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May 2023

# COVID RELIEF

## Fraud Schemes and Indicators in SBA Pandemic Programs

## Why GAO Did This Study

Congress established four programs to support small businesses during the pandemic: PPP, COVID-19 EIDL, Restaurant Revitalization Fund, and Shuttered Venue Operators Grant. Widely reported incidents of fraud raised questions about SBA's management of these programs. For this and other reasons, GAO added small business emergency loans to its High Risk Program in 2021.

The CARES Act includes a provision for GAO to monitor COVID-19 pandemic relief funds. This report (1) analyzes fraud cases charged by DOJ involving PPP and COVID-19 EIDL to understand fraud schemes and impacts, (2) provides the results of select data analyses regarding fraud indicators in PPP and COVID-19 EIDL, and (3) identifies opportunities for SBA to enhance its data analytics.

GAO analyzed DOJ press releases and court documents related to PPP and COVID-19 EIDL cases publicly announced as of December 2021 for fraud schemes and impacts. GAO analyzed 2020 and 2021 PPP and COVID-19 EIDL data, comparing these data to NDNH wage data to identify the presence of fraud indicators. GAO also evaluated SBA's data analytic efforts against leading practices.

## What GAO Recommends

GAO recommends that SBA (1) ensures it has and utilizes mechanisms to facilitate cross-program data analytics and (2) identifies external data sources that could aid in fraud prevention and detection and develop a plan to obtain access to those sources. SBA concurred with both recommendations.

View [GAO-23-105331](#). For more information, contact Johana Ayers at (202) 512-6722 or [ayersj@gao.gov](mailto:ayersj@gao.gov).

## COVID RELIEF

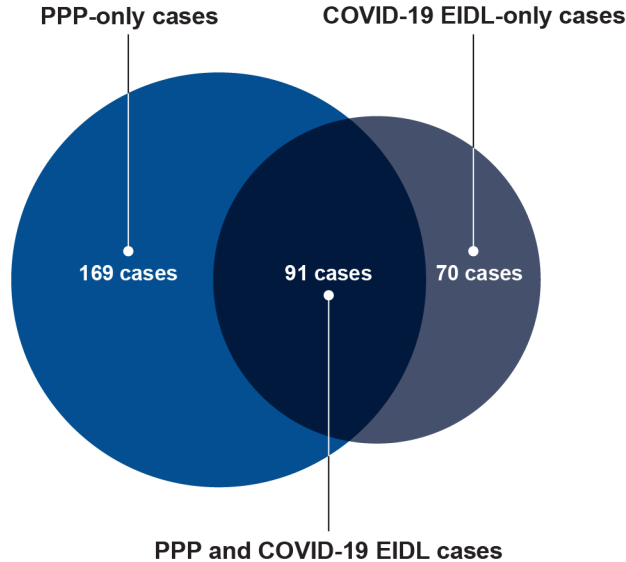
### Fraud Schemes and Indicators in SBA Pandemic Programs

## What GAO Found

The Small Business Administration (SBA) moved quickly under challenging circumstances to develop and launch pandemic relief programs to help small businesses. These programs, including the Paycheck Protection Program (PPP) and COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL), totaled over \$1 trillion and assisted more than 10 million small businesses. However, in some instances relief funds went to those who sought to defraud the government. As schemes emerged, SBA adapted its fraud risk management approach and added controls to help prevent, detect, and respond to fraud.

GAO analyzed 330 PPP and COVID-19 EIDL fraud cases. Federal prosecutors across the United States filed bank fraud, wire fraud, money laundering, identity theft, and other charges against 524 individuals associated with these cases. This analysis is based on fraud cases publicly announced by the Department of Justice (DOJ) as of December 2021.

Cases Charged by the Department of Justice Involving Paycheck Protection Program (PPP) and COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL) Fraud, as of December 31, 2021



Source: GAO analysis of Department of Justice information and court documents. | GAO-23-105331

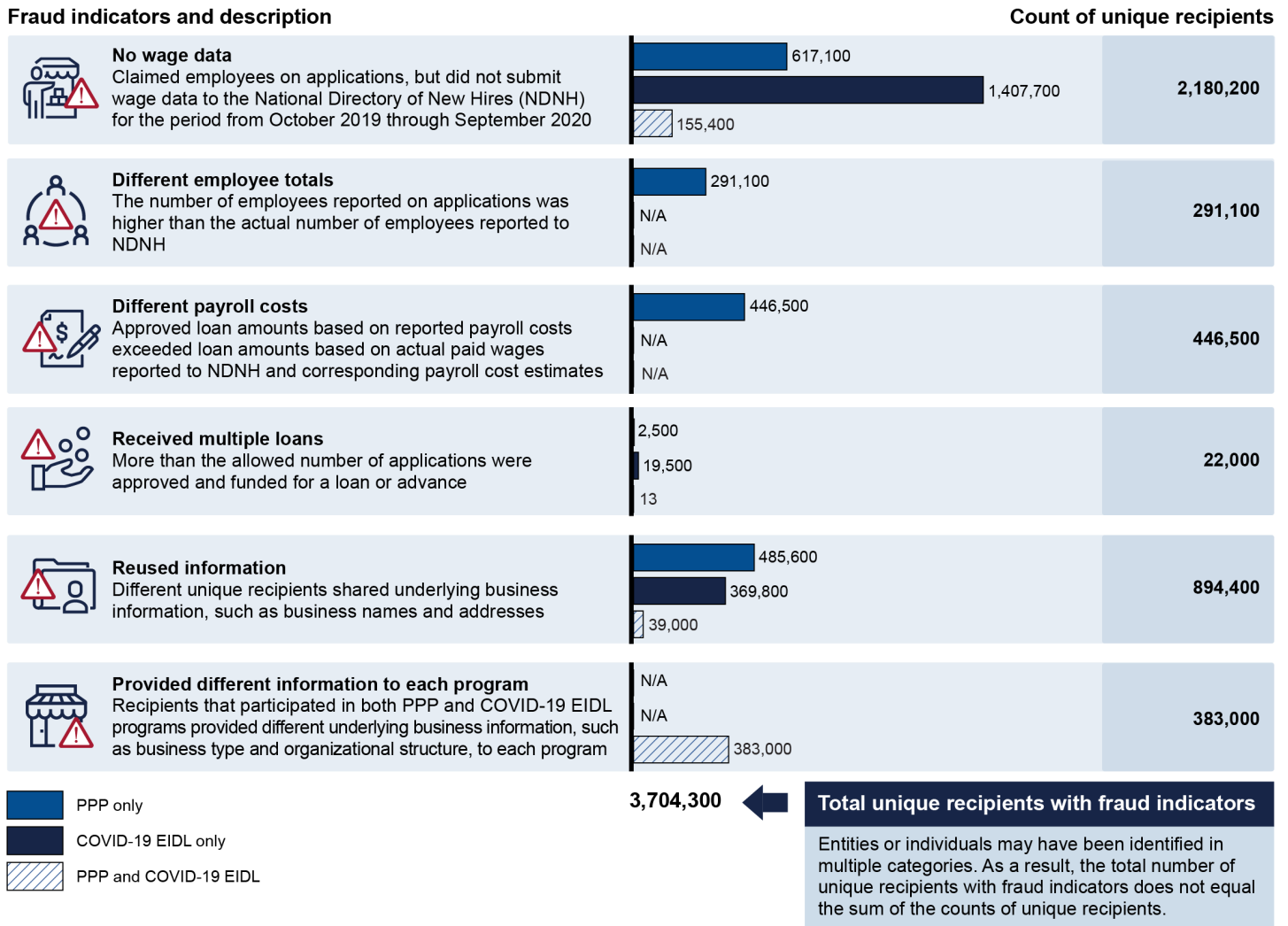
In those cases, DOJ charged individuals with

- misrepresenting eligibility, falsifying documents, using stolen identities, and
- deliberately exploiting the programs by conspiring with each other, sharing knowledge on how to circumvent controls, and obtaining kickbacks.

For the 155 of the 330 cases that reached conclusion through guilty pleas or convictions, GAO calculated about \$188 million in direct financial losses. Across these cases, as of December 2021, 94 individuals had been sentenced to an average of about 37 months in prison. The number of cases will continue to grow. As of January 2023, the SBA Office of Inspector General (OIG) had 536 ongoing investigations, and the statute of limitations has been extended to 10 years to prosecute individuals who committed PPP and COVID-19 EIDL-related fraud.

Select GAO analyses of PPP and COVID-19 EIDL data, including comparisons with National Directory of New Hires (NDNH) wage data, identified over 3.7 million unique recipients with fraud indicators out of a total of 13.4 million (see figure). Fraud indicators can be used to identify potential fraud and assess fraud risk. They are not proof of fraud. Additional review, investigation, and adjudication is needed to determine if fraud exists. To that end, GAO referred the unique recipients with fraud indicators it identified to the SBA OIG for further review and investigation. The unique recipients identified include potentially non-existent businesses or businesses that may have misrepresented employee counts to obtain more funds. However, it is possible that the analysis identified non-fraudulent recipients with data discrepancies consistent with an indicator. While SBA has conducted its own analyses to identify recipients with fraud indicators, it does not have access to the NDNH database and could not have performed the same analyses as GAO.

**Unique Paycheck Protection Program (PPP) and COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL) Recipients with Fraud Indicators**



Source: GAO analysis of PPP, COVID-19 EIDL, and NDNH data; and davooda/stock.adobe.com (icons). | GAO-23-105331

SBA has employed data analytics to enhance fraud prevention and detection. For example, the use of analytics contributed to SBA determining that some PPP borrowers were ineligible for loan amounts or used them for unauthorized purposes, resulting in \$4.7 billion in loan proceeds not being forgiven. In addition, SBA referred over 669,000 potentially fraudulent PPP and COVID-19 EIDL loans to the SBA OIG for investigation after using data analytics and conducting manual reviews. SBA enhanced its analytic capabilities during the pandemic and has recognized that it would benefit from further development of its data analytics program. SBA has opportunities to continue to improve its ability to prevent and detect potentially fraudulent transactions. For example, SBA did not fully leverage information to help identify applicants who tried to defraud multiple pandemic relief programs. While it has access to multiple external data sources, SBA does not have access to other external data sources that could aid in fraud detection and prevention. Leveraging information across programs and obtaining access to external data are consistent with leading fraud risk management practices. SBA has the opportunity to ensure that it fully leverages data across programs and accesses external data to the fullest extent possible to mitigate the likelihood and impact of fraud. Obtaining such access could necessitate pursuing statutory authority or entering into data-sharing agreements with other agencies to gain timely access to those sources.

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## Abbreviations

Board	Fraud Risk Management Board
BSA/AML	Bank Secrecy Act and related anti-money laundering requirements
Council	Fraud Risk Management Council
COVID-19 EIDL	COVID-19 Economic Injury Disaster Loan
DOJ	Department of Justice
EIN	employer identification number
FDIC	Federal Deposit Insurance Corporation
Federal Reserve	Board of Governors of the Federal Reserve System
FinCEN	Financial Crimes Enforcement Network
Fraud Risk Framework	<i>A Framework for Managing Fraud Risks in Federal Programs</i>
IP	internet protocol
IPSFF	International Public Sector Fraud Forum
IRS	Internal Revenue Service
NDNH	National Directory of New Hires
OIG	Office of Inspector General
OMB	Office of Management and Budget
PPP	Paycheck Protection Program
PRAC	Pandemic Response Accountability Committee
RRF	Restaurant Revitalization Fund
SAR	suspicious activity report
SBA	Small Business Administration
SSN	Social Security number
SVOG	Shuttered Venue Operators Grant
tax ID	taxpayer identification number
Treasury	Department of the Treasury

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May 18, 2023

### Congressional Committees

The COVID-19 pandemic created economic hardship for small businesses across the U.S. economy. Businesses in the restaurant, live performing arts, and entertainment industries were particularly hard hit. To assist small businesses, Congress created programs through the Small Business Administration (SBA) between March 2020 and March 2021 for pandemic relief. Specifically, the CARES Act and other laws provided funding for the newly created Paycheck Protection Program (PPP) and the COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL) program, which were available to most small businesses; and the Restaurant Revitalization Fund (RRF) and the Shuttered Venue Operators Grant (SVOG), which targeted hard-hit industries.<sup>1</sup> The more than \$1 trillion in relief funds provided through these four programs assisted more than 10 million small businesses affected by the pandemic. However, in some instances these relief funds went to those who sought to defraud the government.

We and others have raised questions about SBA's management of fraud risks in these programs.<sup>2</sup> Since June 2020, we have reported multiple times on fraud schemes, risks, and indicators in SBA's pandemic relief programs. Additionally, in March 2021, we added emergency loans for small businesses to GAO's High Risk Program, in part because of the

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<sup>1</sup>American Rescue Plan Act of 2021 (ARPA), Pub. L. No. 117-2, 135 Stat. 4; Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, div. M and N, 134 Stat. 1182 (2020); Paycheck Protection Program and Health Care Enhancement Act, Pub. L. No. 116-139, 134 Stat. 620 (2020); CARES Act, Pub. L. No. 116-136, 134 Stat. 281 (2020).

<sup>2</sup>Fraud is the act of obtaining something of value through willful misrepresentation. Whether an act is fraudulent is determined through the judicial or other adjudicative system. When fraud risks can be identified and managed, fraud may be less likely to occur.



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potential for fraud, significant risk to program integrity, and need for improved program management and better oversight.<sup>3</sup>

The CARES Act includes a provision for GAO to monitor and oversee the federal government's efforts to prepare for, respond to, and recover from the COVID-19 pandemic.<sup>4</sup> This report (1) analyzes fraud cases charged by the Department of Justice (DOJ) involving PPP and COVID-19 EIDL to understand fraud schemes and impacts; (2) provides the results of select data analyses to identify PPP and COVID-19 EIDL recipients with fraud indicators, as well as fraud-related lender activity in PPP; and (3) identifies opportunities for SBA to enhance its data analytics to prevent and detect potential fraud.<sup>5</sup>

For the first objective, we conducted a thematic analysis of criminal and civil fraud cases involving PPP and COVID-19 EIDL charged by DOJ and publicly announced as of December 31, 2021.<sup>6</sup> To identify cases, we received DOJ press releases through a subscription to Westlaw (a legal

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<sup>3</sup>The High Risk Program highlights federal programs and operations that we have determined are in need of transformation, and also names federal programs and operations that are vulnerable to waste, fraud, abuse, and mismanagement. GAO, *High-Risk Series: Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas*, [GAO-21-119SP](#) (Washington, D.C.: Mar. 2, 2021) and *High-Risk Series: Efforts Made to Achieve Progress Need to Be Maintained and Expanded to Fully Address All Areas*, [GAO-23-106203](#) (Washington, D.C.: Apr. 20, 2023).

<sup>4</sup>Pub. L. No. 116-136, § 19010(b), 134 Stat. 281, 580 (2020). All of GAO's reports related to the COVID-19 pandemic are available on GAO's website at <https://www.gao.gov/coronavirus>.

<sup>5</sup>Fraud indicators are characteristics and flags that serve as warning signs suggesting a potential for fraudulent activity. Indicators can be used to identify potential fraud and assess fraud risk but are not proof of fraud, which is determined through the judicial or other adjudicative system.

<sup>6</sup>Fraud cases are those PPP and COVID-19 EIDL cases that involve fraud-related charges. Fraud-related charges include criminal fraud charges associated with PPP or COVID-19 EIDL fraud schemes, such as bank fraud or wire fraud, as well as other charges for crimes used to execute fraud schemes, such as money laundering or conspiracy charges. Alternatively, DOJ can pursue civil remedies for suspected fraud under the False Claims Act, 31 U.S.C. § 3729-3733 and the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, 12 U.S.C. § 1833a.

We selected December 31, 2021, as the ending point of our research because after December 31, 2021, SBA stopped accepting COVID-19 EIDL applications (per Consolidated Appropriations Act, 2021). PPP closed in May 2021. We acknowledge that DOJ has continued to bring charges involving PPP and COVID-19 EIDL since December 31, 2021, and that later cases may involve more complex fraud schemes that may take longer to investigate and prosecute.

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news service), conducted periodic checks of the Westlaw database, and used other available sources, such as the DOJ Fraud Section website. For identified cases, we obtained relevant court documents by searching Public Access to Court Electronic Records.<sup>7</sup>

Using case information identified in court documents on charged individuals, fraud mechanisms, and loan amounts, among other things, we conducted a thematic analysis using the GAO Conceptual Fraud Model.<sup>8</sup> The model is organized as an ontology, which is an explicit description of categories of federal fraud, their characteristics, and the relationships among them. We structured and organized this thematic analysis using WebProtégé, an ontology modeling tool. We then analyzed the aggregate data to describe the characteristics and areas of impact of PPP and COVID-19 EIDL fraud cases. Based on data and information from these cases, we determined actual and potential financial impacts as well as non-financial impacts.

For the purposes of our analysis, we considered DOJ cases as closed when they reached conclusion through settlement, dismissal of charges, a guilty plea, or a verdict reached at trial.<sup>9</sup> We considered cases as ongoing when they had not reached a conclusion as of December 31, 2021. The cases are not generalizable to all fraud cases or all potential fraud involving PPP and COVID-19 EIDL. From the identified cases, we selected closed cases to provide illustrative examples of how fraud occurred.

