunity if——

Mr. HOROWITZ. No, that's fine. I was going to echo what IG Ware said, which is, I am not sure the penalties are the problem, because we, for example, recently got a 25-year sentence on a fraudster and tried to get the news out about that. The problem are the opportunities that were presented, and having basic controls, like you said.

When an individual tries to commit small dollar fraud and get stopped, they usually do not try again because they understand there is something there. That does not help, perhaps with organized crime that are more sophisticated. But we could have stopped a lot, I think, of the lower dollar frauds, the non-organized crime, which is probably most of what occurred, because they would not have had the attitude that IG Ware mentioned, of this is easy. The government is saying, come in, just take the money. We are not going to ask any questions.

If you tell people that, sadly, as you said, even in the worst pandemic, even when their citizens need the money, they are willing to come in and take the money.

Senator ROMNEY. Yes. Americans are not stupid. If we are handing out free money, they will be willing to take some.

Senator HASSAN. Yes. We also have to invest in the capacity for those controls. Senator Ossoff.

OPENING STATEMENT OF SENATOR OSSOFF

Senator OSSOFF. Thank you, Madam Chair, and I want to thank you and Senator Romney for working together so vigorously to protect taxpayer dollars, and for holding this hearing on these extraordinary abuses, a level of fraud, but I think is shocking to the whole Subcommittee.

With the benefit of your attendance, Inspector General Horowitz, and given the extended conversations that you and I have had on a range of issues over the last few years, I am going to range a bit out of the direct focus of this hearing and into some of your other jurisdiction.

I want to begin with a discussion of the Bureau of Prisons (BOP). As you all recall Mr. Horowitz, when I chaired the Permanent Subcommittee on Investigations (PSI) last Congress, led multiple bipartisan investigations of the Bureau of Prisons and issues related to incarceration. We found, for example, that at U.S. Penitentiary (USP) Atlanta that serious long-term security breaches that put the community and the whole southeast region at risk were left unaddressed.

We found pretty extreme cases of abuse and neglect of incarcerated people, including pretrial detainees held at the jail there. We found detainees and inmates lacking access to clean drinking water, hygiene products, medical care. A whole range of serious problems that had gone on for a long time. I noticed that your office's recent work has found serious deficiencies at other facilities like Federal Correctional Institution (FCI) Tallahassee, an unannounced inspection that you led, which found moldy, rotten, pest infested food, serious maintenance issues, putting health and safety at risk.

Senators Braun, Durbin, and I introduced the Bipartisan Federal Prison Oversight Act earlier this year, which provides for unannounced investigations by the Office of a DOJ Inspector General. Can you explain please, why those unannounced prison investigations are so important?

Mr. HOROWITZ. Absolutely. Thank you, Senator for the question. By the way, I am going this Friday to visit USP Atlanta with the new BOP Director to get a tour of the reopened facility.

Senator OSSOFF. I appreciate that. In the future, you should also consider an unannounced inspection.

Mr. HOROWITZ. That, now getting to the unannounced inspections. One of the things Congress did last year in funding us, and a critical part of the Appropriations Bill, was to give us additional money to do these unannounced inspections. It is the first time we have ever done them. What happens is we are showing up at a prison on a Monday morning at 8 a.m., we are calling the warden and saying, "We are coming at noon with our team, and we are going to spend the week there to inspect your prison."

We did the first one at the Federal prison in Waseca, Minnesota earlier this year. We selected Waseca because it was an all-women's institution. We have had, as you know from your leadership on the Subcommittee, serious issues with sexual assaults against women in prison. You and Senator Johnson issued a very important bipartisan report in that regard. We went to Waseca to see what was going on there, because it had scored as a low risk. It was our first one. We wanted to see what happened.

We got there. We found holes in the roofs of the buildings, pipes running across beds that were leaking, and camera issues—which again, you have helped lead, I know on that effort to get the Camera Bill passed—and all sorts of problems in an institution that was relatively low risk about whom we had gotten fewer complaints. We let the BOP know about the crumbling facilities. For example, cascading problems, by the way, was staffing First Step Act.

One of the things Congress passed was the First Step Act to give inmates a chance to rehabilitate, huge wait lists because the educators were being pulled off educating to do correctional officer duty, because they were short staffed. They were short-staffed in healthcare. They were short staffed in facilities management. All of the things we would not have appreciated until we got on the ground. That was our first report, and that's public on our website.

Our second one was at a higher risk prison, FCI Tallahassee, we went to at the end of May, we issued a report last week. What we found there was—stunning is a nice word. We got there and on day two, we went to the kitchen to observe food service. As you mentioned, bread with mold on it, rotting vegetables, all being served to inmates.

We went to the warehouse to look at the food. What appeared to be rodent droppings. We did not actually see the rodents. We saw bugs crawling in the boxes of cereal. We saw the damaged containers in the rotting containers. It was stunning to see that. It was not a humane place to be. We went to the living facilities. Again, leaking windows, again, a primarily a female institution. Feminine hygiene products were being used to stop the leaks into the facility. We published pictures. By the way, anybody who wants to see this, there are pictures of this, extraordinary pictures on our website.

Senator OSSOFF. I want to return to prisons in a moment, but I first want to raise another DOJ related issue with you. The Subcommittee I chair now received testimony from the National Center for Missing and Exploited Children (NCMEC), which found that from 2018 to 2022 in my home State of Georgia, there were nearly 1,800 reports to NCMEC of children missing from foster care. According to NCMEC's analysis, they believe that over 400 of those children were likely victims of sex trafficking.

It is crucial that DOJ have the resources and infrastructure to work with NCMEC to track and locate missing foster children and to hold accountable those who traffick them. Can you and I sit down to discuss a plan of attack on that?

Mr. HOROWITZ. Absolutely. NCMEC has done great work. As CIGI chair, they have done a lot of work with us and the community on helping with missing children.

Senator OSSOFF. I would note for the purposes of that work that we will do together, that DOJ's Office of Juvenile Justice and Delinquency Prevention (OJJDP), which administers Federal grants to States under the Juvenile Justice and Delinquency Prevention Act, there are conditions on those grants to receive full funding.

State grantees have to comply with certain core requirements. Here is one of them.

That children who commit what are known as status offenses, or offenses that would not be criminal if committed by adults, like running away from a foster care placement, cannot be placed in juvenile detention or correctional facilities. Is your office currently undertaking any work to oversee the implementation of that legislation or other issues related to foster kids?

Mr. HOROWITZ. We are not doing anything currently, and I would be happy to sit down with you talk about that. We have done work in the past about the issue you mentioned about detention facilities and how OJJDP, which is the acronym for the entity in the Justice Department that manages those grants. We are handling that with States, and we have found some serious issues with that before. This is an important issue, and I would be happy to talk with you further about it.

Senator OSSOFF. I appreciate that. Thank you, Madam Chair for indulging some questions that strayed from the focus of your hearing. I appreciate it.

Senator HASSAN. Thank you, Senator Ossoff, and thank you for your focus on really important issues here and to Inspector General Horowitz, thank you for the continued work you and your team do in that area.

I have one more round of questions, and then you know, if something else occurs to Senator Romney, he will have another go at it and then we will wrap up. But to Inspector General Horowitz, the Pandemic Response Accountability Committee was established in part to improve coordination within the oversight community.

One of the key tools that the PRAC developed to aid this kind of coordination is something that you have been talking about the Pandemic Analytics Center of Excellence, which, as you noted, allows data from many different agencies to be analyzed side by side to help investigators spot patterns or anomalies indicative of fraud, that they might not see if they only had a narrow view of just one agency's program.

Many in the oversight law enforcement community have called for the Congress to make this type of tool permanent. You have echoed that call today. How could the PACE or other data sharing improvements contribute to the future work of the oversight community and the ability to prosecute fraud?

Mr. HOROWITZ. Thank you for the question. I think it is very important that we all talk about prevention. That is what I want to focus on as I think about analytics going forward. Because of the failures that occurred at the outset of the pandemic, we are all about chasing the money. This was this pay and chase model. The analytics were being used to try and catch the bad guys.

Anybody who is in this area will tell you that once the money goes out to fraudsters, good luck finding it. Right? It is going overseas, it is going into crypto, it is going into other places. We are chasing it, and you have heard from IG Miller, IG Ware, the great work that's being done to collect, but we are talking hundreds of billions of dollars of fraud, and we are talking about billions, which is a big number, but still a very small percentage.

It is very important because what has to happen is, we have to work with Executive Branch agencies, the Office of Management and Budget (OMB) Leadership, and Congress, to make sure agencies use an analytics platform to prevent fraud before it happens. This notion that we had two choices, which I have heard over and over again at the outset of the pandemic, either get the money out today, or wait weeks and weeks and weeks and weeks to verify.

That was nonsense. There is always an alternative choice, as we have heard, it is a balance of risks. The work I mentioned, we sent 2.7 million Social Security numbers to Social Security Administration. In about 2 weeks, we got the information back from them. Is it a real number? Does the name, date of birth that they put on their application match what you have in the official records? Is the person living or dead?

You do not need much more than that to right away figure out is this a problem? Right? If we had this upfront, which is the problem with it expiring in 2015, we had to build it anew. By the way, Congress spent millions—I was on the recovery board—to support that analytics platform. It went away. The taxpayers got essentially nothing for their money. Six years later, $40 million had to be invested to run this program for 4 years or so.

It would be, I think, an awful outcome if the taxpayers, again, in 2 years ended up with nothing to show for that, when it could save literally billions of dollars, and importantly, Congress should make it applicable across the board to all Federal spending. There is no reason it should only be limited to pandemic funding.

Senator HASSAN. Thank you for that. I want to follow up with Inspector General Ware a little bit on this issue of prevention. We have discussed today, technology can be a critical tool for identifying and preventing fraud. However, many agencies, including the SBA, struggled to roll out pandemic relief programs due to their aging technology infrastructure. How did existing challenges, such as legacy information technology (IT) impact the overall success of the pandemic relief programs or exacerbate fraud at critical agencies? Can you speak to how SBA overcame some of its legacy IT challenges?

Mr. WARE. Sure. We have been reporting the IT challenge as one of the top management challenges facing SBA for a number of years. With that being said, they were running the seven A program, right, using the technology that they had existing and the relationships they had in place with the banks. I believe that is why they were selected to run PPP and EIDL because those things existed. They existed in a way that they were working. They had some work to be done, but they were working.

The issue was, when you had 14 years' worth of lending running through the door in 14 days, then I think maybe anybody would have had issues with that. But relative to the IT platform, what they did to mitigate those issues was they contracted it out to a private contractor who had a lot of experience in moving large volumes of loans. That is what they did. Now still, we would have appreciated seeing the type of controlled infrastructure that I recommended before the first loan went out, but that was not done as speed was the only thing considered.

Senator HASSAN. Thank you. Ms. Shea, State and local governments were important partners in disbursing Federal aid during the pandemic. They were also overwhelmed by numerous attempts to defraud pandemic programs. However, States that successfully implemented tools such as identity verification technology as part of their application processes, were much more successful in identifying attempted fraud.

For example, early implementation of identity verification technology in Arizona, is credited with preventing more than $75 billion in unemployment insurance fraud. What prevented more States from implementing similar measures? How can Congress encourage States to adopt identity verification technology or other anti-fraud tools?

Ms. SHEA. Yes. States had some of the same issues with legacy IT that IG Ware just mentioned for SBA and some of the other agencies. Early on, some of them had the legacy IT systems, so it did not enable them to address cybersecurity issues, identify fraudulent and stolen identities, to be able to connect with the Integrity Data Hub, which is the multi-state Department of Labor funded program that enabled States to see and crosscheck against all of the other State data, whether or not people are applying for multiple States, and then also had an identity verification control in that.

Early in the pandemic, only about three States were enrolled in that. But as we progressed, we identified some of these issues. By 2022, about 34 to 43 States were signed up with in the Data Integrity hub. One of the key things that I think is important there is, us continuing to focus on Department of Labor's progress, trying to get States signed up for that so they can leverage that capability of the multi-state data.

We have been reporting on that and checking their progress, and at this point, all of the States have agreement with Integrity Data Hub to use those services.

Senator HASSAN. Great. One of the things we can do as we think about this is try to provide incentives for States to participate in this kind of data sharing and verification, identify identity technology.

Two more questions, one to Inspector General Horowitz, and then I will ask a wrap up question to the whole panel. Mr. Horowitz efforts to prevent fraud and recover stolen taxpayer dollars are made more difficult when these crimes are perpetrated by foreign criminal organizations, as we have talked a little bit about. For example, Federal investigations revealed that Chinese hackers stole millions of dollars in pandemic relief funds. What actions can the United States take to go after fraud perpetrated by foreign criminal organizations?

Mr. HOROWITZ. I think there are a few things. The most obvious being look for foreign IP addresses when you are doing things online or as these were, look for masking of addresses using Virtual Private Networks (VPNs). Look for multi dipping. This is one of the challenges we have seen, and this is one of the reasons why the PACE has been so successful, because we have gotten the data from across agencies. We are able to look for that multi dipping in a way that frankly, agencies have not been able to, in part because of data sharing limitations.

As mentioned, we have 90 plus agreements in place where we can do this. Those are a couple of the examples. But we are also part of the International Organized Crime International Operations Center at the PRAC. We have an analyst sitting there, and so we are working with those folks who understand what's happening globally. I think that is a critical part, and frankly, that is why agencies struggle sometimes in this space. That is why it is so critical that we are the ones as IGs who have these tools to be able to undertake these efforts.

Senator HASSAN. Excellent. Thank you. My wrap up question to all of you is to ask each of you to provide a lesson learned from the response to COVID–19 and how it can inform the Federal Government's response to future crises. If you feel like you have already said it, feel free to say that too. But why don't we start with Ms. Shea, and we will go right down the line there.

Ms. SHEA. Yes. I think this is a lesson relearned not necessarily learned, and that is when you try to attempt to recover funds lost through fraud and improper payments, you get pennies on the dollar. Prevention is absolutely critical. We need to ensure that agencies are taking the steps to assess their fraud risk, that they have figured out what their risk tolerance is going to be for normal operations and emergencies.

Then if they are going to lower the tolerance, that they have a robust post-payment recovery plan in place, and that they have identified the data sources that they need, and they have those MOUs in place to be able to do those checks. All of those preventive activities need to be in place so that we are not chasing the funds after they go out the door.

Senator HASSAN. Thank you very much. Mr. Miller.

Mr. MILLER. We all agree that more controls and checks and anti-fraud provisions need to be in place to prevent fraud. But I also have some mundane recommendations. Our first recommendation was to Treasury, and that was to add audit rights to contracts. When you give out the money, when you make the loans, you put a clause in the contract that says the IG has the right to inspect your records. If you are going to take our money, we have the right to look at what you are doing with it. That is a simple non-glamorous recommendation.

The other recommendation that I would make very quickly is that when Congress—and I am not a policymaker, so please forgive me.

Senator HASSAN. No, it is fine.

Mr. MILLER. But when Congress decides to give money out in the form of loans, I think that it needs to think about how to prepare the Federal agency to be a lender. The Department of the Treasury became a lender under the CARES Act. That is unusual. It is not a commercial lender, but it was making loans.

It needed to build an infrastructure to help them know how to be a lender, how to be an effective lender. We deal with banks and lenders all the time. We deal with treasury. Banks and lenders approach things differently, they have due diligence. They will do due diligence on assets. You all know, you are business and professional people. But even in the meantime, when there is not a crisis, if you are thinking of using a Federal agency as a lender, it may make some sense to buildup an infrastructure and training in that agency so that when it does lend, it can actually make good decisions about lending, it has a program of review, it knows how to analyze assets and financial documents.

I understand that they can hire contractors to do some of that, but I think the agency itself needs to do that. Even when you have contractors and even in the Main Street Lending Program, it is a complicated program. You have Treasury funding it, you have Federal Reserve partially managing it, and you have Federal Reserve banks involved in it, but you have commercial lenders actually lending the money.

In the Main Street Lending Program, they will make a loan and they are on the hook. If the loan goes bad, they are on the hook for 5 percent. Right? Treasury pays 95 if it goes bad. Of course, you have to remember that commercial lenders, they also charge interest, they charge transaction fees, they have all sorts of fees to try and make up that 5 percent. I do not think going to outside organizations is always the answer. When you do, I think they have to have more skin in the game.

Because you know, if they are making money off these loans, even when they default, they are not going to be that careful with it. That is one of my concerns. But we will come out with a lessons learned, and I do not want monopolize the time.

Senator HASSAN. I appreciate those lessons very much, and I look forward to the further expansion of that. Mr. Ware

Mr. WARE. I will be real quick here, because I always wanted to say that I am going to punt to Mike Horowitz. [Laughter.]

I have been waiting on saying that, so I am going to say it today. But timely data sharing agreements between agencies and the onset of programs like this, I feel should be baked in to getting them started up. Because like IG Horowitz mentioned, prevention is where we need to be on this from the outset.

One other thing on that, I am on record on this. I am generally opposed to self-certification as a rule. I do not believe that that has served us well at all. Now I will punt. Mr. Horowitz.

Senator HASSAN. Mr. Horowitz.

Mr. HOROWITZ. I will say ditto to what IG Ware just said. It is about prevention. We have to think about how to prevent the fraud on the front end. One of the things we have not had a chance to mention to my testimony is one of the things we started, which was brand new in 2021, was what have come to be called gold standard meetings at some level, which is, we got in the room before money went out the door, the PRAC, the IG, the agency, the OMB leadership, and the ARP implementation team leadership.

The agency was required to present to all of us what its controls were, so that we could kick the tires and give our views, and this was on the understanding, we were not pre-clear anything as IGs. We were not giving up our independence. It was our ability to say, we have seen this play before and here are the problems, here are the challenges, here are the things you need to think about. It has been very valuable. I think we have done 30 or so of those over the last couple years. It went so well, OMB put out a memorandum 22–04, which puts that in writing as a best practice.

For the infrastructure bill said agencies should follow that model as well. That's, again, a way to do the prevention upfront, not a perfect way, because the controls still have to get implemented, they have to move forward. But that has been a very valuable, I think, tool. It also has helped bring together in ways that sometimes did not exist, the IGs and the agencies and put them in the same room, which was, or at least in the same video screen, which was critical.

Then the other thing I just want to mention is the importance of coordination with our State and local partners. We have, I think, done an extraordinary effort. It is something we thought about from day one, that with all that money going out the door and all that money going to local communities, some directly through the various funds that Senator Scott mentioned, some through other mechanisms, we had to partner with State auditors, with local auditors, with State IGs, with local IGs.

We have done that. We have had dozens of listening post sessions with them. We have done fraud alerts for them, so they knew what to look for. We have partnered in a way that I think is critical, and we have to keep doing that. The Federal Government does not have the best reputation, as you all know, as former Governors of States in partnering with our State counterparts. I think that is very critical in this space.

Senator HASSAN. I appreciate that very much, and I appreciate not only the expertise that you all bring to today's hearing, but the expertise and leadership you all bring to your entire teams. Senator Romney said at the outset, he felt bad asking you guys to spend this much time when you have so much critical work to do. But I think we are both hopeful that with your input, this time will be valuable as we go forward and try to make sure that we are strengthening oversight and accountability and protecting taxpayer dollars.

Thank you for being here, for the important work you do. I look forward to continuing to work with all of you and my colleagues to help prevent waste, fraud, and abuse of taxpayer dollars in relief programs.

This hearing record will remain open for 15 days until 5 p.m. on December 1st, for submissions of statements and questions for the record. The hearing is now adjourned. Thank you. [Whereupon, at 4:17 p.m., the hearing was adjourned.]

APPENDIX

Opening Statement as Prepared for Delivery by Chair Maggie Hassan
Emerging Threats and Spending Oversight Subcommittee Hearing:
"Examining Federal COVID-Era Spending and Preventing Future Fraud"
November 14, 2023

Good afternoon. Our hearing today focuses on federal spending in response to the COVID-19 pandemic, efforts to conduct oversight of those funds, and opportunities to work together to prevent fraud in the future.

I want to begin by thanking Ranking Member Romney for his work on these critical issues, and for his proposal to hear from our distinguished panel of witnesses on how Congress and the federal government can strengthen efforts to prevent waste, fraud, and abuse of emergency spending.

In early 2020, few could have imagined the impact that the coronavirus would have on global health and the economy. It quickly became apparent, however, that Congress had an obligation to respond. In those early days, Congress came together to pass the bipartisan Coronavirus Aid, Relief, and Economic Security Act – or CARES Act. This package included the first round of economic stimulus payments to individuals and families. It also established the Paycheck Protection Program designed to provide loans to small business to ensure that they could stay afloat and continue to pay their employees. And it expanded access to health care and life-saving personal protective equipment.

As the world grappled with the fallout of the global pandemic over the next two years, our country faced additional medical and economic challenges requiring additional emergency relief packages that we passed into law. The majority of those funds were provided in the form of loans, grants, and direct financial assistance.

These programs were overwhelmingly successful: investing in our economy during the pandemic helped limit negative effects on our economy and prevent a recession. These programs also shored up supplies and resources for hospitals, expanded access to crucial medical care, and deployed COVID-19 vaccines to slow the disease's rapid spread and save lives. All of that allowed us to get back to work and school.

The federal government's response to the pandemic was unprecedented in its size and scope. Because of that, Congress also put in place mechanisms for strong oversight.

Toward that end, Congress provided funding for the Government Accountability Office and inspectors general across the government to oversee COVID-19 spending. Congress also established the Special Inspector General for Pandemic Recovery, as well as the Pandemic Response Accountability Committee, to better coordinate oversight and promote transparency among COVID-19 relief programs. These oversight entities have uncovered hundreds of billions of dollars in scams, fraud, and improper payments involving pandemic relief programs, and are working with law enforcement to hold fraudsters accountable.

The staggering amount of fraud that they have uncovered is outrageous and unacceptable. With what we know now, it is incumbent upon agencies and Congress to improve our stewardship of taxpayer dollars. We can and must do better.

Again, I thank our witnesses and all of their colleagues for their tireless work, and for appearing today. I look forward to a robust, bipartisan discussion on the federal government's response to COVID-19 and how we can work together to hold criminals accountable for stealing taxpayer dollars and prevent fraud in the future.

PANDEMIC RESPONSE ACCOUNTABILITY COMMITTEE
A Committee of the Council of the Inspectors General on Integrity and Efficiency
PandemicOversight.gov

Statement of Michael E. Horowitz
Chair, Pandemic Response Accountability Committee
Inspector General, U.S. Department of Justice

before the

U.S. Senate

Committee on Homeland Security & Governmental Affairs
Emerging Threats and Spending Oversight Subcommittee

concerning

"Examining Federal COVID-era Spending and Preventing Future Fraud"

November 14, 2023

Chairwoman Hassan, Ranking Member Romney, and Members of the Subcommittee:

Thank you for inviting me to testify today on the ongoing oversight work of the Pandemic Response Accountability Committee (PRAC). At the outset of my testimony, I would like to recognize this Committee's and the Subcommittee's leadership for the critical role you played in creating the PRAC as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) in March 2020. It has been my honor to serve as Chair of the PRAC since April 2020. Thanks to your support for our efforts, we are promoting transparency, supporting and coordinating independent oversight of pandemic relief spending, and using data and advanced analytics to hold accountable those who have stolen from and defrauded pandemic relief programs. I had the pleasure of testifying about the PRAC's achievements in fulfilling our objectives before the full Committee in March 2022, and I look forward to sharing our progress to date.

About the PRAC

The PRAC is housed within the Council of the Inspectors General on Integrity and Efficiency (CIGIE) and is comprised of 20 federal Inspectors General that work collaboratively to oversee the more than $5 trillion in federal pandemic relief emergency spending. Our primary mission is to work with Offices of Inspector General (OIGs) to ensure that taxpayer money is being used effectively and efficiently to address the pandemic-related public health and economic needs funded through the various COVID-19 relief and response bills.

To facilitate our mission, we

- promote transparency by publicly reporting accessible and comprehensive pandemic relief spending data;
- collaborate across the oversight community to identify cross-cutting issues and program risks;
- prevent and detect fraud, waste, abuse, and mismanagement of relief spending through leading-edge data insights and analytic tools; and
- hold wrongdoers accountable by marshaling the investigative and analytic resources of the oversight community.

My testimony today highlights the PRAC's achievements since March 2020 in fulfilling these objectives, particularly how we created the Pandemic Analytics Center of Excellence (PACE) which uses data intelligence to fight pandemic relief fraud and is a model for effective, coordinated government oversight. I will also discuss the lessons learned from our efforts, and the legislative actions that will assist the oversight community's efforts to prevent, detect, and mitigate fraud, waste, abuse, and improper payments in the future—most importantly, by establishing a permanent data analytics hub for the OIG community.

Background

At the outset, it's important to emphasize the whole-of-government oversight effort required to oversee spending of this magnitude. With the PRAC's five-year appropriation of $120 million, we have been tasked with overseeing the more than $5 trillion in pandemic relief funding—a sum that exceeds the federal government's total spending in 2019 for discretionary, mandatory, and interest on the debt. It is also more than six times greater than the $800 billion stimulus package passed in 2009 in the wake of the financial crisis.

The only way to effectively oversee $5 trillion in relief spending is with data. At the PRAC, we have been using advanced data science to further our oversight mission.

Today, federal Inspectors General are charged with overseeing over 500 pandemic relief programs across more than 40 agencies. Just one of those programs alone—the Paycheck Protection Program (PPP) —has distributed approximately $800 billion in funding, or roughly the same amount as the entire American Recovery and Reinvestment Act of 2009. Moreover, in the program's first 14 days in April 2020 alone, about 1.7 million PPP loans were issued with disbursements of upwards of $343 billion. These loans were approved with few, if any, controls to check if the applicant was legitimate and qualified for aid. Effective and coordinated independent oversight has been central to improving how federal agencies are operating their pandemic relief programs, as well as addressing and combating fraud, waste, abuse, and mismanagement involving these funds. Through this work, oversight entities like the PRAC, OIGs, the Government Accountability Office (GAO), and our state and local oversight partners have played a critical role in the success of our national recovery efforts.