For the second objective, we analyzed PPP and COVID-19 EIDL loan- and advance-level data to identify recipients with fraud indicators. This included matching that data to quarterly wage data in the National Directory of New Hires (NDNH) for quarter 4 of 2019 and quarters 1

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<sup>7</sup>Public Access to Court Electronic Records is a service of the federal judiciary that enables the public to search online for case information from U.S. district, bankruptcy, and appellate courts. Federal court records available through this system include case information (such as names of parties, proceedings, and documents filed) as well as information on case status.

<sup>8</sup>GAO, GAO Fraud Ontology Version 1.0, published January 10, 2022. [https://gaoinnovations.gov/antifraud\\_resource/howfraudworks](https://gaoinnovations.gov/antifraud_resource/howfraudworks)

<sup>9</sup>In criminal cases, after a finding of guilt, either through guilty plea or verdict, there is a period of time before the defendant returns to court to be sentenced. Some of the cases categorized as closed for our analysis had not yet completed the sentencing stage.

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through 3 of 2020.<sup>10</sup> By matching PPP and COVID-19 EIDL data to NDNH wage data, we identified unique recipients with fraud indicators associated with potential misrepresentations of business operating status, employee counts, or payroll costs. We also reviewed the loan-level data to determine whether applicants received multiple loans or advances, or if loans were disbursed to multiple recipients using the same information. Finally, we matched PPP data to COVID-19 EIDL data to identify unique recipients who obtained funds from both programs, which was permitted, but who (1) were associated with fraud indicators in both programs or (2) provided different information to the two programs, which is a fraud indicator. On the basis of our reliability assessment results, we determined that the data were sufficiently reliable for the purposes of matching and identifying discrepancies associated with fraud indicators. The intent of our analyses was to understand the extent fraud indicators existed, SBA's exposure to fraud risk, and how some recipients may have taken advantage of those risks. The results of our analyses, including the identification of discrepancies associated with fraud indicators, should not be interpreted as proof of fraud.

Additionally, we analyzed PPP lender origination of loans associated with DOJ cases (identified in objective 1) as well as PPP fraud indicators (identified in objective 2). Through this analysis, we identified the characteristics of lenders with loans associated with DOJ cases or loans that we flagged with fraud indicators. To determine the relevant population of PPP loans, we matched businesses identified in DOJ cases that received PPP loans with PPP loan-level data. Further, to provide insight into associations among variables of lender and borrower characteristics, we conducted logistic regressions to assess the statistical significance of associations between fraud indicators, and lender and loan characteristics with potentially fraudulent loans. A logistic regression describes the relationship between a binary outcome variable—in this case incidents of fraud and alleged fraud charged by DOJ—and select factors of interest, such as loan- and lender-level characteristics and select fraud indicators, while controlling for other factors.

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<sup>10</sup>NDNH is a national repository of new hire, quarterly wage, and unemployment insurance information reported by employers, states, and federal agencies. The NDNH is maintained and used by the U.S. Department of Health and Human Services for the federal child support enforcement program, which assists states in locating parents and enforcing child support orders. SBA does not have access to NDNH wage data. However, similar information, such as number of employees and wages paid, can be found on the employer's federal tax return and other employer filings.

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For the third objective, we evaluated SBA’s data analytic efforts for opportunities to enhance fraud prevention and detection by reviewing previous GAO reports, the results of our fraud indicator analysis, and SBA planning documents. We assessed SBA’s efforts against the leading practices identified in GAO’s Fraud Risk Framework.<sup>11</sup> For more information about our scope and methodology, see appendix I.

We conducted this performance audit from July 2021 to May 2023 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.

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## Background

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### Four SBA Pandemic Relief Programs

The COVID-19 pandemic had a significant effect on the nation and its economy. Stay-at-home orders, social distancing requirements, and reduced consumer demand early in the pandemic caused both temporary and permanent business closures, particularly among small businesses. To help support small businesses, in March 2020, Congress passed the CARES Act that, among other things, provided funds for two new SBA pandemic relief programs. Specifically, it created PPP, which was authorized under SBA’s existing 7(a) small business lending program.<sup>12</sup> It also established a COVID-19 EIDL program partially based on an existing SBA-administered program providing EIDL disaster loans.<sup>13</sup> Both PPP

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<sup>11</sup>GAO, *A Framework for Managing Fraud Risks in Federal Programs*, [GAO-15-593SP](#) (Washington, D.C.: July 2015).

<sup>12</sup>The 7(a) loan guarantee program provides small businesses access to capital that they would not be able to access in the competitive market.

<sup>13</sup>EIDL, which is part of SBA’s Disaster Loan Program, provides low-interest loans to help borrowers—small businesses and nonprofit organizations located in a disaster area—meet obligations or pay ordinary and necessary operating expenses. In this report, we refer to the Economic Injury Disaster Loan provisions of SBA’s Disaster Loan Program as “traditional” EIDL and to the EIDL program designed to help small businesses recover from the economic impacts of the COVID-19 pandemic as COVID-19 EIDL. For more information on SBA’s Disaster Loan Program, see GAO, *Small Business Administration: Disaster Loan Processing Was Timelier, but Planning Improvements and Pilot Program Evaluation Needed*, [GAO-20-168](#) (Washington, D.C.: Feb. 7, 2020).

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and COVID-19 EIDL contained programmatic elements that were new compared to the pre-pandemic programs.

**PPP** guaranteed over \$800 billion to small businesses and nonprofits, referred to collectively as “small businesses,” to help support payroll costs, rent, utilities and other eligible operating costs during the pandemic. Applicants could apply for

- first draw loans in PPP Round 1 between April and August of 2020, and
- first or second draw loans in PPP Round 2 between January and May 2021.<sup>14</sup>

PPP low-interest loans were fully SBA-guaranteed and made to recipients through a network of participating lenders under program rules set by Treasury and SBA’s Office of Capital Access. Under certain circumstances, recipients are eligible for full loan forgiveness. For example, to be eligible for full forgiveness, at least 60 percent of the loan had to be used for payroll costs, with the remaining amount used for eligible non-payroll costs, such as covered mortgage interest, rent, and utility payments.<sup>15</sup>

Participating PPP lenders included depository institutions (for example, banks and credit unions) and non-depository lending institutions (for example, SBA-certified development companies and state-regulated financial companies). Existing 7(a) lenders were automatically allowed to participate in PPP.<sup>16</sup> According to SBA and the Department of the Treasury (Treasury) officials, they jointly approved certain new non-

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<sup>14</sup>A borrower’s first PPP loan, which could be received in either 2020 or 2021 is referred to as a “first draw loan.” Borrowers that received first draw loans could apply for a second draw PPP loan in 2021, based on different eligibility requirements.

<sup>15</sup>SBA originally required borrowers to spend at least 75 percent of forgivable expenses on payroll costs, but this requirement was modified by later legislation. Paycheck Protection Program Flexibility Act of 2020, Pub. L. No. 116-142, § 3(b)(2)(B), 134 Stat. 641, 642 (2020).

<sup>16</sup>In an interim final rule published April 2, 2020, SBA announced that any federally insured depository institution, credit union, or farm credit institution in good standing with its regulator would automatically qualify to participate in PPP upon submission of SBA’s PPP Lender Agreement. 85 Fed. Reg. 20,811 at 20,815 (Apr. 15, 2020).

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federally regulated lenders<sup>17</sup> that had to attest they met Bank Secrecy Act and related anti-money laundering requirements (BSA/AML).<sup>18</sup> SBA's requirements for lenders were limited to actions such as confirming receipt of borrower certifications and supporting payroll documentation.<sup>19</sup>

With regard to lender supervision, federally insured depository institutions are generally supervised through a dual federal-state financial regulatory system. Specifically, federal banking agencies examine their supervised banks' BSA/AML compliance programs as part of safety and soundness examinations.<sup>20</sup> State regulators also supervise nonbank lenders, such as financial technology companies and money transmitters, based on state regulatory requirements.

**COVID-19 EIDL** provided over \$355 billion to businesses from March 2020 to December 2021 to assist their recovery from the economic effects of the pandemic. SBA managed the COVID-19 EIDL program directly, initially led by its Office of Disaster Assistance and later by the Office of Capital Access.<sup>21</sup> The program included two types of funding: loans and grants, otherwise known as advances. Advances—new programmatic elements in the COVID-19 EIDL—include EIDL advances (in 2020) and targeted advances and supplemental targeted advances (in

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<sup>17</sup>SBA and Treasury were jointly responsible for approving lenders new to SBA to issue PPP loans. According to SBA officials, SBA approved new federally regulated lenders, while new non-federally regulated and insured lenders required joint SBA and Treasury approval.

<sup>18</sup>The Currency and Foreign Transactions Reporting Act, generally referred to as the Bank Secrecy Act (BSA), as revised, imposes a number of reporting and recordkeeping obligations on covered financial institutions in an effort to prevent money laundering and the financing of terrorism, including, among other things, verifying the identity of customers, conducting ongoing customer due diligence, and filing suspicious activity reports with Treasury's Financial Crimes Enforcement Network (FinCEN).

<sup>19</sup>Because of limited PPP loan underwriting, lenders and SBA had less information from applicants to detect errors or fraud. The requirement in SBA's first interim final rule that lenders follow applicable BSA requirements may have required lenders to collect additional identifying information from borrowers before they approved a PPP loan.

<sup>20</sup>Federal banking agencies include the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, the National Credit Union Administration, and the Office of the Comptroller of the Currency. FinCEN has delegated its authority to examine financial institutions for compliance with the Bank Secrecy Act to the federal banking agencies. 31 C.F.R. § 1010.810(b).

<sup>21</sup>In July 2021, SBA transitioned administration of COVID-19 EIDL from the Office of Disaster Assistance to the Office of Capital Access. This program did not rely on a network of lenders to distribute pandemic relief funds.

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2021) for applicants located in low-income communities and meeting other eligibility requirements. Recipients could use these low-interest loans and advances as working capital to cover operating expenses to alleviate economic injury caused by the pandemic.

In December 2020 and March 2021, Congress passed the Consolidated Appropriations Act, 2021 and the American Rescue Plan Act of 2021, respectively, which appropriated additional funds to PPP and COVID-19 EIDL and made changes to PPP, including allowing a second loan under certain conditions. Congress also enacted two new programs—RRF and SVOG.

**RRF** provided about \$29 billion in award funds (which did not need to be repaid) to recipients—businesses in the food service industry—to use for eligible expenses such as payroll, business debt, maintenance, or construction of outdoor seating. SBA’s Office of Capital Access managed the program directly. RRF accepted applications between May and July 2021.

**SVOG** provided about \$15 billion in grant funds to recipients, which included live performing arts and entertainment businesses affected by the pandemic. Recipients could use the funds for eligible expenses that enable business operations such as payroll, rent or mortgage, and utility payments. SBA’s Office of Disaster Assistance managed the program directly. SVOG accepted applications between April and August 2021.

The CARES Act and subsequent legislation allowed for cross-program participation, in some circumstances. For example, PPP recipients could also receive COVID-19 EIDL, RRF, and SVOG funds, with some limitations. In the case of RRF and SVOG, recipients could obtain COVID-19 EIDL and PPP funds, with certain limitations, but recipients could not obtain both RRF and SVOG funds.

See table 1 for additional characteristics of the four SBA pandemic relief programs, including eligibility requirements.

**Table 1: Characteristics of Small Business Administration’s (SBA) Pandemic Relief Programs**

<b>Characteristic</b>	<b>Paycheck Protection Program (PPP)</b>	<b>Economic Injury Disaster Loan (COVID-19 EIDL)</b>	<b>Restaurant Revitalization Fund (RRF)</b>	<b>Shuttered Venue Operators Grant (SVOG)</b>
Initial authorizing legislation	CARES Act; Paycheck Protection Program Flexibility Act of 2020	Coronavirus Preparedness and Response Supplemental Appropriations Act of 2020; CARES Act	American Rescue Plan Act of 2021	Consolidated Appropriations Act, 2021
Purpose	To assist small businesses and nonprofits economically affected by COVID-19	To assist small businesses and nonprofits economically affected by COVID-19	To assist small businesses in the food service industry affected by COVID-19	To assist small businesses in the live performing arts and entertainment industry affected by COVID-19
Transaction type	Forgivable loan	Loan, advances (grants)	Award	Grant
Appropriated funding <sup>a</sup>	\$813.7 billion	\$105 billion	\$28.6 billion	\$16.3 billion
Funding distributed to recipients <sup>b</sup>	\$799 billion	\$378 billion in loans \$7 billion in advances <sup>c</sup>	\$28.6 billion	\$14.6 billion
Number of loans, advances, awards issued	11.4 million	3.9 million loans 6.8 million advances	100,572	13,011



Characteristic	Paycheck Protection Program (PPP)	Economic Injury Disaster Loan (COVID-19 EIDL)	Restaurant Revitalization Fund (RRF)	Shuttered Venue Operators Grant (SVOG)
Eligible businesses	<ul style="list-style-type: none"> <li>Generally, not more than 500 employees or meet SBA size standards (either the industry size standard or the alternative size standard)</li> <li>Sole proprietors, independent contractors, and self-employed persons</li> <li>Certain nonprofit organizations, certain veterans organizations, or tribal businesses</li> <li>Businesses in the accommodations and food services sector with more than one physical location may be eligible if fewer than 500 people are employed per physical location</li> <li>Business was in operation as of February 15, 2020</li> <li>For second draw loans, businesses must have no more than 300 employees unless “per location” size standard applies. SBA industry-based or alternative size standards do not apply</li> </ul>	<p>Loans:</p> <ul style="list-style-type: none"> <li>Not more than 500 employees or meet SBA size standards</li> <li>Small businesses including small agricultural cooperatives, Employee Stock Ownership Plans, tribal concerns, sole proprietorships, independent contractors, agricultural enterprises, and most private nonprofit organizations<sup>d</sup></li> <li>Business was established on or before January 31, 2020</li> </ul> <p>Advances:</p> <ul style="list-style-type: none"> <li>Not more than 500 employees for advances in 2020</li> <li>Not more than 300 employees and low-income community and losses to income greater than 30 percent for targeted advances</li> <li>Not more than 10 employees and low-income community and economic losses greater than 50 percent for supplemental targeted advances</li> <li>Most agricultural enterprises were not eligible for targeted advances or supplemental targeted advances</li> </ul>	<ul style="list-style-type: none"> <li>Businesses such as restaurants, food stands, food trucks, caterers, bars, and similar places of business that serve food or drink</li> <li>Businesses must have no more than 20 locations</li> <li>Businesses’ operating status could be open, temporarily closed, or opening soon, with expenses incurred as of March 11, 2021</li> </ul>	<ul style="list-style-type: none"> <li>Venues and promoters, live performing arts, movie theaters, museums, talent representatives, and theatrical producers</li> <li>Business was in operation as of February 29, 2020</li> </ul>

Characteristic	Paycheck Protection Program (PPP)	Economic Injury Disaster Loan (COVID-19 EIDL)	Restaurant Revitalization Fund (RRF)	Shuttered Venue Operators Grant (SVOG)
Eligible expenses	For loan forgiveness: 60 percent on payroll with the rest spent on business rent, mortgage interest payments, or utilities, among other eligible expenses	Payroll, business rent, certain mortgage payments and fixed debt payments	Payroll (including paid sick leave), rent or mortgage payments, utilities, debt service, construction of outdoor seating, maintenance, supplies, food and beverage (including raw materials), covered supplier costs, and operating expenses	Those that enabled ongoing business operations (e.g., payroll costs, rent, mortgage payments)
Repayment period	Loans issued prior to June 5, 2020: 2 years, unless mutually extended. Loans issued on or after June 5, 2020: 5 years.  Loan can be forgiven when at least 60 percent used for payroll costs	Up to 30 years; 30-month deferred repayment.  Advances do not need to be repaid	Not applicable (NA)	NA
Interest rate for loans	1 percent	3.75 percent for businesses; 2.75 percent for nonprofits	NA	NA
Allowed participation across programs (Limitations for cross-program participation)	COVID-19 EIDL, RRF, SVOG (the amount of a SVOG grant to be reduced by the total amount of a PPP loan received on or after December 27, 2020; entities are ineligible for a PPP loan after they receive a SVOG grant)	PPP, RRF, SVOG	PPP, COVID-19 EIDL (RRF awards adjusted based on PPP value; recipients cannot obtain both RRF and SVOG funds)	PPP, COVID-19 EIDL (SVOG awards adjusted if PPP received on or after December 27, 2020; recipients cannot obtain both RRF and SVOG funds)

Source: GAO analysis of SBA information. | GAO-23-105331

<sup>a</sup>Data as reported by GAO in September 2021 (PPP), July 2021 (COVID-19 EIDL), July 2022 (RRF), and October 2022 (SVOG). SBA provided the following net appropriations amounts as of September 2022, inclusive of rescissions and transfers: PPP – \$820 billion; COVID-19 EIDL – \$75.2 billion; RRF – \$28.6 billion; SVOG – \$15.1 billion. These amounts include net funding considerations from laws from fiscal year 2020 through fiscal year 2022.

<sup>b</sup>Data as reported by SBA in the Agency Financial Report, Fiscal Year 2022.

<sup>c</sup>Distributed amount for COVID-19 EIDL is higher than appropriated amount due to COVID-19 EIDL loan credit subsidy. Loan credit subsidy covers the government’s cost of extending or guaranteeing credit and is used to protect the government against the risk of estimated shortfalls in loan repayments. The loan credit subsidy amount is about one-seventh of the cost of each disaster loan in 2020.

<sup>d</sup>Agricultural enterprises did not become eligible until April 24, 2020, based on the Paycheck Protection Program and Health Care Enhancement Act.

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## Fraud in SBA Pandemic Relief Programs

Fraud is challenging to detect because of its deceptive nature. Generally, once potential fraud is detected and investigated, alleged fraud cases may be charged. If a court determines that fraud took place through a violation of relevant law, then fraudulent spending may be recovered.

The life cycle of fraud in SBA pandemic relief programs, including those involving PPP and COVID-19 EIDL, started with applicants who circumvented existing controls. Some of the potentially fraudulent applications were declined by lenders or by SBA through the use of upfront controls. Other applications were approved, but potential fraud was later detected through SBA fraud controls or by others such as law enforcement, whistleblowers, or financial institutions. Some fraudulent applications will never be detected.

Law enforcement agencies, such as the SBA OIG and U.S. Secret Service, investigated instances of suspected fraud and violations of relevant statutes (investigation stage).<sup>22</sup> DOJ has pursued and continues to pursue a portion of the cases investigated by law enforcement. DOJ has done this by filing fraud-related criminal charges against individuals or businesses that submitted the applications, or, less commonly, by bringing a civil case against an individual or business (prosecution stage).<sup>23</sup>

A criminal case is resolved by a guilty plea, a guilty verdict after trial, an acquittal after trial, or dismissal of the charges (resolution stage). In the context of PPP and COVID-19 EIDL cases, DOJ officials stated that the vast majority of cases are resolved through plea agreements, with few cases dismissed or resulting in acquittals. Only criminal cases resulting in a guilty plea or guilty verdict after trial reach the sentencing phase where

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<sup>22</sup>In April 2023, the SBA Inspector General testified that his office had assisted the U.S. Secret Service in the seizure of more than \$1 billion stolen by fraudsters from the COVID-19 EIDL program. *Office of Inspector General Reports to Congress on Investigations of SBA Programs, Before the House Subcommittee on Oversight, Investigations, and Regulations of the Committee on Small Business*, 118<sup>th</sup> Cong., April 19, 2023.

<sup>23</sup>Criminal cases involve federal prosecutors filing charges against an accused for violation of one or more criminal statute, and punishment may result in imprisonment. Civil cases involve the government alleging violation of civil statute and may result in seeking financial compensation but no imprisonment.

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the court determines penalties, and funds from fraudulently obtained loans may be subject to restitution and forfeiture (sentencing stage).<sup>24</sup>

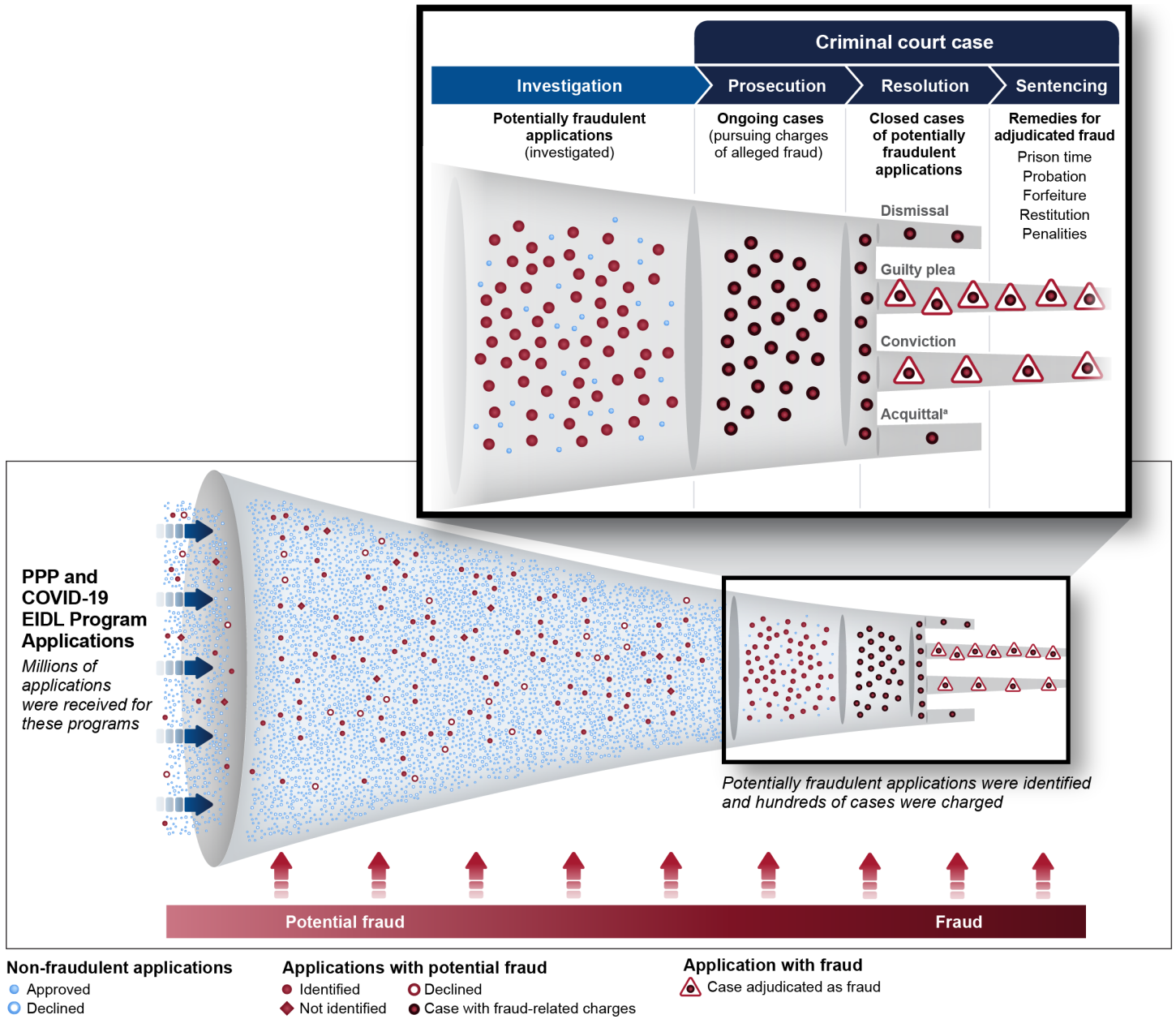
See figure 1 for an illustration of the life cycle involving criminal cases. This life cycle involves a range of agency, investigative, prosecutorial, and judicial resources to attempt to recover fraudulently obtained taxpayer funds. Furthermore, this process underscores the resources involved in a “pay-and-chase” approach to dealing with fraud and the importance of preventive controls to manage fraud risks.<sup>25</sup>

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<sup>24</sup>Civil cases are resolved through settlement or after proceedings that result in a civil judgment. The amount of any damages to be paid is determined by the parties as part of their settlement or is reflected in the civil judgment.

<sup>25</sup>“Pay-and-chase” refers to the practice of detecting fraudulent transactions and attempting to recover funds after payments have been made. The Fraud Risk Framework describes “pay-and-chase” as a costly and inefficient model.

**Figure 1: Illustrative Life Cycle of Fraudulent Paycheck Protection Program (PPP) and COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL) Applications Involving Criminal Cases**



Source: GAO. | GAO-23-105331

Note: The numbers and proportions of applications and cases in the figure are illustrative.

<sup>a</sup>Although cases that were resolved with acquittals may have had fraud-related charges, the defendants were formally determined to not be guilty of the charges.

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## Fraud Risk Management

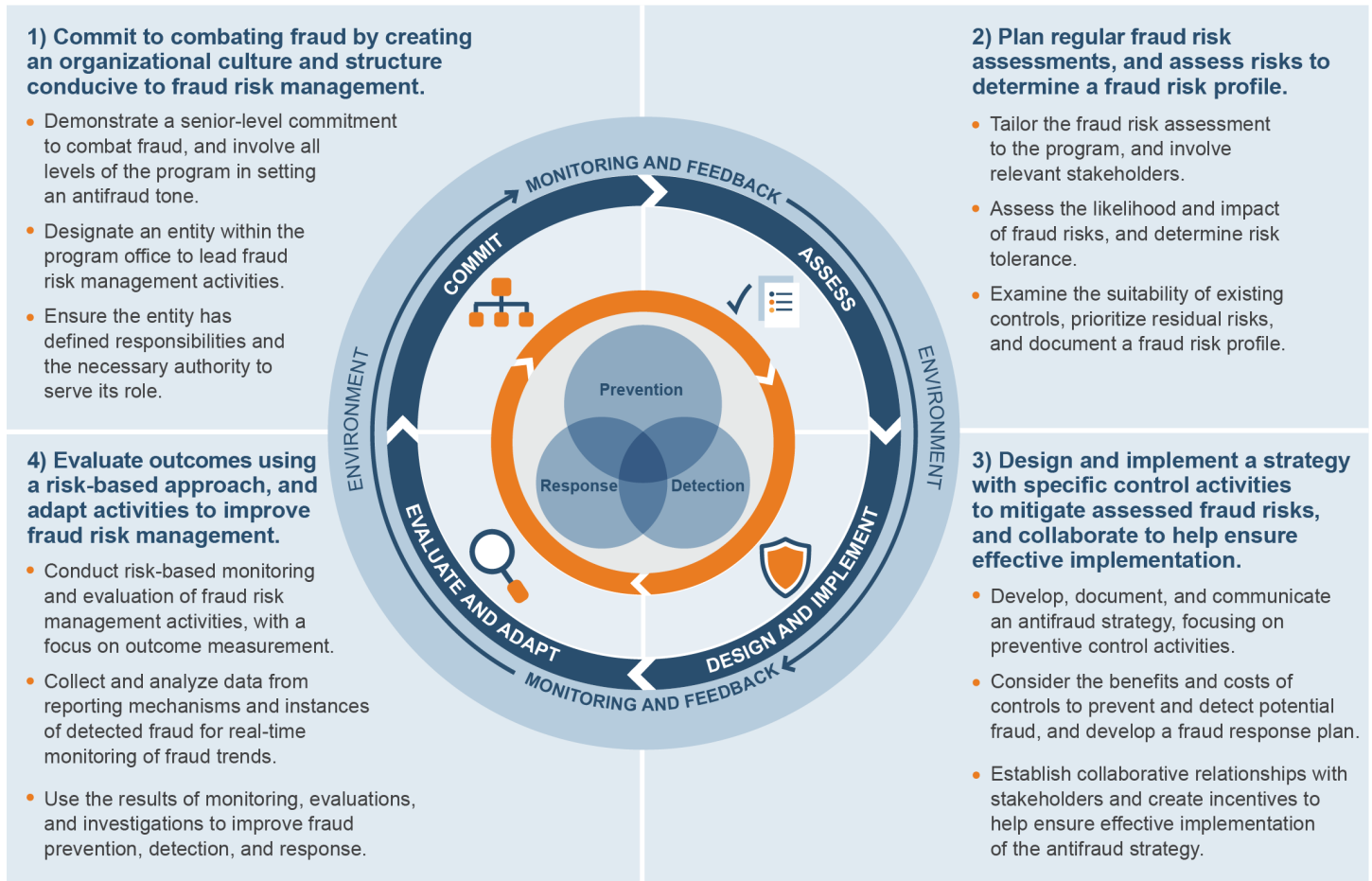
To help combat fraud in government agencies and programs—both during normal operations and emergencies—GAO published *A Framework for Managing Fraud Risks in Federal Programs* (Fraud Risk Framework).<sup>26</sup> Issued in 2015, the Fraud Risk Framework identifies leading practices for managing fraud risks and encompasses control activities to prevent, detect, and respond to fraud, with an emphasis on prevention. As discussed in the Fraud Risk Framework, strategic fraud risk management involves more than having controls to prevent, detect, and respond to fraud. Rather, it also encompasses structures and environmental factors that influence or help managers achieve their objective to mitigate fraud risks.

The Fraud Risk Framework describes leading practices in four components: commit, assess, design and implement, and evaluate and adapt, as depicted in figure 2.

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<sup>26</sup>[GAO-15-593SP](#).

**Figure 2: The Four Components of the Fraud Risk Management Framework and Selected Leading Practices**



Source: GAO. | GAO-23-105331

In June 2016, Congress enacted the Fraud Reduction and Data Analytics Act of 2015. This act required the Office of Management and Budget (OMB) to establish guidelines for federal agencies to create controls to identify and assess fraud risks and to design and implement antifraud control activities.<sup>27</sup> The act further required OMB to incorporate the leading practices from GAO’s Fraud Risk Framework in these guidelines. In its 2016 Circular No. A-123 guidelines, OMB directed agencies to adhere to the Fraud Risk Framework’s leading practices as part of their efforts to effectively design, implement, and operate an internal control

<sup>27</sup>Pub. L. No. 114-186, 130 Stat. 546 (2016).

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system that addresses fraud risks.<sup>28</sup> Although the act was repealed in March 2020, the Payment Integrity Information Act of 2019 requires these guidelines to remain in effect.<sup>29</sup>

GAO also has ongoing work developing a framework to provide principles and practices that can help federal managers mitigate improper payments, including those resulting from fraudulent activity, in emergency assistance programs. Specifically, the framework will incorporate standards for internal controls and for financial and fraud risk management practices as well as requirements from relevant laws and guidance on improper payments.

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## Prior Reporting on Fraud Risks and Financial Control Weaknesses in SBA Pandemic Relief Programs

In our first government-wide CARES Act report issued in June 2020, we reported that the public health crisis, economic instability, and increased flow of federal funds associated with the COVID-19 pandemic increased pressures and opportunities for fraud.<sup>30</sup> We noted that recognizing fraud risks and deliberately managing them in an emergency environment can help federal managers safeguard public resources while providing needed relief.

We also reported that because the government needed to provide funds and other assistance quickly to those affected by COVID-19 and its economic effects, federal relief programs—including those implemented by SBA—were vulnerable to significant risk of fraudulent activities. We further stated that managers may perceive a conflict between their priorities to fulfill the program’s mission—such as efficiently disbursing funds or providing services to beneficiaries, particularly during emergencies—and taking actions to safeguard taxpayer dollars from improper use. However, we noted that the purpose of proactively

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<sup>28</sup>Office of Management and Budget, *Management’s Responsibility for Enterprise Risk Management and Internal Control*, OMB Circular No. A-123 (Washington, D.C. July 15, 2016). In October 2022, OMB issued a Controller Alert, which reminded agencies that 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 Management Framework as part of their efforts to effectively design, implement, and operate an internal control system that addresses fraud risks. OMB, CA-23-03, *Establishing Financial and Administrative Controls to Identify and Assess Fraud Risk* (Oct. 17, 2022).

<sup>29</sup>Pub. L. No. 116-117, § 2(a), 134 Stat. 113, 131-32 (2020) (codified at 31 U.S.C. §3357). These guidelines may be periodically modified by OMB in consultation with GAO, as OMB and GAO may determine necessary.

<sup>30</sup>GAO, *COVID-19: Opportunities to Improve Federal Response and Recovery Efforts*, [GAO-20-625](#) (Washington, D.C.: June 25, 2020).



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managing fraud risks, even during emergencies, is to facilitate, not hinder, the program's mission and strategic goals by ensuring that taxpayer dollars and government services serve their intended purposes.

We further reported that when emergency response situations limit the use of preventive controls—which are the most effective means of managing fraud risks—agencies can leverage detective controls, such as through data collection and analysis, to help identify potential fraud more readily and to assist in response and recovery. Specifically, the use of data analytic tools and techniques can help programs detect potential fraud and better understand existing and emerging risks.

In February 2023, the Comptroller General testified on fraud and improper payments in COVID-19 pandemic relief programs.<sup>31</sup> He noted that SBA's initial approach to managing fraud risks in PPP and the COVID-19 EIDL program, as well as in its long-standing programs, had not been strategic. For example,

- SBA did not designate a dedicated antifraud entity until February 2022. This new entity—the Fraud Risk Management Board—is to oversee and coordinate SBA's fraud risk prevention, detection, and response activities.
- SBA did not develop its fraud risk assessments for the programs until October 2021, at which point PPP had already stopped accepting new applications, and the COVID-19 EIDL program would stop at the end of that year. Fraud risk assessments are most helpful in developing preventive fraud controls to avoid costly and inefficient “pay-and-chase” activities. For example, while the PPP fraud risk assessment can help SBA identify potential fraud as it continues to review the PPP loans for forgiveness, it could not be used to inform SBA's efforts during the initial application process.

See appendix II for additional details regarding SBA's management of fraud risks as the pandemic began and as SBA adapted its fraud risk management approach for the four pandemic relief programs. See appendix III for our recommendations to improve fraud risk management in SBA's pandemic relief programs, along with information on actions taken by SBA to address them.

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<sup>31</sup>GAO, *Emergency Relief Funds: Significant Improvements Are Needed to Address Fraud and Improper Payments*, [GAO-23-106556](#) (Washington, D.C.: Feb. 1, 2023).