Using Advanced Data Analytics to Better Target Investigations and Hold Wrongdoers Accountable

To lead oversight of the 2009 stimulus package, Congress created the Recovery and Accountability Transparency Board—affectionately known as the RAT Board—and appropriated more than $175 million to it over the course of its almost seven-year existence.[1] The RAT Board, led by then-U.S. Department of the Interior Inspector General Earl Devaney and comprised of about a dozen Inspectors General, was widely praised for its effective oversight efforts. Those included the RAT Board's development of the Recovery Operations Center (ROC), a first-ever Inspector General community-wide data analytics effort. Unfortunately, despite the ROC's successes, the strong support it received from Comptroller General Gene Dodaro, and the significant financial investment in it by Congress, when the RAT Board sunset in 2015, the ROC was not extended by Congress and it ceased operations as well. As a result, when the COVID-19 pandemic hit in March 2020, the PRAC was without a data analytics tool, and Congress had to appropriate approximately $40 million for the PRAC to develop the PACE and operate it through September 2025.

What we have sought to do at the PRAC is to build upon the prior outstanding work of the RAT Board while developing a new model for conducting oversight in a crisis. The PACE, established with funding from the American Rescue Plan, is a model that should be retained and replicated. Drawing on the existing capabilities of the oversight community, the PACE applies best practices from the ROC's operations, which taught the federal government that OIGs stand a better chance of identifying fraud and improper payments by combining data sets and using tools like link analysis, text mining, and anomaly detection.

We have built a data analytics center that, to date, has more than 59 data sets, with more than 1.6 billion records from public, non-public, and commercial data sources, each of which has specific rules governing their use. Some of these data sets are shared across the OIG community. For example, we are sharing Small Business Administration (SBA) nonpublic loan level data sets with 44 OIGs and law enforcement agencies as part of our effort to combat fraud detected in the PPP and COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL) program. Further, thanks to the hiring authority

[1] The American Recovery and Reinvestment Act of 2009 originally appropriated $84 million for the RAT Board, with a termination date of September 30, 2013. In subsequent years, Congress appropriated almost $95 million for the RAT Board. The Disaster Relief Appropriations Act of 2013 subsequently expanded the RAT Board's mandate to include oversight of other federal spending—specifically funds related to Hurricane Sandy relief efforts—through September 30, 2015. The RAT Board oversaw $800 billion dollars of relief from the American Recovery and Reinvestment Act of 2009, and $50 billion from the Disaster Relief Appropriations Act of 2013, for a total of $850 billion.

provided to the PRAC in the CARES Act, we have been able to attract top data science talent from across the country. Not only has this aided the PRAC, but our highly successful Data Science Fellows program has detailed 27 data scientists to 14 OIGs to facilitate and support their pandemic-related data analytics efforts.

The sophisticated work of the PRAC's data scientists and our data analytics platform have been instrumental in advancing our efforts to identify improper payments and fraudulent activity in pandemic programs. In January 2023, the PRAC issued a Fraud Alert after our data scientists used the PACE to identify over 69,000 questionable Social Security Numbers (SSNs) that had been used to obtain $5.4 billion in PPP and EIDL loans and grants. PACE data scientists identified this potential fraud and identity theft by analyzing over 33 million COVID-19 EIDL and PPP loan applications to identify a targeted selection of questionable SSNs included in those applications. Then, with the legal authorities that Congress provided to the PRAC, we obtained the Social Security Administration's (SSA) assistance to verify the name, date of birth (DOB), and SSN that were included in the COVID-19 EIDL and PPP applications identified by the PACE—in other words, did the name, DOB, and SSN provided by the applicant match the name, DOB, and SSN in SSA's records? Through this verification process, we determined that 69,000 questionable SSNs were used to obtain $5.4 billion in pandemic loans and that another 175,000 questionable SSNs were used in applications that were not paid or approved. Had the PRAC had this analytic platform available to us at the outset of the pandemic, we could have worked with the SBA OIG and SBA to flag these suspicious applications **before** money was distributed, likely saving the taxpayers hundreds of millions – if not over a billion – dollars.

In May 2023, the PRAC issued an update to the Fraud Alert, in which PRAC data scientists, using the Treasury Department's limited Death Master File, identified an additional $38 million in potentially improper or fraudulent PPP and COVID-19 EIDL loans obtained using the SSNs of deceased individuals. However, this figure likely would have increased if we had access to the full SSA Death Master File. Our experience and insights highlight the value of expanding data sharing agreements to better detect and prevent fraud to protect the American public and taxpayer dollars.

Our data scientists are also developing automated robotic processes for some of the tasks associated with monitoring pandemic relief spending. These help identify flags and anomalies which are sent to our investigators for a closer look. We also develop risk models to help Inspectors General identify high-risk recipients of pandemic funds. The sophisticated work of the PRAC's data scientists and our data analytics platform have been instrumental in advancing our efforts to identify improper payments and fraudulent activity in pandemic programs.

Providing Investigative Support to Law Enforcement and OIG Partners Using Advances in Analytic and Forensic Technologies

The PACE also has been a critical asset used by law enforcement to root out issues like identity theft, multi-dipping, and fraud. As of September 2023, the PACE has provided investigative support to more than 40 federal law enforcement and OIG partners on over 600 pandemic-related investigations with nearly 7,600 subjects and an estimated fraud loss of $1.77 billion.

We also have used our CARES Act authority to create new models of coordination among federal Inspectors General. In January 2021, the PRAC and our OIG partners launched the PRAC Fraud Task Force, a collection of over 50 agents from 16 member OIGs, to: enhance our ability to coordinate investigations; exchange information about fraud schemes that we have identified; and share resources that enable agents to support investigations across the Inspector General community. The PRAC Fraud Task Force and our law enforcement partners are boosted by the innovative capabilities of the PACE, which uses advanced analytic tools that incorporate multiple pandemic program data sources to uncover suspicious network activity and identify anomalies that may indicate potential fraud.

Additionally, we created a hotline that has received over 9,000 complaints from the public that have been routed to the appropriate agencies for follow-up action where applicable. We rely on information from whistleblowers and citizen watchdogs to help us prevent and detect wrongdoing and recover funds for taxpayers.

Thanks to the coordinated efforts of the PRAC Fraud Task Force, our law enforcement partners, and the U.S. Attorney's Office, we can leverage PACE analytic tools to help recover stolen pandemic relief funds and ensure that those who stole them are held accountable, as seen in the below case examples:

- In the largest PRAC Fraud Task Force investigation to date, 14 people were charged with defrauding PPP of $53 million. Using a group of affiliated recycling companies, the defendants allegedly submitted at least 29 fraudulent PPP loan applications to financial institutions that included inflated payroll expenses, doctored bank statements, and false tax forms. The defendants then created a false paper trail to simulate payroll expenses by funneling the funds through a series of bank accounts. This case also relied on critical data analysis provided by the PACE.
  Investigative partners included: SIGPR; FDIC OIG

- In New York, a judge delivered a 25-year sentence to a recidivist fraudster who stole over $1 million in pandemic relief funds. He and his co-conspirator, who received a nine-year sentence, used stolen identities, sham tax records, and corporate documents to successfully obtain the PPP and COVID-19 EIDL funds. The pair submitted a total of 14 fraudulent loans attempting to obtain over $10 million.
  Investigative partners included: DOJ OIG

- A Los Angeles man was indicted on allegations that he fraudulently obtained over $3 million in pandemic relief by setting up four shell companies to collect the funds. He also allegedly used several aliases in order to perpetuate the purported fraudulent scheme.
  Investigative partners included: DOJ OIG

- Six Oklahoma residents were charged in a $1 million PPP fraud scheme. It is alleged that the group created fake businesses and fake identities to obtain the fraudulent loans and deposit them into their own bank accounts.
  Investigative partners included: SSA OIG; SBA OIG; USAID OIG; HUD OIG; IRS

We also participate, along with 30 partner agencies, in the whole-of-government effort coordinated by the U.S. Department of Justice's (DOJ) COVID-19 Fraud Enforcement Task Force. As of August 2023, the efforts of the task force resulted in criminal charges against more than 3,200 defendants with losses estimated at $1.7 billion, the seizure of more than $1.4 billion in relief funds, and civil investigations into more than 3,000 individuals and entities for alleged misconduct of pandemic relief loans totaling more than $7 billion. The PRAC is also a member of DOJ's International Organized Crime Intelligence and Operations Center (IOC-2) and Organized Crime and Drug Enforcement Task Force Fusion Center, which enables the PRAC to engage in case deconfliction and share and receive investigative intelligence. Since summer 2021, the PRAC has detailed an investigative analyst to IOC-2 to work on the National Unemployment Insurance Fraud Task Force. Because they are often large, complex, and transnational, many cases are being worked by COVID Strike Force Teams in California, Colorado, Florida, Maryland, and New Jersey. The COVID Strike Force teams also rely heavily on the PACE advanced analytics in support of their investigations.

Pandemic fraud is a problem that affects programs across agencies, so it requires a coordinated whole-of-government effort to address it. We continue to work with federal prosecutors to ensure that those who steal from these important programs are held fully accountable.

Promoting Transparency, Collaboration, and Accountability

One of our foundational responsibilities at the PRAC is to provide transparency to the public about pandemic-related spending. The PRAC promotes transparency through our website, PandemicOversight.gov, which features interactive dashboards organizing 34 million rows of data and providing timely information and relevant insights that allow the public to make sense of the more than $5 trillion in pandemic relief spending. For example, we added program funding data pages that provide detailed views of over 500 federal pandemic relief programs, such as the U.S. Department of Education's Education Stabilization Fund, SBA's Restaurant Revitalization Fund, and the U.S. Department of Health and Human Services' Low-Income Home Energy Assistance. These pages contain spending data, program descriptions and objectives, and links to the program's website. Information is power, and through our transparency efforts we are empowering American taxpayers to dig into the data to examine how pandemic relief dollars have been put to work in their communities.

The PRAC also promotes transparency by providing the public with access to nearly 700 pandemic oversight reports issued to date by federal Inspectors General as well as reports issued by GAO. In addition, as part of our close working relationship with our state and local partners, the PRAC is posting to our website their pandemic-related oversight reports, so the public has access to oversight information at all levels of government. Over 300 state and local auditor reports are already on our website covering programs in 36 different states and the District of Columbia.

In addition, our website hosts oversight reports that the PRAC itself has issued. For example, it includes a June 2022 report we issued on identity fraud reduction and redress, which highlighted the substantial amount of pandemic-related fraud that was the result of identity theft and the government's decentralized approach to supporting the victims of identity fraud. A follow-up report that we commissioned the MITRE Corporation to conduct, and that we released in September of this year, can also be found on our website. That report reimagines the government's approach to supporting identity fraud victims, by placing them at the center of the redress process and highlights how identity fraud victims often feel they are not treated like victims of a crime.

We have further advanced accountability by reimagining how we engage with agencies before they distribute funding for new or existing programs. Working with leadership in the Office of Management and Budget (OMB) and the American Rescue Plan (ARP) implementation team led by Gene Sperling, we developed a model whereby agency leadership presents its program implementation plans, payment integrity risks, and reporting and performance mechanisms to the agency's OIG, the PRAC, the ARP implementation team, and OMB leadership. This model allows for the presentation and consideration of antifraud controls before a program is implemented and before money goes out the door. In December 2021, OMB Memorandum M-22-04 highlighted the importance of this approach:

> "Agencies have been encouraged to proactively engage with their IGs in the design of new or expanded ARP programs. The White House ARP Implementation Coordinator, working with OMB, developed a new process bringing together the agency, their Inspector General, the PRAC, OMB, and the ARP Implementation team to collectively review and assess program design, financial controls, and reporting measures prior to the release of funds from programs that were newly created, received substantial funding increases, or required significant changes to program design."

In April 2022, OMB Memorandum M-22-12 directed agencies to oversee infrastructure spending with the same collaborative approach we have used for pandemic spending.

This process of engagement by senior Executive Branch and agency officials with Inspectors General and the PRAC has become a model for how to manage large-scale emergency spending initiatives and balance the need for robust independent oversight with timely program implementation.

Legislative Priorities

The PRAC and its members have three legislative priorities. First, it is critical that Congress consider legislation to sustain the PACE beyond the PRAC's scheduled sunset date of September 30, 2025, so that the Inspector General community has an effective analytics platform to oversee **all** federal spending. In my view, it would be a wasted opportunity and a potentially enormous waste of funds to allow this fraud fighting tool to expire, as happened with the ROC, and then have it need to be re-created at further taxpayer expense in response to the next natural disaster or financial calamity. More critically, with or without another economic or other crisis, authorizing a permanent data analytics tool for the Inspector General community will allow us to adapt this tool to fight fraud in all government spending, not just spending that is linked to the pandemic recovery. To be clear: the ongoing role of the PACE (or its successor), while critical, will be for the purpose of providing advanced data analytics services to OIGs to aid their program integrity, fraud prevention, and recovery efforts. The community does not need—and this proposal would not create—a "super IG" that would duplicate the audit, investigative, and oversight responsibilities and efforts of OIGs; rather, what OIGs, the government, and taxpayers need is the continued benefit from the analytical support role provided by the PACE on an ongoing, permanent basis.

The PACE plays a critical role in performing antifraud analytics that bolster oversight of federal pandemic relief and help OIGs protect taxpayer funds. As I noted earlier in my testimony, such a platform previously existed when Congress appropriated a significant amount of money to the RAT Board in 2009 to develop and operate the ROC, a highly effective and widely praised tool that was critical in advancing program integrity and rooting out waste, fraud, and abuse. Indeed, the GAO issued a report in 2015 describing the important role the ROC played in ensuring federal spending accountability. Nonetheless, the absence of Administration and Congressional action meant that the ROC ceased to exist on September 30, 2015, when the RAT Board sunset.

As a result, when the pandemic hit in March 2020, no data analytics platform was available to the PRAC to assist us in our oversight work and to support OIGs in the critical first year of the pandemic when federal programs were disbursing hundreds of billions of dollars in pandemic relief funds. In 2021, Congress appropriated $40 million that allowed the PRAC to build the PACE from the ground up, leveraging leading practices and lessons learned from the ROC. You have seen the important results that this data analytics platform continues to provide. The PRAC spends about $16 million annually to operate and sustain the PACE, and the return for the public on this investment could not be clearer. The PRAC's January Fraud Alert alone identified potentially $5.4 billion in fraud, which is 360 times the annual cost of operating the PACE. And, as noted, the PRAC's partnership and support for the DOJ COVID-19 Fraud Enforcement Task Force has resulted in criminal charges against more than 3,200 defendants with losses estimated at $1.7 billion, the seizure of more than $1.4 billion in relief funds, and civil investigations into more than 3,000 individuals and entities for alleged misconduct of pandemic relief loans totaling more than $7 billion.

A sustained data analytics capability would benefit all OIGs and would provide partners:

- access to federal spending data sets for OIGs who have their own data analytics capabilities;
- a self-service analytics research platform for OIG auditors and investigators;
- audit research and investigative tips and leads, particularly focused on fraud risks that cut across agency and program boundaries;
- law enforcement intelligence capabilities, including open, deep, and dark web data analysis;
- CIGIE-wide investigative deconfliction and coordination; and
- analytic solutions such as risk models, robotic process automation, code, artificial intelligence, and antifraud technical assistance.

As we move beyond the pandemic, the focus of the PACE should be broadened to prevent and detect fraud and improper payments, beyond the pandemic-era spending programs. We believe the broadened approach should also allow agencies, in coordination with their OIG, to utilize the data analytics tool to screen applicants for benefit programs by conducting pre-award and pre-payment checks that will ensure funding goes to the individuals they were intended to help. Prevention on the front end will reduce the volume of funds disbursed using a "pay and chase" model—a problematic and ineffective approach that makes it difficult for agencies to recover improper or fraudulent funds. The sustainment and expansion of the PACE and its capabilities will ultimately ensure that our federal government is equipped with resources to face avoidable oversight risks when our country encounters its next crisis that requires emergency relief funding and effective oversight of that funding or those associated with the annual federal government appropriated funding and spending.

Second, Congress should extend the statute of limitations for pandemic-related Unemployment Insurance (UI) fraud from 5 to 10 years. The 117th Congress enhanced the PRAC, Inspectors General community, and law enforcement partners' efforts to fight fraud in small business loan programs with its passage of H.R. 7352 and H.R. 7334. These bipartisan bills, signed into law in August 2022, established a 10-year statute of limitations for all forms of PPP loan fraud and all COVID-19 EIDL fraud. The extension of the statute of limitations for fraud in these two programs was necessary given the scope of the fraud identified to date to allow our investigators the time necessary to fully pursue those who defrauded these aid programs.

In May 2023, the House of Representatives passed legislation that would extend the statute of limitations for pandemic-related UI fraud from five to 10 years. We strongly support an extension of the statute of limitations for these crimes in order to help ensure that investigators and prosecutors have time to effectively pursue and hold accountable those groups and individuals that targeted and defrauded the UI program, and to ensure that they do not escape justice. I am hopeful that the Senate will support extending the statute of limitations.

Additionally, we are grateful for the Senate's support of S. 659, which passed by unanimous consent to amend the Program Fraud Civil Remedies Act, 31 U.S.C. 3801 et seq.; Pub. L. 114-74, to raise the jurisdictional limit for administrative recoveries of "smaller" false or fraudulent claims from $150,000 to $1,000,000. The Congressional Budget Office determined that passage of this legislation would actually save taxpayers approximately $149 million over 10 years because of the amount of the financial recoveries that would result from it. To date, the PRAC is aware of at least one million pandemic awards, totaling about $362 billion, that ranged from $150,000 to $1,000,000. While the scope of the fraud for these "smaller" awards has not yet been fully determined, increasing the jurisdictional amount for administrative recoveries would ensure that we could pursue them more effectively and efficiently. I am hopeful that the House of Representatives will take up and pass this legislation.

Priorities in the Year Ahead

The PRAC has several important priorities in the year ahead, with perhaps our biggest being to continue to ensure accountability for those who engaged in fraud and other wrongdoing in obtaining pandemic funds. Through the work of the PACE, we will lean into ongoing data-driven reviews of pandemic spending and programs. Understanding how we prepare for future emergencies, and safeguard annual federal spending, is more important than ever to protect American livelihoods and taxpayer dollars. Our data scientists and investigators continue to rise to the challenge of addressing the high volume of potential fraud in pandemic programs by:

- transforming data and other critical information into meaningful insights for other oversight offices, congressional stakeholders, and the public;
- leveraging data across agencies to produce observations that can help improve program integrity;
- using an innovative, in-house process and methodology to reconcile and resolve entity variations and their attributes;
- underscoring the need for greater information sharing across the federal government to better verify program eligibility before approving applications for government benefits rather than attempting to claw back funds after benefits are paid; and
- encouraging the timely access to a consent-based verification system that would improve federal program integrity, protect taxpayer funds from fraud and improper payments, better ensure benefits are paid only to those who are truly eligible, and reduce the incidence of identity fraud, thereby helping protect victims of identity theft.

The PACE's ability to serve as a repository of data sets from across federal programs and the analytical capabilities it possesses provides a significant value for the broader oversight community beyond pandemic-related insights. The PRAC is committed to finding opportunities to ensure that the PACE and its analytic tools can continue to serve the federal oversight community beyond our sunset on September 30, 2025. As such, we are collaborating with the CIGIE Data Analytics Working Group to create an Analytics Center Pilot, marking a critical step toward the sustainment of the PACE beyond the pandemic. Leveraging the data analytics capabilities of the PACE, this pilot will focus on the proactive use of data for prevention activities, providing participating OIGs with a central repository of PRAC-managed data sets, risk analytics to support audits and investigations, and business insights to conduct due diligence and proactive assessments.

The PRAC will also focus on highlighting the impact and importance of collective lessons learned and best practices. Last year, we updated our comprehensive list of lessons learned from the unprecedented pandemic-era spending to begin to answer two critical questions: Have the unprecedented levels of pandemic spending been effective? And if not, what needs to change? The full set of answers and lessons identified as we considered these questions are highlighted in the report, the most important of which is that self-certified information in loan and grant applications needs to be validated before payments are sent. In the next year, we will continue to assess these and related questions and produce products to provide answers, blueprints, and policy recommendations as our stakeholders – program administrators, policy makers, Congress, and the oversight community, including OIGs – work to enhance program and payment integrity on behalf of the U.S. taxpayers.
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The PRAC looks forward to continuing to maximize our efforts to promote transparency and accountability, support and coordinate independent oversight of pandemic relief spending, transform oversight by using data and advanced analytics, and document lessons learned and best practices for use in the future.

Conclusion

The PRAC's transparency mission and ability to track pandemic spending is unique across government while our other priorities address common challenges and risks across our member OIGs. With the support of Congress, what we have developed over the past three years is a new model for conducting oversight in a crisis, drawing on the existing capabilities of the oversight community and surging capacity where needed. We provide important shared services to the Inspector General community. We also work more closely than ever with our federal, state, and local partners by providing them with access to information and investigative resources through the PACE. We urge Congress to make the PACE permanent and to broaden its jurisdiction to all federal spending, so the oversight community can better prevent and detect fraud, waste, abuse, and improper payments.

Thank you for your continued strong support of the PRAC, the Inspector General community, and independent oversight. We look forward to continuing to work on behalf of taxpayers to ensure that federal pandemic programs are operating effectively and efficiently, and to prevent and detect waste, fraud, and abuse.

That concludes my prepared remarks, and I would be pleased to answer any questions from the Committee.

HANNIBAL "MIKE" WARE
INSPECTOR GENERAL
U.S. SMALL BUSINESS ADMINISTRATION

BEFORE THE

SUBCOMMITTEE ON EMERGING THREATS AND SPENDING OVERSIGHT
COMMITEE ON HOMELAND SECURITY AND GOVERNMENT AFFAIRS
U.S. SENATE

NOVEMBER 14, 2023

INTRODUCTION

Chairwoman Hassan, Ranking Member Romney, and distinguished members of the Committee, thank you for inviting me to testify before you today and for your continued support of the U.S. Small Business Administration (SBA) Office of Inspector General (OIG). I am proud of the dedication and hard work of the men and women of OIG to detect, deter, and combat fraud in SBA programs to the benefit of the American people.

Our office provides auditing and investigative services to support and assist SBA in achieving its mission. OIG audits provide recommendations to SBA leadership to improve the performance of SBA's programs and services, rooting out fraud, waste, and abuse in SBA programs. OIG investigations pursue evidence of wrongdoing in SBA programs, bringing fraudsters to justice.

We're also leaders in the federal workplace. For the past 2 years, our office has been ranked as the top OIG in the federal government as a Best Place to Work by the Partnership for Public Service with a 2022 engagement and satisfaction employee score of 86.2, which far exceeds the overall government score of 63.4.

OIG has provided taxpayers with a historic and exponential return on investment. Since 2020, OIG's work has resulted in more than $13 billion in dollar accomplishments, which includes investigative recoveries, fines, and forfeitures, as well as review findings of disallowed costs. This has resulted in a 196.47 (19647 percent) return on investment since 2022 to the American taxpayer. OIG oversight of the Paycheck Protection Program (PPP) and the Coronavirus 2019 (COVID-19) Economic Injury Disaster Loan (EIDL) program has resulted in 1,180 indictments, 936 arrests, and 632 convictions as of October 31, 2023. More than $1 billion has been seized with U.S. Secret Service bulk seizures. Over $8 billion in EIDL funds have been returned to SBA by financial institutions and another $20 billion by borrowers. OIG has played a key role in the return of these funds through working with our law enforcement partners and financial institutions. We educate the public about fraud in the pandemic relief programs, which has served as a deterrent to fraudsters. We have issued 37 reports on pandemic oversight with 95 recommended corrective actions to strengthen internal controls and to promote integrity, efficiency, and effectiveness within SBA programs — with more significant work to be released soon.

On June 27, 2023, we published the white paper *COVID-19 Pandemic EIDL and PPP Loan Fraud Landscape* (Report 23-09). We conducted this review to provide a comprehensive estimate of the potential fraud in SBA pandemic assistance loan programs using our investigative casework, prior reporting, advanced data analytics, and additional review procedures. We estimated SBA disbursed over $200 billion in potentially fraudulent COVID-19 EIDLs and PPP funds out of the approximately $1.2 trillion allocated to SBA for pandemic economic assistance. This means at least 17 percent of all COVID-19 EIDL and PPP funds were disbursed to potentially fraudulent actors — specifically, more than $136 billion COVID-19 EIDLs and $64 billion in PPP loans, representing more than 4 million loans. If time and resources were available, OIG would open an investigation on every one of the loans identified as potential fraud in the Fraud Landscape report.

Notwithstanding these accomplishments, OIG's oversight capacity is dependent upon the availability of sufficient budgetary resources to continue addressing the oversight need within SBA programs. The President has put forward a Fiscal Year (FY) 2024 budget request for OIG to ensure continued oversight of SBA's pandemic response and its vital flagship programs supporting the nation's small businesses. Absent the total budgetary resources for FY 2024, OIG will be unable to capitalize on the laws (P.L. 117-165 and P.L. 117-166) that extended the statute of limitations for fraud in the PPP and EIDL programs to 10 years, as well as effectively oversee SBA's flagship programs that have management and performance challenges. Rest assured with an investment in our office, taxpayers will continue to receive significant return on investment, as well as benefit of more efficient and effective SBA.

PANDEMIC RESPONSE OVERSIGHT

Congress authorized SBA to administer approximately $1.2 trillion through the PPP, COVID-19 EIDL, Shuttered Venue Operators Grant (SVOG), and the Restaurant Revitalization Fund (RRF) to support businesses adversely affected by the economic crisis caused by lockdowns, business closures, and other impediments.

To support businesses adversely affected by the pandemic, Congress tasked SBA with the lending authority of approximately $470 billion in COVID-19 EIDLs and $20 billion in COVID-19 emergency grants. In FY 2021, Congress appropriated additional funds for new disaster assistance programs: $35 billion for Targeted EIDL Advances and Supplemental Targeted Advances, $16.25 billion for the SVOG program, and $28.6 billion for the RRF. The Coronavirus Aid, Relief, and Economic Security (CARES) Act provided $349 billion for the creation of the PPP under Section 7(a) of the Small Business Act. Congress added an additional $310 billion to the PPP on April 24, 2020, through the Paycheck Protection Program and Health Care Enhancement Act. On December 27, 2020, through the Consolidated Appropriations Act, 2021, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act extended the program through March 31, 2021. The Economic Aid Act provided an additional $147.5 billion in program funding. The American Rescue Plan Act of 2021 provided an additional $7.2 billion, which increased the total program funding to $813.7 billion. On March 30, 2021, the PPP Extension Act of 2021 extended the program through June 30, 2021, with May 31, 2021, as the last day for acceptance of applications. As pandemic assistance programs swelled to more than $1 trillion, the risk to the taxpayer increased because SBA's internal control environment was calibrated to expedite loans and grants.

My office recognized at the onset of the pandemic that SBA would face a delicate balancing act of preventing widespread fraud while ensuring timely disbursement of relief funds to Americans in immediate need of assistance. The biggest concern was SBA's quick delivery of capital to qualifying small businesses without first establishing the internal controls necessary to decrease fraud risk, such as verifying that a business did indeed exist before the onset of the pandemic and that it had been adversely affected by the economic downturn. This was why we issued two reports prior to the first PPP loan being disbursed. Our reports stressed the importance of up-front program controls to mitigate the risk of fraud. Because of the lessons learned from other disasters, we knew the weaknesses found in the past would be greatly magnified with programs as large as the COVID-19 EIDL program and the PPP.

Even with these early warnings, SBA's internal control environment helped to create the biggest fraud in a generation. SBA's need to quickly provide relief to small businesses resulted in reduced controls on pandemic-related loans and grants, substantially increasing the fraud risk. It was immediately clear that pandemic relief efforts had drawn the attention of unscrupulous and greedy criminals. We also launched investigations, audits, and other reviews, and published a list of fraud schemes and scams to alert the public and SBA stakeholders about the fraud and abuses endangering these critical resources. Complaints from lenders and allegations of misuse of funds overwhelmed OIG's Hotline — over 100,000 complaints in the first year alone, which has grown to over 270,000. The first criminal charges of PPP fraud were announced on May 5, 2020 — approximately 1 month after the program was initially authorized by Congress.

OIG utilized agile work products to deliver findings and suggest recommendations for corrective action to SBA in nearly real time. We published a flash report on the PPP in May 2020, just over 1 month after the start of the program. Because of this report, Congress made significant changes to the program, such as changing the minimum allowable use of proceeds for payroll costs from 75 percent to 60 percent, extending the maturity from 2 years to 5 years, and prioritizing lending to underserved markets. We sounded the alarm internally of rampant fraud in the COVID-19 EIDL program in June 2020.

A growing national narrative told of widespread fraudulent activity involving funds intended to provide economic relief to qualifying small businesses and entrepreneurs. We actively engaged SBA leaders throughout the duration of the pandemic to notify them of preliminary findings so they could respond in real time to prevent loss to the taxpayer.

Oversight work

Since the start of the pandemic, OIG has testified before Congress 12 times and held nearly 100 briefings for congressional staff to ensure Congress remains informed about our noteworthy oversight efforts and innovative approaches using agile work products and data analytics.

OIG focuses its oversight capacity on the most significant risks to SBA and taxpayers. Many of these risks are addressed in OIG's *Top Management and Performance Challenges Facing the SBA*, which OIG issues annually in accordance with the Reports Consolidation Act of 2000. The management challenges represent areas that OIG considers particularly vulnerable to fraud, waste, abuse, or mismanagement, or which otherwise pose significant risk to the agency, its operations, or its credibility.

Each management challenge has originated from one or more reports issued by OIG or the Government Accountability Office. We do not usually rank the top challenges in order of importance or magnitude, except for the pandemic economic assistance challenge. We view all eight challenges as critically important to SBA operations in the upcoming year. However, we placed COVID-19 economic relief programs at the top of the list for the 2021 report in recognition that it is the agency's most acute challenge, and it remains so at present.

SBA Top Management & Performance Challenges FY 2024

Challenge 1
SBA's Economic Relief Programs Are Susceptible to Significant Fraud Risks and Vulnerabilities
Challenge 2
Eligibility Concerns in Small Business Contracting Programs Undermine the Reliability of Contracting Goal Achievements
Challenge 3
SBA Faces Significant Challenges in Information Technology Investments, System Development, and Security Controls
Challenge 4
SBA Risk Management and Oversight Practices Need Improvement to Ensure the Integrity of Loan Programs
Challenge 5
SBA's Management and Monitoring of the 8(a) Business Development Program Needs Improvement
Challenge 6
Identification of Improper Payments in SBA's 7(a) Loan Program Remains a Challenge
Challenge 7

SBA's Disaster Assistance Program Must Balance Competing Priorities to Deliver Prompt Assistance but Prevent Fraud
Challenge 8
SBA Needs Robust Grants Management Oversight

OIG annually publishes an oversight plan for reviews it has ongoing or planned for that calendar year. The implementation of this robust oversight plan uses all available OIG resources to provide timely, objective, and independent oversight of SBA programs and services.

As stated in our oversight plan, upcoming reports will focus on a holistic approach in assessing SBA's pandemic response programs and flagship programs. Notably, SBA's decision to expand the role of Small Business Lending Centers within the 7(a) program. This and other regulatory changes are significant and will be subject of oversight efforts. Additionally, OIG is working on more than 10 mandatory reviews, which are required by law, and dozens of other reviews determined by our risk analyses. We have initiated three inspections on SBA's initial response to hurricanes Fiona, Ian, and Idalia and the Maui wildfires. We expect to issue these reports in the second quarter of Fiscal Year 2024.

Over the course of SBA's pandemic response, OIG offered key recommendations to strengthen the internal controls to prevent fraud in the COVID-19 EIDL program and the PPP. SBA has been responsive to OIG recommendations for corrective action. SBA has continually made progress to reduce fraud risks and prevent further losses in its pandemic loan programs, and our office's ongoing work continues to make further recommendations for corrective action. Although we are confident that SBA's implementation of our recommendations stemmed the tide of fraud, many of the improvements to the lax internal control environment were made after much of the damage had already been done.

We will continue to monitor and assess the effectiveness of agency controls through our ongoing and planned reviews for suspected fraud and suspicious activities.

Fraud Landscape

On June 27, 2023, OIG published the *COVID-19 Pandemic EIDL and PPP Loan Fraud Landscape* . We conducted this review to provide a comprehensive estimate of the potential fraud in the SBA pandemic assistance loan programs. Over the course of the COVID-19 pandemic, SBA disbursed approximately $1.2 trillion of COVID-19 EIDL and PPP funds. The fraud landscape white paper not only provided policymakers with an understanding of the fraud perpetuated against SBA, but it also provides OIG the insight necessary to prioritize and lead investigative efforts across the nation, particularly in task and strike forces led by the U.S. Department of Justice (DOJ).

Using OIG's investigative casework, prior OIG reporting, advanced data analytics, and additional review procedures, we estimate SBA disbursed more than $200 billion in potentially fraudulent COVID-19 EIDLs and PPP loans. This estimate represents approximately 17 percent of disbursed COVID-19 EIDLs and PPP funds — specifically, more than $136 billion COVID-19 EIDLs and $64 billion in PPP funds.

Based on the various fraud schemes identified in our ongoing and adjudicated criminal investigations, we expanded rule-based analytics through link analysis. — an investigative technique that identifies fraud clusters through shared data attributes. Link analysis is distinct from simply identifying loans with duplicative values, such as sharing the same Internet Protocol (IP) address. This technique refines basic duplicate analysis by only capturing additional loans that are associated with a source loan suspected of fraud. This reduced the potential false positives and allowed us to focus on loan clusters highly suspected of being fraudulent.

We automated a process in which we linked one-third of all OIG Hotline complaints to associated loan data by extracting the unique identifiers of tax ID, loan number, and Dun and Bradstreet business identifier (DUNS) number from complaint narratives. We incorporated previously unavailable PPP borrower intake data using administrative subpoenas, which then help us further our investigative work. This data was from a small number of PPP lenders and third-party processors and may be expanded upon as we obtain additional data.

Our review identified 11 fraud indicators, or fraud groups. Since SBA did not have an established strong internal control environment for approving and disbursing program funds, there was an insufficient barrier against fraudsters accessing funds that should have been available for eligible business owners adversely affected by the pandemic.

Our fraud landscape white paper demonstrated that the potential fraud estimates directly correlate to our investigative casework, adjudicated and ongoing criminal cases, and to schemes SBA OIG and other oversight agencies are continuing to unravel and prosecute. The growth of the SBA's programs coupled with over $200 billion in potential pandemic-related fraud significantly expands OIG's oversight responsibilities.

COMBATING FRAUD

OIG leads the collaborative effort to combat fraud in SBA's pandemic and flagship programs. Prior to the pandemic, our office had always placed great value in our partnerships across the federal government and law enforcement agencies. With this committed investment, OIG's relationships have grown, paying dividends in terms of our office's success in dealing with the onslaught of fraud.

Since March 2020, we have initiated over a thousand investigations involving complaints of fraud, resulting in arrests, indictments, and convictions that are reported daily by the DOJ and its Offices of the U.S. Attorneys. We have received more than 270,000 SBA OIG Hotline complaints and allegations of wrongdoing since the start of the pandemic. From that number, our data analytics team has identified more than 104,000 actionable leads — representing more than 100 years of investigative case work. With time and resources, OIG and our investigative partners will investigate these loans identified as potentially fraudulent within the statute of limitations.

To bring fraudsters to justice and return taxpayer funds, OIG fosters a whole-of-government approach. Time and time again, OIG has proven that the task force model is winning approach in the fight against fraud. Our model has acted as a force multiplier to combat the ever evolving and expanding fraud cases. OIG created these SBA-centric task forces to collaborate with the DOJ and other law enforcement authorities in bringing fraudsters to justice while clawing back stolen taxpayer dollars. Consequently, our investigators have successfully conducted several large-scale sweeps related to fraudulently obtained COVID-19 relief funds, including arrests this past summer of more than 42 co-conspirators in Puerto Rico, bringing the total arrests for this operation to 92 thus far, and 20 gang members in South Carolina who otherwise would have remained at-large.

Since the establishment of the COVID-19 Fraud Task Force, we have worked closely with our law enforcement partners to analyze the extraordinary amount of data from our state workforce agency partners and the SBA. That data is the key to identifying and prosecuting organized criminal groups and networks of overseas fraudsters who stole pandemic relief funds. The strike force teams accelerate the process of turning data analytics into criminal investigations, which has continued to enhance our prosecutions. This prosecutor-led approach has proven successful in other organized crime arenas. We believe it is key to dismantling the networks that egregiously stole pandemic relief funds. The President also has sought $100 million in supplemental appropriations, in addition to other measures, for a whole-of-government response to the massive fraud in the nation's pandemic response programs.

The COVID-19 Fraud Enforcement Task Forces were established to marshal the resources of the DOJ in partnership with agencies across government to enhance efforts to combat and prevent pandemic-related fraud. The task forces bolster efforts to investigate and prosecute the most culpable domestic and international criminal actors. The task forces assist agencies with administering relief programs by helping prevent fraud by augmenting and incorporating existing coordination mechanisms, identifying resources and techniques to uncover fraudulent actors and their schemes, and sharing and harnessing information and insights gained from prior enforcement efforts.

OIG Participates in Over 10 Strike/Task Forces

- *Oregon Task Force*
- *Nevada Task Force*
- *Utah Task Force*
- *Denver Task Force*
- *Eastern District of Washington Task Force*
- *Idaho Task Force*
- *Hawaii Task Force*
- *DOJ Strike/Task Force(s)*
    - *Covering the Central and Eastern Districts of California*
    - *Covering the Southern District of Florida*
    - *Covering the District of Maryland*

Our Oregon Task Force is an outstanding example of how this strategy has acted as a force multiplier in taking the fight to fraudsters' doorsteps. Our partners on this task force include the Federal Bureau of Investigation, the U.S. Treasury Inspector General for Tax Administration, the Internal Revenue Service's Criminal Investigation, Homeland Security Investigations, the Secret Service, the U.S. Postal Inspection Service, and the Naval Criminal Investigative Service. Recently, this task force uncovered one of the largest attempted schemes prosecuted across the nation, exceeding $170 million, with over $11.5 million in secured funding.

Last fall, OIG took a significant step by establishing our Technology Solutions Division, which aligns with our objective of leveraging technology and employee experience to improve OIG methods in carrying out our mission. Through intentional investments in data analytics, OIG's data analytics team has been able to use machine learning and artificial intelligence to identify outliers in the portfolio for investigation, as well as employing traditional data analytics to develop investigative leads for our special agents working in tandem with task force partners.

We must focus our limited resources because we are faced with the monumental task of investigating $200 billion in potential fraud, as reported in our fraud landscape report. This led us to develop an all-new interactive Pandemic Leads Dashboard that helps special agents and investigative analysts more efficiently access information on potentially fraudulent PPP loans and COVID-EIDLs. These leads come from the schemes we reported in the fraud landscape estimate. Agents and analysts can filter their search for potentially fraudulent loans by business location, DOJ district, dollar amount, fraud scheme, Hotline complaints, and loans with the some identifying information.

In addition to prioritizing cases of the most egregious nature, the dashboard data helps our agents direct and lead task force efforts. SBA OIG can drill down to any zip code in the country and partner with local and regional law enforcement to relentlessly root out fraudsters and bring them to justice.

Many instances of fraud have been egregious, such as:

- In October 2023, the head of a multimillion-dollar COVID-19 relief fraud ring was sentenced to 15 years in prison and ordered to forfeit $5.5 million for leading a conspiracy to fraudulently obtain more than $20 million in forgivable PPP loans. According to court documents, he conspired with at least 14 others to submit 75 fraudulent PPP loan applications in 2020. Federal agents seized real estate, a Porsche, and a Lamborghini purchased with illegally obtained funds.
- In October 2023, a Maryland man pled guilty to conspiracy to commit wire fraud affecting financial institutions, relating to more than $17.9 million in fraudulent CARES Act loan applications. The man admitted to using the funds to travel to Dubai and Egypt on multiple occasions, buying property, and staying at luxury hotels like the Four Seasons. Taxpayer funds meant to support American small businesses during a crisis were instead used to purchase property to open a beachfront restaurant in Alexandria, Egypt.
- In October 2023, a California chief executive officer of a company providing homes for parolees and probationers was sentenced to 17 years after being convicted of 44 felonies including conspiracy, bank fraud, wire fraud, aggravated identity theft, false statements to a bank, destruction of property to prevent a search, possession of a firearm as a felon, making a false tax return, obstruction, and witness tampering. The evidence presented at trial showed he submitted 16 fraudulent loan applications to the PPP, seeking approximately $34.6 million.
- In September 2023, an Arkansas business owner pled guilty to fraudulently obtaining more than $16.5 million in a wide-ranging conspiracy to obtain fraudulent COVID-19 relief funding. He admitted to obtaining more than $3.25 million in PPP and EIDL funds for his own businesses and another $13.5 million in EIDLs for his co-conspirators.
- In July 2023, a California man was sentenced to 79 months in federal prison for fraudulently obtaining approximately $9 million in COVID-19 business loans, some of which he used on stock trades and gambling excursions to Las Vegas. He submitted over $10 million in PPP loans, $9 million of which was funded, and $320,000 in EIDLs, $170,000 of which was funded, for fake companies.

- In July/August 2023, 42 people were indicted in Puerto Rico for their participation in a multimillion-dollar fraud scheme to illegally obtain federal recovery funds under the CARES Act. The grand jury charged the defendants with multiple counts of wire fraud and money laundering. According to evidence, from April 2020 through May 2023, the defendants, and their co-conspirators (both indicted and un-indicted), submitted at least 273 EIDL and PPP loan applications seeking the disbursement of about $9 million in taxpayer funds.
- In March 2023, a federal jury convicted a Virginia woman on charges of conspiracy, bank fraud, and money laundering. The woman and her husband fraudulently obtained two PPP loans. She carried out the scheme in connection with two of her husband's businesses, creating fake payroll documentation in support of the loan applications. The fraudulent documentation claimed her husband's businesses had dozens of employees with over $17 million of annual payroll in 2019, when in fact they had few, if any, employees. She and her husband fraudulently obtained approximately $2.5 million in taxpayer funds they then spent on a 7,000-square-foot home.
- In February 2023, a California woman who fled to Montenegro to avoid her prison sentence from pandemic assistance fraud was returned to the United States after spending a year as a fugitive. The woman was a member of a Los Angeles-based fraud ring that stole over $20 million in PPP and COVID-19 EIDL funds. She and her co-conspirators used dozens of fake, stolen, or synthetic identities – including names belonging to elderly or deceased people and foreign exchange students – to submit at least 150 fraudulent PPP and EIDL applications. The group used taxpayer funds to buy luxury homes, gold coins, diamonds, jewelry, luxury watches, fine imported furnishings, designer handbags, clothing, and a luxury motorcycle.

Whistleblowers have been instrumental in our oversight efforts. These brave individuals have courageously come forward to help us focus our oversight on vulnerabilities within SBA's internal control environment and other areas of significant concern. Many of our OIG Hotline complaints concern identity theft. We have been able to make referrals to SBA to address complainants' concerns pertaining to fraudulent loans. These reports have also informed our ongoing review of SBA's response to allegations of identity theft. OIG is deeply appreciative of the whistleblowers who have come forward. We will investigate any ensuing complaints of retaliation that may be related to these protected disclosures.

PANDEMIC RESPONSE ACCOUNTABILITY COMMITTEE

Through the CARES Act, Congress established the Pandemic Response Accountability Committee (PRAC) within the Council of the Inspectors General on

Integrity and Efficiency. OIG was designated as a statutory member of the PRAC, which provides increased oversight capacity to the pandemic response efforts. I also chair the PRAC's Audit Subcommittee to provide strategic audit-related direction to all government review efforts.

The PRAC plays a key role in supporting OIG's pandemic oversight efforts. During the pandemic, our Hotline received thousands of complaints outside of its electronic complaint submission system. The PRAC identified 10 volunteers to perform a short-term detail to our Hotline. These volunteers performed data entry to consolidate these complaints into the case tracking system, where they can be efficiently assessed and addressed. We are also engaged with the PRAC to bolster our internal data analytics capabilities, though we have developed over the past year a robust internal capability to guide and enrich our oversight efforts.

OIG's investigative and data analytics experts were an integral part in the PRAC's establishment of Pandemic Analytics Center of Excellence (PACE). The PACE was established to provide an analytic platform with the capacity and scale to help oversee more than $5 trillion in pandemic-related emergency spending, including the SBA COVID programs. In addition, OIG investigative experts assisted in the training of PRAC's Task Force members and provided guidance and deconfliction on their task force cases. The PRAC's PACE and Task Force have been a tremendous force multiplier in combatting the fraud, waste, and abuse associated with the SBA COVID programs.

OIG continues to collaboratively work alongside the PRAC to further safeguard taxpayer dollars, identify cases of fraud in SBA pandemic relief related programs, and proactively alert external stakeholders to areas of potential waste, fraud, and abuse. Through this partnership, the PRAC has issued three reports that relied heavily on our subject matter expertise. These reports include the following: *SBA PPP Phase III Fraud Controls; Risk Advisory – Potential Identity or Other Fraud in SBA Pandemic Relief Programs; and the Fraud Alert: PRAC Identifies $5.4 Billion in Potentially Fraudulent Pandemic Loans Obtained Using Over 69,000 Questionable Social Security Numbers.* The July 2023 *PRAC Impact Project* produced in collaboration with SBA OIG and eight other OIGs reviewed the sources, intended purpose, and effects of federal pandemic funds for six geographic areas.

Additionally, our partnership with the PRAC furthers goals of promoting integrity, efficiency, and effectiveness of SBA programs. This partnership continues to amplify our oversight through engagement with an external stakeholder.

SUSTAINED OVERSIGHT APPROACH

While PPP lending is anticipated to resolve within the next several years, our efforts to detect and investigate the substantial fraud will continue. We will be working diligently to offer recommendations that improve SBA programs and operations, strained by the unprecedented demand during the pandemic crisis. This oversight will require vigilance so that SBA can efficiently and effectively meet the needs of small businesses.

The scale and scope of the pandemic response programs, and the potential fraud under investigation, far outmatches oversight resources. To prioritize our work and root out fraud in these vast portfolios, we have moved data analytics into the heart of our oversight efforts. Our data analytics staff is assisted by contractor support secured through our partnership with the PRAC. Data analysis produces a higher quality of audit and investigative information so that we can improve our audit and investigative work. SBA's loan portfolios are comprised of millions of records, which are too expansive for manual review. Data analytics has already proven to bolster our investigative capacity, bringing fraudsters to justice across the country.

In August 2022, the President signed into law two bipartisan bills that were aimed at holding accountable those who commit pandemic assistance fraud. The two laws extend the time available to prosecute individuals who committed fraud through the PPP or COVID-19 EIDL programs, extending the statute of limitations for criminal and civil enforcement against a borrower from 5 to 10 years. Thanks to congressional foresight, pandemic relief fraud enforcement will continue to be a priority for many years to come.

The President's requested increase in OIG's base operating budget for FY 2024 coincides with the exhaustion of supplemental funds appropriated during the pandemic. OIG's proposed FY 2024 budget maintains our pandemic staffing level at 185 positions. The budget proposal also provides for 3 additional investigative groups (27 positions) to expand our investigative efforts to match the unprecedented resources expended on pandemic economic assistance. Vital to the oversight successes of OIG, the budget also provides for three additional data scientists, which are essential to detecting the fraud, prioritizing investigations, and enhancing their impact.

With sufficient resources, coupled with the 10-year statute of limitations on PPP and EIDL fraud, our office will be poised to combat fraud for years to come. We are grateful for the swift action from the 117th Congress to extend the statute of limitations on PPP and EIDL fraud. We look forward to working with Congress on resource determinations for FY 2024 and beyond.

Support of OIG's budget request sends a strong message of deterrence to fraudsters taking aim at all U.S. government programs. OIG has proven with adequate resources that we instill integrity in SBA programs and promote the public trust. Budget scenarios, such as a return to FY 2022 funding levels, would be detrimental to instilling integrity in SBA programs. Reducing OIG's funding to FY 2022, as enacted, would decrease OIG's investigative and fraud enforcement capabilities about equivalent to our staffing levels following sequestration in 2013, which is less than 100 total positions. At the same time, OIG will exhaust supplemental funds being directed to combat fraud in SBA's pandemic response programs in FY 2024. Such a funding scenario simply does not allow OIG to provide effective oversight.

CONCLUSION

Using OIG's past recommendations ensure smooth rollouts of future spending plans to avoid a pay-and-chase model, which is imperative to ensure that funds stay out of the hands of fraudsters. We learned that the demand for swift pandemic relief funding lowered the guardrails, and removed controls designed to flag potential fraud. This, combined with the added pressure due to the economic uncertainty many Americans faced, led some to believe they had a false license to perpetrate fraud. Congress should provide data sharing capabilities for oversight such as tax records, and social security numbers, which would enable agencies to place controls at the front end of the programs. Future spending package rollouts also need to develop a better process of returning and tracking potentially fraudulent funds and systems to assist identity theft victims.

The pandemic presented a whole-of-government challenge. Fraudsters found vulnerabilities and coordinated schemes to bypass controls and gain access to funds meant for eligible small businesses and entrepreneurs adversely affected by the economic crisis. The nation can depend on OIG to provide independent, objective, and timely oversight of SBA. OIG's engaged workforce will continue to give taxpayers a significant return on investment, rooting out fraud, waste, and abuse in SBA programs. Our resources will focus on systems and processes that present serious management and performance challenges within SBA programs to improve the integrity, accountability, and performance of those programs for the benefit of the American people.

TESTIMONY OF THE HONORABLE BRIAN D. MILLER,

SPECIAL INSPECTOR GENERAL FOR PANDEMIC RECOVERY (SIGPR),

BEFORE THE SENATE COMMITTEE ON HOMELAND SECURITY

AND GOVERNMENTAL AFFAIRS' EMERGING THREATS AND

SPENDING OVERSIGHT SUBCOMMITTEE

November 14, 2023

Good morning, Chairman Hassan, Ranking Member Romney, and members of the Subcommittee. I am Brian Miller, Special Inspector General for Pandemic Recovery (SIGPR). Thank you for the opportunity to appear before you today to address critical issues relating to SIGPR's mission to fight fraud, waste and abuse in the administration of CARES Act loans.

BACKGROUND

The CARES Act and the Creation of SIGPR

In March of 2020, Congress passed the Coronavirus Aid, Relief and Economic Security Act (CARES Act), a $2.2 trillion economic relief bill designed to provide emergency financial assistance to Americans during the COVID-19 pandemic. The CARES Act created a large number of loan and other relief programs aimed at different sectors of the economy that were impacted by the COVID-19 pandemic.

When Congress passed the CARES Act, it recognized that the infusion of trillions of dollars of relief funds into the economy necessitated vigorous and effective oversight to prevent and/or detect fraud, waste and abuse in the administration of CARES Act relief programs. For this reason, the CARES Act created SIGPR and authorized it to conduct audits and investigations, among other things, of investments made and programs managed by the Secretary of the Treasury under that statute. Specifically, SIGPR was charged with the duty to "conduct, supervise, and coordinate audits and investigations of the making, purchase, management, and sale of loans, loan guarantees, and other investments made by the Secretary of the Treasury . . . and the management by the Secretary of any program . . . ." (CARES Act § 4018(c)(1).) The creation of SIGPR reflected the observation, by Senator Schumer and others, that "real oversight and transparency" were "vitally important" to the success of the CARES Act relief programs.

SIGPR is staffed with seasoned federal prosecutors, investigators and auditors. As a result, as I will relate in a few minutes, SIGPR has provided exceptional service to the taxpayers despite a lean budget. SIGPR received an initial appropriation of $25 million under Section 4027 of the CARES Act in March 2020 to start up. In Fiscal Years 2022 and 2023, SIGPR received $8 million and $12 million, respectively, to supplement its no-year start-up funding.

In April 2021, however, the Department of Justice's Office of Legal Counsel issued a written opinion that the specific way in which Congress granted SIGPR authority to conduct audits and investigations meant that SIGPR did not have legal authority to act with respect to most of the programs created by the Act, including the Paycheck Protection Program (PPP), the Coronavirus Relief Fund (CRF), and the Payroll Support Program (PSP). As a result, while SIGPR has conducted thorough and effective audits and investigations, SIGPR has been largely limited to audits involving the direct loans that the Treasury Department was authorized to make to airlines, air cargo carriers and businesses critical to national security, and the Main Street Lending Program. (SIGPR has worked on PPP-related cases that the Pandemic Response Accountability Committee (PRAC) authorized SIGPR to investigate.)