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Other federal accountability and oversight bodies, namely the SBA OIG and the Pandemic Response Accountability Committee (PRAC), have reported on SBA's efforts to manage fraud risks in these programs.<sup>32</sup> Many of the reports produced by these bodies also contained recommendations to SBA.<sup>33</sup>

In addition, since 2020, SBA's independent financial statement auditor has made multiple recommendations to SBA to address material weaknesses identified in controls related to SBA's pandemic relief programs.<sup>34</sup> Specifically:

- In December 2020, the auditor issued a disclaimer of opinion on SBA's consolidated financial statements as of and for the year ended September 30, 2020, meaning the auditor was unable to express an opinion due to insufficient evidence.<sup>35</sup> As the basis for the disclaimer, the auditor stated that SBA was unable to provide adequate documentation to support a significant number of transactions and account balances related to PPP and COVID-19 EIDL due to inadequate processes and controls.

The auditor identified several material weaknesses in controls related to SBA's pandemic relief programs. In total, the auditor identified seven material weaknesses including those related to PPP loan approvals, COVID-19 EIDL loans and advance approvals, and overall management controls (e.g., ineffective control environment, risk assessment processes, control activities, information and communication processes, and monitoring processes). Overall, the

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<sup>32</sup>The Pandemic Response Accountability Committee (PRAC) was established by the CARES Act to conduct oversight of the federal government's pandemic response and recovery effort. The PRAC is composed of 21 federal inspectors general.

<sup>33</sup>SBA OIG and PRAC reports, including information on recommendations and their status, can be found on the PRAC's website (<https://www.pandemicoversight.gov/oversight/reports>).

<sup>34</sup>A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

<sup>35</sup>SBA OIG, *Independent Auditors' Report on SBA's FY 2020 Financial Statements*, 21-04 (Dec. 18, 2020).

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auditor made 46 recommendations to SBA management. In commenting on the audit, SBA stated it supported the requirements for auditability of its financial statements and was working to correct shortcomings for future audits.

- In November 2021, the auditor issued a disclaimer of opinion on SBA's consolidated balance sheet as of September 30, 2021.<sup>36</sup> As the basis for the disclaimer, the auditor stated that SBA was unable to provide adequate documentation to support a significant number of transactions and account balances related to PPP, COVID-19 EIDL, RRF, and SVOG due to inadequate processes and controls.

In total, the auditor identified six material weaknesses. This included weaknesses related to PPP (both the approval and forgiveness, among others), COVID-19 EIDL (both loans and advances), and the accounting and monitoring of RRF and SVOG programs. Overall, the auditor made 41 recommendations to SBA management. In commenting on the audit, SBA stated that it did not concur with the severity of five material weaknesses in the auditor's report, including those related to PPP, COVID-19 EIDL, RRF, and SVOG. SBA stated that it had worked to establish internal controls, policies, and procedures that addressed new legislative programs as a result of the pandemic, and that it would take corrective actions to remediate weaknesses and strengthen internal controls where necessary.

- In November 2022, the auditor issued a disclaimer of opinion on SBA's consolidated balance sheet as of September 30, 2022.<sup>37</sup> The basis of the disclaimer was related to SBA being unable to provide adequate documentation related to PPP, COVID-19 EIDL, RRF, and SVOG.

In total, the auditor identified six material weaknesses, including those related to controls in the PPP, COVID-19 EIDL, RRF, and SVOG programs. Overall, the auditor made 42 recommendations to SBA

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<sup>36</sup>SBA OIG, *Independent Auditors' Report on SBA's FY 2021 Financial Statements*, 22-05 (Nov. 15, 2021). The OIG contracted with the independent auditor to conduct an audit of SBA's consolidated balance sheet as of September 30, 2021, and the related notes. As a result, the auditor was not engaged to express an opinion on the other statements within the consolidated financial statements.

<sup>37</sup>SBA OIG, *Independent Auditors' Report on SBA's FY 2022 Financial Statements*, 23-02 (Nov. 15, 2022). The OIG contracted with the independent auditor to conduct an audit of SBA's consolidated balance sheet as of September 30, 2022, and the related notes. As a result, the auditor was not engaged to express an opinion on the other statements within the consolidated financial statements.

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management. In commenting on the audit, SBA noted that it had continued making progress strengthening internal controls for pandemic-focused programs and was dedicated to accountability and transparency to the American public. SBA also noted that the audit process continued to provide the agency with beneficial recommendations that support SBA's ongoing efforts to further enhance its financial management practices.

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## Analysis of PPP and COVID-19 EIDL Charges Illustrates Fraud Schemes and Their Actual and Potential Impacts

Our analysis, which identified hundreds of cases and individuals charged by DOJ as well as associated businesses, illustrates how misrepresentations and deliberate exploitation of the programs facilitated fraud. Our analysis also determined that the financial and non-financial impacts of PPP and COVID-19 EIDL fraud are far reaching, but the full extent is not yet known.

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## Analysis of PPP and COVID-19 EIDL Charges Shows the Role of Misrepresentation and Deliberate Exploitation in Facilitating Fraud

### Analysis of Hundreds of PPP and COVID-19 EIDL Cases Identified Associated Individuals and Businesses

Our analysis of hundreds of cases charged by DOJ illustrates how fraud was committed in closed cases or may have been committed in ongoing cases, through misrepresentations and deliberate exploitation of PPP and COVID-19 EIDL.<sup>38</sup> The cases and associated individuals and businesses in our analysis are based on publicly announced fraud-related charges

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<sup>38</sup>We identified fraud cases from DOJ press releases and other public information, which may not include all cases pursued by DOJ. Additionally, some fraud may never be detected. Furthermore, fraud-related administrative actions levied by regulators or brought through lawsuits by private entities or individuals are not included in our analysis. As a result, the 330 cases we identified and analyzed may not be representative of all cases pursued by DOJ or others. In addition, case details, such as businesses involved and numbers of loan applications submitted, were not always available in publicly available case documentation. Our findings, including counts of cases, individuals, and businesses, therefore represent the lower bound of the possible characteristics of cases we identified for this analysis.

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involving PPP and COVID-19 EIDL funds as of December 31, 2021.<sup>39</sup> Specifically, we identified 330 criminal and civil fraud cases brought by DOJ involving PPP or COVID-19 EIDL, 91 of which involved both programs (see fig. 3).<sup>40</sup> The number of cases will continue to grow. For example, as of January 25, 2023, the SBA OIG had 536 ongoing investigations involving PPP, COVID-19 EIDL, or both. Additionally, Congress extended the statute of limitations for criminal and civil enforcement for all forms of PPP and COVID-19 EIDL loan fraud from 5 years to 10 years.<sup>41</sup>

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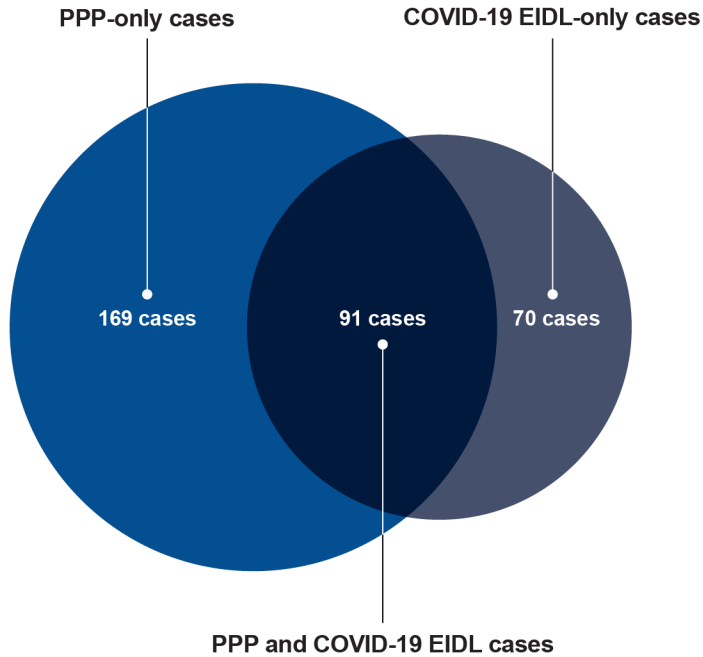
<sup>39</sup>We selected December 31, 2021, as the ending point of our research because on December 31, 2021, SBA stopped accepting COVID-19 EIDL applications (per Consolidated Appropriations Act, 2021). PPP closed in May 2021. We acknowledge that DOJ has continued to bring charges involving PPP and COVID-19 EIDL since December 31, 2021, and that later cases may involve more complex fraud schemes that may take longer to investigate and prosecute. In a separate analysis of DOJ public statements and court documentation, we reported on February 1, 2023, that from March 2020 through January 13, 2023, 535 individuals or entities had pleaded guilty or received a guilty verdict at trial involving PPP fraud, and 293 involving COVID-19 EIDL fraud (with 185 having fraud-related charges involving both programs).

<sup>40</sup>A single case—which involves fraud-related charges associated with PPP, COVID-19 EIDL, or both programs—may involve (1) a single individual or business or (2) multiple individuals or businesses that applied for a single or multiple loans or grants. A single case may contain a single or multiple fraud mechanisms. Out of the 330 fraud cases we identified, 322 were criminal cases and eight were civil cases. The civil cases included in our analysis were closed cases that reached a conclusion through settlement or judgment of forfeiture. Ongoing civil cases were not included in our analysis.

<sup>41</sup>PPP and Bank Fraud Harmonization Act of 2022, Pub. L. No. 117-166, 136 Stat. 1365 and COVID-19 EIDL Fraud Statute of Limitations Act of 2022, Pub. L. No. 117-165, 136 Stat. 1363.

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**Figure 3: Cases Charged by the Department of Justice Involving Paycheck Protection Program (PPP) and COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL) Fraud, as of December 31, 2021**



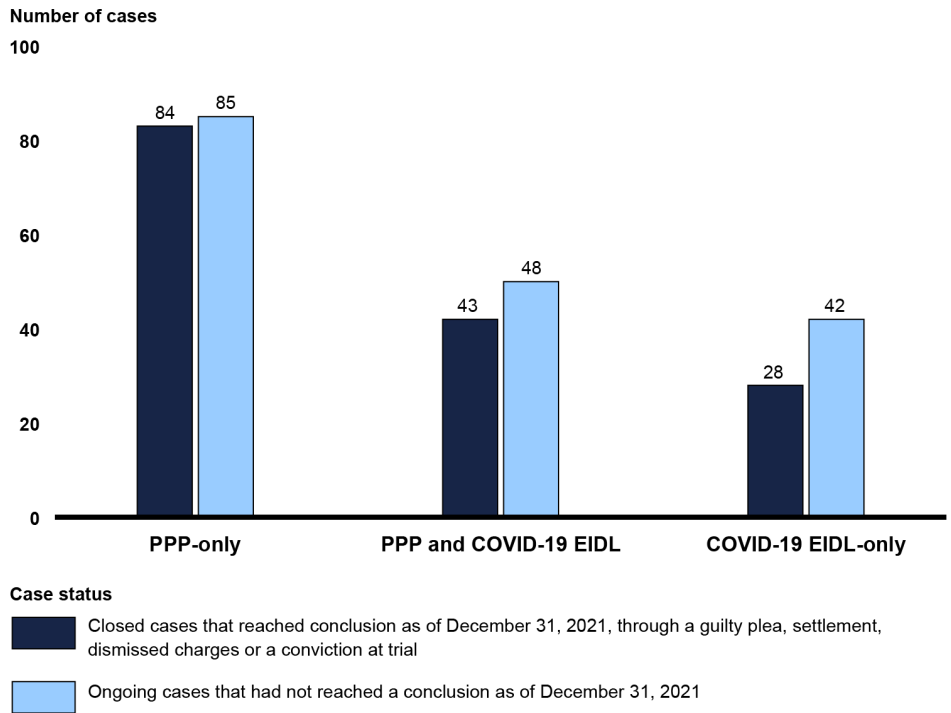
Source: GAO analysis of Department of Justice information and court documents. | GAO-23-105331

As of December 31, 2021, 155 of the 330 cases were categorized as closed because they reached a conclusion through guilty pleas, settlements, guilty verdicts, or dismissals.<sup>42</sup> At that time, 175 cases had not yet reached conclusion and, therefore, were considered ongoing for the purposes of our analysis (see fig. 4).

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<sup>42</sup>Our definition of a closed case also included acquittals, but no acquittals were identified in our population of cases. Of the 155 closed cases, five had been dismissed.

**Figure 4: Ongoing and Closed Cases Involving Paycheck Protection Program (PPP) and COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL) Fraud, as of December 31, 2021**



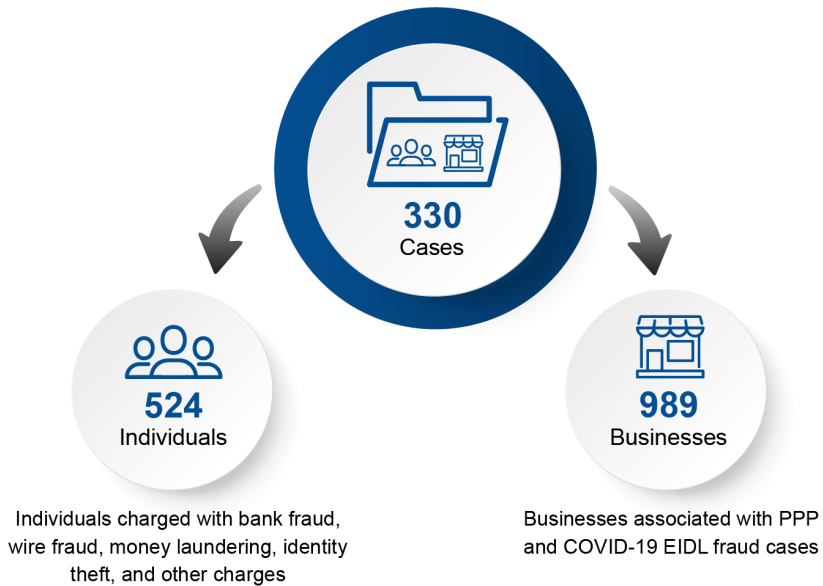
Source: GAO analysis of Department of Justice information and court documents. | GAO-23-105331

Notes: This analysis is limited to the cases we identified from public sources, which may not include all criminal and civil cases charged by the Department of Justice as of December 31, 2021. Additionally, the status of ongoing cases may have changed since December 31, 2021.

Multiple federal law enforcement agencies investigated these 330 cases. Federal prosecutors across the United States filed bank fraud, wire fraud, money laundering, identity theft, and other charges against 524 individuals associated with these cases. Additionally, our analysis identified 989 businesses that were associated with these 330 fraud cases (see fig. 5).

**Figure 5: Individuals and Businesses Associated with Paycheck Protection Program (PPP) and COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL) Fraud Cases, as of December 31, 2021**

According to our analysis, Department of Justice (DOJ) filed fraud-related charges in 330 cases as of December 31, 2021



Source: GAO analysis of Department of Justice information and court documents; and enotmaks/stock.adobe.com (icons). | GAO-23-105331

### Most Charges Involved Allegations of Non-Operating Businesses and Misrepresentations of Business and Individual Eligibility

Our analysis of PPP and COVID-19 EIDL cases shows ineligible, non-operating businesses applied for and obtained program funds or were alleged to have done so. Such businesses include shell companies, which have no employees or operations, and fictitious entities. Of the 330 PPP and COVID-19 EIDL cases, 221 (or about 67 percent) involved or allegedly involved non-operating businesses. Specifically, of the 989 businesses identified in court documents, approximately 72 percent were identified as or alleged to be shell companies or fictitious entities, which would make them ineligible for PPP and COVID-19 EIDL funding (see fig. 6).<sup>43</sup>

**Glossary of Key Terms**

**fictitious entity:** fake business that is presented as real in order to obtain Paycheck Protection Program or COVID-19 Economic Injury Disaster Loan funds.

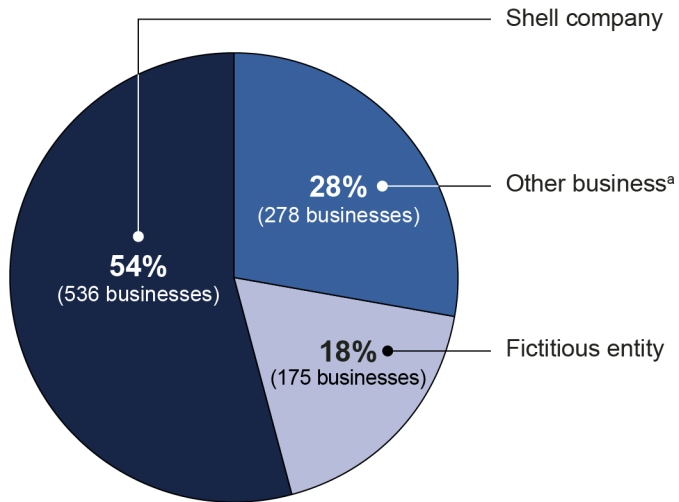
**shell company:** a business or company that has no employees or operations.