Direct Loans by the Treasury Department

Section 4003 of the CARES Act authorized the Treasury Department to make up to $46 billion in direct loans as follows:

- $25 billion in loans to passenger air carriers, aviation repair stations, and ticket agents;
- $4 billion for cargo air carriers; and
- $17 billion for businesses "critical to maintaining national security."

The Treasury Department ultimately authorized 24 aviation industry loans totaling approximately $21 billion, and 11 national security loans totaling approximately $736 million.

Because of the way they were structured, the best possible assessment of the risk of fraud, waste and abuse in these direct loans will not be possible until the maturity dates of the direct loans that remain outstanding. For all of these direct loans, there were no interest payments in the first year, and ***all*** payments of principal were deferred until the maturity dates, which range from September 2024 through November 2025.

Even now – before the maturity of those loans – as of September 1, 2023, Treasury has reported that 8 direct loans valued at $772 million are in default. It is not farfetched to expect that, as principal payments become due during late 2024 and throughout 2025, there will be additional defaults on these loans. SIGPR's audit staff has issued numerous reports relating to the Treasury Department's extension and administration of these direct loans, and SIGPR has several open investigations into potential criminal or civil liability arising from the obtaining or use of these loans.

Main Street Lending Program (MSLP)

Section 4003(b)(4) of the CARES Act authorized the Treasury Department to make investments in "programs or facilities established by the Board of Governors of the Federal Reserve System . . . for the purpose of providing liquidity to the financial system that supports lending to eligible businesses, States, or municipalities." (CARES Act § 4003(b)(4).) The Main Street Lending Program (MSLP) was one of a number of lending facilities that the Treasury Department and the Federal Reserve created pursuant to this directive under the authority of Section 13(3) of the Federal Reserve Act. Ultimately, the following facilities were created with the following investments:

- Term Asset-Backed Securities Facility (TALF) ($100 billion authorized, and $10 billion Treasury Department equity investment)
- Municipal Liquidity Facility (MLF) ($500 billion authorized, and $35 billion Treasury Department equity investment)
- Corporate Credit Facilities (Primary Market Corporate Credit Facility (PMCCF) and Secondary Market Corporate Credit Facility (SMCCF)) ($750 billion authorized, and $75 billion Treasury Department investment)
- Main Street Lending Program (MSLP) ($600 billion authorized, and $75 billion Treasury Department investment)

The Main Street Lending Program was designed to address the needs of small to medium-sized companies that were potentially too large to qualify for loans under the Paycheck Protection Program but were not large enough to have direct access to the credit markets themselves. The Main Street program included three loan facilities for for-profit businesses:

- The Main Street New Loan Facility (MSNLF)
- The Main Street Priority Loan Facility (MSPLF) (which provided loans to companies with other substantial debts that were subordinated to the new Main Street loan)
- The Main Street Expanded Loan Facility (MSELF) (which provided for additional MSLPs to companies that had already received a loan)

The Main Street program also included two facilities for non-profit businesses: the Nonprofit Organization New Loan Facility (NONLF), and the Nonprofit Organization Expanded Loan Facility (NOELF).

To implement the MSLP, the Federal Reserve Board authorized the Federal Reserve Bank of Boston to establish a special purpose vehicle ("SPV") to purchase 95% participation interests in MSLP loans originated by private institutions (eligible lenders, including U.S. federally insured depository institutions, branches or agencies of foreign banks, bank holding companies, savings and loan holding companies, or intermediate holding companies of foreign banking organizations).

The SPV was established as a Delaware limited liability company named MS Facilities LLC. The Federal Reserve Bank of Boston serves as its Managing Member, with the exclusive right to manage the SPV, and the Treasury Department serves as its only Preferred Equity Member. The Federal Reserve Bank of Boston loaned money to the SPV to finance the SPV's purchase of the 95% participation interests in the eligible Main Street loans. The Treasury Department made a capital contribution of $37.5 billion to serve in a first loss credit protection position to prevent the Federal Reserve Bank of Boston from suffering a loss on its loan to the SPV. Such a loss could occur if the SPV's losses from defaults on purchased loans, as well as operating expenses, professional fees, and servicing costs, exceed the SPV's income in the form of interest and principal payments received from the purchased loans, transaction fees received from eligible lenders, and investment income received from the Treasury Department's initial equity contribution and the SPV's unused cash receipts.[1]

As of December 31, 2022, the Treasury Department held contributed equity totaling $11,452,701,000 in capital in the Main Street Lending Program, and its net operating loss was $12,793,000.[2] The Federal Reserve Bank of Boston does not publicly offer details on the specific inflows and outflows, or their timing, that drive this undistributed net operating contribution loss, other than to report that after the Federal Reserve Bank of Boston is repaid in full, if there are residual proceeds from the SPV's operations, then the net operating income will be distributed between the Managing Member and Preferred Equity Member.[3]

For each MSLP loan that a qualified private financial institution executed with a borrower, the SPV purchased 95 percent participation—that is, it absorbed 95 percent of the potential exposure of nonrepayment of principal. The lending institution received an origination fee and a servicing fee (based on 100 percent of the principal) and retained exposure for only 5 percent of the amount loaned. By design, between the purchase of the participation by the SPV and the fees that the lending institution receives from the SPV, virtually all of the risk of these loans was ultimately assumed by the Treasury Department.

To be eligible for the SPV's purchase of that participation, an MSLP loan was required to include a number of standard features:

- Five-year maturity
- Adjustable interest rate of LIBOR (1 or 3 month) plus 300 basis points
- Interest payments deferred for one year (with unpaid interest capitalized)
- Principal payments deferred for two years
- Principal amortization of 15 percent at the end of the third year, 15 percent at the end of the fourth year, and a balloon payment of 70 percent at maturity at the end of the fifth year
- Pre-payment permitted without penalty

For a loan to be eligible for a commitment by the SPV to purchase its 95 percent participation—the lender and borrower were also required to execute standard certifications and covenants. The certification that the borrower was required to execute included a number of representations, including that the business was not ineligible under applicable regulations issued by the Small Business Administration. Lenders' certifications were more limited, requiring (with respect to

[1] *See* KPMG, Financial Statements: Main Street LLC (March 14, 2023), available at https://www.federalreserve.gov/aboutthefed/files/msllcfinstmt2022.pdf) .

[2] *Id.*

[3] *Id.*

the borrower's certification that it was a business that existed prior to March 13, 2020) only that the financial institution make "Due Inquiry with Respect to Formation"—defined as receipt of supporting documentation from the borrower certified by the appropriate governmental authority and having taken "those steps to verify such formation as are required under the Lender's ordinary underwriting policies and procedures."

SIGPR'S ACCOMPLISHMENTS THUS FAR

SIGPR is investigating cases nationwide with potential fraud totaling more than $565 million. SIGPR has opened 65 investigations, of which 47 remain pending, with 130 potential defendants. SIGPR's investigations have thus far resulted in 21 federal informations or indictments, 21 arrests, four guilty pleas, and three sentencings that have generated more than $11.9 million in court ordered restitution, $9.3 million in seizure/forfeiture orders, and a $350,000 civil settlement. This includes two defendants who were recently sentenced to 6 years in prison and ordered to pay over $7.6 million in court ordered restitution. Twenty-two recommendations for suspension and debarment have been referred to the Treasury Department. In addition, $20,816,000 in MSLP loans have been repaid after borrowers received notice that SIGPR was investigating their loan transactions.

What is particularly notable about what SIGPR has accomplished through investigations is that very few of SIGPR's investigations originated from tips or referrals from other agencies. Rather, 89 percent of SIGPR's investigations were the result of SIGPR's proactive work, including a number of projects that have led SIGPR investigators to review 1216 of the 1830 MSLP loans. Through these careful and thorough reviews, SIGPR has identified numerous potential frauds that would otherwise have likely escaped the notice of other federal agencies involved in the execution and oversight of CARES Act loan programs.

SIGPR's auditors have also provided significant service to the Treasury Department. As part of its oversight, SIGPR audited the Treasury Department's process in approving a $700 million direct loan to a business identified as being critical to national security. In another project, SIGPR audited how the Treasury Department monitors borrowers' compliance with their direct loan requirements. SIGPR is currently still auditing direct loans to an airline and a national security business to evaluate those borrowers' compliance with the terms of those loans. SIGPR also reviewed 16 direct loan borrowers' Validation Memoranda—documents that the Treasury Department created to confirm that loan applicants submitted all required documentation and met other criteria. A roll-up report of all 16 attestation reviews showed that one Validation Memorandum contained material deficiencies and this loan application should not have been moved forward to the underwriting process, and that 10 other Validation Memoranda contained minor discrepancies. Such roll-up reports are critical tools to permit us to improve how similar programs are implemented in the future. As required by law, SIGPR has published the reports reflecting this audit work on its website, thus helping the American public to understand some of the oversight work that is being performed to protect the taxpayers' investment in CARES Act programs.

SIGPR's auditors have also issued four interim reports detailing their review of MSLP loan loss information as it relates to the Treasury Department's $16.6 billion investment in the program. As part of this review, SIGPR auditors reviewed data from 47 of the MSLP's top lending banks, covering 60 percent of the number of MSLP loans and 58 percent of the funds disbursed as proceeds of MSLP loans. That information revealed $879 million of loans in default, $121 million in delinquent interest payments, and $229 million in impaired loans. These figures are greater than the actual loan loss figures reported by the Federal Reserve Board, suggesting that actual recognized losses may significantly increase.

In addition, SIGPR auditors reviewed KPMG's audit of the latest financial statement of the SPV for data on actual loan losses, allowance for loan losses, and loans in non-accrual status. Auditors compared this data to data from eleven lending institutions with a similar volume of loan participations to the SPV and found that the SPV's figures in all three data points were far greater than all eleven peer lenders.

Given the modest amount of staff and other resources provided to SIGPR, I could not be prouder of the work that my staff has performed thus far in our critical role of fighting waste, fraud and abuse in these programs.

THE IMPENDING DEFAULT CRISIS

While SIGPR has conducted numerous audits and investigations thus far, we believe that there is far more work still to be done if we are to meet our oversight obligations effectively.

As I noted earlier, borrowers who received direct loans or MSLP loans were not required to make any payments whatsoever—that is, no principal and no interest—during the first year of the loan. For both of these programs, during the second year of the loans—when borrowers were required to pay interest but still owed no repayment of principal—SIGPR observed an alarming rate of defaults by borrowers who failed to make those interest payments.

As a result, SIGPR is particularly and increasingly concerned that the default rate will grow exponentially in years 3 through 5 of the Main Street Lending Program as repayment of principal comes due. Principal payments for the third year of the loan (totaling 15 percent) were due starting in July 2023 through January 2024 (depending on the loan origination date). On October 10, 2023, the Federal Reserve reported that MSLP loan losses as of September 30, 2023, totaled $257 million. That loan loss figure has steadily increased over the past 26 months since the Federal Reserve first reported a loan loss figure of $4 million as of June 2021. As of June 30, 2023, the Federal Reserve also reported that its MSLP loan loss allowance was updated to the amount of $1 billion.

We believe that this trend of increasing defaults will not only continue but is likely to accelerate as MSLP loans reach their five-year maturity date. These loans require repayment of 15 percent of principal in years 3 and 4, and we are already seeing a spike in defaults by borrowers unable to make these significantly larger payments that they now owe. In year 5 (between July 2025 and January 2026), these borrowers will be obligated to make repayment of 70 percent of the loan principal. Those balloon payments will undoubtedly lead to significant numbers of borrower defaults at that time. To the extent that direct loans remain unpaid, the maturity of those loans between September 2024 and November 2025 may lead to similar increases in defaults among direct loan borrowers.

There is no question that, in many cases, a borrower's default on a direct loan or an MSLP loan will not mean necessarily that the borrower committed fraud in obtaining the loan or that the borrower misused the proceeds of the loan. However, there is also no question that a default is a red flag that merits further investigation. SIGPR has already undertaken an effort to obtain information about the MSLP loans that are either in default or considered impaired, and to engage in investigation about those loans. That review of information from 47 banks holding 1,094 MSLP loans valued at $10.2 billion revealed 339 reportable issues involving $2.3 billion in loaned funds. SIGPR has opened criminal investigations involving 11 of these loans – and the defaults and impairments in the loans were the signal that led SIGPR to these potential frauds. I am emphasizing defaults and the impending default crisis because we believe strongly that the increasing number of loans that go into default or are otherwise impaired will reveal additional fraud involving those loans that would not have been discovered but for these defaults and impairments.

SIGPR SCHEDULED TO SUNSET AT PEAK OF THE DEFAULT CRISIS

Thus, in mid-2025, we are going to enter a period in which an even larger number of frauds may be revealed when the perpetrators of those frauds fail to make the 70 percent balloon payment on their loans. But, by the terms of its authorizing statute, SIGPR is scheduled to sunset as of March 27, 2025. So, just at the time when SIGPR is needed most, we will not be there to undertake the thorough and effective investigations that are warranted by some of the large number of defaults that are likely to occur.

Moreover, because of the way that federal agency planning works, in anticipation of that sunset date, SIGPR staff are already engaged in planning for the execution of SIGPR's shutdown in coordination with OPM, OMB and GSA. Through reshaping efforts along with natural attrition, SIGPR has already reduced its staff from 55 FTEs to 41 FTEs, and we anticipate more staff departures through the end of the calendar year. We have been informed that this process of reducing staff and resources will continue throughout the period that remains between now and our March 2025 sunset date. Thus, because the future of the agency is uncertain, we are already experiencing staff hemorrhages that cripple our ability to provide oversight.

For this reason, I ask that Congress move swiftly to authorize extending SIGPR's operations until August 31, 2030. This extension will permit SIGPR to continue its operations at a minimal cost so that it can defend the interests of the taxpayer during the period in which the threats to those interests may be most revealed. SIGPR is the only agency that focuses specifically on potential fraud that has been committed in the Treasury's direct loans and the Main Street Lending Program, and it should be permitted to continue to do so.

There are those who may say that SIGPR's work could be absorbed by the operations of other government agencies, but I challenge those assertions. For example, at its inception, the focus of SIGPR's work included the $150 billion CARES Act Coronavirus Relief Fund (CRF), a program for assistance to States and local governments, the District of Columbia, U.S. territories, and tribal governments. After DOJ's Office of Legal Counsel determined that SIGPR's authority did not include CRF, SIGPR no longer provided oversight for that program. And since that time, to my knowledge based upon information that is publicly available, no other government entity has conducted audits, investigations or other oversight to the funds provided under the CRF program.

Similarly, if SIGPR ceases to exist, it is highly unlikely that any other government entity will undertake thorough and effective oversight of the Treasury Department's direct loans and MSLP loans. No other agency currently focuses on these programs. And I should note, when my investigators and attorneys have met with federal prosecutors to discuss potential MSLP fraud cases, they have generally found that these prosecutors—who are familiar with other CARES Act programs such as PPP—are not knowledgeable about the Main Street Lending Program. To allow SIGPR to be eliminated will mean the loss of substantial institutional knowledge about the MSLP program and about the efforts that have already been undertaken to reveal fraud in that program.

For that reason, I urge this Subcommittee, and the Congress in general, to move as quickly as possible to extend SIGPR operations to September 30, 2030, so that SIGPR can continue to perform its mission of fighting waste, fraud and abuse, and to continue to serve the interests of the taxpayer in providing effective oversight of CARES Act loan programs.

United States Government Accountability Office

Testimony

Before the Subcommittee on Emerging Threats and Spending Oversight, Committee on Homeland Security and Governmental Affairs, U.S. Senate

For Release on Delivery
Expected at 2:45 p.m. ET
Tuesday, November 14, 2023

COVID-19

Insights and Actions for Fraud Prevention

Statement of Rebecca Shea,
Director, Forensic Audits and Investigative Service

GAO-24-107157

GAO Highlights

Highlights of GAO-24-107157, a testimony before the Subcommittee on Emerging Threats and Spending Oversight, Committee on Homeland Security and Governmental Affairs, U.S. Senate

November 14, 2023

COVID-19

Insights and Actions for Fraud Prevention

Why GAO Did This Study

Since March 2020, Congress and the administration have provided trillions of dollars in COVID-19 relief funding to help the nation respond to, and recover from, the pandemic. Agencies across the federal government acted quickly to stand up new programs and greatly scale up existing programs.

While COVID-19 relief programs were critical for assuring public health and economic stability, they also created unprecedented opportunities for fraud due to the dollars involved and other risk factors. While the full extent of fraud associated with the COVID-19 relief funds will never be known with certainty, estimates are in the hundreds of billions. In light of what was likely lost to fraud during the pandemic, the importance of fraud prevention cannot be stressed enough.

This testimony discusses (1) insights for prevention from COVID-19 fraud; and (2) recommendations, matters, and resources for improving fraud prevention in normal operations and future emergencies.

GAO reviewed its prior COVID-19 findings and recommendations on internal controls and fraud risk management practices.

What GAO Recommends

As of August 2023, agencies needed to take additional action to fully address 95 GAO recommendations to help ensure they are effectively managing fraud risks. Additionally, in March 2022, GAO identified 10 actions Congress could take to strengthen internal controls and financial and fraud risk management practices across the government. All 10 remain open.

View GAO-24-107157. For more information, contact Rebecca Shea at (202) 512-6722 or shear@gao.gov.

What GAO Found

Challenges that agencies faced in implementing COVID-19 relief programs provide insights into fraud prevention for normal operations and future emergencies. Specifically, understanding fraud schemes that emerged during the pandemic can provide opportunities for program managers to identify internal controls that had been circumvented and respond to mitigate the related risks. Data and system challenges, such as limited data sharing, highlight the value of data analytics for fraud prevention. Additionally, thoughtful program design choices that consider fraud vulnerabilities can facilitate fraud prevention.

Insights from COVID-19 Relief to Inform Fraud Prevention

Misrepresentation	**Insight #1** Self-certification alone is not sufficient as a fraud control to mitigate misrepresentation.
Fraud conspiracy	**Insight #2** Assess fraud risks to include emerging and complex schemes—such as those involving conspiracies—from cases affecting other similar programs.
Not leveraging available data	**Insight #3** Leverage the Department of the Treasury's free payment integrity services, as well as available program or agency data.
Legacy systems limit data use	**Insight #4** Address interoperability issues to support future use of data analytics for fraud prevention and detection.
Identity theft	**Insight #5** Assume identity information has been compromised, and develop and apply upfront controls to verify applicant identity.
Limiting data access and use	**Insight #6** Ensure payment integrity checks and fraud controls are part of program design, with an emphasis on assuring data access and use for fraud prevention.

Sources: GAO (information); Icons-Studio/stock.adobe.com (icons). | GAO-24-107157

With strategic fraud risk management, agencies are better positioned to manage fraud during normal operations and emergencies. Sources that provide additional insight for fraud prevention include recommendations GAO has made to agencies, actions GAO identified that Congress can take to strengthen fraud risk management practices across the government, and resources GAO developed to support strategic fraud risk management. Implementing these recommendations and taking these actions, along with leveraging available resources, can enable agencies to carry out their missions and better protect taxpayer dollars from fraud during normal operations and prepare them to face the next emergency.

An Insight Based on GAO Resources and Recommendations to Agencies and Congress

Actions and resources	**Insight #7** Take actions to better prevent fraud by implementing GAO recommendations and using resources.

Source: GAO (information); Icons-Studio/stock.adobe.com (icon). | GAO-24-107157

Chair Hassan, Ranking Member Romney, and Members of the Subcommittee:

I appreciate the opportunity to discuss insights into fraud prevention based on challenges that agencies faced in implementing COVID-19 relief programs, as well as what can be done to help prevent fraud in the future.

Since March 2020, Congress and the administration have provided trillions in COVID-19 relief funding to help the nation respond to and recover from the pandemic. Agencies across the federal government acted quickly to stand up new programs and greatly scale up existing programs. Federal COVID-19 relief funds were distributed broadly to tribal, state, local, and territorial governments; businesses; and individuals to combat the effects of the pandemic on the public health system, as well as the economy.

Most of these funds went to the intended recipients in the intended amounts, providing needed assistance. For example, COVID-19 relief funds provided needed assistance to unemployed workers and small businesses. Timely payments from the Department of Labor's (DOL) unemployment insurance (UI) programs allowed unemployed workers to address financial hardships, such as inability to pay for rent, utilities, and groceries. The Small Business Administration's (SBA) Paycheck Protection Program (PPP) and COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL) program helped small businesses cover eligible operating costs, such as payroll and rent, during the pandemic. COVID-19 relief funding also helped support COVID-19 testing; surveillance; and contact tracing, among other uses.

While COVID-19 relief programs were critical for assuring public health and economic stability, they also created unprecedented opportunities for fraud due to the amount of dollars involved and other risk factors. Because not all fraud will be identified, investigated, and adjudicated through judicial or other systems, the full extent of fraud associated with the COVID-19 relief funds will never be known with certainty.

Despite this, some estimates of fraud in COVID-19 relief programs exist. For instance, in September 2023, we estimated that the fraud in DOL's UI programs during the pandemic—from April 2020 through May 2023—was likely between $100 billion and $135 billion.[1] The SBA Office of Inspector General (OIG) estimated that as of June 2023, SBA had disbursed over $200 billion (approximately 17 percent of SBA's total COVID-19 spending) in potentially fraudulent pandemic relief loans.[2]

In light of what was likely lost to fraud during the pandemic, the importance of fraud prevention cannot be stressed enough. To provide insight into actions to promote fraud prevention, in a report being released today, we have highlighted a wide variety of COVID-19 relief program fraud schemes.[3] These schemes illustrate various risk factors, impacts, and mechanisms used to commit fraud. Insights from these schemes, along with our other reviews of pandemic program delivery, have led GAO to make numerous recommendations and matters for congressional consideration; and to develop resources for improving fraud prevention and payment integrity.

My comments today summarize key findings from our report on COVID-19 fraud schemes and other reports examining fraud in COVID-19 relief programs as well as our recent report on the status of agencies' fraud risk management.[4] Specifically, I will discuss the following:

1. insights from COVID-19 fraud that can be used to inform prevention efforts; and
2. prior GAO recommendations to agencies, matters for congressional consideration, and resources for improving fraud prevention in normal operations and future emergencies.

In preparing this testimony, we reviewed findings from our prior work on internal controls and fraud risk management practices in COVID-19 relief programs. Given the government-wide scope of this work, we undertook a

[1]GAO, *Unemployment Insurance: Estimated Amount of Fraud during Pandemic Likely Between $100 Billion and $135 Billion,* GAO-23-106696 (Washington, D.C.: Sept. 12, 2023).

[2]This includes PPP loans, COVID-19 EIDL program loans, EIDL Targeted Advances, and EIDL Supplemental Targeted Advances. Small Business Administration Office of Inspector General, *COVID-19 Pandemic EIDL and PPP Loan Fraud Landscape*, White Paper Report 23-09 (June 27, 2023).

[3]GAO, *COVID-19: Insights from Fraud Schemes and Federal Response Efforts*, GAO-24-106353 (Washington, D.C.: Nov. 14, 2023).

[4]GAO, *Fraud Risk Management: Agencies Should Continue Efforts to Implement Leading Practices*, GAO-24-106565 (Washington, D.C.: Nov. 1, 2023).

variety of methodologies. These methodologies include examining federal laws and agency documents, guidance, processes, and procedures. We also reviewed public statements from the Department of Justice (DOJ) from March 2020 through June 2023 and corresponding court documentation, to identify and describe federal fraud-related cases.[5] More detailed information about the objectives and methodologies on which this statement is based can be found in the individual reports cited throughout this statement.

We conducted the work on which this statement is based in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Insights from COVID-19 Relief to Inform Fraud Prevention

Challenges that agencies faced in implementing COVID-19 relief programs provide insights into fraud prevention for normal operations and future emergencies. However, before discussing the specific challenges faced and the insights to be gained from the COVID-19 relief programs, it is important to recognize the nature of fraud and the heightened risks these programs were facing. With that context, understanding fraud schemes that emerged during the pandemic can provide opportunities for program managers to identify internal controls that are needed or were circumvented, and respond to mitigate the related risks. Also, data and system challenges, such as limited data sharing, highlight the value of data analytics for fraud prevention. Additionally, thoughtful program design choices that consider fraud vulnerabilities upfront can facilitate fraud prevention.

[5]These statements from DOJ sometimes announce cases in the later stages of prosecution. For example, an individual's guilty plea may be announced without an earlier public statement announcing the charges being brought. If those charges were brought from March 2020 through June 2023 but the guilty plea was announced in August 2023, that case would not be included in the scope of our review, since the public statement was made after June 2023. See GAO-24-106353.

Five Principles and Risk Factors for Fraud

Five Principles of Fraud and Corruption

- **There is always going to be fraud.** It is a fact that some individuals will look to gain where there is opportunity. Organizations need robust processes in place to prevent, detect, and respond to fraud and corruption.
- **Finding fraud is a good thing.** If you do not find fraud, you cannot fight it. This requires a change in perspective so the identification of fraud is viewed as a positive and proactive achievement.
- **There is no one solution.** Addressing fraud needs a holistic response incorporating detection, prevention, and response, underpinned by a strong understanding of risk. It also requires cooperation and collaboration between organizations.
- **Fraud and corruption are ever changing.** Fraud and counter fraud practices evolve very quickly, and organizations must be agile and change their approach to deal with these evolutions.
- **Prevention is the most effective way to address fraud and corruption.** Preventing fraud reduces financial loss and reputational damage. It also requires fewer resources than an approach focused on detection and recovery.

Source: International Public Sector Fraud Forum, *Guide to Managing Fraud for Public Bodies.* | GAO-24-107157

Fraud is inevitable where there are opportunities for gain—whether in normal operations or emergencies. (See sidebar for five key principles of fraud and corruption.) Across COVID-19 relief programs, factors associated with heightened risk of fraud, waste, abuse, and other payment integrity issues included[6]

- programs that were new to the agency;
- expansions or major changes in program funding, authorities, practices, or procedures;
- a large volume of payments being made;
- payment or eligibility decisions made outside of the agency, such as those by state governments;
- limitations in the experience or training of those making eligibility determinations or payment certifications; and
- challenges related to eligibility and identity, such as lack of information or data systems to confirm eligibility and reliance on self-certification.