Source: GAO. | GAO-23-105331

<sup>43</sup>Because documents did not always explicitly note whether the businesses they named were legitimate or fictitious, the remaining category of businesses includes potentially fictitious businesses.



**Figure 6: Types of Businesses Identified in Paycheck Protection Program and COVID-19 Economic Injury Disaster Loan Fraud Cases, as of December 31, 2021**



Source: GAO analysis of Department of Justice information and court documents. | GAO-23-105331

<sup>a</sup>Because documents did not always explicitly note whether the businesses they named were legitimate or fictitious, the remaining category of businesses includes potentially fictitious businesses.

Among the cases involving shell companies or fictitious entities, those charged obtained or, for the ongoing cases, are alleged to have obtained approximately \$388.9 million in PPP and COVID-19 EIDL funds. (See text box for illustrative example.)

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***Fraudster used multiple ineligible businesses to receive pandemic relief funds.***

A fraudster submitted four Paycheck Protection Program (PPP) and 10 COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL) applications for 10 different businesses. Those businesses included one legitimate business, eight shell companies that had no operations or employees, and one fictitious entity. The applications used stolen personally identifiable information and falsified monthly payroll documents and tax forms for the businesses. The fraudster received \$109,552 in PPP and \$642,800 in COVID-19 EIDL funds based on these submissions. At the same time, the fraudster applied for a state pandemic-related relief grant and received \$70,000 through that program. The fraudster misused pandemic relief funds for personal expenses including a diamond ring, luxury hotel stays, living expenses, and payments for personal credit cards and student loans. The fraudster pled guilty and was sentenced to 4 years in prison and 3 years of supervised release. The fraudster was also ordered to pay \$1,998,097 in restitution.\*

\*The sentencing and restitution amount for this individual were based on the fraudulent funds received from the Small Business Administration's PPP and COVID-19 EIDL as well as the state COVID-19 relief fund and an equipment financing fraud scheme not related to the pandemic.

Source: GAO analysis of Department of Justice information and court documents. | GAO-23-105331

Some individuals who applied for PPP and COVID-19 EIDL funds on behalf of legitimate businesses misrepresented or allegedly misrepresented their business eligibility based on program requirements. In 52 cases, involving 89 legitimate businesses, individuals either misrepresented or allegedly misrepresented business eligibility with false statements on applications about their criminal record, federal debt, or principal place of residence, among others. (See text box for illustrative example.)

## Charges Involved Allegations of Individuals Obtaining PPP and COVID-19 EIDL Funds by Falsifying Documentation and Stealing Identities

### Glossary of Key Terms

**false attestation:** falsified statement(s) on an application.

**synthetic identity:** a fabricated identity using fictitious information in combination with stolen information, such as a Social Security number.

Source: GAO. | GAO-23-105331

### ***Fraudsters misrepresented eligibility to receive pandemic relief funds.***

Two fraudsters, an owner of a legitimate automotive business and an employee of the business, applied for a Paycheck Protection Program (PPP) loan certifying no prior felony charges. However, at the time the owner was facing charges of wire fraud and money laundering. The fraudsters received \$210,000 in PPP funds based on the application. In addition to misrepresenting eligibility, the fraudsters misused loan proceeds. While agreeing on the application to use PPP funds for payroll, they paid past-due truck payments and purchased various truck parts. Both pled guilty. The owner was sentenced to 3 years in prison and 3 years of supervised release. The employee was sentenced to 1 year and a day in prison and 3 years of supervised release.\* The employee was ordered to pay \$220,500 in restitution for the PPP loan application fraud.

\*The sentencing for the business owner is based on the fraudulent funds received from PPP, as well as other charges not related to SBA pandemic relief.

Source: GAO analysis of Department of Justice information and court documents. | GAO-23-105331

The 330 fraud cases we analyzed showed that individuals used or were alleged to have used various and multiple types of falsehoods to obtain PPP and COVID-19 EIDL funds. This could involve the falsification of documents, such as tax forms, payroll documentation, and bank statements to apply for funds. Additionally, allegations involving false information about other elements of PPP and COVID-19 EIDL loan applications, such as employee counts and payroll amounts, were prevalent in DOJ cases.

Our analysis showed that 227 of the 330 PPP and COVID-19 EIDL cases (or 69 percent) involved falsification or alleged falsification of tax or other documents, such as payroll documentation or bank statements.

Specifically, 190 (or 58 percent) of the cases involved allegations of tax document falsification, showing that tax forms may have been commonly forged or altered. Further, 240 cases (or 73 percent) involved schemes in which individuals created fictitious employees and inflated employee counts to obtain more funds or were alleged to have done so.

The cases also involved allegations of various types of identity theft. This involves the theft of personally identifiable and business information or the use of synthetic identities to obtain PPP and COVID-19 EIDL funds. Our analysis showed that 63 of the 330 PPP and COVID-19 EIDL cases (or 19 percent) involved allegations of theft of personally identifiable information and 17 cases (or 5 percent) involved allegations of using another business's information to obtain PPP or COVID-19 EIDL funds. Additionally, we identified 50 cases (or 15 percent) that involved

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allegations of individuals stealing and wrongfully using Social Security numbers (SSN) to apply for PPP and COVID-19 EIDL funds. Another 11 cases (or 3 percent) involved allegations of synthetic identity fraud where individuals fabricated an identity by using fictitious information in combination with stolen information such as an SSN. (See text box for illustrative example.)

***Fraudster used stolen personal information, shell companies, and false attestation to obtain pandemic assistance.***

A fraudster applied for five Paycheck Protection Program (PPP) loans for three different shell companies that had no operations or employees. On one application, the fraudster used a deceased victim's name to apply for a PPP loan for the shell company. On another PPP application, the fraudster created a synthetic identity by combining his name with his father's Social Security number (SSN) instead of using his own SSN. On one of the applications, the fraudster certified no prior felony charges, when he had charges of tampering with a government record. The fraudster also falsely represented that the businesses had multiple employees, when they had none. The fraudster misused the PPP funds to purchase a 2020 Ford F-350 truck, a 2019 Lamborghini Urus, and a Rolex watch, among other ineligible expenses. In total, the fraudster applied for \$4,618,111 and received \$1,689,952 in PPP funds. After pleading guilty, the fraudster was sentenced to 9 years and 2 months in prison and 3 years of supervised release. The fraudster was also ordered to pay \$1,689,952 in restitution.

Source: GAO analysis of Department of Justice information and court documents. | GAO-23-105331

### Charges against Multiple Individuals per Case and Linked Cases Indicate Coordinated Efforts to Defraud Programs

Our analysis found some cases involved allegations of multiple individuals conspiring to fraudulently apply for PPP and COVID-19 EIDL funds. Specifically, in 79 of 330 PPP and COVID-19 EIDL cases (or 24 percent) two or more individuals were charged. Further, 11 cases involved charges against more than five individuals, with the highest number of individuals charged in a case being 18. Our analysis found that 90 of 330 cases (or 27 percent) involved conspiracy-related charges.<sup>44</sup> This indicates a potentially significant role of organized activity in PPP and COVID-19 EIDL fraud.

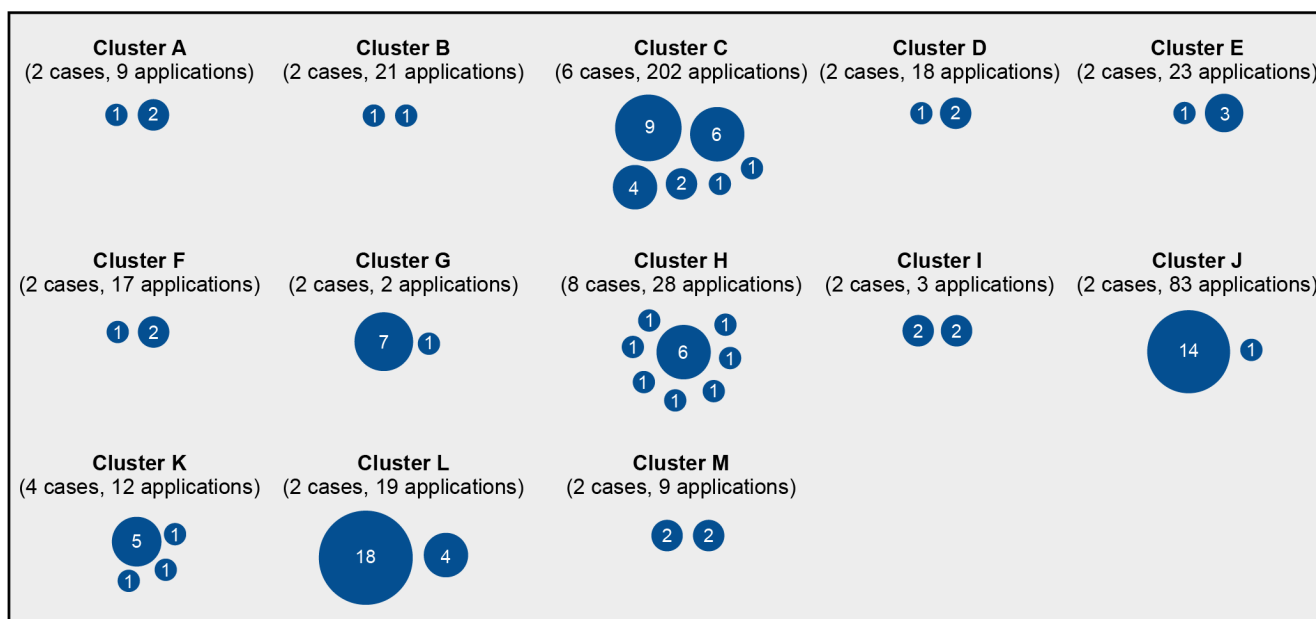
Our analysis identified 38 of 330 cases that were related, meaning that two or more cases involved individuals allegedly involved in the same fraud scheme. We identified 13 clusters of related criminal cases in which

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<sup>44</sup>Conspiracy-related charges involve an agreement by two or more individuals to commit a crime and one or more overt acts in furtherance of the conspiracy. In our analysis, in certain cases individuals were charged alone in a conspiracy case but were involved in fraud schemes involving other individuals, who may have been separately charged.

individuals allegedly participated in separate schemes to defraud PPP or COVID-19 EIDL. The number of cases and program applications in each cluster ranged from two to eight and two to 202, respectively (see fig. 7). Cumulatively, 112 individuals were charged across all 38 of the related fraud cases, obtaining about \$119 million in PPP and COVID-19 EIDL funds.

**Figure 7: Clusters of Related Cases Charged by the Department of Justice Associated with Paycheck Protection Program and COVID-19 Economic Injury Disaster Loan Fraud, as of December 31, 2021**



● Number of defendants

Source: GAO analysis of Department of Justice information and court documents. | GAO-23-105331

Notes: This analysis includes closed cases, which reached a conclusion through guilty pleas, convictions after trial, or dismissals, and ongoing cases, which had not reached a conclusion as of December 31, 2021. Not all individuals may have participated in all applications associated with a scheme. Our analysis of the number of applications is limited to the numbers identified in court documents and thus may undercount the total number of applications submitted.

One example of a cluster of six related cases involved 23 individuals charged with submitting 202 PPP and COVID-19 EIDL applications (see cluster C in figure 7). These cases allege a scheme that involved several groups of individuals in multiple states that used shell companies to apply for PPP and COVID-19 EIDL funds. One such group is charged with developing falsified documentation, such as bank statements, payroll, and tax documents for their own applications and for others in exchange for a kickback fee of approximately 25 percent. Two other groups include

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Charges Indicate that Some Schemes May Have Involved Facilitators Who Shared Knowledge of How to Circumvent Controls

registered agents who are charged with using recently registered businesses to apply for loans using false documentation supplied by the first group.<sup>45</sup> Other individuals are alleged to have acted as recruiters to seek out additional individuals to participate in the scheme.

Our analysis of fraud schemes in DOJ cases showed that some cases involved or allegedly involved the assistance of complicit individuals who facilitated PPP and COVID-19 EIDL fraud for others. Sometimes this may have been done in return for a kickback payment. Of the 524 individuals associated with the cases, we found that 126 (or 24 percent) were linked to 52 cases involving allegations of kickbacks. (See text box for illustrative example.)

**Glossary of Key Terms**

**complicit facilitator:** individual who knowingly assisted, recruited, or provided guidance to Paycheck Protection Program and COVID-19 Economic Injury Disaster Loan applicants on how to circumvent SBA controls.

**kickback:** a portion of loan or grant funds paid to individual(s) in exchange for illicit help with loan applications.

Source: GAO. | GAO-23-105331

***Fraudster received kickbacks for submitting fraudulent Paycheck Protection Program (PPP) loan applications for other individuals.***

A fraudster and a co-conspirator applied for approximately 12 PPP loans, both in their own names and in the names of others to receive kickback payments. For one loan, the fraudster and the co-conspirator charged \$5,000 in cash up front to apply for a \$20,000 PPP loan on behalf of other individuals. On the applications, they falsely claimed hundreds of thousands of dollars in business income, forged tax forms, and used stolen business identities. For one of the other loans, they resubmitted fraudulent loan applications. In total, the fraudster and the co-conspirator obtained approximately \$220,000 in PPP funds. The fraudster pled guilty to bank fraud conspiracy.

Source: GAO analysis of Department of Justice information and court documents. | GAO-23-105331

Our analysis also identified registered agents charged with fraudulently obtaining PPP and COVID-19 EIDL funds. As professional service providers who have access to business information, including shell companies, and business formation functions, registered agents in these cases took advantage of their role, or were alleged to have done so, to obtain PPP and COVID-19 EIDL funds for themselves and others.<sup>46</sup> Our analysis identified 105 registered agents charged across 70 cases that cumulatively obtained about \$197.6 million in PPP and COVID-19 EIDL funds.

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<sup>45</sup>Registered agents are persons or entities authorized to accept service of process or other important legal or tax documents on behalf of a business and are frequently involved in business formation. Additional information about registered agents is provided in the following section.

<sup>46</sup>Registered agent functions can be performed by company formation agents—individuals or entities that provide business formation services, including business registration with the secretary of state.

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Some Charges Indicate that Individuals May Have Targeted Multiple Pandemic Relief Programs and Committed Other Crimes

Our analysis of DOJ charges showed that some fraud against PPP and COVID-19 EIDL was allegedly perpetrated in conjunction with other crimes and by criminal groups. Of the 330 PPP and COVID-19 EIDL cases we identified, 91 involved both programs, illustrating an effort to target multiple SBA pandemic relief programs. In addition, in 46 of the 330 cases (or 14 percent) DOJ filed charges against individuals for defrauding other pandemic relief programs as well as PPP and COVID-19 EIDL. For example, in some cases associated with PPP and COVID-19 EIDL funds, individuals also allegedly defrauded state unemployment insurance programs or offered fraudulent COVID-19 tests or personal protective equipment (see text box for illustrative example).<sup>47</sup>

***Fraudster received disaster funds from Small Business Administration and another pandemic relief program.*** A fraudster applied for and obtained Paycheck Protection Program (PPP) and COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL) funds using shell companies that had no operations or employees. The applications falsely represented monthly payroll and gross income, and included falsified tax forms. The fraudster applied for two PPP loans and obtained funds based on both applications, and also received funds based on one of eight COVID-19 EIDL advance applications. In total, the fraudster received \$542,714 in PPP and COVID-19 EIDL funds, which were misused to purchase a BMW vehicle and a Rolex watch.

At the same time, while obtaining small business relief funds, the fraudster received unemployment benefits claiming an active job search but inability to find employment. In 2020, the fraudster received \$15,550 in unemployment benefits. The fraudster was sentenced to 2 years and 3 months in prison and 3 years of supervised release, as well as ordered to pay \$542,714 in restitution for the PPP and COVID-19 EIDL fraud.

Source: GAO analysis of Department of Justice information and court documents. | GAO-23-105331

Our analysis further shows that 56 of 330 cases (or 17 percent) involved allegations of other crimes in addition to PPP and COVID-19 EIDL fraud, such as health insurance fraud, tax fraud, or romance scams.<sup>48</sup> Additionally, 10 PPP and COVID-19 EIDL cases involved criminal groups—which we define as domestic or international criminal

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<sup>47</sup>In our analysis, COVID-19 related crimes included, for example, unemployment benefits fraud, theft of government funds, small business grant fraud, healthcare fraud, Economic Impact Payment (stimulus check) fraud, fraudulent COVID-19 tests and personal protective equipment, and RRF fraud.

<sup>48</sup>Romance scams occur when a criminal adopts a fake online identity to gain a victim's affection and trust. The scammer then uses the illusion of a romantic or close relationship to manipulate or steal from the victim.

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organizations involved in illicit activity—that allegedly engaged in SBA pandemic relief fraud alongside other criminal activity. This includes criminal charges for trade-based money laundering, identity theft, and illegal gambling.<sup>49</sup>

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### Financial and Non-Financial Impacts of PPP and COVID-19 EIDL Fraud Are Far Reaching, but Full Extent Is Not Yet Known

Although the full extent of fraud associated with PPP and COVID-19 EIDL is not yet known, we analyzed the 330 DOJ cases to identify the known fraud-related financial and non-financial impacts associated with PPP and COVID-19 EIDL, as well as the potential impacts.<sup>50</sup> We determined the financial impacts of these fraud cases, both actual for closed cases and potential for ongoing cases, by calculating losses based on the amounts of PPP and COVID-19 EIDL funding obtained. We calculated potential offsets based on the amounts of seizures and restitution. We also identified various types of non-financial impacts of fraud and potential fraud associated with PPP and COVID-19 EIDL. These downstream effects of fraud emphasize the importance of fraud prevention to avoid costly and far-reaching impacts of the “pay-and-chase” approach to managing fraud risks.

### Financial Losses Associated with Closed and Ongoing Cases Potentially Involve Hundreds of Millions of Dollars

Our analysis of the closed and ongoing PPP and COVID-19 EIDL cases revealed potentially several hundred million dollars in financial losses for both programs. Specifically, for the 155 closed cases, we calculated about \$188 million in direct losses. For the 175 ongoing cases, we calculated about \$314 million in potential losses. We also measured

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<sup>49</sup>Trade-based money laundering is the process of moving the value of the proceeds of crime through trade transactions to attempt to disguise its origins and integrate it into the formal economy. Basic techniques of trade-based money laundering include over- and under-invoicing of goods and services, multiple invoicing of goods and services, over- and under-shipments of goods and services, and false descriptions of goods and services.

<sup>50</sup>The full extent of fraud is difficult to measure, particularly at this time. Investigations and prosecution of PPP and COVID-19 EIDL cases are ongoing at the time of this report and will continue. As previously discussed, the statute of limitations is 10 years for all forms of PPP and COVID-19 EIDL loan fraud. Additionally, fraud is difficult to measure because some fraud schemes may remain undetected by the government.



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potential offsets from restitution orders, seizures, and recoveries associated with PPP and COVID-19 EIDL cases.<sup>51</sup>

#### Costs of Investigation and Prosecution

Beyond direct losses from Paycheck Protection Program (PPP) and COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL) fraud, other costs associated with detecting, investigating, and prosecuting fraud cases can be significant. For example, there are monetary costs to the federal government associated with law enforcement investigations and Department of Justice prosecutions. The 330 fraud cases associated with PPP and COVID-19 EIDL, as well as detection activities, ongoing investigations, and prosecutions have required government resources that are difficult to measure. Such costs are not included in our calculation of the financial impact of PPP and COVID-19 EIDL fraud.

Source: GAO. | GAO-23-105331

Our analysis to determine the financial impacts of the 330 cases provides insights into losses for closed cases and potential losses for ongoing cases as well as potential offsets associated with closed and ongoing cases, but it has limitations. This analysis is limited to the 330 cases we identified from public sources and may not include all criminal and civil cases charged by DOJ as of December 31, 2021. Additionally, details of fraud cases and schemes presented in court documents may not be complete. For example, the dollar amounts applied for and obtained could not be identified in all court documents. Further, cases at the prosecution stage in the life cycle of fraudulent applications represent a small number of the potential cases that exist in the overall population.

For our financial impact analysis, we categorized cases based on whether they were closed or ongoing as of December 31, 2021. Then we summed amounts across cases to measure direct losses for closed cases, potential losses for ongoing cases, and potential offsets for PPP and COVID-19 EIDL.<sup>52</sup> Sums of potential offsets cannot be subtracted from losses to arrive at the total cost of fraud for these programs because potential offsets include restitution that has been ordered but not

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<sup>51</sup>For this analysis, we describe losses as “direct losses” for closed cases because they involve direct monetary costs to the federal government. We also describe losses as “potential losses” for ongoing cases because these cases have not been resolved through the judicial process. Additionally, we define potential offsets as monetary recoveries ordered, received, or retained by the government. For closed cases, we measured PPP and COVID-19 EIDL amount of restitution, recovery, seizure, or payment made, and for ongoing cases, we measured PPP and COVID-19 EIDL amount seized. For restitution, we included funds ordered to be paid to the government or the lender in connection with an adjudicated finding of fraud. However, restitution is not always likely to be paid, which is why we characterize the offsets as potential. We previously reported that collecting federal criminal restitution is a long-standing challenge. GAO, *Federal Criminal Restitution: Department of Justice Has Ongoing Efforts to Improve Its Oversight of the Collection of Restitution and Tracking the Use of Forfeited Assets*, [GAO-20-676R](#) (Washington, D.C.: Sept. 30, 2020).

<sup>52</sup>For this analysis, we defined financial losses as monetary losses—excluding time and costs associated with fraud investigations—incurred by the federal government through PPP and COVID-19 EIDL direct lending, grants, or government guarantees. We measured these losses separately for ongoing and closed cases. For closed cases, we measured (1) PPP and COVID-19 EIDL amounts obtained and (2) PPP lender fee amount. For ongoing cases, we measured (1) PPP and COVID-19 EIDL amounts obtained and (2) PPP lender fee amount at risk.

necessarily repaid. Additionally, potential offsets may include costs to the government, such as maintenance of seized assets, among others.

To calculate losses from the 330 cases, we used the reported amount of PPP and COVID-19 EIDL funding obtained, as identified in court documentation. For PPP, we also calculated lender fees associated with the cases.<sup>53</sup> See table 2 for a breakdown of direct and potential losses, which totaled about \$502 million for PPP and COVID-19 EIDL based on fraud case status as of December 31, 2021.

**Table 2: Financial Losses (in Millions of Dollars) in Paycheck Protection Program (PPP) and COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL) Based on Analysis of Department of Justice Fraud Cases, as of December 31, 2021**

Type of financial loss	PPP cases <sup>a</sup>		COVID-19 EIDL cases <sup>a</sup>	
	Direct (127 closed cases)	Potential (133 ongoing cases)	Direct (71 closed cases)	Potential (90 ongoing cases)
Funding provided	\$168.6	\$272.8	\$14.4	\$34.2
Lender fees	\$4.6	\$6.9	NA <sup>b</sup>	NA <sup>b</sup>
<b>Total financial losses</b>	<b>\$173.2</b>	<b>\$279.7</b>	<b>\$14.4</b>	<b>\$34.2</b>

Source: GAO analysis of Department of Justice information and court documents. | GAO-23-105331

<sup>a</sup>Although our analysis includes 91 cases that involve both PPP and COVID-19 EIDL, we identified and calculated funding provided to PPP and COVID-19 EIDL recipients separately for each program.

<sup>b</sup>Lender fees for COVID-19 EIDL cases are not applicable (NA) because COVID-19 EIDL funds were administered by Small Business Administration, without lender involvement.

Our analysis of potential offsets for financial losses included restitution from closed cases and seizures from ongoing cases. We were able to identify about \$154.2 million in potential offsets for PPP and COVID-19 EIDL as of December 31, 2021. However, the case documentation we reviewed did not always identify potential offset amounts.<sup>54</sup>

<sup>53</sup>Lender fees are the processing fees SBA paid to the lender once the PPP loan was fully disbursed, as mandated by the CARES Act, Pub. L. No. 116-136, § 1102 (as added at 15 U.S.C. § 636(a)(36)(P)). To calculate lender fees, we matched businesses identified in DOJ cases that received PPP loans with PPP loan-level data. For matched businesses, we calculated lender fees based on the amount of the loan and applicable percentages established by SBA. According to an interim final rule published on June 1, 2020, lender fees are subject to clawback if SBA determines that a lender has not fulfilled its obligations under PPP regulations, with some limitations.

<sup>54</sup>Offset amounts were available for 79 closed and 29 ongoing cases involving PPP and 44 closed and 12 ongoing cases involving COVID-19 EIDL (38 cases involved both PPP and COVID-19 EIDL).

Fraud measurement is a challenging endeavor, subject to varying definitions, measurements, and available data, among other limitations. As such, other federal agencies may develop different fraud measurements that may also cover different time periods. For example, SBA OIG officials told us that, as of May 31, 2022, PPP and COVID-19 EIDL potential losses amounted to roughly \$1.15 billion. This figure was calculated based on amounts identified in indictments and other charging court documents.

### Non-Financial Impacts of PPP and COVID-19 EIDL Fraud Are Wide Ranging

Beyond financial losses directly associated with PPP and COVID-19 EIDL funds, our analysis of 330 fraud cases identified several types of non-financial impacts, or nonmonetary effects of fraudulent activity, associated with PPP and COVID-19 EIDL. Both directly and indirectly, PPP and COVID-19 EIDL fraud affected businesses, individuals, and stakeholders. For example, fraud affected SBA's achievement of economic relief goals, some businesses could not immediately access needed funds, and lives of numerous individuals were affected by fraudsters using their identities to commit fraud. See table 3 for the types of non-financial impacts associated with PPP and COVID-19 EIDL fraud we identified.

**Table 3: Non-Financial Impacts of Fraud in Paycheck Protection Program (PPP) and COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL)**

Non-financial impact type	Affected parties and impact
Economic relief goal	Federal government's ability to achieve PPP and COVID-19 EIDL goals to assist small businesses adversely affected by COVID-19
Stakeholder	Federal partners' and lender stakeholders' resource commitments in responding to PPP and COVID-19 EIDL fraud
Security	Local communities and U.S. security interests harmed through misuse of pandemic relief funds by criminal groups
Reputation	U.S. government institutions distrusted by the public
Impact on victim	Fraud victims harmed through identity theft
Impact on fraudster	Fraudsters suffered consequences after being caught

Source: GAO analysis. | GAO-23-105331

Note: The impact types are not all encompassing or inclusive of all possible ways pandemic relief fraud can manifest itself.

### Economic Relief Goal Impact

The diversion of funds from PPP and COVID-19 EIDL by fraudsters mitigated the broader effectiveness of economic relief goals to assist small businesses and their employees affected by the pandemic. Funds diverted by fraudsters were unavailable to eligible businesses who could

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have used them for payroll, rent, or other qualified business expenses. Specifically, in 2020, PPP and COVID-19 EIDL advance ran out of funds, leaving some small businesses temporarily unable to obtain needed relief.

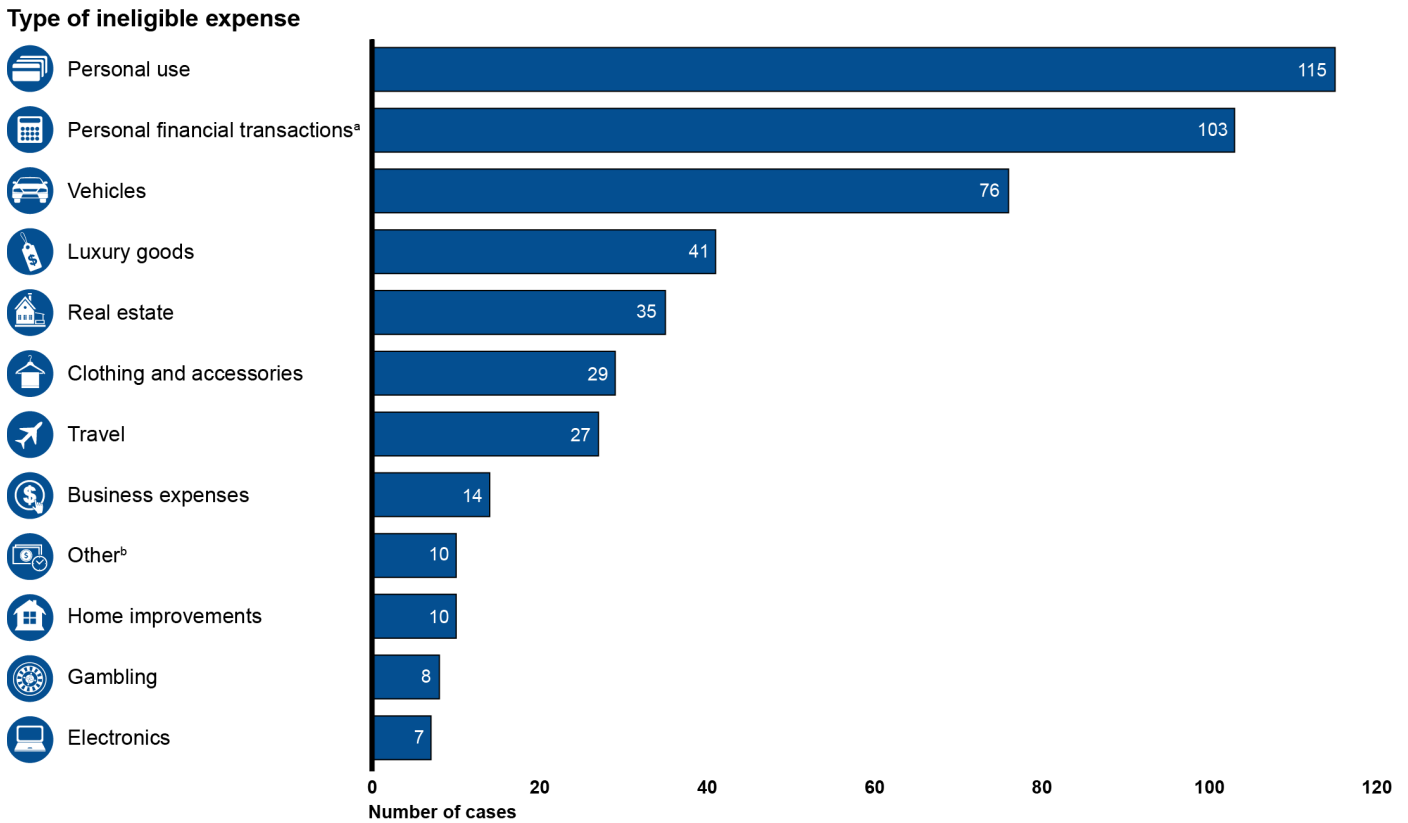
Further, some fraudulently obtained funds were redirected from supporting payroll and other small business needs into other economic activity. Specifically, fraudsters placed unlawfully obtained funds into communities and the economy through the purchases of luxury goods such as apparel and jewelry, real estate, and vehicles and by paying debts, making home improvements, and securing investments, among other things. Individuals were charged with using PPP and COVID-19 EIDL funds to purchase luxury goods, such as Rolex watches and items from Louis Vuitton, Burberry, Christian Louboutin, Dolce & Gabbana, and Gucci. A number of individuals were also charged with purchasing luxury vehicles, such as products from Cadillac, Ferrari, Mercedes, Rolls Royce, or Tesla, as well as a Harley-Davidson motorcycle. Individuals were also charged with purchases involving cryptocurrency, firearms, farm animals, radio air time, and a political campaign donation.

Our analysis identified 203 of 330 cases (or 62 percent) and about \$449.3 million in PPP and COVID-19 EIDL funds that involved charges of asset misappropriation.<sup>55</sup> Specifically, individuals were charged with redirecting PPP and COVID-19 EIDL funds to a broad range of ineligible expenses, as shown in figure 8. In some cases, they were charged with redirecting funds to multiple categories of ineligible expenses.

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<sup>55</sup>Not all PPP and COVID-19 EIDL funds in fraud cases may have been misappropriated and redirected to ineligible purposes.

**Figure 8: Number of Paycheck Protection Program and COVID-19 Economic Injury Disaster Loan Cases Involving Department of Justice Charges of Asset Misappropriation, by Type of Ineligible Expense, as of December 31, 2021**



Source: GAO analysis of Department of Justice information and court documents; and ylivdesign/stock.adobe.com (icons). | GAO-23-105331

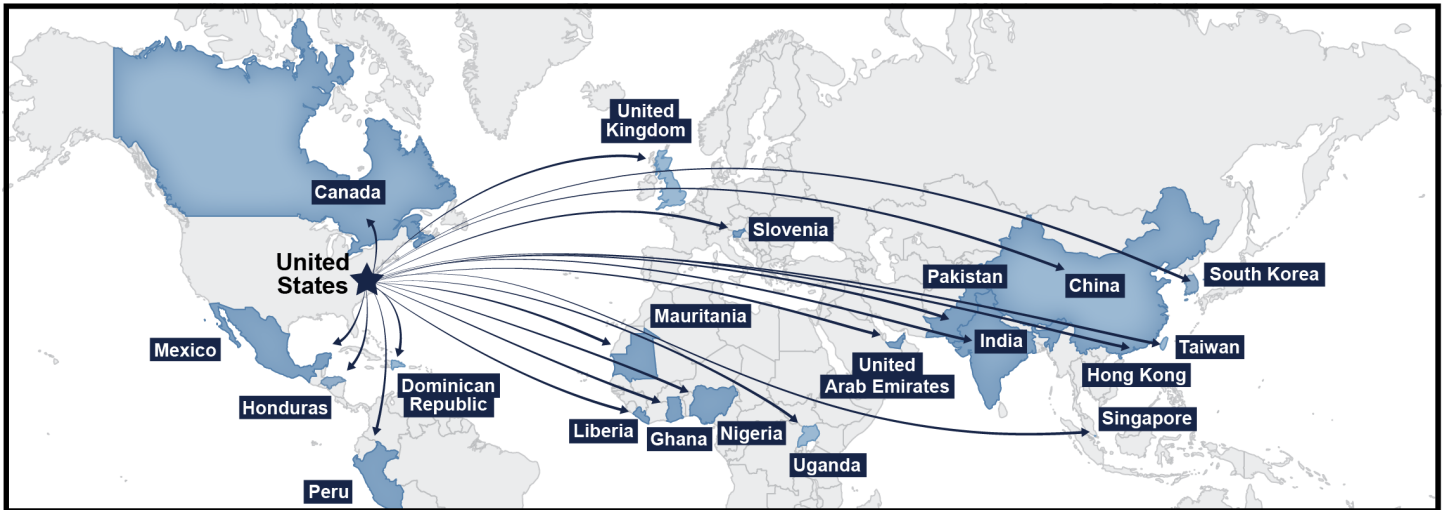
Note: The types of expenses are not mutually exclusive, and a single case may have more than one expense type.