New or expanded programs. Congress created new programs or greatly expanded existing programs in response to the COVID-19 pandemic to quickly deliver needed funds.

These included (1) a temporary UI program—Pandemic Unemployment Assistance—which expanded eligibility for unemployment benefits; (2) PPP, the COVID-19 EIDL program, the Restaurant Revitalization Fund, and the Shuttered Venue Operators Grant to assist small businesses; and (3) economic impact payments (EIP) for taxpayer assistance, among others.

Large volume. COVID-19 relief programs experienced a large volume of activity. For example, as the nation experienced historic levels of job loss, the UI programs faced a large volume of claims. PPP and COVID-19 EIDL loans far exceeded SBA's prepandemic lending volume.

[6]Payment integrity includes efforts to minimize all types of improper payments—payments that should not have been made or were made in the incorrect amount—whether from mismanagement, errors, abuse, or fraud. While all payments resulting from fraudulent activity are considered improper, not all improper payments are the result of fraud. Fraud involves obtaining something of value through willful misrepresentation. Willful misrepresentation can be characterized by making material false statements of fact based on actual knowledge, deliberate ignorance, or reckless disregard of falsity.

Payment decisions made outside of federal agencies. External entities or agencies made eligibility and payment decisions in many COVID-19 relief programs. For example, state agencies administered UI and federal child nutrition programs; lenders were responsible for PPP loan determinations; and internet service providers offered discounts for broadband access to low-income households, among others.[7]

Inexperienced staff. Having new and inexperienced staff was a risk factor for COVID-19 relief programs. For example, in June 2022, we reported that DOL officials cited new and inexperienced staff as one of the factors that provided opportunities for exploitation on UI programs and system vulnerabilities.[8]

Eligibility or identity challenges. Several COVID-19 relief programs did not use data systems to confirm eligibility, while some were prohibited from doing so. Many programs relied on self-certification to make identity and eligibility determinations. For example, SBA officials told us the CARES Act's restriction on obtaining applicants' tax returns for the COVID-19 EIDL program presented a challenge for validating applications. Therefore SBA relied on self-certification.[9]

Considering the inevitability of fraud, identifying it is important, but prevention is ideal, particularly where programs face multiple risk factors, and losses may be significant. Prevention is the hallmark of GAO's *A Framework for Managing Fraud Risks in Federal Programs* (Fraud Risk Framework), which agencies should have been adhering to since 2016.[10] However, federal agencies did not strategically manage fraud risks in alignment with the Fraud Risk Framework and were not adequately prepared to prevent fraud when the pandemic began.

[7]GAO, *Affordable Broadband: FCC Could Improve Performance Goals and Measures, Consumer Outreach, and Fraud Risk Management*, GAO-23-105399 (Washington, D.C.: Jan. 18, 2023).

[8]GAO, *Unemployment Insurance: Transformation Needed to Address Program Design, Infrastructure, and Integrity Risks*, GAO-22-105162 (Washington, D.C.: June 7, 2022).

[9]GAO, *COVID Relief: Fraud Schemes and Indicators in SBA Pandemic Programs*, GAO-23-105331 (Washington, D.C.: May 18, 2023). The Consolidated Appropriations Act, 2021, enacted on December 27, 2020, removed this restriction.

[10]GAO, *A Framework for Managing Fraud Risks in Federal Programs*, GAO-15-593SP (Washington, D.C.: July 28, 2015).

Insights from Fraud Schemes

Managing fraud risk is the responsibility of program managers. This responsibility includes assessing the potential for fraud and implementing strategies to appropriately mitigate related risks. Using information from emerging fraud schemes can support ongoing fraud risk management efforts.

Program managers can use the details of existing fraud schemes identified in their programs—including information on the impact of these schemes—to help identify program vulnerabilities. Moreover, program managers can leverage details on fraud schemes and their corresponding impacts to evaluate and adapt fraud risk management activities in alignment with leading practices outlined in GAO's Fraud Risk Framework.

Three components in the Fraud Risk Framework include the following leading practices related to using past schemes and related information to help combat fraud:

- The *assess* component directs program managers to consider the financial and nonfinancial impacts of fraud risks and identify specific tools, methods, and sources for gathering information about fraud risks, including data on fraud schemes and trends from monitoring and detection activities.
- The *design and implement* component directs agencies to analyze information on previously detected fraud and consider known or previously encountered fraud schemes to design data analytics.
- The *evaluate and adapt* component directs agencies to collect and analyze data, including data from reporting mechanisms and instances of detected fraud.

At least 1,399 individuals or entities were found guilty or liable in fraud-related cases involving federal COVID-19 relief programs, based on our analysis of DOJ's public statements and court documentation from March 2020 through June 2023.[11] In addition to those individuals and entities found guilty or liable, there were also federal fraud-related charges

[11]The federal government may enforce laws through civil or criminal action. Such action may be resolved through a trial, a permanent injunction, a civil settlement, or a guilty plea. Our analysis is limited to the cases we identified from public sources and may not include all criminal and civil cases charged by DOJ as of June 30, 2023. Additionally, details of fraud cases and schemes presented in court documents may not be complete. Further, cases that reach the prosecution stage in the fraud identification life cycle represent a fraction of the instances of fraud or all possible fraud cases. See GAO-24-106353.

pending against at least 599 other individuals or entities involving federal COVID-19 relief programs, as of June 30, 2023.[12] The number of individuals or entities facing fraud-related charges related to COVID-19 relief programs has grown since March 2020 and will likely continue to increase, as these cases take time to develop.

Fraud schemes are achieved through various mechanisms. A mechanism is a process, technique, or system used by fraudsters to execute fraudulent activities. Mechanisms include misrepresentation, cybercrime, and document falsification. A mechanism can be an individual action or a group of actions working in concert. Fraud schemes result in financial loss and impacts on taxpayers; agency reputation and integrity; federal program goals; and other areas, such as public health and safety. During the pandemic, fraud schemes involved fairly simple mechanisms, as well as complex schemes and mechanisms involving organized groups and international crime rings.

Misrepresentation. Fraud schemes involve a false statement of a material fact made by one party that affects another party's decisions, such as by misrepresenting identity and eligibility.

Insight #1: Self-certification alone is not sufficient as a fraud control to mitigate misrepresentation.

Source: GAO (analysis); Icons-Studio/stock.adobe.com (icon). | GAO-24-107157

Simple fraud schemes circumvented key controls. Many COVID-19 relief program fraud schemes relied on fairly simple misrepresentation mechanisms. These included document manipulation, false declarations, and fictitious entities. These types of schemes and mechanisms leave agencies open to significant fraud risk when they rely on self-certification of eligibility or identity as an internal control for fraud prevention.

We found that federal and state agencies, in an effort to disburse funds quickly to those in need, relied on self-attestation or self-certification for individuals to verify their eligibility or identity to receive assistance from some COVID-19 relief programs. Even if program design decisions allowed for self-certification (as discussed in greater detail below), agencies are responsible for designing and implementing control activities to prevent fraud. Self-certification alone is not sufficient as a fraud control (see sidebar).

Our prior work examining PPP and COVID-19 EIDL fraud schemes identified (1) ineligible, nonoperating businesses that applied for and obtained program funds; (2) legitimate businesses owners misrepresenting eligibility regarding their criminal record, federal debt, or principal place of residence, among others; and (3) falsification of tax or other documents to obtain more funds.[13] In these instances, recipients

[12] A charge is merely an allegation, and all defendants are presumed innocent until proven guilty beyond a reasonable doubt in a court of law.

[13] GAO-23-105331.

falsely self-certified eligibility. Other fraud controls to mitigate these misrepresentations were either not in place or were not effective.

Confirming eligibility of individuals receiving benefits, such as by confirming wage information or by verifying identity through data and other checks, are key controls to prevent fraud schemes that rely on mechanisms such as misrepresentation.

Fraud conspiracy. Involves an agreement by two or more individuals to commit a crime, such as via collusion between a small group of individuals or larger scale fraud rings.

Insight #2: Assess fraud risks to include emerging and complex schemes—such as those involving conspiracies—from cases affecting other similar programs.

Source: GAO (analysis); Icons-Studio/stock.adobe.com (icon). | GAO-24-107157

Complex fraud schemes also emerged during the pandemic. Other COVID-19 relief program fraud schemes relied on more complex mechanisms, such as conspiracies involving organized groups or international criminal gangs. Such cases, including those involving international fraud schemes, continue to emerge, in part because of the time needed to obtain information from foreign jurisdictions. If agencies are not prepared to combat simple fraud schemes, they will not be prepared for emerging complex fraud schemes. As part of assessing their own fraud risks, agencies can gain insights from examining emerging and complex schemes that affected other similar programs such as those with similar mission activities (see sidebar).

Conspiracy. We have previously reported on schemes involving conspiracies to defraud COVID-19 relief programs. For example, four individuals associated with a nonprofit organization pleaded guilty to their roles in a complex scheme to defraud a federal child nutrition program. Nearly 50 individuals are alleged to have engaged in this scheme. The ringleaders of the scheme operated a nonprofit organization. Other individuals—recruited by the nonprofit to participate in the scheme—set up sham program delivery sites to fraudulently claim reimbursements for meal delivery. The nonprofit received more than $18 million in administrative fees to which it was not entitled and, after claiming to open more than 250 sites, it fraudulently obtained and disbursed more than $240 million in program funds that the fraudsters used for their own financial benefit instead of using the funds as intended to feed underserved children during the pandemic.[14]

International schemes. U.S. law enforcement officials have been analyzing and investigating instances of fraud involving foreign actors. For example, SBA OIG analyzed internet protocol (IP) addresses that were used to apply for COVID-19 EIDL funds. SBA disbursed 41,638 COVID-19 EIDL loans and grants to applicants with foreign IP addresses,

[14] GAO-24-106353.

totaling $1.3 billion. Applications were processed by applicants with IP addresses from Nigeria, Pakistan, Canada, Mexico, United Kingdom, Philippines, Dominican Republic, India, and Germany.[15]

Early in the pandemic, DOL's OIG worked with DOJ to create the National UI Fraud Task Force, a nine-agency federal task force that worked closely with the International Organized Crime Intelligence and Operations Center (IOC-2). Through data analytics and a leads generation process, the National UI Fraud Task Force and IOC-2 partner agencies have identified significant fraud being committed against the UI program by domestic and international criminal organizations. Many of these include street-level criminal organizations with ties to illegal guns and drugs.

Insights from Data and IT System Challenges

Integrated, functional, and secure data and systems are essential for effective fraud risk management. Agencies' responses to the pandemic revealed challenges in leveraging available data, legacy IT systems that were unable to facilitate fraud detection and recovery, and data breaches that facilitated identity fraud.

Not leveraging available data. Challenges included not using existing data that could help validate payment eligibility.

Insight #3: Leverage the Department of the Treasury's free payment integrity services as well as available program or agency data.

Source: GAO (analysis); Icons-Studio/stock.adobe.com (icon). | GAO-24-107157

Available data. According to the Fraud Risk Framework, a leading practice in fraud data analytics is to conduct data mining and matching. This includes cross-checking of data and using external data sources to validate information, to identify suspicious activities. There are various sources of data available for agencies to use. For example, agencies have access to free payment integrity services provided by the Department of the Treasury.[16] Agencies can also leverage their own program or agency data. However, these data sources are not always fully leveraged (see sidebar).

Internal and external data sharing posed challenges in the administration of COVID-19 relief programs. For example, in May 2023, we determined that, across its programs, SBA did not fully leverage information to help prevent fraud and identify applicants who tried to defraud more than one program. We also found that while SBA obtained access to some

[15] Small Business Administration Office of Inspector General, *COVID-19 Economic Injury Disaster Loan Applications Submitted from Foreign IP Addresses*, Report 22-17 (Sept. 12, 2022).

[16] Treasury's Do Not Pay service is an analytics tool that helps federal agencies detect and prevent improper payments made to vendors, grantees, loan recipients, and beneficiaries. Agencies can use the service to check multiple data sources to make payment eligibility decisions.

government databases, such as the Department of the Treasury's Do Not Pay service, that was after most of the PPP and COVID-19 EIDL funds were disbursed. Also, it did not have access to some other external data sources that could benefit its efforts to detect and prevent fraud. We recommended that SBA ensure that it has mechanisms in place and use them to facilitate cross-program data analytics. We also recommended that SBA identify external sources of data that can facilitate the verification of applicant information and the detection of potential fraud across its programs.[17]

Legacy systems limit data use. Challenges included outdated IT systems that constrained capabilities for fraud prevention and detection.

Insight #4: Address interoperability issues to support future use of data analytics for fraud prevention and detection.

Source: GAO (analysis); Icons-Studio/stock.adobe.com (icon). | GAO-24-107157

Legacy systems. During the pandemic, due to outdated IT systems, agencies experienced challenges in detecting and recovering improper payments, including from fraud. Addressing interoperability issues can support future use of data analytics for fraud prevention and detection (see sidebar).

A May 2021 DOL OIG report identified legacy IT systems as one of the causes of states' inability to detect and recover improper UI payments, including fraudulent payments.[18] Additionally, in our June 2022 report, state officials reported that their IT systems did not have the capability to perform cross-matches—a method used to detect improper payments—for such a large volume of claims.[19]

Further, in June 2022, we reported that legacy systems may operate with known security vulnerabilities that are either technically difficult or prohibitively expensive to address.[20] In the UI programs, this may pose a privacy risk for claimants as their PII could become more easily accessible to criminals who target UI. The increased amount of benefits awarded and legacy IT systems' inability to adequately guard citizens' sensitive information gave criminals incentive and opportunities to commit fraud.

[17] GAO-23-105331. As of November 7, 2023, SBA has not yet provided us with information on the status of its efforts to implement these recommendations.

[18] Department of Labor, Office of Inspector General, *COVID-19: States Struggled to Implement CARES Act Unemployment Insurance Programs*, Report No. 19-21-004-03-315 (Washington, D.C.: May 28, 2021).

[19] GAO-22-105162.

[20] GAO-22-105162.

Legacy IT systems made it difficult for many states to prevent cybersecurity attacks or the use of fraudulently obtained identity information, according to DOL OIG officials. These officials stated that some state IT systems were not equipped to handle the volume of claims, and some may not have been easily compatible with the National Association of State Workforce Agencies UI Integrity Center's Integrity Data Hub resources.[21] However, since the onset of the pandemic, many states have begun using Integrity Data Hub resources, according to DOL officials. For example, as of October 2022, we reported that there were 41 states using the Integrity Data Hub's identity verification service, according to DOL officials.[22] According to the DOL OIG, as of February 2023, 53 states had a participation agreement to use the Integrity Data Hub.[23] However, the DOL OIG also noted that the existence of a participation agreement does not provide information on whether participants are using these resources or the frequency in which they use.

Identity theft. Fraud schemes involve stealing personally identifiable information to fraudulently apply for benefits.

Insight #5: Assume identity information has been compromised, and develop and apply upfront controls to verify applicant identity.

Source: GAO (analysis); Icons-Studio/stock.adobe.com (icon). | GAO-24-107157

Data breaches. Stolen personally identifiable information (PII) played a role in large-scale identity fraud during the pandemic. Given the scale of this fraud and known data breaches involving PII to date, agencies can assume that identity information has been compromised. Accordingly, agencies can develop and apply upfront controls for their programs to verify applicant identity (see sidebar).

Data breaches provided a source of PII for fraudsters. In a May 2021 fraud alert, the U.S. Secret Service warned that an international crime ring was filing UI claims in different states using PII belonging to identity theft victims, including first responders, government personnel, and school employees. The fraud alert further noted a well-organized Nigerian fraud ring seeking to commit large-scale fraud against state UI programs. Washington, North Carolina, Massachusetts, Rhode Island, Oklahoma,

[21]The Integrity Data Hub is a centralized, multistate data system that the UI Integrity Center operates in partnership with DOL, using DOL funding. The Integrity Data Hub provides state workforce agencies with cross-matching capabilities to analyze UI claims data to detect and prevent UI fraud and improper payments.

[22]GAO, *Unemployment Insurance: Data Indicate Substantial Levels of Fraud during the Pandemic; DOL Should Implement an Antifraud Strategy,* GAO-23-105523 (Washington, D.C.: Dec. 22, 2022).

[23]Department of Labor, Office of Inspector General, *COVID-19: ETA Can Improve its Oversight to Ensure Integrity over CARES Act UI Programs*, Report No. 19-23-011-03-315 (Washington, D.C.: Sept. 22, 2023).

Wyoming, and Florida were subject to efforts by this ring to defraud their UI programs.

A stakeholder panel we convened in 2022 also shared concerns about identity fraud schemes orchestrated during the pandemic.[24] One panelist, who investigated UI fraud at the state level, explained that many fraudsters who had stolen identity information prior to the pandemic saw the CARES Act UI programs as an opportunity to use that information to obtain benefits.

Insights from Program Design Limitations

Thoughtful program design choices that consider fraud vulnerabilities upfront can facilitate fraud prevention. During the pandemic—because the government needed to provide assistance quickly to those affected by COVID-19 and its economic effects—initial legislative and policy program design posed limitations for effective management of fraud risks. Ensuring that payment integrity checks and fraud controls are part of program design, including emphasizing data access and use for fraud prevention, can facilitate fraud prevention (see sidebar).

Limiting data access and use. Challenges included limitations on data access and use that constrain agencies' capabilities to prevent and detect fraud.

Insight #6: Ensure payment integrity checks and fraud controls are part of program design, with an emphasis on assuring data access and use for fraud prevention.

Source: GAO (analysis); Icons-Studio/stock.adobe.com (icon). | GAO-24-107157

For one of DOL's temporary UI programs—Pandemic Unemployment Assistance—and SBA's PPP and COVID-19 EIDL pandemic relief programs, Congress initially allowed reliance on self-certification of participant eligibility and also eliminated certain verification requirements. These program design decisions, coupled with the large scale of the programs, increased fraud risks. For example, the CARES Act allowed Pandemic Unemployment Assistance applicants to self-certify their eligibility and did not require them to provide any documentation of self-employment or prior income. Similarly, for COVID-19 EIDL, Congress removed safeguards that had been in place prepandemic in an effort to expedite loan processing. The Consolidated Appropriations Act, 2021, enacted in December 2020, included provisions to help address these risks.

Also early in the pandemic, the Internal Revenue Service's (IRS) disbursement approach that allowed EIPs to go to decedents presented improper payment risks related to ineligibility and fraud. This situation highlights the importance of clearly assuring data use to guide implementation decisions to prevent unnecessary waste in addition to fraud. Specifically, we previously reported that the Treasury and IRS did

[24] GAO-22-105162.

not use the Social Security Administration’s death records to stop payments to deceased individuals for the first three batches of EIPs because of the legal interpretation under which IRS was operating.[25] The first three batches of payments accounted for 72 percent of the payments disbursed as of May 31, 2020. According to the Treasury Inspector General for Tax Administration, as of April 30, 2020, almost 1.1 million payments totaling, nearly $1.4 billion, had gone to decedents. According to IRS officials, IRS counsel determined that IRS did not have the legal authority to deny payments to those who filed a return for 2019, even if they were deceased at the time of payment. IRS officials said that, on the basis of this determination, they did not exclude decedents in their programming requirement. Treasury officials said that upon learning that payments had been made to decedents, the Treasury and IRS, in consultation with counsel, determined that a person is not entitled to receive a payment if they are deceased as of the date the payment is to be paid. Such payments were removed, starting with the fourth payment batch.

Actions and Resources to Better Manage Fraud Risks

Actions and resources. Nearly 100 GAO fraud risk management recommendations remain open.

Insight #7: Take actions to better prevent fraud by implementing GAO recommendations and using resources.

Source: GAO (analysis); Icons-Studio/stock.adobe.com (icon). | GAO-24-107157

With insights for strategic fraud risk management from COVID-19 challenges, agencies are better positioned to manage fraud during normal operations and emergencies. Other sources that provide additional insight for fraud prevention include recommendations we have made to agencies, actions we have identified that Congress can take to strengthen fraud risk management practices across the government, and resources we developed to support strategic fraud risk management. Implementing these recommendations and taking these actions, along with leveraging available resources, can enable agencies to carry out their missions and better protect taxpayer dollars from fraud during normal operations and prepare them to face the next emergency (see sidebar).

[25] GAO, *COVID-19: Opportunities to Improve Federal Response and Recovery Efforts*, GAO-20-625 (Washington, D.C.: June 25, 2020).

Agencies Should Implement GAO Recommendations to More Effectively Manage Fraud Risks

Our work since July 2015 has highlighted areas in which federal agencies need to take additional actions to help ensure they are effectively managing fraud risks, consistent with leading practices in GAO's Fraud Risk Framework. Specifically, as we reported earlier this month, from July 2015 through August 2023, we made 173 recommendations to over 40 agency or program offices related to certain areas aligned with leading practices from the Fraud Risk Framework.[26] As of August 2023, agencies needed to take additional action to fully address 95 of these recommendations. Fully addressing these recommendations can help ensure that federal managers safeguard public resources, including while providing needed relief during emergencies.

For example, we found that using data analytics to manage fraud risks is one area in need of improvement by federal agencies. The Fraud Risk Framework's leading practices include implementing data-analytics activities as part of an overall antifraud strategy. Data-analytics activities can include a variety of techniques. These techniques include predictive analytics that can identify potential fraud before making payments. Data matching and other techniques to verify self-reported information and other information necessary for determining eligibility for enrolling in programs or receiving benefits are also important tools. In addition, data-mining and data matching techniques can enable agencies to identify potential fraud or improper payments that have already been awarded, thus assisting agencies in recovering these dollars.

We have made recommendations for agencies to use data analytics to better manage fraud risk. Specifically, from July 2015 through August 2023, we made 47 recommendations to federal agencies in this area. These included recommendations to design and implement data-analytics activities to prevent and detect fraud, such as using data matching to verify self-reported information. Of the 47 recommendations, 25 had not been implemented as of August 2023.

Congress Can Take Actions to Better Prevent Fraud

In our March 2022 testimony before the Senate Committee on Homeland Security and Governmental Affairs, we identified actions that Congress could take to strengthen internal controls and financial and fraud risk management practices across the government.[27] These matters for

[26] GAO-24-106565.

[27] GAO, *Emergency Relief Funds: Significant Improvements Are Needed to Ensure Transparency and Accountability for COVID-19 and Beyond*, GAO-22-105715 (Washington, D.C.: Mar. 17, 2022).

congressional consideration remain open. We continue to believe that such actions will increase accountability and transparency in federal spending in both normal operations and emergencies. Appendix I contains a list of the 10 matters for congressional consideration. Below we highlight three of those matters for which immediate action by Congress would enhance fraud risk management.

Open Matter for Congressional Consideration

Congress should establish a permanent analytics center of excellence to aid the oversight community in identifying improper payments and fraud.

Source: GAO. | GAO-24-107157

Establish a permanent analytics center for identifying fraud and improper payments. Responsibilities for planning and implementing fraud risk management and detection activities start with agency management officials. The oversight community, however, plays a critical role in identifying and investigating suspected fraud. The importance of this role in nonemergency periods is heightened during emergencies, such as the COVID-19 pandemic, as agencies work to implement large-scale relief efforts quickly.

At the outset of the pandemic, there was no permanent, government-wide analytical capability to help inspectors general identify fraud. In March 2021, the American Rescue Plan Act of 2021 appropriated $40 million dollars to the Pandemic Response Accountability Committee, which subsequently established the Pandemic Analytics Center of Excellence (PACE).[28] The role of PACE is to help oversee the trillions of dollars in federal pandemic-related emergency spending. According to the Pandemic Response Accountability Committee, PACE applies best practices, with the goal of building an "affordable, flexible, and scalable analytics platform" to support Offices of Inspector General during their pandemic-related work, including beyond the organization's sunset date in 2025.

In March 2022, we recommended that Congress establish a permanent analytics center of excellence to aid the oversight community in identifying improper payments and fraud.[29] Without permanent, government-wide analytics capabilities to assist the oversight community, agencies will have limited resources to apply to nonpandemic programs to ensure robust financial stewardship, as well as better prepare for applying fundamental financial and fraud risk management practices to future emergency funding.

[28] Pub. L. No. 117-2, 135 Stat. 4.

[29] GAO-22-105715.

Open Matter for Congressional Consideration

Congress should amend the Social Security Act to accelerate and make permanent the requirement for the Social Security Administration to share its full death data with the Department of the Treasury's Do Not Pay working system.

Source: GAO. | GAO-24-107157

Amend the Social Security Act to make permanent the sharing of full death data. Data sharing can allow agencies to enhance their efforts to prevent improper payments to deceased individuals. To enhance identity verification through data sharing, we have previously recommended that Congress amend the Social Security Act to explicitly allow the Social Security Administration to share its full death data with Treasury's Do Not Pay system, a data matching service for agencies to use in preventing payments to ineligible individuals.[30] In December 2020, Congress passed, and the President signed into law, the Consolidated Appropriations Act, 2021, which requires the Social Security Administration to share, to the extent feasible, its full death data with Treasury's Do Not Pay working system for a 3-year period, effective on the date that is 3 years from enactment of the act.[31]

In March 2022, we recommended that Congress accelerate and make permanent the requirement for the Social Security Administration to share its full death data with Treasury's Do Not Pay working system.[32] Treasury officials have informed us that by the end of this calendar year, the Do Not Pay working system should have full access to the full death data. However, under current law, that access will end in 2026.

Open Matter for Congressional Consideration

Congress should amend the Payment Integrity Information Act of 2019 to reinstate the requirement that agencies report on their antifraud controls and fraud risk management efforts in their annual financial reports.