<sup>a</sup>Personal financial transactions include, but are not limited to, personal debt payoff, domestic investments, kickback payments, and purchases of cryptocurrency.

<sup>b</sup>Examples of items in this category include personal property, alcohol, farm animals, political campaign donations, and firearms.

Further, rather than benefitting small businesses and the economy in the United States, fraudsters redirected a portion of PPP and COVID-19 EIDL funds internationally. Specifically, in 19 closed cases, fraudsters diverted \$4.5 million to other countries around the world (see fig. 9).

**Figure 9: Foreign Jurisdictions to Which Fraudsters Redirected Funds from Paycheck Protection Program and COVID-19 Economic Injury Disaster Loan, as of February 2023**



Source: GAO analysis of Department of Justice information and court documents; and Map Resources (map outline). | GAO-23-105331

Cases involving PPP and COVID-19 EIDL funds being redirected overseas will likely continue to emerge. According to SBA OIG officials, as law enforcement continues to investigate instances of suspected fraud, there will be a greater focus on international fraud schemes. However, they noted that such cases take time to bring to prosecution, in part because of the time needed to obtain information from foreign jurisdictions.

### Stakeholder Impact

Fraud and potential fraud in PPP and COVID-19 EIDL affected SBA's stakeholders—law enforcement and PPP lenders in the private sector.

Investigation and prosecution of PPP and COVID-19 EIDL fraud cases demanded the resources of law enforcement agencies and DOJ. Our analysis of the 330 fraud cases determined that 48 federal law enforcement agencies conducted investigations of suspected PPP and COVID-19 EIDL fraud, with agencies frequently collaborating to investigate cases. According to SBA OIG officials, investigating pandemic relief fraud has consumed significant law enforcement resources. They explained that despite doubling the number of OIG agents, the scale of pandemic relief fraud still exceeds their investigative capacity. For example, in a June 2022 testimony, the SBA Inspector General reported

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that with almost 70 criminal investigators, the office was outmatched by hundreds of thousands of investigative leads and had 399 open investigations involving PPP and COVID-19 EIDL fraud.<sup>56</sup>

Our analysis of the 330 fraud cases further indicates that U.S. Attorneys in 78 of 94 federal districts had filed fraud-related charges involving PPP and COVID-19 EIDL. According to DOJ officials, prosecution of pandemic-related fraud cases placed a strain on the agency by adding to existing workloads without additional resources.

Lenders targeted by PPP-related fraud schemes can also incur costs associated with the time and resources needed to conduct internal investigations and report suspicious activity. As we previously reported, from April to October 2020, over 1,400 financial institutions filed over 21,000 suspicious activity reports related to PPP.<sup>57</sup> Further, as cases are being investigated, financial institutions must respond to subpoenas, which require production of records and interviews with agents. Additional impact on lenders is associated with potential compliance risks such as violations of anti-money laundering requirements and potential liability for aiding unlawful activity by borrowers or perpetuating that activity through complacency, along with associated reputational impacts.<sup>58</sup>

### **Security Impact**

Funds fraudulently obtained from SBA pandemic relief programs were used to fund criminal activity, such as drugs and guns, putting communities at risk. Our analysis of the 330 PPP and COVID-19 EIDL fraud cases identified charges in 10 cases involving criminal groups. For

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<sup>56</sup>*Examining Federal Efforts to Prevent, Detect, and Prosecute Pandemic Relief Fraud to Safeguard Funds for All Eligible Americans, Before the House Select Subcommittee on the Coronavirus Crisis of the Committee on Oversight and Reform*, 117<sup>th</sup> Cong., 117-86, June 14, 2022.

<sup>57</sup>GAO, *COVID-19: Critical Vaccine Distribution, Supply Chain, Program Integrity, and Other Challenges Require Focused Federal Attention*, [GAO-21-265](#) (Washington, D.C.: Jan. 28, 2021).

<sup>58</sup>Lenders must comply with the applicable lender obligations set forth in SBA interim final rules. Lenders, however, will be held harmless for borrowers' failure to comply with program criteria and will not be subject to any enforcement action or penalty relating to loan origination or forgiveness of the PPP loan if the lender acts in good faith relating to the origination or forgiveness of the PPP loan and satisfies all other applicable federal, state, local, and other statutory or regulatory requirements. Pub. L. No. 116-260, div. N, tit. III, § 305, 134 Stat. 1182, 1996-97 (2020).

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example, in December 2020, members of an organized crime group were charged with bank fraud and money laundering associated with PPP as well as racketeering and extortion involving illegal gambling. Also, a September 2022 SBA OIG report stated that the SBA OIG has ongoing investigations into international organized crime operations that applied for and obtained pandemic relief funds.<sup>59</sup>

### **Reputational Impact**

High incidence of fraud can lead to public perception that pandemic relief funds are easy to obtain fraudulently and make the government a target for further and future exploitation. Additionally, public perception of widespread fraud in pandemic relief programs can erode trust in government—confidence in the ability to manage taxpayer dollars, prevent fraud, and pursue justice. According to DOJ officials, instances of fraud can normalize additional fraudulent behavior, which increases cynicism and leads the public to believe that “fraud happens all the time.” The officials further emphasized that DOJ prosecutes fraud to restore faith in government by seeking justice, recovering stolen funds, and illustrating that the government holds bad actors accountable. As such, according to DOJ officials, most cases of pandemic relief fraud are publicized in press releases to deter others from committing fraud and to promote trust in government.

### **Impact on Victim**

Through identity theft, pandemic relief fraudsters victimized individuals by inflicting damage to their financial as well as psychological health. According to DOJ, victims of identity theft have had their bank accounts wiped out, credit histories ruined, and jobs and valuable possessions taken away. In pandemic relief fraud cases, according to DOJ officials, identity theft affected victims through (1) negative impacts on credit, (2) inability to access benefits to which victims were entitled but denied because prior claims had been filed using their identity, (3) susceptibility to other types of fraud, and (4) time and effort spent rectifying issues related to identity theft.

Identity theft also can affect victims’ physical and psychological health, by contributing to anxiety, sleeplessness, and depression, among other

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<sup>59</sup>SBA OIG, *COVID-19 Economic Injury Disaster Loan Applications Submitted from Foreign IP Addresses*, 22-17 (Washington, D.C.: Sept. 12, 2022).



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symptoms. According to DOJ, the emotional trauma associated with identity theft can be as devastating as many of the most violent offenses.

### **Impact on Fraudster**

When crime is committed, fraudsters may experience a sense of satisfaction from illicit enrichment. Once caught, however, they can experience prison time, financial penalties, loss of employment, and unfavorable publicity, while also inflicting emotional distress on their families. For example, one couple that fled before sentencing in a PPP and COVID-19 EIDL case admitted that their actions brought danger and fear to their children. Another fraudster, who lost his job as a senior government official, expressed shame and remorse for abusing the program while being entrusted to be a good steward of government resources.

In addition to the costs of incarceration and supervision borne by the federal government and ultimately U.S. taxpayers, loss of personal freedom as a result of PPP and COVID-19 EIDL fraud affected many fraudsters. Our analysis identified 80 closed PPP and COVID-19 EIDL criminal cases where individuals were sentenced to prison, supervised release, or probation. Across these cases, 94 individuals had been sentenced to prison, cumulatively sentenced to serving over 3,500 months, with an average sentence of about 37 months. Eighty-nine individuals were sentenced to a cumulative 3,400 months of supervised release. Additionally, nine individuals were sentenced to serve a cumulative 310 months of probation. Some defendants had sentences that included prison and supervised release. According to DOJ, individuals who are sentenced under certain statutes are mandated to also receive a term of supervised release after the term of incarceration. See figure 10 for information on sentencing ranges for individuals sentenced to prison, probation, and supervised release.

**Figure 10: Sentencing Ranges for Individuals Sentenced to Prison, Probation, and Supervised Release for Crimes Involving Paycheck Protection Program (PPP) and COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL), as of December 31, 2021**



Source: GAO analysis of Department of Justice information and court documents; and enotmaks/stock.adobe.com (icons). | GAO-23-105331

Notes: This analysis is based on 80 closed PPP and COVID-19 EIDL criminal cases that reached the sentencing phase as of December 31, 2021. Some defendants received sentences requiring supervised release following their prison term, and thus may be represented more than once in this figure.

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## Our Analysis Reveals Millions of PPP and COVID-19 EIDL Recipients with Fraud Indicators, and Certain Lenders Originated Higher Rates of Fraudulent PPP Loans

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### Results of Select Data Analyses Identified Over 3.7 Million Unique PPP and COVID-19 EIDL Recipients with Fraud Indicators

Our analysis of PPP and COVID-19 EIDL data identified over 3.7 million out of 13.4 million total unique recipients with discrepancies associated with potential fraud.<sup>60</sup> We compared loan- and advance-level data to National Directory of New Hires (NDNH) wage data to identify unique recipients with fraud indicators associated with potential misrepresentations of business operating status, employee counts, or payroll costs.<sup>61</sup> We further analyzed loan- and advance-level data for the presence of fraud indicators associated with the potential misrepresentation of business or identification information. Finally, we compared our results of PPP and COVID-19 EIDL data analyses to

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<sup>60</sup>Throughout this section of the report, we refer to “unique recipients” of loans and advances. In doing so, we refer specifically to unique individuals or entities who received PPP or COVID-19 EIDL funds. As discussed in appendix I, to identify these unique recipients we matched certain identifiers, such as business name and address, within and across programs. Some unique recipients appear only once in either program, while others appear multiple times within or across programs. In all of the analyses described in this section, a unique recipient is counted only once in the results being described, regardless of how many loan or advance records were associated with that recipient. All unique recipient counts throughout this section are presented rounded to the nearest multiple of 100, except where the count is less than 1,000 or more than one million.

<sup>61</sup>PPP loan-level data were submitted to SBA by PPP lenders. For the purposes of our analyses, these lender-submitted data are considered to be the information submitted by the applicants.

NDNH is a national repository of new hire, quarterly wage, and unemployment insurance information reported by employers, states, and federal agencies. The NDNH is maintained and used by the U.S. Department of Health and Human Services for the federal child support enforcement program, which assists states in locating parents and enforcing child support orders. SBA does not have access to NDNH wage data. However, similar information, such as number of employees and wages paid, can be found on the employer’s federal tax return and other employer filings.

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determine the extent to which unique recipients had fraud indicators across both programs.

Fraud indicators are characteristics and flags that serve as warning signs suggesting a potential for fraudulent activity. Indicators can be used to identify potential fraud and assess fraud risk but are not proof of fraud, which is determined through the judicial or other adjudicative system. The fraud indicators we identified are based on discrepancies found in the data consistent with characteristics and flags that suggest a potential for fraudulent activity.

It is possible that the results of our analyses include non-fraudulent recipients with one or more data discrepancies that were identified as fraud indicators. There are multiple factors that may explain why a non-fraudulent recipient has a discrepancy consistent with a fraud indicator. One such factor is data entry errors by recipients or those involved in the approval of funds. There may also be other types of factors contributing to the identification of non-fraudulent recipients. Consequently, the results of our analyses should not be interpreted as proof of fraud. As discussed below, we took steps to reduce the number of non-fraudulent recipients identified. Additional review, investigation, and adjudication is needed to determine if and the extent to which fraud exists.

Additionally, the results of our analyses may also include recipients (1) whom DOJ has prosecuted for fraud, (2) who may be subject to ongoing investigations,<sup>62</sup> (3) whose loans or advances were flagged by SBA for other reasons but not pursued as potential fraud, or (4) whose loans or advances were not flagged by SBA based on fraud indicators. Therefore, this may include recipients already flagged by SBA or the SBA OIG as potentially fraudulent.

For both PPP and COVID-19 EIDL, SBA has developed oversight plans that include automated and manual reviews to help identify and refer potentially fraudulent loans and advances to the SBA OIG.<sup>63</sup> According to SBA,

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<sup>62</sup>Investigative agencies do not typically comment on ongoing investigations.

<sup>63</sup>As part of our objectives, we did not assess SBA's processes for conducting automated and manual reviews to help identify and refer potentially fraudulent loans and advances to the SBA OIG. We, therefore, do not opine on the appropriateness of its processes or the accuracy and completeness of its referrals to the SBA OIG. We plan to undertake a comprehensive review of SBA's review processes.

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- for PPP, it conducted automated screenings of all 12.5 million approved PPP applications, using 19 alert categories for potential fraud and ineligibility. This step identified about 2.9 million loans and applications. SBA then employed data analytics to prioritize loans that presented the highest risk of fraud or ineligibility. SBA employees and contractors then examined about 315,000 loans and applications prioritized as representing the highest risk to determine if fraud or ineligibility was likely. Based on this examination, SBA referred over 134,000 PPP loans it determined likely to be fraudulent to the SBA OIG.
  - for COVID-19 EIDL, it conducted automated and manual screenings of 36.7 million applications for inconsistencies and indicators associated with ineligibility or fraud. SBA then employed data analytics, flagging about 3.4 million applications. When notified of a fraud concern, SBA loan officers performed manual reviews of the file. Based on this review, SBA referred approximately 2.5 million applications and 535,000 disbursed COVID-19 EIDL loans and advances to the SBA OIG.

Given that differences exist between the indicators used and how we did our analyses and how SBA conducted its reviews, it is possible that we flagged a recipient who also had a loan or advance flagged by SBA for different reasons. Therefore, even if SBA determined through its process that a loan or advance disbursed to a recipient we flagged did not represent the highest risk of fraud and therefore did not refer it to the SBA OIG, the recipients we flagged warrant further review based on our analyses.

SBA does not have access to the NDNH wage data we used for certain analyses and therefore could not have performed the same analyses as us.<sup>64</sup> The intent of our analyses was to identify recipients with fraud indicators who may warrant further review and investigation and to understand SBA's exposure to fraud risk and how some recipients may have taken advantage of those risks in pandemic relief programs. Our analyses were limited to identifying recipients with fraud indicators and, therefore, did not include additional reviews necessary to identify recipients who represented the highest risk of fraud.

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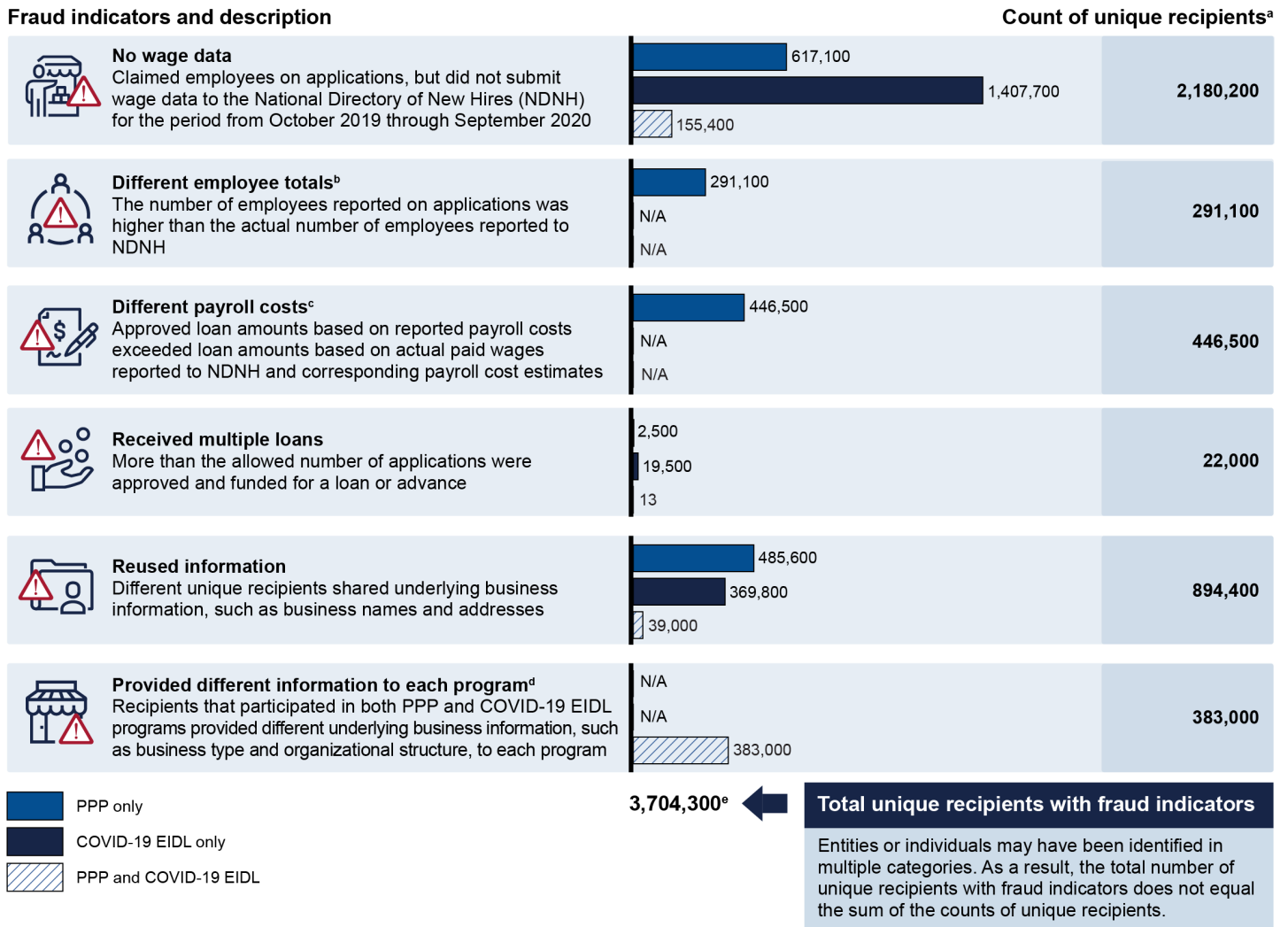
<sup>64</sup>Federal law restricts access to the NDNH database to authorized persons and entities, and for authorized uses. As of May 2023, SBA was not an authorized user of the NDNH database and, as such, did not have access to NDNH wage data.