Source: GAO. | GAO-24-107157

Reinstate reporting requirements for fraud risk management. Congress's ability to oversee agencies' efforts to manage fraud risks is hindered by the lack of fraud-related reporting requirements. The Fraud Reduction and Data Analytics Act of 2015 and the Payment Integrity Information Act of 2019 required agencies to report on their antifraud controls and fraud risk management efforts in their annual financial reports.[33] However, the requirement to report such information ended with the fiscal year 2020 annual financial report. Since then, there has been no similar requirement for agencies to report on their efforts to manage fraud risks.[34] In March 2022, we recommended that Congress amend the

[30]GAO, *Improper Payments: Strategy and Additional Actions Needed to Help Ensure Agencies Use the Do Not Pay Working System as Intended*, GAO-17-15 (Washington, D.C.: Oct. 14, 2016); and GAO-20-625.

[31]Pub. L. No. 116-260, div. M and N, 134 Stat. 1182 (2020).

[32]GAO-22-105715.

[33]Pub. L. No. 114-186, §3(c); Pub. L. No. 116-117, codified at 31 U.S.C. §3357(d).

[34]The Payment Integrity Information Act of 2019 includes multiple ongoing reporting requirements for agencies related to improper payments generally, but none specifically mention fraud.

Payment Integrity Information Act of 2019 to reinstate reporting requirements.[35]

In the absence of reporting on agencies' fraud risk management efforts through annual financial reports, earlier in 2023, we surveyed the 24 Chief Financial Officers Act of 1990 (CFO Act) agencies about steps they have taken to manage fraud risks.[36] In response to our survey, 18 of the CFO Act agencies reported that they have regular and ongoing activities to identify and assess risks to determine the fraud risk profile for programs or operations. Twenty of the agencies indicated that they have regular and ongoing activities to design and implement specific control activities to prevent and detect fraud.

As part of our survey, agencies also rated challenges that could impede their efforts to manage fraud risks. For instance, agencies reported the availability of resources (such as staff and funding) and tools for data analytics as being great or moderate challenges. CFO Act agencies' survey responses indicated the following factors as a great or moderate challenge to their fraud risk management efforts:

- Having available staffing, funding, or other resources to conduct fraud risk management activities;
- Having and using tools and techniques for data analytics; and
- Having available expertise to conduct fraud risk management activities.

Agencies also rated factors that could motivate them to manage fraud risk. For example, agencies cited the ability to counter reputational impacts as a factor that would motivate their efforts a lot or somewhat. CFO Act agencies' survey responses indicated the following factors as highly or somewhat motivating to their fraud risk management efforts:

- Congressionally directed prioritization of budget funds for program integrity improvements;
- Ability to counter reputational impacts if fraud is found; and
- Ability to demonstrate financial returns from fraud risk management.

[35] GAO-22-105715.

[36] GAO-24-106565.

Resources Available to Better Manage Fraud Risks

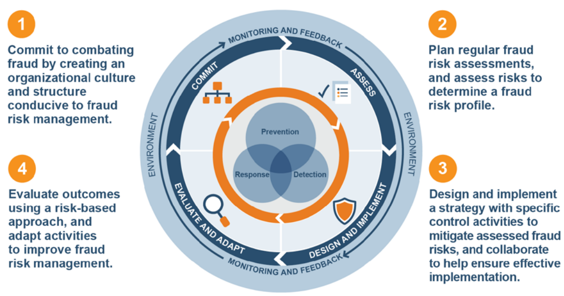
Agencies have the opportunity to learn from the experiences during the pandemic and ensure that they are strategically managing their fraud risks in the future. Doing so by leveraging available resources and adhering to requirements will enable them to carry out their missions and better protect taxpayer dollars from fraud during normal operations and prepare them to face the next emergency.

One such resource is GAO's Fraud Risk Framework, issued in July 2015. This framework provides a comprehensive set of key components and leading practices to help agency managers combat fraud in a strategic, risk-based way. The Payment Integrity Information Act of 2019 requires that the guidelines for federal agencies established by the Office of Management and Budget (OMB)—which incorporate the leading practices from the Fraud Risk Framework—remain in effect.[37]

As depicted in figure 1, the Fraud Risk Framework describes leading practices for managing fraud risk and includes four components: commit, assess, design and implement, and evaluate and adapt. These leading practices are applicable during normal operations, as well as during emergencies.

[37] Pub. L. No. 116-117, § 2(a), 134 Stat. 113, 131 - 132 (2020), codified at 31 U.S.C. § 3357. The act requires these guidelines to remain in effect, subject to modification by OMB as necessary, and in consultation with GAO. The Fraud Reduction and Data Analytics Act of 2015 required OMB to establish guidelines for federal agencies to create controls to identify and assess fraud risks and to design and implement antifraud control activities. The act further required OMB to incorporate the leading practices from the Fraud Risk Framework in the guidelines. Pub. L. No. 114-186, 130 Stat. 546 (2016). In October 2022, OMB issued a Controller Alert reminding agencies that, consistent with the guidelines contained in OMB Circular A-123, which are required by Section 3357 of the Payment Information Integrity Act of 2019, Pub. L. No. 116-117, they must establish financial and administrative controls to identify and assess fraud risks. In addition, OMB reminded agencies that they should adhere to the leading practices in GAO's Fraud Risk Framework as part of their efforts to effectively design, implement, and operate an internal control system that addresses fraud risks. Office of Management and Budget, CA-23-03, *Establishing Financial and Administrative Controls to Identify and Assess Fraud Risk* (Oct. 17, 2022).

Figure 1: The Four Components of the Fraud Risk Framework



Source: GAO (information and icons). | GAO-24-107157

Another resource is the Bureau of the Fiscal Service's Antifraud Playbook that provides a how-to guide for implementing the Fraud Risk Framework's leading practices.[38] The playbook consists of a four-phased approach—aligned with the four components of the Fraud Risk Framework—and 16 best-practice plays for combatting fraud.

In addition to the Fraud Risk Framework, we have developed other resources—specifically our web-based Antifraud Resource and *A Framework for Managing Improper Payments in Emergency Assistance Programs* (Managing Improper Payments Framework)—to help agencies combat fraud and improve payment integrity.[39] These resources can help agencies better understand and combat the causes and impacts of fraud.

Antifraud Resource. Our prior work found that agencies have had challenges in effectively assessing and managing their fraud risks and that federal managers may not fully understand how fraud affects their programs. GAO created the online Antifraud Resource to help federal officials and the public better understand and combat federal fraud. The Antifraud Resource is based on a conceptual fraud model and provides

[38]Bureau of the Fiscal Service, *Program Integrity: The Antifraud Playbook* (Oct. 17, 2018).

[39]GAO, "The GAO Antifraud Resource" (Washington, D.C.: Jan. 10, 2022), accessed Nov. 3, 2023, https://gaoinnovations.gov/antifraud_resource/; and *A Framework for Managing Improper Payments in Emergency Assistance Programs,* GAO-23-105876 (Washington, D.C.: July 13, 2023).

insight on fraud schemes that affect the federal government, their underlying concepts, and how to combat such fraud. Figure 2 references the online location of this antifraud resource.

Figure 2: Reference to GAO's Antifraud Resource

Sources: GAO and Production Perig/stock.adobe.com (image). | GAO-24-107157

Managing Improper Payments Framework. When the federal government provides emergency assistance, the risk of improper payments may be higher because the need to provide such assistance quickly can detract from the planning and implementation of effective controls. Our past work has shown that federal agencies should better plan for, and take a more strategic approach to, managing improper payments in emergency assistance programs. In response, in July 2023, we published the Managing Improper Payments Framework.[40]

This framework includes principles and corresponding practices to help federal agencies mitigate improper payments, including those stemming from fraud, in emergency and nonemergency programs before they occur. It is also intended as a resource for Congress to use when designing new programs or appropriating additional funding in response to emergencies. It includes an overall five-step approach, as described in figure 3, that includes principles aligned with leading practices from our Fraud Risk Framework, such as identifying and assessing fraud risks that cause improper payments.

[40] GAO-23-105876. This framework can also be useful for managing improper payments in nonemergency assistance programs or during normal program operations. This framework should be used by federal agencies in conjunction with existing requirements related to managing improper payments, including those stemming from fraud.

Figure 3: Framework for Managing Improper Payments in Emergency Assistance Programs

1 Commit to managing improper payments	2 Identify and assess improper payment risks, including fraud	3 Design and implement effective control activities	4 Monitor the effectiveness of controls in managing improper payments	5 Provide and obtain information to manage improper payments
□ Develop internal control plans in advance to prepare for future emergencies □ Identify data-sharing opportunities □ Assign clear roles and responsibilities for managing improper payments □ Implement open recommendations related to improper payments □ Apply lessons learned from past emergencies	□ Leverage prior risk assessments □ Quickly identify and assess new improper payment risks □ Support nonfederal entities in assessing and managing improper payment risks □ Define risk tolerance □ Periodically assess whether programs are susceptible to significant improper payments, including fraud	□ Establish control activities at the beginning of the program □ Leverage existing resources to create controls quickly □ Prioritize prepayment controls, and avoid overreliance on "pay and chase" controls □ Ensure controls align with statutory requirements	□ Establish timely ongoing monitoring and separate evaluations □ Estimate improper payments □ Analyze the root cause of improper payments □ Monitor nonfederal entities' implementation of emergency assistance programs □ Develop corrective actions	□ Provide improper payment information to nonfederal entities □ Provide improper payment information to oversight entities □ Obtain and use information from nonfederal entities and state and local auditors

Source: GAO (analysis and icons). | GAO-24-107157

Chair Hassan, Ranking Member Romney, and Members of the Subcommittee, this concludes my prepared statement. I would be pleased to respond to any questions.

GAO Contact and Staff Acknowledgments

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Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement.

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Appendix I: Matters for Congressional Consideration

In a March 2022 testimony before the Senate Committee on Homeland Security and Governmental Affairs, we recommended the following 10 matters for congressional consideration:[1]

- Congress should pass legislation requiring the Office of Management and Budget (OMB) to provide guidance for agencies to develop plans for internal control that would then immediately be ready for use in, or adaptation for, future emergencies or crises and requiring agencies to report these internal control plans to OMB and Congress. (Matter for Congressional Consideration 1)
- Congress should amend the Payment Integrity Information Act of 2019 to designate all new federal programs making more than $100 million in payments in any one fiscal year as "susceptible to significant improper payments" for their initial years of operation. (Matter for Congressional Consideration 2)
- Congress should amend the Payment Integrity Information Act of 2019 to reinstate the requirement that agencies report on their antifraud controls and fraud risk management efforts in their annual financial reports. (Matter for Congressional Consideration 3)
- Congress should establish a permanent analytics center of excellence to aid the oversight community in identifying improper payments and fraud. (Matter for Congressional Consideration 4)
- Congress should clarify that (1) chief financial officers (CFO) at CFO Act agencies have oversight responsibility for internal controls over financial reporting and key financial management information that includes spending data and improper payment information; and (2) executive agency internal control assessment, reporting, and audit requirements for key financial management information, discussed in an existing matter for congressional consideration in our August 2020 report,[2] include internal controls over spending data and improper payment information. (Matter for Congressional Consideration 5)
- Congress should require agency CFOs to (1) submit a statement in agencies' annual financial reports certifying the reliability of improper payments risk assessments and the validity of improper payment estimates, and describing the actions of the CFO to monitor the

[1]GAO, *Emergency Relief Funds: Significant Improvements Are Needed to Ensure Transparency and Accountability for COVID-19 and Beyond*, GAO-22-105715 (Washington, D.C.: Mar. 17, 2022).

[2]GAO, *Federal Financial Management: Substantial Progress Made since Enactment of the 1990 CFO Act; Refinements Would Yield Added Benefits*, GAO-20-566 (Washington, D.C.: Aug. 6, 2020).

development and implementation of any corrective action plans; and (2) approve any methodology that is not designed to produce a statistically valid estimate. (Matter for Congressional Consideration 6)

- Congress should consider legislation to require improper payment information required to be reported under the Payment Integrity Information Act of 2019 to be included in agencies' annual financial reports. (Matter for Congressional Consideration 7)
- Congress should amend the DATA Act to extend the previous requirement for agency inspectors general to review the completeness, timeliness, quality, and accuracy of their respective agency data submissions on a periodic basis. (Matter for Congressional Consideration 8)
- Congress should amend the DATA Act to clarify the responsibilities and authorities of OMB and the Department of the Treasury for ensuring the quality of data available on USAspending.gov. (Matter for Congressional Consideration 9)
- Congress should amend the Social Security Act to accelerate and make permanent the requirement for the Social Security Administration to share its full death data with the Department of the Treasury's Do Not Pay working system. (Matter for Congressional Consideration 10)

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U.S. SENATE COMMITTEE ON
SMALL BUSINESS
& ENTREPRENEURSHIP

Small Business COVID-19 Fraud: THREE YEARS LATER

State of Play

Ranking Member Ernst
Minority Report

NOVEMBER 14, 2023

CONTENTS

EXECUTIVE SUMMARY

From funding Lamborghinis, luxury vacations, extravagant jewelry, and even an alpaca farm, fraudsters abused the U.S. Small Business Administration's (SBA) COVID-19 relief programs to the tune of more than $200 billion in fraud—all on the dime of hardworking American taxpayers. While the SBA has claimed a zero-tolerance policy when it comes to fraud, its behavior demonstrates nothing of the sort.[1, 2] The SBA has discounted the full extent of fraud and instead tried to cast doubt on the legitimacy of fraud estimates made by expert investigators in its own Office of Inspector General (OIG). In addition, there are certain federal entities working to restrict the ability of law enforcement agencies to address fraud. These efforts, coupled with the SBA's lackadaisical approach to rampant fraud in its programs, have hampered recovery efforts. Flagrant fraud within government programs, especially when it is allowed to go unpunished, hurts taxpayers and harms small businesses most. The SBA OIG recently reported it has over 100,000 actionable investigative leads. A temporary surge of federal law enforcement investigators is needed to help meet this demand. Congress must restore the abilities of the Special Inspector General for Pandemic Recovery (SIGPR) to help tackle these cases and reverse the SBA's decision to end collections on loans under $100,000 to hold criminals responsible. Accordingly, the passage of S. 2664 the *Strengthening Taxpayer Recoveries Act*, S. 659, the *Administrative False Claims Act*, and the implementation of four key Government Accountability Office (GAO) recommendations would augment the capacity of investigators to recover taxpayer funds, ensure loans are paid back, and strengthen federal government controls when disbursing funding in the future.

1 "Ernst Says SBA Must Be Held Accountable for Pandemic Relief Funds That Were Misspent." The Ripon Society, April 21, 2023.

2 "Hearing: Nomination of Dilawar Syed to be Deputy Administrator of the Small Business Administration." U.S. Senate Committee on Small Business & Entrepreneurship, March 8, 2023.

Background: The Pandemic Landscape

Summary of COVID-19 Pandemic Programs at SBA

As public health authorities around the country issued lockdown orders at the onset of the COVID-19 pandemic in March 2020, this prevented millions of small businesses from operating, and sent the unemployment rate over 13 percent.[3] To help prevent further economic devastation, Congress established relief programs to help small businesses remain solvent and retain their workers through the crisis.

The Paycheck Protection Program (PPP), the largest of the SBA relief programs, provided forgivable loans to small businesses, non-profits, and self-employed workers to cover payroll costs, rent, interest, and utilities. These loans were designed to tide over small businesses that faced severe economic challenges or were unable to operate due to lockdown orders. When the SBA stopped accepting new PPP applications on May 31, 2021, it had approved over 11.8 million PPP loans totaling nearly $800 billion.[4] The SBA's COVID-19 Economic Injury Disaster Loans (EIDL) program provided economic relief to small businesses and nonprofit organizations. Congress authorized the SBA to make low interest, fixed-rate, long-term loans to provide borrowers with working capital to meet ordinary and necessary operating expenses, as well as advance grants that did not require repayment.[5]

While the PPP and EIDL programs constituted the vast majority of pandemic relief funds, the *American Rescue Plan Act*, a bill passed along partisan lines, established the Restaurant Revitalization Fund (RRF) and expanded other SBA pandemic relief lending programs, including the Shuttered Venue Operators Grant (SVOG).[6] Through the RRF, the SBA provided grants of up to $5 million to restaurants and similar businesses that experienced revenue losses related to the response to the COVID-19 pandemic.[7] The SVOG program provided grants for live venue operators, theatrical producers, and similar businesses affected by COVID-19.[8]

Fraudsters took advantage of SBA's pandemic lending and grant programs to steal taxpayer dollars for their own enrichment. What's more, these fraudulently obtained funds took resources away from legitimate small businesses struggling to survive the lockdowns. In July 2023, the SBA OIG reported that of the $1.2 trillion of EIDL and PPP funds, over $200 billion (17% of all funds) were disbursed to potential fraudsters.[9]

3 Smith, Sean M., Roxanna Edwards, and Hao C. Duong. "Unemployment Rises in 2020, as the Country Battles the COVID-19 Pandemic." Monthly Labor Review, U.S. Bureau of Labor Statistics, June 2021.

4 Dilger, Robert Jay. "SBA Paycheck Protection Program (PPP) Loan Forgiveness: In Brief." Congressional Research Service, October 6, 2021.

5 Lindsay, Bruce R. "SBA COVID-19 EIDL Financial Relief: Policy Options and Considerations." Congressional Research Service, April 18, 2023.

6 P.L. 117-2

7 Levin, Adam G. "SBA Restaurant Revitalization Fund Grants." Congressional Research Service, August 15, 2022.

8 Dilger, Robert Jay, and Adam G. Levin. "SBA Shuttered Venue Operators Grant Program (SVOG)." Congressional Research Service, July 5, 2022.

9 "Covid-19 Pandemic EIDL and PPP Loan Fraud Landscape." Report 23-09, U.S. Small Business Administration, Office of Inspector General, June 27, 2023.

There have been too many high-profile examples of egregious or bizarre federal cases of PPP and EIDL fraud to exhaustively list. Among the notable cases are:

1. The fintech Kabbage loaned over **$7 million** to fake farms including **"Deely Nuts"** and **"Beefy King."**[10]

2. Actor Austin St. John, who played the **Red Power Ranger** in the Mighty Morphin Power Rangers, was charged along with 19 others for fraudulently obtaining **$3.5 million in PPP loans**.[11]

3. A man in Florida plead guilty to wire fraud and engaging in an illegal monetary transaction after using PPP loans to pay off his mortgage on his home and business property, purchase an 18 karat **gold Rolex watch**, as well as **buy a Jaguar CKE Roadster** sports car.[12]

4. Former **NFL player** Joshua Bellamy used fraudulent PPP dollars on a stay at the Seminole Hard Rock Hotel and Casino and to purchase jewelry.[13]

5. A man in Florida plead guilty to wire fraud after he used **$318,000** of the $3.9 million PPP loan he received to **purchase a Lamborghini**.[14]

6. Eight members of the "Insane Crip Gang," a subset of the national "Crips" street gang, used PPP loans to buy **weapons** which were ultimately used in various robberies, kidnappings, and murders.[15]

7. Actress Ion Overman, of **"Madea Goes to Jail,"** was charged—along with 21 others—for a PPP fraud scheme totaling **$3,899,377**.[16]

8. **Former Olympic speed skater** Allison Baver used parts of her **$10 million** fraudulent PPP loan to pay HOA fees and finance Lord of the Rings star Elijah Wood's movie about Ted Bundy.[17, 18, 19]

9. Disgraced fintech company Womply claimed to have Artificial Intelligence systems able to scan people's faces to match government ID photos, but were tricked by scam artists using **barbie dolls**, **masks**, and **mannequin photos** to obtain fraudulent PPP loans.[20]

10. **Drug trafficker** Ashford Richardson, who spent five years and three months in prison for conspiring to distribute multiple kilograms of cocaine, is back in prison after fraudulently obtaining over **$50,000** in EIDL and PPP loans while on supervised release.[21]

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10 Willis, Derek, and Lydia DePillis. "Hundreds of PPP Loans Went to Fake Farms in Absurd Places." ProPublica, May 18, 2021.

11 "18 Arrested, Charged in East Texas Paycheck Protection Program-Related Fraud." U.S. Attorney's Office, Eastern District of Texas, May 18, 2022.

12 "Jacksonville Man Pleads Guilty to COVID Relief Fraud and Money Laundering." U.S. Attorney's Office, Middle District of Florida, February 14, 2023.

13 "Former NFL Player Sentenced to More than Three Years in Prison for Covid-19 Relief Fraud." Office of Public Affairs, U.S. Department of Justice, December 10, 2021.

14 "Man Purchased Lamborghini After Receiving $3.9 Million in PPP Loans." Office of Public Affairs, U.S. Department of Justice, February 10, 2021.

15 "Eight Crips Gang Members and Associates Indicted for Racketeering and Numerous Violent Crimes on Long Island." U.S. Attorney's Office, Eastern District of New York, April 13, 2023.

16 "22 People Charged in Connection with a Multi-Million Dollar Paycheck Protection Program Fraud Scheme." U.S. Attorney's Office, Northern District of Georgia, February 1, 2022.

17 Carlisle, Nate. "Fox 13 Investigates: Utah Trial Starts for Olympian Who Received Pandemic Bailout." FOX 13 News Utah (KSTU), June 26, 2023.

18 "Utah Woman Found Guilty of $10m Worth of PPP Loan Fraud." United States Attorney's Office, District of Utah, June 30, 2023.

19 "Allison Baver Verdict: Former Olympic Speedskater Guilty on All Counts Related to $10m PPP Loan." The Salt Lake Tribune, June 30, 2023.

20 Kilander, Gustaf. "Scammers used doll faces to secure in COVID pandemic aid in PPP fraud." The Independent, June 29, 2023.

21 "Drug Trafficker Returns to Prison for Committing PPP and Other Pandemic Relief Fraud While on Supervised Release." U.S. Attorney's Office, Northern District of Georgia, June 15, 2023.

Investigation of Pandemic Fraud

The U.S. Department of Justice (DOJ) has charged over 3,000 defendants across the country with defrauding the SBA's COVID programs.[22] The SBA OIG has also made it a high priority to prosecute those who engaged in schemes to illegally obtain PPP or EIDL funds. Between March 2020 and September 2023, the SBA OIG reported 1,180 indictments, 936 arrests, and 613 convictions related to PPP or EIDL fraud. As of September 2023, there are 580 ongoing investigations into fraudulent practices in the PPP or EIDL programs.[23] The SIGPR and the Pandemic Response Accountability Committee (PRAC) have also made significant strides in cracking down on abuse and fraud within these pandemic relief programs. For instance, in January 2023, the PRAC identified $5.4 billion in potentially fraudulent EIDL and PPP loans obtained using over 69,000 questionable Social Security numbers.[24] Within the PRAC, the Pandemic Analytics Center of Excellence (PACE) applies the latest advances in analytic and forensic technologies to help OIGs and law enforcement pursue data-driven pandemic relief fraud investigations. Investigative work has been crucial to recovering illegally obtained and improperly disbursed taxpayer dollars.

The SIGPR and the PRAC have been essential in identifying and investigating cases of potential fraud within PPP, EIDL, and other pandemic relief programs. Congress established the SIGPR and the PRAC to safeguard Americans' tax dollars within the relief and aid programs. Congress granted the SIGPR inspector general powers and authorities to audit and investigate loans made by the Secretary of the Treasury on behalf of any program established by the *Coronavirus Aid, Relief, and Economic Security (CARES) Act*.[25] Congress also created the PRAC through the CARES Act, to support and coordinate independent oversight of pandemic relief spending while seeking out fraud, waste, abuse, and mismanagement.[26] The SIGPR and the PRAC investigations have resulted in arrests, guilty pleas, sentencings, and imprisonments. Among the success stories of the SIGPR and the PRAC's work are uncovering a $53 million PPP fraud scheme in North Texas, a more than $7 million fraud operation in Virginia, and a $2.6 million EIDL, PPP, and Main Street Lending Program (MSLP) fraud case in South Florida.[27] These watchdogs have played—and continue to play—a crucial role in identifying fraud perpetrated against American taxpayers through pandemic relief programs, as well as holding fraudsters accountable for stealing taxpayer dollars.

However, the SIGPR's jurisdiction to investigate fraud within the SBA COVID-19 programs is contested. Amidst resistance from the U.S. Department of the Treasury to the SIGPR's oversight of the SBA COVID-19 programs, the DOJ's Office of Legal Counsel issued an opinion in which it claimed the SIGPR's jurisdiction is narrowly limited to programs established under title IV, subtitle A of the *CARES Act*.[28] In practice, this interpretation would preclude the SIGPR from investigating the Coronavirus Relief Fund, Payroll Support Program, and PPP, restricting the SIGPR's role in detecting fraud to the Treasury's direct loans and the Federal Reserve's lending programs.[29] This dispute undermines the SIGPR's critical work of detecting and responding to fraudulent abuse of taxpayer funds. In a quarterly report to Congress, Special Inspector General Brian Miller acknowledged that this work cannot continue unless Congress can, "pass legislation to clarify SIGPR's mandate to provide oversight" of the SBA's COVID-19 programs.[30]

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22 "Justice Department Announces Results of Nationwide COVID-19 Fraud Enforcement Action." Office of Public Affairs, U.S Department of Justice, August 23, 2023.

23 SBA OIG Congressional Update on file with author, October 2023.

24 "Fraud Alert: PRAC Identifies $5.4 Billion in Potentially Fraudulent Pandemic Loans Obtained Using Over 69,000 Questionable Social Security Numbers." Pandemic Response Accountability Committee (PRAC).

25 "SIGPR Overview" U.S. Special Investigator General for Pandemic Recovery, 2023.

26 "About Us | Pandemic Oversight." U.S. Special Investigator General for Pandemic Recovery, 2023.

27 "Quarterly Report to the United States Congress." Office of the Special Inspector General for Pandemic Recovery, April to June, 2023.

28 "Authority of the Special Inspector General for Pandemic Recovery To Oversee Programs Established Under the CARES Act." U.S. Department of Justice, Office of Legal Counsel, April 29, 2021.

29 "SIGPR Quarterly Report to the United States Congress." Office of the Special Inspector General for Pandemic Recovery, January to March, 2021.

30 "SIGPR Quarterly Report to the United States Congress." Office of the Special Inspector General for Pandemic Recovery, January to March, 2021.

Fraud at Fintechs

Financial technology (fintech) companies' reckless lending practices are responsible for a significant portion of the fraud and misuse of taxpayer dollars within the SBA's largest emergency pandemic lending programs: PPP and EIDL. James E. Clyburn (D-SC), when Chairman of the House Select Subcommittee on the Coronavirus Crisis, revealed in a December 2022 report that the SBA heavily delegated to fintech companies who enriched themselves with taxpayer-funded processing fees while failing to guard effectively against fraud risks:

> The Select Subcommittee's investigation found that fintechs were given extraordinary responsibility in administering the nation's largest pandemic relief program, as certain SBA lenders heavily delegated applicant screening to companies that claimed to employ effective and innovative fraud control technology. However, many of these companies appear to have failed to stop obvious and preventable fraud, leading to the needless loss of taxpayer dollars. The Select Subcommittee's investigation found that several fintechs, largely existing outside of the regulatory structure governing traditional financial institutions and with little to no oversight, took billions in fees from taxpayers while becoming easy targets for those who sought to defraud the PPP.[31]

Womply and Blueacorn, two fintechs investigated by the Select Subcommittee, together facilitated about one third of PPP loans in 2021.[32] These companies prioritized profit margins over responsible stewardship of taxpayer dollars during an unprecedented national economic crisis. The Select Committee investigation determined that the PPP "lacked sufficient incentives for fintechs to implement strong fraud prevention controls."[33]

Traditional lending institutions generally maintain established borrower relationships due to Know Your Customer and anti-money laundering requirements. Wide-ranging *Bank Secrecy Act* compliance programs also ensure strong underwriting standards. By contrast, fintechs lack the established relationships and oversight frameworks compelling formal anti-fraud procedures.[34] Researchers at the University of Texas at Austin (UT Austin) found fintech-originated loans were 3.23 times as likely as traditionally-originated loans to have at least one indicator of misreporting, such as a business registry flag, a multiple loan flag, a high implied compensation flag, or reporting a higher number of jobs for EIDL advances than in a PPP application. According to the UT Austin researchers' analysis, potential misreporting rates were in excess of 25% for 10 large fintech lenders.[35] Fintechs enabled fraudsters and scammers to get a hold of billions in taxpayer funds, through limited oversight over their loans. Meanwhile, millions of struggling small businesses eligible for pandemic relief funds were left empty handed.

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31 "Preparing for and Preventing the Next Public Health Emergency: Lessons Learned from the Coronavirus Crisis," Select Subcommittee on the Coronavirus Crisis, December 2022.

32 Id.

33 Id.

34 Griffin, John, Samuel Kruger, and Prateek Mahajan. "Did Fintech Lenders Facilitate PPP Fraud?" The Journal of Finance, February 7, 2023.

35 Id.

Part 1: The SBA's False Narrative Discounts the Full Extent of Fraud

The SBA Publicly Understates the Amount of Fraud

In June 2023, the SBA OIG reported that the SBA likely disbursed more than $200 billion in potentially fraudulent EIDL and PPP funds.[36] Rather than acknowledge the agency's subpar performance, the SBA's leadership accused its OIG of misleading the public. In response to the SBA OIG report, the SBA implausibly claimed only $36 billion of EIDL and PPP funds were likely obtained fraudulently.[37, 38] The SBA's fraud estimate is around 600% less than the SBA OIG's estimate. The SBA alleges it conducted an "extensive analysis" to arrive at its $36 billion figure, but has failed to provide evidence to the Committee to support this claim.[39, 40]

In a July 2023 hearing of the House Committee on Small Business, the SBA OIG Inspector General Hannibal "Mike" Ware testified that every loan within the $200 billion figure meets the OIG's threshold for opening an investigation, resources permitting.[41] The SBA OIG's work aligns with applicable quality control standards. On the other hand, the SBA's fraud estimate relied on manual reviews that fall short of the standards followed by the Inspector General community. Moreover, the SBA does not have access to the same datasets and does not possess comparable expertise in assessing fraud or conducting law enforcement investigations. The House Committee on Small Business invited the SBA Administrator Isabella Casillas Guzman to the same hearing at which Inspector General Ware testified. Regrettably, Administrator Guzman declined the opportunity to defend the SBA's bold claims, or the agency's strategy of casting aspersions on its Inspector General's estimates of rampant fraud within the SBA's programs.[42]

The SBA's Understatement of Restaurant Revitalization Fund (RRF) and Shuttered Venue Operators Grant (SVOG) Fraud Rates

In a June 2023 report, the SBA boasted both the RRF and SVOG programs had estimated fraud rates well below 1%, at 0.75% and 0.33% respectively. However, this internal SBA estimate based on the quantity of referrals to the SBA OIG is unreliable. The SBA's failure to refer potential fraud to its OIG does not speak to the actual volume of fraud present. Instead, it is an indicator that the SBA internal controls for detecting fraud within these programs could use strengthening.

In fact, independent auditors found the SBA failed to comply with nearly all of the reporting requirements under the *Payment Integrity Information Act of 2019* (PIIA).[43, 44] The PIIA is a law requiring federal agencies to identify and review all programs and activities they administer that may be susceptible to significant improper payments. The audit report also noted the SBA's risk assessment methodology did not consider certain identified risk factors for RRF and SVOG.

Other reports also suggest the SBA may be undercounting fraud in the RRF. In June 2023, the GAO reported the SBA could take additional steps to identify and respond to fraudulent or ineligible RRF recipients. The SBA replied that RRF controls do not need to be assessed, and additional steps do not need to be taken to identify potential

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36 "COVID-19 Pandemic EIDL and PPP Loan Fraud Landscape." Report 23-09, Office of Inspector General, U.S. Small Business Administration, June 27, 2023.

37 Id.

38 "Protecting the Integrity of the Pandemic Relief Programs: SBA's Actions to Prevent, Detect and Tackle Fraud." U.S. Small Business Administration, June 2023.

39 Id.

40 "COVID-19 Pandemic EIDL and PPP Loan Fraud Landscape." Report 23-09, Office of Inspector General, U.S. Small Business Administration, June 27, 2023.

41 "Full Committee Hearing – "Stolen Taxpayer Funds: Reviewing the SBA and OIG Reports of Fraud in Pandemic Lending Programs." U.S. House Committee on Small Business, July 13, 2023.

42 Id.

43 "Independent Auditors' Report on SBA's Fiscal Year 2022 Compliance with the Payment Integrity Information Act of 2019." Report 23-07, Office of Inspector General, U.S. Small Business Administration, May 15, 2023.

44 P.L. 116-117

fraud, because the SBA believes strong controls are in place that align with industry practices.[45, 46] One month after the GAO report, the SBA OIG found the SBA approved 3,790 RRF applications—totaling $557 million—without verifying gross sales, a key fraud control designed to prevent ineligible entities from receiving awards. Many of the 3,790 applications had indictors of potential fraud, and the SBA has still not reviewed 2,172 of these RRF awards, totaling $278.6 million.[47] In a September 2023 report, the OIG found that over 20,000 RRF recipients, receiving approximately $3.5 billion, had not filed any of the required reports. The SBA OIG also identified that the SBA had not completed timely post award reviews.[48] After 10 months, program officials reviewed only 88 awards, fewer than one percent of the 10,050 awards selected for review.[49] For certain subcategories of the 88 completed reviews, 89% or 100% of awards went to ineligible recipients.[50]

Not only was the RRF replete with fraud, but the SBA acted unconstitutionally when disbursing funds as well. Various plaintiffs sued SBA in federal court alleging SBA's use of race-based and sex-based preferences for the awarding of the RRF funds violated the Equal Protection Clause of the 14th Amendment. In each of these lawsuits, the SBA was found to be violating the Constitution.[51]

For SVOG, the SBA's internal 0.33% fraud rate estimate is also not indicative of the actual amount of fraud in the program. The SBA removed internal controls for the program and its fraud risk monitoring needs improvement. The SBA OIG reported that the SBA switched to a risker payment method providing less protection against fraud. Of 10 awards to organizations the OIG reviewed, all were unauthorized commitments without proper documentation and several had inadequate support for the grant amounts.[52] In an October 2023 report, the SBA OIG found that the SBA made 47 SVOG awards to ineligible entities—23 percent of the awards sampled by the SBA OIG. Additionally, the SBA OIG found the SBA limited or eliminated certain verification procedures, such as obtaining tax transcripts, implemented a strict 4-hour review time for applications, and stopped the practice of validating certain matches to the U.S. Department of the Treasury's Do Not Pay List. These changes weakened internal controls and allowed ineligible entities to receive SVOG grants.[53] According to the GAO, the SBA could improve its ability to identify and address fraud among SVOG grantees. The SBA did not fully agree with this finding.[54]

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45 "2023 Annual Report: Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Billions of Dollars in Financial Benefits." GAO-23-106089, U.S. Government Accountability Office, June 14, 2023.

46 "Restaurant Revitalization Fund: Opportunities Exist to Improve Oversight." GAO-22-105442, U.S. Government Accountability Office, July 14, 2022.

47 "SBA's Administrative Process to Address Potentially Fraudulent Restaurant Revitalization Fund Awards." Report 23-10, Office of Inspector General, U.S. Small Business Administration, July 5, 2023.

48 "SBA's Oversight of Restaurant Revitalization Fund Recipients." Report 23-15, Office of Inspector General, U.S. Small Business Administration, September 29, 2023.

49 Id.

50 Id.

51 "Restaurant Revitalization Fund: Opportunities Exist to Improve Oversight." GAO-22-105442, U.S. Government Accountability Office, July 14, 2022.

52 "SBA's Award and Payment Practices in the Shuttered Venue Operators Grant Program." Report 22-15, U.S. Government Accountability Office, July 5, 2022.

53 "SBA's Internal Controls to Prevent Shuttered Venue Operators Grants to Ineligible Applicants". Report 24-02, Office of Inspector General, U.S. Small Business Administration, October 25, 2023.

54 "COVID Relief: SBA Could Improve Communications and Fraud Risk Monitoring for Its Arts and Entertainment Venues Grant Program." GAO-23-105199, U.S. Government Accountability Office, October 2022.

The SVOG and RRF were rife with fraud. Notable cases include:

1. A South Florida man was charged with fraudulently obtaining funds under SVOG and allegedly used the funds to purchase **exotic sports cars**.[55]
2. San Diego restaurant owners were charged with allegedly conspiring to **underreport gross receipts** in order to qualify for RRF loans, and lied on loan applications regarding the use of the money.[56]
3. Washington, D.C. restauranteurs plead guilty to tax offenses and theft of RRF funds for personal enrichment including for home construction, college tuition payments, and **vacations**.[57]
4. A Massachusetts food truck business owner was sentenced to two years in prison for a $1.5 million fraud scheme involving proceeds from RRF and other pandemic programs used to purchase **shares in technology companies**.[58]
5. A Florida couple were sentenced to prison for wire fraud conspiracy, money laundering conspiracy, and making false statements relating to SVOG and other pandemic programs totaling over **$4.8 million**.[59]

The SBA Overstated the Number of Referrals to the SBA OIG

On April 26, 2023, while under oath in front of the U.S. Senate Committee on Small Business and Entrepreneurship, Mr. Patrick Kelley, the former SBA Associate Administrator for the Office of Capital Access, made unsubstantiated allegations regarding the SBA's activities. Specifically, Mr. Kelley testified that over a two-year period, the SBA referred 3.5 million applications to the SBA OIG.[60] The SBA OIG was unable to validate—and indeed contradicted—Mr. Kelley's assertion.

According to Mr. Sheldon Shoemaker, SBA's Deputy Inspector General, who also testified at the hearing, the spreadsheets SBA provides on its internal fraud reviews include information obtained from the SBA OIG and other law enforcement agencies. For example, the spreadsheets SBA gave to the OIG include applications flagged for fraud based on the over 90,000 EIDL file requests from law enforcement agencies.[61] These should not be considered SBA referrals. Instead, they are already ongoing investigations. Put simply, Mr. Kelley and the SBA were trying to claim credit for the work others have already done.

55 "South Florida Man Charged with COVID-19 Relief Fraud Allegedly Spends Loan Money on Exotic Sport Cars." U.S. Attorney's Office, Southern District of Florida, November 8, 2022.

56 "San Diego Restaurant Owners Charged with COVID-Relief Fraud and Money Laundering." Office of Public Affairs, U.S. Department of Justice, May 24, 2023.

57 "Georgetown Restauranteurs Plead Guilty to Tax Offenses and Theft of COVID Relief Funds." U.S. Attorney's Office, District of Columbia, August 14, 2023.

58 "Brighton Food Truck Business Owner Sentenced to Two Years in Prison for $1.5 Million COVID-Relief Fraud Scheme." U.S. Attorney's Office, District of Massachusetts, July 26, 2023.

59 "Tallahassee Couple Sentenced To Federal Prison For Wire Fraud Conspiracy, Money Laundering Conspiracy, And Making False Statements Relating To COVID-19 Relief Programs." U.S. Attorney's Office, Northern District of Florida, May 3, 2023.

60 "Hearing: Oversight of SBA's Implementation of Final Rules to Expand Access to Capital." U.S. Senate Committee on Small Business & Entrepreneurship, April 26, 2023.

61 Senate Committee on Small Business and Entrepreneurship, Answers to Questions submitted by Mr. Sheldon Shoemaker, Deputy Inspector General, U.S. Small Business Administration, Oversight of SBA's Implementation of Final Rules to Expand Access to Capital, 118th Cong. on file with author (April 26, 2023). In response to "Has the SBA referred over 3 million instances of fraud on disbursed loans?", Sheldon Shoemaker responded that "SBA has made numerous referrals of alleged fraud to OIG; however, OIG is unable to validate the SBA assertion... The spreadsheets that SBA provides encompass information they may have received from their own fraud reviews, ID theft submissions, information obtained from financial institutions, as well as information obtained from OIG and/or other law enforcement agencies. For example, the spreadsheets include applications that were flagged for fraud based on the over 90,000 EIDL file requests from law enforcement agencies. These should not be considered as referrals by SBA as they are already ongoing investigations."

In fact, contrary to Mr. Patrick Kelley's testimony indicating a significant volume of referrals, the SBA referred few suspicious RRF awards to its OIG.[62, 63] In July 2023, the U.S. Senate Committee on Small Business and Entrepreneurship requested Administrator Guzman either provide the underlying evidence substantiating Mr. Kelley's claim, or correct his misrepresentation to Congress.64 As of the date of publication of this report, Administrator Guzman has failed to do either.

The SBA states it has adopted a "Tone at The Top" for Fraud Risk Management though the SBA's Actions Indicate Otherwise

Establishing a strong "Tone at the Top" is an essential part of the internal control environment and internal control framework overall. This includes communicating a commitment to combat fraud within pandemic relief programs. Per the Standards for Internal Control in the Federal Government, "without a strong tone at the top to support an internal control system, the entity's risk identification may be incomplete, risk responses may be inappropriate, control activities may not be appropriately designed or implemented, information and communication may falter, and results of monitoring may not be understood or acted upon to remediate deficiencies."[65]

The SBA cites the "Tone at the Top" as one of its major principles for fraud risk management and as a key element to its Fraud Risk Management Strategic Plan.66 However, despite its rhetoric, SBA leadership is refusing to implement the GAO and the SBA OIG recommendations designed to improve the SBA's fraud risk management, and is discounting the full extent of fraud. This sets the wrong tone and sends the wrong message.

The SBA should do more to leverage data analytics to prevent and detect fraud

The SBA itself acknowledges "the use of data analytics across an entire portfolio helps identify potential signs of fraud," and states it has made substantial efforts on the use of data analytics.[67] However, the SBA only performed data analytic treatment on a fragmented portion of the overall portfolio—fewer than 14% of loans, grants, and awards. The SBA indicates it performed "data analytic treatment" on 6.7 million of 49.3 million loans.[68] Additionally, the GAO has found the SBA did not fully leverage information to help identify applicants who tried to defraud multiple pandemic relief programs and would benefit from further development of its data analytics program.[69] The SBA should perform data analytics across its entire portfolio to prevent and detect ineligible and fraudulent transactions. This may also result in more efficient allocation of resources, cost savings, and reduced loan review backlogs.

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62 "2023 Annual Report: Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Billions of Dollars in Financial Benefits." GAO-23-106089, U.S. Government Accountability Office, June 14, 2023.

63 "Restaurant Revitalization Fund: Opportunities Exist to Improve Oversight." GAO-22-105442, U.S. Government Accountability Office, July 14, 2022.

64 Senator Joni Ernst. "Letter to the SBA Administrator Regarding Improper Payments." U.S. Senate, July 26, 2023.

65 "Standards for Internal Control in the Federal Government." GAO-14-704G, U.S. Government Accountability Office, September 10, 2014.

66 "Protecting the Integrity of the Pandemic Relief Programs: SBA's Actions to Prevent, Detect and Tackle Fraud." U.S. Small Business Administration, June 2023.

67 Id.

68 Id.

69 "COVID Relief: Fraud Schemes and Indicators in SBA Pandemic Programs." GAO-23-105331, U.S. Government Accountability Office, May 2023.

Part 2: Efforts to Recover Funds

Overview of Recovery Efforts

Recovering money fraudsters stole from American taxpayers must be a priority for the federal government. The DOJ has seized more than $1.4 billion in stolen COVID-19 relief funds.[70] The SBA OIG's collaboration with the U.S. Secret Service, other federal agencies, and financial institutions has resulted in EIDL and PPP funds seized or returned to the SBA.[71] Meanwhile, the SIGPR has rapidly scaled up its operations to complement these efforts.[72, 73] While law enforcement investigations and seizure of improperly obtained funds is vital, the SBA needs to do more.

For example, the SBA has refused to pursue collections of loans valued at $100,000 as required by law, and has failed to take recommended steps to improve its fraud risk management. The SBA's actions undermine efforts to maximize the recovery of funds for the taxpayer and could incentivize ineligible and fraudulent borrowers to obtain loans valued at $100,000 or less in future loan programs.

There is roughly $200 billion worth of fraud within EIDL and PPP programs.74 Instead of letting that money stay in the hands of fraudsters, it could be put to the service of the American people. Here are some examples of what $200 billion could buy the American taxpayer:

$200 Billion Estimated Fraud	$1.4 billion in funds seized by the Justice Department[75]
15 USS Ford class aircraft carriers (around **$13 billion** each)	**10%** of the cost of 1 USS Ford class aircraft carrier
Over **250** million iPhone 14's at **$799** per phone	**1.8** million iPhone 14's
Annual U.S. health care spending for **15 million people** (around $13,000 a person)	Annual U.S. health care spending for **108,000 people**
36 of the top 50 **most expensive sports teams** in the world at their 2023 valuation[76]	**One** of the 9 least valuable **Major League Baseball** franchises
438 million Taylor Swift Eras Tour tickets[77]	**3 million** Taylor Swift Eras Tour tickets

70 "Justice Department Announces Results of Nationwide COVID-19 Fraud Enforcement Action." Office of Public Affairs, U.S. Department of Justice, August 23, 2023.

71 "COVID-19 Pandemic EIDL and PPP Loan Fraud Landscape." Report 23-09, Office of Inspector General, U.S. Small Business Administration, June 27, 2023.

72 "SIGPR Quarterly Report to the United States Congress." Office of the Special Inspector General for Pandemic Recovery, January to March, 2021.

73 "Congressional Budget Justification and Annual Performance Plan and Report." Office of the Special Inspector General for Pandemic Recovery, FY 2023.

74 "Covid-19 Pandemic EIDL and PPP Loan Fraud Landscape." Report 23-09, U.S. Small Business Administration, Office of Inspector General, June 27, 2023.

75 The SBA OIG reported its collaboration with the SBA, the U.S. Secret Service, other federal agencies, and financial institutions has resulted in nearly $30 billion in EIDL and PPP funds being seized or returned to the SBA. This consists of over $1 billion in seizures by the U.S Secret Service, $9 billion returned by financial institutions, and $20 billion paid from borrowers. The SBA OIG based the $9 billion and $20 billion figures on SBA reporting and does not have loan level detail to the data.

76 Ozanian, Mike, and Justin Teitellbaum. "Baseball's Most Valuable Teams 2023: Price Tags Are up 12% despite Regional TV Woes." Forbes, March 23, 2023.

77 Bhattarai, Abha, Lerman, Rachel, Sabens, Emily. "The Economy (Taylor's Version)." The Washington Post, October 13, 2023.

The SBA's Faulty Rationale and Unlawful Decision to End Collections on Loans Under $100,000

The SBA decided to forgo debt collections on EIDL less than $100,000. The SBA OIG calculated the amount of delinquent and past due EIDLs to be $62 billion as of March 24, 2023.[78, 79] This is in addition to failing to pursue collections on PPP loans under $100,000, for an estimated $1.1 billion.[80] In total, the SBA is intending to forgo collections on over $63 billion of COVID program loans made with Americans' tax dollars, without justification or congressional authorization. As additional loans become due, the money being left on the table is only likely to grow.

The SBA risks violating federal law by prematurely ending active collection activities on delinquent PPP and EIDLs with balances of up to $100,000. Federal law prohibits agencies from ending collections on fraudulent, false, or misrepresented claims.[81] The SBA did not fully agree with the SBA OIG's recommendation for the SBA to attempt active collection and review loan applications for any EIDL that appears to be fraudulent, false, or misrepresented.[82]

Under the *Debt Collection Improvement Act*, federal agencies can only suspend or end collections on claims in certain circumstances including when the cost of collection is likely to be greater than the amount recovered for loans not more than $100,000.[83] The SBA cited this as justification for not collecting on its loans. However, the SBA OIG determined the SBA's April 2022 analysis was not comprehensive to sufficiently support the proposition that the cost to pursue collections on PPP loans valued at $100,000 or less was likely more than the recovery amount. The SBA was obligated to include comprehensive estimates of the expected costs and benefits for EIDL and PPP collections per Office of Management and Budget (OMB) Circular A-94. It did not. The SBA OIG also recommended the SBA explore alternative means of collections for EIDL and PPP loans with an outstanding balance of $100,000 or less.[84, 85] The SBA has not evaluated alternative collection techniques such as the Centralized Receivables Service (CRS) program within the Bureau of the Fiscal Service, a low-cost option available to federal agencies to manage nontax receivables.[86] The SBA could use the CRS or pursue other options to meet the Treasury Financial Manual requirement to maximize recoveries for efficiency and cost-effectiveness.[87] The SBA has not compared the cost effectiveness of alternative collection techniques as required by federal law.[88]

In addition, the SBA's analysis for anticipated EIDL and PPP recoveries was flawed. The agency based its analysis on a 0.28% recovery rate—or $65,000 total recoveries out of $23.5 million—on SBA Express working capital loans of $100,000 or less made to sole proprietors between 2009 and 2022. This is an unrealistic comparison, at best. The $65,000 of SBA Express loans the SBA recovered over a 13-year period (around $5,000 a year) is not comparable to the $1.1 billion in PPP loans under $100,000 on which the SBA has ended collections, or the over $62 billion in delinquent or past due EIDLs under $100,000. In addition, SBA Express loans to sole proprietors are materially different to EIDL and PPP. Only about half of EIDLs of which the SBA plans to end collections were made to sole proprietors. Lenders likely pursued active collections on SBA Express loans prior to those loans being referred to Treasury, whereas EIDLs were direct loans made by the SBA and PPP had higher SBA guarantee percentages. As a

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78 "Ending Active Collections on Delinquent COVID-19 Economic Injury Disaster Loans." Report 23-16, Office of Inspector General, U.S. Small Business Administration, September 29, 2023.

79 SBA indicated the number of delinquent, past due, or charged off COVID-19 EIDLs total $33.4 billion as of May 9, 2023. However, SBA OIG was unable to validate SBA's significantly different amount which did not sync with SBA's own loan accounting system of record and data.

80 "Management Advisory – SBA'S Guaranty Purchases for Paycheck Protection Program Loans.." Report 22-25, Office of Inspector General, U.S. Small Business Administration, September 30, 2022.

81 "31 USC 3711(b)(1): Collection and Compromise." U.S. Code.

82 "Ending Active Collections on Delinquent COVID-19 Economic Injury Disaster Loans." Report 23-16, Office of Inspector General, U.S. Small Business Administration, September 29, 2023.

83 "31 USC 3711(a): Collection and Compromise." U.S. Code.

84 "Management Advisory - SBA'S Guaranty Purchases for Paycheck Protection Program Loans." Report 22-25, Office of Inspector General, U.S. Small Business Administration, September 30, 2022.

85 "Ending Active Collections on Delinquent COVID-19 Economic Injury Disaster Loans." Report 23-16, Office of Inspector General, U.S. Small Business Administration, September 29, 2023.

86 "Part III: The Federal Nontax Debt Collection Process." Bureau of the Fiscal Service, Treasury Financial Manual, Volume I, Part 3, Chapter 5000, May 2023.

87 Id.

88 31 C.F.R. § 901.10

result, higher recovery rates can be expected for PPP and EIDL. A good-faith estimate could not equate a subset of SBA Express loans to sole proprietors with these two programs.

Even the consulting firm the SBA hired to assess the EIDL portfolio determined expected recoveries to be significantly higher and inconsistent with the SBA's conclusions.[89] According to the SBA's own reporting, EIDL and PPP loans have both maintained positive recovery rates, yet the SBA refuses to comply with federal debt collection requirements.[90] The SBA is increasing the taxpayer's burden by refusing to collect on these delinquent EIDL and PPP loans. Further, ending collection prematurely sets a dangerous precedent encouraging future borrowers in stimulus programs to not repay loans under $100,000. Continuing to pursue collections will ensure accountability for delinquent borrowers and bolster the integrity of federal lending programs.

Improvements to the SBA's Fraud Risk Management Would Assist in Recovering Funds

Due to concerns regarding the SBA's lackluster response to fraud and improper payments in its pandemic relief programs, Small Business Committee Ranking Member Joni Ernst (R-IA) wrote a letter to the SBA Administrator emphasizing the importance of SBA leadership taking improper payments seriously given the significant fraud the GAO and the SBA OIG have highlighted within the SBA's programs.[91] As described within the letter, the SBA has not taken adequate steps to prevent and detect improper payments.

The SBA's failure to adequately identify improper payments within its programs makes identifying fraud and recovering funds more difficult.

89 "Ending Active Collections on Delinquent COVID-19 Economic Injury Disaster Loans." Report 23-16, Office of Inspector General, U.S. Small Business Administration, September 29, 2023.

90 "Small Business Administration Loan Program Performance." U.S. Small Business Administration, January 30, 2023.

91 Senator Joni Ernst. "Letter to the SBA Administrator Regarding Improper Payments." July 26, 2023.

Part 3: Opportunities for Future Legislation and Policy Changes

Congress must act to ensure criminals who defraud American taxpayers are brought to justice. Specifically, Congress should pass the *Strengthening Taxpayer Recoveries Act*, the *Administrative False Claims Act*, and legislation to enhance improper payment reporting requirements.

Strengthening Taxpayer Recoveries Act

In response to mounting warnings from the SBA OIG, the SIGPR, and throughout the small business community, Ranking Member Ernst is spearheading the *Strengthening Taxpayer Recoveries Act*, which she introduced on July 27, 2023 along with Senators Josh Hawley (R-MO), Marco Rubio (R-FL), and Todd Young (R-IN).[92]

The *Strengthening Taxpayer Recoveries Act* would amend the *CARES Act* to provide the SIGPR with statutory authority to conduct investigations on the SBA COVID-19 relief programs and extends the SIGPR authority an additional five years to 2030. The bill allows the SIGPR to utilize funds recovered from investigations and audits. Collectively, these measures will restore the SIGPR's authorities, ensure the SIGPR can continue its critical work, and provide a temporary surge of federal law enforcement investigators to help tackle the unprecedented scale of fraud within the pandemic programs.

In addition to strengthening the SIGPR's ability to protect taxpayer funds, the legislation holds the SBA accountable to pursue fraud within its programs and recover funds for American taxpayers. Specifically, it requires the SBA Administrator to refer any claim for collection of a loan under $100,000 to the Department of Treasury. The Department of Treasury will then render a final decision to suspend, end, or make collections on referred claims.

Furthermore, the legislation would enhance Congressional oversight of the SBA's collection efforts. It would require that the SBA Administrator to provide monthly briefings to the Senate and House Small Business Committees on the progress the SBA is making on pursuing collections, and annual testimony before the House and Senate Small Business Committees on the implementation of the collection of claims in regards to covered loans, improper payments related to covered programs, and the SBA compliance with the *Payment Integrity Information Act of 2019*.

Beyond collections, the legislation would also require the DOJ Attorney General to report to Congress on the DOJ's prosecutions of COVID relief-related fraud. The report will include data such as the total number and disposition of prosecutions, the total dollar amount recovered by prosecutions, the total number and source of referrals, and declined cases with reasons for declining prosecution.

It would also create a website with real-time data on COVID-19 program funds recovered by the federal government to help Congress and the public ensure that collections of fraudulently-acquired taxpayer funds become and remain a priority.

Finally, to ensure fraudsters who abused the SBA's COVID-19 program funds do not escape justice by running out the clock, the *Strengthening Taxpayer Recoveries Act* would extend the statutes of limitations to 10 years for Restaurant Revitalization Grants and the SVOG program in alignment with the statutes of limitations for both the PPP and EIDL programs.

92 Strengthening Taxpayer Recoveries Act, S. 2664, 118th Cong. (2023).

Administrative False Claims Act of 2023

Congress should pass the *Administrative False Claims Act*, introduced by Senator Chuck Grassley (R-IA) and cosponsored by Senators Richard Durbin (D-IL) and Gary Peters (D-MI).[93] The bill increases the maximum amount of a fraud claim that may be handled administratively from $150,000 to $1 million, allows responsibilities in the administrative process assigned to the Attorney General or an Assistant Attorney General to be delegated to other DOJ employees, and allows the government to recoup costs for investigating and prosecuting these frauds. The *Administrative False Claims Act* will improve the SBA's ability to recover funds from fraudsters and serve as a deterrence to those considering fraud against the federal government, no matter the amount.

GAO open matters for Congressional Consideration

Finally, members of the Committees of jurisdiction (U.S. Senate Committee on Homeland Security & Governmental Affairs (HSGAC) and House Committee on Oversight and Accountability) should introduce and pass legislation to enhance improper payment reporting requirements, per the following GAO open matters for congressional consideration:[94, 95]

1. "Congress should amend the Payment Integrity Information Act of 2019 to designate all new federal programs making more than $100 million in payments in any one fiscal year as "susceptible to significant improper payments" for their initial years of operation."[96]

2. "Congress should amend the Payment Integrity Information Act of 2019 to reinstate the requirement that agencies report on their antifraud controls and fraud risk management efforts in their annual financial reports."[97]

3. "Congress should clarify that (1) chief financial officers (CFO) at CFO Act agencies have oversight responsibility for internal controls over financial reporting and key financial management information that includes spending data and improper payment information; and (2) executive agency internal control assessment, reporting, and audit requirements for key financial management information, discussed in an existing matter for congressional consideration in our August 2020 report, include internal controls over spending data and improper payment information."[98]

4. "Congress should require agency chief financial officers (CFO) to (1) submit a statement in agencies' annual financial reports certifying the reliability of improper payments risk assessments and the validity of improper payment estimates, and describing the actions of the CFO to monitor the development and implementation of any corrective action plans; and (2) approve any methodology that is not designed to produce a statistically valid estimate."[99]

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93 Administrative False Claims Act of 2023, S. 659, 118th Cong. (2023).

94 "Open Matters for Congressional Consideration: Action Can Produce Billions of Dollars in Financial and Other Benefits for the Nation." GAO-23-106837, U.S. Government Accountability Office, July 25, 2023.

95 "Emergency Relief Funds: Significant Improvements Are Needed to Ensure Transparency and Accountability for Covid-19 and Beyond." GAO-22-105715, U.S. Government Accountability Office, March 17, 2022.

96 Id.

97 Id.

98 Id.

99 Id.

CONCLUSION

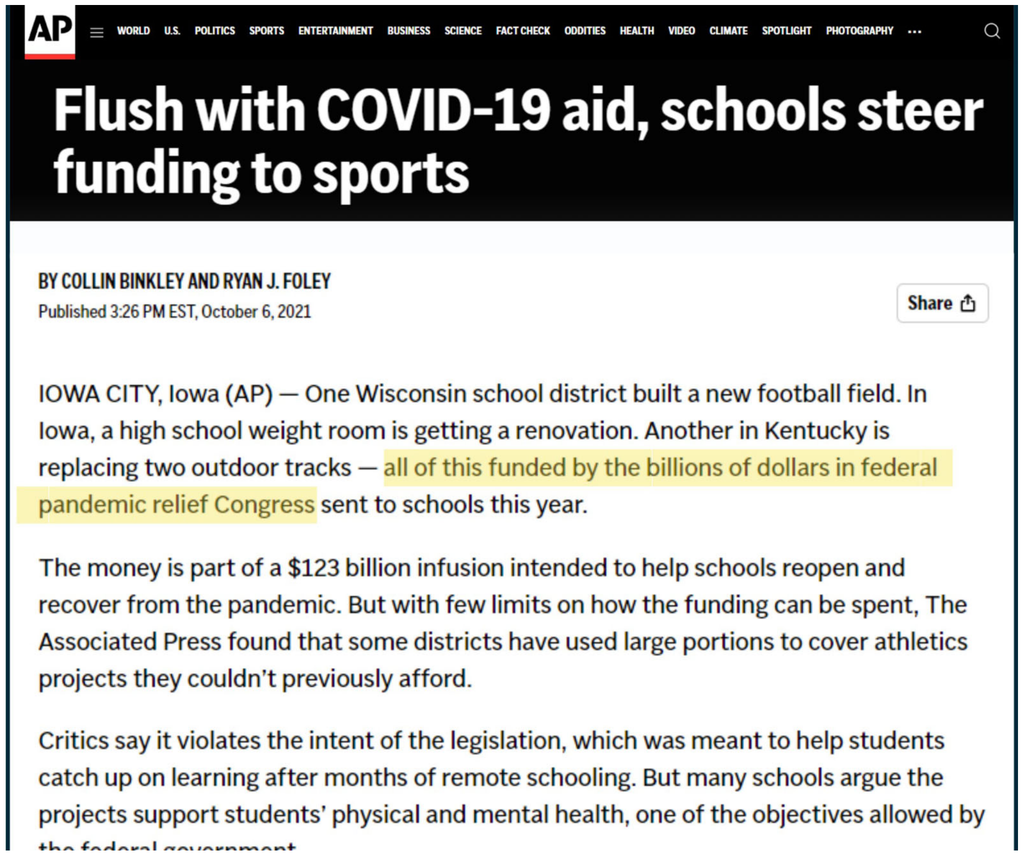
Rampant fraud within the SBA pandemic relief programs is hurting taxpayers and the small businesses the programs were intended to serve. The SBA has discounted the full extent of fraud and instead, needs to prioritize combatting fraud and pursue fund recoveries. During his confirmation process, the SBA Deputy Administrator provided Senator Joni Ernst, Ranking Member of the Small Business and Entrepreneurship Committee, his firm commitments on a zero-tolerance policy when it comes to fraud. However, the SBA has not lived up to its promise. It is important to avoid setting a dangerous precedent that fraud is acceptable and future borrowers do not need to repay loans. The SBA's failure to fully engage in the fight against fraud has resulted in increased caseloads for the law enforcement community and the need for a temporary surge of federal law enforcement investigators. We recommend Congress pass the *Strengthening Taxpayer Recoveries Act*, the *Administrative False Claims Act of 2023*, and implement four key GAO open matters for congressional consideration. These measures are vital for responsible use of taxpayer funds and for holding fraudsters accountable.

Appendix 1. Oversight Work Conducted

Various oversight bodies such as the GAO and the SBA OIG have conducted audits and reviews into the pandemic relief programs carried out through the SBA. These reports have provided important recommendations to improve the structure of these programs, examined the effectiveness of the programs' ability to help targeted businesses, and determined the factors that enabled fraudulent use of these programs. The Senate Committee on Small Business and Entrepreneurship, as part of its oversight work, has held hearings including:

- A March 2021 hearing on "Oversight of SBA's COVID-19 Relief Programs";
- A May 2021 hearing on "The Pandemic Response and the Small Business Economy";
- An August 2022 hearing on "Oversight of SBA's COVID Economic Injury Disaster Loan Program"; and
- An April 2023 hearing on "Oversight of SBA's Implementation of Final Rules to Expand Access to Capital".

Other committees, such as the Committee on Small Business of the House of Representatives, have also held relevant oversight hearings on these pandemic relief programs.



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Flush with COVID-19 aid, schools steer funding to sports

BY COLLIN BINKLEY AND RYAN J. FOLEY
Published 3:26 PM EST, October 6, 2021

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IOWA CITY, Iowa (AP) — One Wisconsin school district built a new football field. In Iowa, a high school weight room is getting a renovation. Another in Kentucky is replacing two outdoor tracks — all of this funded by the billions of dollars in federal pandemic relief Congress sent to schools this year.

The money is part of a $123 billion infusion intended to help schools reopen and recover from the pandemic. But with few limits on how the funding can be spent, The Associated Press found that some districts have used large portions to cover athletics projects they couldn't previously afford.

Critics say it violates the intent of the legislation, which was meant to help students catch up on learning after months of remote schooling. But many schools argue the projects support students' physical and mental health, one of the objectives allowed by the federal government

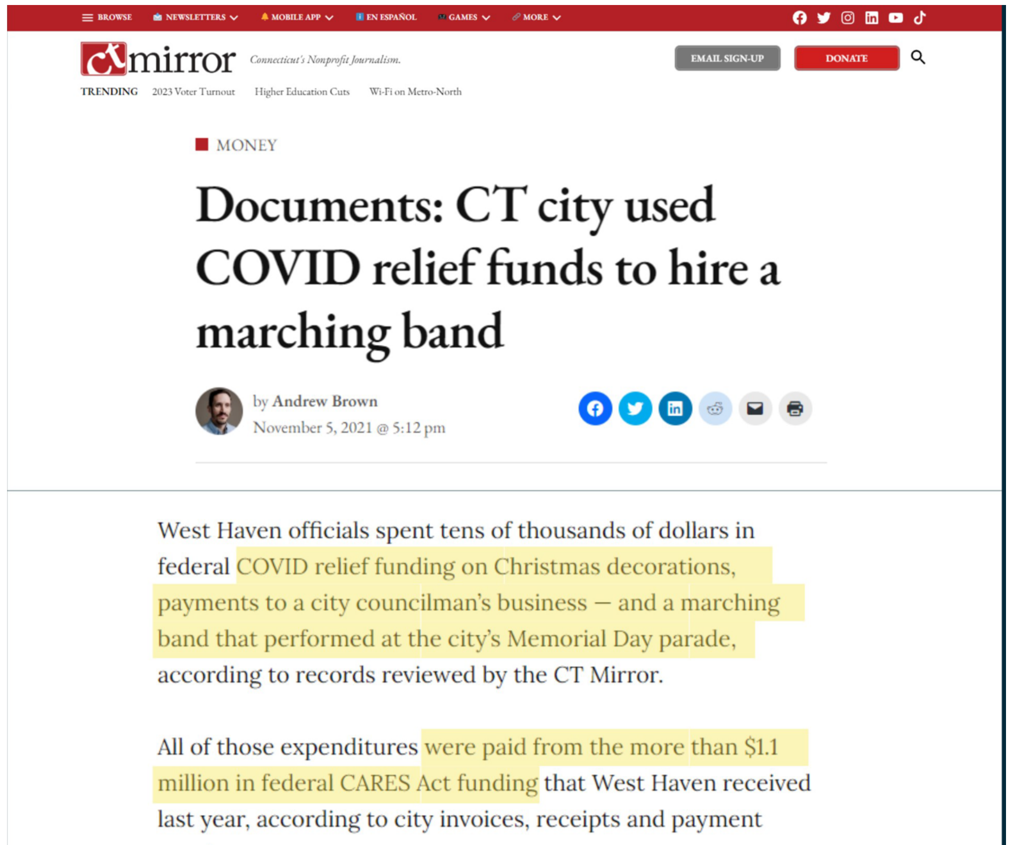
The Washington Post
Democracy Dies in Darkness

Vaccine bonuses, aid to businesses and . . . a golf course? Cities and states put $350 billion stimulus windfall to widely varied use.

Congress gave local governments billions to battle the coronavirus and shore up their economies. But the exact benefits of the influx of federal funds may just be in the eye of the beholder.

By Tony Romm

January 21, 2022 at 6:00 a.m. EST



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Documents: CT city used COVID relief funds to hire a marching band

by Andrew Brown
November 5, 2021 @ 5:12 pm

West Haven officials spent tens of thousands of dollars in federal COVID relief funding on Christmas decorations, payments to a city councilman's business — and a marching band that performed at the city's Memorial Day parade, according to records reviewed by the CT Mirror.

All of those expenditures were paid from the more than $1.1 million in federal CARES Act funding that West Haven received last year, according to city invoices, receipts and payment

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Funding for the "harm reduction" grant program is provided through Democrats' American Rescue Plan, which the Senate passed along party lines after Vice President Kamala Harris cast a tie-breaking vote. Other equipment that qualifies for funding include syringes, vaccinations, disease screenings, condoms, and fentanyl strips. The grant program will last three years and includes 25 awards of up to $400,000.

Office of the Special Inspector General for Pandemic Recovery

December 29, 2023

Hon. Maggie Hassan
Chair, Emerging Threats and Spending Oversight Subcommittee
Homeland Security and Governmental Affairs Committee
United States Senate
324 Hart Senate Office Building
Washington, DC 20510

Hon. Mitt Romney
Ranking Member, Emerging Threats and Spending Oversight Subcommittee
Homeland Security and Governmental Affairs Committee
United States Senate
Russell Senate Office Building, SR-354
Washington, DC 20510

Re: Follow-up to SIGPR Subcommittee Appearance on November 14, 2023

Dear Chair Hassan and Ranking Member Romney:

During my appearance before the Homeland Security and Governmental Affairs Emerging Threats and Spending Oversight Subcommittee on November 14, 2023, you and your colleagues expressed great interest in "lessons learned" relating to the execution of the various relief programs created by the CARES Act. In addition, members of the subcommittee raised a number of questions relating to potential fraud in the administration of the Coronavirus Relief Fund (CRF) created by the CARES Act. I am writing to follow up on those particular inquiries.

Lessons Learned from Oversight of CARES Act Programs

SIGPR is currently undertaking what we anticipate will be a series of reports setting forth "lessons learned" based on SIGPR's oversight work. The first of those reports will be issued in January 2024, but we wish to share with you now what we believe to be three of the most important lessons learned: (1) the need for an "access to records clause" in all federal program agreements; (2) the need for Treasury to develop a contingency plan for use in the event that it acts again as a direct lender as part of an economic relief program; and (3) the need to develop more detailed and robust guidance for Treasury to use in the future for administration of such direct loan programs.

Access to Records. SIGPR recommends that Congress mandate the inclusion of an "access to records clause" in all agreements signed between Federal entities, relief program beneficiaries, and any additional stakeholders. The CARES Act granted SIGPR access to "information or assistance from any department, agency, or other entity of the Federal Government…" (15 U.S.C. § 9053(e)(4)) but it did not provide access to information held by private entities. This has complicated and slowed SIGPR's collection of information about Main Street Lending Program loans for purposes of both audits and investigations. To gain such information, SIGPR has had to resort to time-consuming remedies and resource-intensive tools, including the preparation and issuance of 63 Inspector General subpoenas (as of December 13, 2023), to obtain information from the Federal Reserve Bank of Boston and the lending banks. By mandating the inclusion of an "access to records clause" in agreements, Congress will ensure that oversight entities can effectively and timely perform their jobs without needing to overcome unnecessary obstacles arising out of questions of jurisdiction.

Treasury as a Lender. Treasury should develop a contingency plan that considers direct loan program objectives and risks that can be used for future economic crises. By requiring Treasury to do so ahead of time, Congress can minimize the likelihood that risks will be overlooked in the rush toward program implementation. In the CARES Act, Congress positioned Treasury as a commercial lender with respect to direct loan programs, but Treasury was not subject to the same sort of oversight or regulatory standards that governmental entities such as the Federal Financial Institutions Examination Council (FFIEC) and Treasury's Office of the Comptroller of the Currency (OCC) apply to private commercial lenders. If Congress believes that Treasury will need to act as a commercial lender in the future, Treasury (and other agencies and external stakeholders, as applicable) should use inter-crisis periods to develop and then refine a framework of oversight and standards that can be used to quickly set up programs in times of crisis.

Direct Loan Guidance. Treasury's guidance for implementing and administering direct loan programs is sparse. The limited guidance made it difficult for SIGPR to perform its statutory audits, evaluations, and reviews to determine program effectiveness and may have limited the speed and quality of Treasury's program implementation. Therefore, Congress should encourage a review of *Principles of Federal Appropriations Law*,[1] other Federal laws and regulations, and relevant GAO and OMB guidance to determine whether updates to guidance appropriate for direct loans is necessary or desirable. This effort can help establish a framework for future direct loan programs and identify risks to aid policymakers in their decision to create direct lending programs or not.

<u>Information Relating to Fraud in the CRF Program</u>

Another subject in which you and colleagues expressed interest during the hearing was the possibility of fraud that has occurred in the Coronavirus Relief Fund (CRF). Title VI of the Social Security Act, as amended by Title V of Division A of the CARES Act established the CRF and appropriated $150 billion for making payments to states, tribal governments, units of local government, the District of Columbia, and United States territories. Payments were made in accordance with requirements outlined in Title V of which $3 billion was reserved for payments to the District of Columbia and U.S. territories and $8 billion was reserved for payments to tribal

[1] https://www.gao.gov/legal/appropriations-law/red-book. *Principles of Federal Appropriations Law*, also known as the Red Book, is GAO's multi-volume treatise concerning federal fiscal law. The Red Book provides text discussion with reference to specific legal authorities to illustrate legal principles, their application, and exceptions. These references include GAO decisions and opinions, judicial decisions, statutory provisions, and other relevant sources. The Red Book contains guidance for grants, cooperative agreements, and guaranteed and insured loans. However, there is almost no guidance for direct loans.

governments. Further, no state received a payment less than $1.25 billion. The CARES Act assigned the Department of the Treasury Office of Inspector General with responsibility for compliance monitoring and oversight of the receipt, disbursement, and use of CRF payments. Treasury OIG also was assigned authority to recoup CRF proceeds in the event that it was determined that a recipient of a CRF payment failed to comply with applicable requirements.

The CARES Act, as amended, stipulated that CRF recipients shall use the funds provided under a payment made under Title V to cover only those costs that:

(1) are necessary expenditures incurred due to the public health emergency with respect to COVID-19;

(2) were not accounted for in the budget most recently approved as of March 27, 2020; and

(3) were incurred between March 1, 2020 and December 31, 2021.

The statute also required periodic reporting from the prime CRF recipients that included the specific expenditure category towards which ultimate beneficiary of the funds applied those funds, as well as further detailed information about those expenditures. We have included a list of the permissible expenditure categories in Appendix A to this letter.

In 2023, the Treasury OIG directed a series of "desk reviews" of a sample of CRF recipients carried out by the audit, advisory, and accounting services firm, Castro & Company LLC. The purpose of the desk reviews was to "evaluate the prime recipient's documentation supporting the uses of CRF proceeds as reported [to Treasury through its designee] and assess risk of unallowable use of funds." The sample size of a CRF recipient's reviewed contracts, grants, loans, transfers to other governments, direct payments, and aggregate reporting was "based on risks identified in other audit reports, . . . reporting deficiencies identified by the monitoring/approval team, and anomalies identified by the Data Analytics manager."

Treasury OIG caused the performance of 25 desk reviews, reviewing the receipt of a total of $48.7 billion in CRF proceeds (32.46 percent of the total) by eight states, seven tribes, four counties, three cities, two territories, and one town. These desk reviews identified $2.2 billion (4.52% of reviewed CRF proceeds) in "questioned costs" and 11 entities with high risk of unallowable use of CRF funds. The table on the attached Appendix B summarizes the findings of these desk reviews.

As you know, in the absence of new legislation, SIGPR may not undertake investigations into the possibility of CRF fraud—following an opinion by the Department of Justice. Moreover, we do not mean to suggest by this letter that any such fraud has, in fact, been committed by the CRF recipients that were the subject of the Treasury OIG desk reviews. Without further investigation, for example, it is not possible to determine whether some or all of the discrepancies identified by the desk reviews are attributable to fraud or just poor record-keeping, and do not, in fact, indicate criminal conduct by the CRF recipients or the entities to which those recipients distributed funds. We are bringing this information to your attention solely because of your expression of interest in potential CRF fraud during my recent subcommittee appearance.

I hope that this information is helpful to you and your staff. Please let me know if there is any information on any other subject that you would like to receive from us.

Respectfully,

Brian D. Miller
Special Inspector General

APPENDIX A

Permissible expenditures included:

(1) Administrative Expenses;
(2) Budgeted Personnel and Services Diverted to a Substantially Different Use;
(3) COVID-19 Testing and Contact Tracing;
(4) Economic Support (Other than Small Business, Housing, and Food Assistance);
(5) Expenses Associated with the Issuance of Tax Anticipation Notes;
(6) Facilitating Distance Learning;
(7) Food Programs;
(8) Housing Support;
(9) Improve Telework Capabilities of Public Employees;
(10) Medical Expenses;
(11) Nursing Home Assistance;
(12) Payroll for Public Health and Safety Employees;
(13) Personal Protective Equipment;
(14) Public Health Expenses;
(15) Small Business Assistance;
(16) Unemployment Benefits; and
(17) Workers' Compensation.

APPENDIX B

U.S. Treasury Department OIG-Contracted Desk Reviews					
Letter Date	Letter Recipient	Recipient's Total CRF Allocation	Questioned Costs	Risk of Unallowable Use of Funds	Audit Recommended
08/09/23	Commonwealth of Virginia	$ 3,109,502,836	$ 870,559,763	High	Yes
07/07/23	Los Angeles County, CA	$ 1,057,341,431	$ 249,052,032	High	Yes
08/08/23	Navajo Nation Tribal Government	$ 714,189,631	$ 80,844,219	High	Yes
06/29/23	Lancaster County, PA	$ 95,224,629	$ 38,793,071	High	Yes
08/08/23	Commonwealth of Puerto Rico	$ 2,240,625,864	$ 33,681,692	High	Yes
07/07/23	Turtle Mountain Bank of Chippewa Indians	$ 54,827,702	$ 32,333,620	High	Yes
07/21/23	State of Texas	$ 8,038,314,290	$ 17,288,575	High	Yes
08/08/23	Commonwealth of Northern Mariana Islands	$ 36,284,218	$ 11,146,813	High	Yes
07/28/23	Native Village of Point Hope	$ 2,348,063	$ 2,348,064	High	Conditional
07/20/23	City of Dallas, TX	$ 234,443,127	$ 2,211,594	High	Yes
06/26/23	Chippewa Cree Tribe	$ 19,333,069	$ 75,091	High	Yes
07/27/23	State of Ohio	$ 3,754,114,827	$ 86,801	Low	No
07/07/23	State of California	$ 9,525,564,743	$ 6,952	Low	No
01/31/23	Broward County, FL	$ 340,744,702	$ -	Low	No
06/27/23	City of New York	$ 1,454,710,277	$ -	Low	No
06/26/23	State of Illinois	$ 3,518,945,365	$ -	Low	No
02/14/23	State of New York	$ 5,135,624,853	$ -	Low	No
06/27/23	The Cherokee Nation, OK	$ 410,906,000	$ -	Low	No
01/09/23	Town of Hempstead, NY	$ 133,832,095	$ -	Low	No
07/20/23	San Bernardino County, CA	$ 380,408,020	$ 4,151,612	Moderate	Conditional
07/26/23	State of Tennessee	$ 2,363,433,874	$ 1,162,364	Moderate	Conditional
07/21/23	Pleasant Point Indian Reservation	$ 4,929,535	$ 339,672	Moderate	Conditional
07/21/23	City of Phoenix, AZ	$ 293,320,141	$ 147,379	Moderate	Conditional
03/28/23	Fort McDermitt Paiute-Shoshone Tribe	$ 6,978,459		Moderate	No
07/20/23	State of Florida	$ 5,855,807,379	$ 893,154,358	not specified	not specified
		$ 48,781,755,130	$ 2,237,383,673		

Please note that the "letter date" in the chart above refers to the letter issued at the conclusion of each desk review.