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Where applicable, as described with our analyses' results and in appendix I, we established thresholds when associating unique recipients with fraud indicators. These thresholds allowed variability in business characteristics (e.g., number of employees, payroll costs) over time. The use of such thresholds also helped minimize the inclusion of non-fraudulent recipients (false positives) where possible. For example, for the purposes of our analysis, if a business was recorded in NDNH as having 150 employees, that recipient would not be associated with a fraud indicator if it reported 160 employees on its PPP application. However, if that recipient reported 166 or more employees on its PPP application, we associated it with a fraud indicator because the employee count discrepancy exceeded our threshold.

See figure 11 for the fraud indicators and summary results of our analyses. These fraud indicators are consistent with characteristics we identified in DOJ cases and related fraud schemes.

**Figure 11: Unique Paycheck Protection Program (PPP) and COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL) Recipients with Fraud Indicators**



Source: GAO analysis of PPP, COVID-19 EIDL, and NDNH data; and davooda/stock.adobe.com (icons). | GAO-23-105331

<sup>a</sup>Unique recipients were identified by a combination of business and personal identifiers. As such, one unique recipient may be associated with more than one loan or advance. Unique recipient counts in this table greater than 1,000 are presented rounded to the nearest multiple of 100. Throughout the remainder of the section, counts are presented rounded to the nearest multiple of 100, except where the count is less than 1,000 or more than one million.

<sup>b</sup>COVID-19 EIDL loan amounts were not related to employee counts as PPP forgiveness amounts were. Therefore, our analyses related to different employee totals considered only PPP recipients and did not include COVID-19 EIDL recipients.

<sup>c</sup>COVID-19 EIDL loan and advance amounts were not directly related to payroll costs as PPP loan amounts were. Therefore, our analyses related to wages paid or payroll expenses considered only PPP recipients and did not include COVID-19 EIDL recipients.

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<sup>d</sup>The fraud indicator related to providing different information to each program compares PPP and COVID-19 EIDL information where unique recipients were identified in both programs. There are no unique recipients for this indicator who were identified in only one of the programs.

<sup>e</sup>The total number of unique recipients with fraud indicators may include (1) recipients who the Department of Justice has prosecuted for fraud, (2) recipients who may be subject to ongoing investigations, (3) recipients whose loans or advances were flagged by the Small Business Administration (SBA) for other reasons but not pursued as potential fraud, (4) recipients whose loans or advances were not flagged by SBA based on fraud indicators, and (5) non-fraudulent recipients with data discrepancies consistent with fraud indicators. This may, therefore, include recipients already flagged by SBA or the SBA Office of Inspector General (OIG) as potentially fraudulent. The results of our analyses, including the identification of discrepancies associated with a fraud indicator, should not be interpreted as proof of fraud.

Of the over 3.7 million unique recipients with fraud indicators in at least one of the programs, we identified almost 394,300 unique recipients with fraud indicators in both programs.<sup>65</sup> Further, we identified 672 unique recipients with at least three fraud indicators in both programs, indicating a higher risk of fraud for those recipients.

We referred the over 3.7 million unique recipients with fraud indicators that we identified through our analyses to the SBA OIG for review, investigation, and further action as appropriate. Our referral provides the SBA OIG with additional data, particularly as it relates to our NDNH analyses, to inform and prioritize its investigative efforts. In making our referral, we requested that the SBA OIG provide us with information on how many of those unique recipients had already been identified by or referred to that office for investigation. This could include, for example, recipients referred to the SBA OIG by SBA. However, the SBA OIG explained it is currently developing and assessing a dataset that includes information received through its hotline and other sources that pertain to potential fraud. As such, the dataset is not currently available for the match we requested. The SBA OIG indicated that when the dataset is available, which is anticipated in late spring 2023, it will endeavor to respond to our request.<sup>66</sup>

Other auditors have also identified instances of potential fraud and fraud risks in SBA's pandemic relief programs. For example, SBA's financial auditor found material weaknesses with PPP loan guarantees for fiscal year 2022. Specifically, the auditor found issues with SBA's ability to

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<sup>65</sup>Approximately 2.1 million unique recipients received funds from both PPP and COVID-19 EIDL.

<sup>66</sup>According to the SBA OIG, the development of this dataset is part of an ongoing fraud landscape review to develop a comprehensive estimate of the potential fraud in the PPP and EIDL portfolios.



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conduct complete and accurate reviews of eligibility flags due to the inadequate design and implementation of controls.<sup>67</sup> This led the auditor to recommend that SBA perform a thorough review of 2021 PPP loan guarantees and, for loans that it determines to be not in conformance with statutory and program requirements, identify the impact on the outstanding loan guarantee and the eligibility for forgiveness.

Similarly, the auditor determined that for COVID-19 EIDL, SBA disbursed funds to borrowers

- with fraudulent tax identification numbers (ID);
- flagged by SBA as potentially fraudulent, a victim of identity theft, or with an associated SBA OIG investigation; and
- with eligibility concerns.

Further, according to the financial auditor, there were a total of 182,298 approved and disbursed loans (with a total value of \$15.6 billion) flagged within SBA's loan repository system that were potentially issued to ineligible borrowers as of September 30, 2022. This led the auditor to recommend that SBA perform a thorough review of loans under COVID-19 EIDL and determine which transactions were not in conformance with the CARES Act and related legislation and provided to ineligible recipients.

As noted in our April 2023 High Risk update, SBA will need to develop a corrective action plan to address the material weaknesses related to PPP and COVID-19 EIDL.

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<sup>67</sup>SBA OIG, 23-02 (Nov. 15, 2022). Similarly, for fiscal year 2021, the financial auditor found that SBA did not adequately design and implement controls to ensure the 2020 cohort of PPP loan guarantees were completely and accurately reviewed to address their respective eligibility flags and ultimately determine their eligibility for forgiveness. See SBA OIG, 22-05. For fiscal year 2020, the financial auditor noted that there were over 2 million approved PPP loan guarantees (with an approximate total value of \$189 billion) flagged by SBA that were potentially not in conformance with the CARES Act and related legislation. See SBA OIG, 21-04.

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## Almost 2.2 Million Unique Recipients Claimed Employees but Did Not Match Wage Data

### We Compared Businesses that Claimed Two or More Employees to Wage Data

Our analysis of Paycheck Protection Program and COVID-19 Economic Injury Disaster Loan data identified 13.4 million unique recipients across both programs. Of these, 6.1 million unique recipients claimed two or more employees on their applications. Self-employed individuals with no employees were to report no more than one employee on an application for either program. Consequently, they are not included in this analysis.

We compared the 6.1 million unique recipients who claimed two or more employees to National Directory of New Hires (NDNH) wage data to identify recipients with fraud indicators. Specific analyses included identifying recipients without matching NDNH wage data and recipients with discrepancies between application and NDNH wage data and employee counts.

Source: GAO. | GAO-23-105331

PPP and COVID-19 EIDL limited eligibility to businesses in operation as of February 15, 2020, and January 31, 2020, respectively.<sup>68</sup> Our comparison of PPP and COVID-19 EIDL loan- and advance-level data to NDNH wage data identified almost 2.2 million unique recipients who claimed two or more employees on their applications but did not match any NDNH wage data available for our analyses (for the period from October 2019 through September 2020).<sup>69</sup> This indicates that these recipients may have obtained PPP and COVID-19 EIDL funds for non-operating businesses, such as shell companies or fictitious businesses, or for businesses that were not in operation by the respective eligibility cut-off dates. Our analysis of the 330 PPP and COVID-19 EIDL fraud cases charged by DOJ showed that over two-thirds of the cases involved or allegedly involved non-operating businesses. See sidebar, as well as appendix I, for further details on how we performed our analysis.

Specifically, our analysis identified the following:

- **PPP.** Almost 772,500 unique PPP recipients did not match any NDNH wage data. Of these, almost 15,000 had received 100 percent forgiveness for loans totaling approximately \$10 billion as of December 31, 2021.<sup>70</sup> Although PPP provided “safe harbor” exceptions to allow for employee reductions, these recipients received 100 percent loan forgiveness though they did not match any wage

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<sup>68</sup>SBA allowed COVID-19 EIDL businesses in the process of starting operations as of January 31, 2020, to participate as long as certain documentation was provided to show that the business was in the organizing stage.

<sup>69</sup>SBA program guidance directed individuals without employees to report themselves as the sole employee on their applications. Our analysis compared only those applicants who claimed two or more employees on their applications. Independent contractors and self-employed individuals—who do not pay employees and therefore do not submit wage data—were not considered in our analysis if they claimed one employee on their application. Seasonal businesses that were in operation prior to October 2019, but did not submit wage data between October 2019 and September 2020, may be included in the unique recipients with fraud indicators identified in this analysis. Businesses that were in the organizing stages and had not yet paid employees were eligible for COVID-19 EIDL funds and would not be considered in this analysis if they did not claim employees.

<sup>70</sup>One general requirement for 100 percent forgiveness of PPP loans was to maintain employee counts through the period following loan disbursement (ranging from 8 to 24 weeks). Program rules allowed that, if the average employee count during the loan coverage period was less than the average employee count referenced on the loan application, the total amount of loan forgiveness could be equivalently reduced. For example, if 90 percent of employees were retained, 90 percent of the total loan amount may have been forgiven.

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data and did not claim those exceptions. “Safe harbors” enabled SBA to allow applicants exceptions to general forgiveness requirements due to circumstances beyond their control, including mandated shutdowns or employees who chose not to return to work when offered the opportunity to do so.<sup>71</sup>

- **COVID-19 EIDL.** Almost 1.6 million unique COVID-19 EIDL recipients did not match any NDNH wage data. Approximately 672,000 of these recipients received approximately \$3.8 billion in COVID-19 EIDL advances—which do not need to be repaid—but were denied loans or withdrew their applications after the advance was approved. The CARES Act required that SBA distribute advances based on applicant self-certification and provided that an applicant shall not be required to repay an advance even if subsequently denied a loan. However, a denial or withdrawal could indicate that the recipient did not meet program eligibility requirements and may have falsely self-certified.

About 155,400 of the 2.2 million unique recipients identified in our comparison to NDNH wage data received both PPP and COVID-19 EIDL funds. These cross-program recipients who claimed two or more employees on their applications but did not match NDNH wage data collectively received over \$27.2 billion in funds. (See text box for illustrative example.)

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<sup>71</sup>As of December 31, 2021, 7.3 million unique PPP loan recipients had applied for any amount of loan forgiveness. Loan forgiveness data indicated that, of these, approximately 67,200 claimed safe harbor related to employee counts on the full-length forgiveness application, 6.3 million applied for forgiveness using SBA form 3508S (by signing form 3508S, applicants agree that they either met forgiveness requirements or met safe harbor requirements), and 1.1 million applied using the simplified form 3508EZ (SBA forgiveness data did not indicate if 3508EZ applicants claimed to meet safe harbor requirements or to meet forgiveness requirements). This forgiveness-related discussion considers only the approximately 143,600 unique recipients who used the full-length application form and did not claim safe harbor. For 32 of the 595 days considered in our analysis (5 percent of the days) the full-length forgiveness application did not include the checkboxes for applicants to indicate that safe harbor requirements were met. As a result, forgiveness-related discussions may include some recipients who met safe harbor requirements during this timeframe.

Out of about 3.1 million unique PPP recipients we matched to NDNH wage data, almost 3 million requested any amount of forgiveness as of December 31, 2021. Over 2.9 million of these received 100 percent loan forgiveness.

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***Individual provided falsified documentation to support application for non-existent businesses.***

Our analysis identified one recipient who submitted applications to both the Paycheck Protection Program and the COVID-19 Economic Injury Disaster Loan program for two separate businesses. The individual claimed more than 100 total employees, but neither business had matching National Directory of New Hires (NDNH) wage data. According to Department of Justice (DOJ) case documentation, the recipient also claimed average monthly payroll costs in excess of \$100,000 per month for each business and submitted falsified documents to support those claims. This individual obtained over \$1.1 million in combined funds from both programs. This individual pled guilty to charges of bank fraud and money laundering.

Source: GAO analysis of DOJ information, court documents, and Small Business Administration and NDNH data. | GAO-23-105331

Some non-fraudulent PPP or COVID-19 EIDL recipients who claimed two or more employees on their applications may not match NDNH wage data for legitimate reasons. For example, SBA officials suggested that businesses may not have filed or were late to submit wage-related information to state workforce agencies, which are a source of NDNH wage data. We acknowledge the possibility that some PPP or COVID-19 EIDL recipients were not in compliance with state workforce agency reporting requirements. This possibility does not negate the risk that the same individuals misrepresented information on their PPP and COVID-19 EIDL applications.

Another possible reason that some unique recipients may not match NDNH wage data relates to reporting requirements for specific business types. For example, sole proprietors and independent contractors who do not pay employees are not required to report wage-related data that is eventually housed in the NDNH. We sought to mitigate the possibility of identifying sole proprietors and independent contractors as potentially non-operating businesses by limiting our comparison to recipients who claimed two or more employees on their PPP or COVID-19 EIDL applications. However, in October 2021, the SBA OIG found that SBA had distributed \$4.5 billion in COVID-19 EIDL advances to sole proprietors and independent contractors who incorrectly claimed employees.<sup>72</sup> Specifically, the SBA OIG found:

- 542,897 sole proprietors, who received an advance of more than \$1,000, applied for the COVID-19 EIDL advances without an

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<sup>72</sup>SBA OIG, *SBA'S Emergency EIDL Grants to Sole Proprietors and Independent Contractors*, 22-01 (Oct. 7, 2021).

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employer identification number (EIN) and claimed two or more employees on their applications. The absence of an EIN indicates the sole proprietor applicants should have claimed no employees.

- 161,197 independent contractors, who received an advance of more than \$1,000, also applied but did not provide an EIN and claimed two or more employees on their COVID-19 EIDL applications.

The sole proprietors and independent contractors identified by SBA OIG would be associated with a fraud indicator as a result of our analyses, as they incorrectly claimed two or more employees on their applications but did not have corresponding records in NDNH wage data.

There are also specific categories of businesses that are not always required to report wage-related data to the systems that feed into NDNH. For example, many states do not require the following business types to report:

- religious organizations,
- agricultural enterprises,
- nonprofit organizations, or
- “very small” businesses paying less than \$10,000 per year in wages.

To the extent possible based on available data, we excluded these business types, as well as businesses with tribal affiliation, from the results of our analysis of recipients who did not match NDNH wage data (see appendix I for additional details). As such, the results of our comparison of loan- and advance-level data to wage data presented above do not include approximately 113,200 recipients who applied as nonprofit organizations, 93,100 religious organizations, or 248,500 agricultural enterprises that received PPP or COVID-19 EIDL funds but that we could not match to NDNH wage data.<sup>73</sup> However, there have been fraud cases involving some of the business types we excluded from our analysis of recipients who did not match NDNH wage data (see text box for illustrative examples).

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<sup>73</sup>No “very small” businesses were identified in this analysis.

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***Neighbors obtained COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL) funds for nonexistent farms.***

According to Department of Justice (DOJ) case information, two neighbors submitted four fraudulent applications for over \$1.1 million in Paycheck Protection Program (PPP) and COVID-19 EIDL funds. After obtaining PPP loans by making false representations regarding the number of employees and payroll for at least two businesses, the neighbors also submitted COVID-19 EIDL applications. One neighbor claimed to employ five individuals on a farm based in her yard, while the other neighbor claimed to employ 10 individuals. These farms and employees did not exist. The individuals received \$287,500 in COVID-19 EIDL funds. Both neighbors pled guilty to conspiracy to commit wire fraud.

***Individual obtained Paycheck Protection Program (PPP) funds for non-operational nonprofit.***

According to DOJ case information, the chief executive officer (CEO) of a nonprofit that had been established in 2018 submitted loan applications through both PPP and COVID-19 EIDL. On the loan applications, the CEO claimed that the nonprofit had 25 employees and supported that claim with falsified tax documentation. In reality, the nonprofit had no employees, income, or regular operations. SBA denied the application for COVID-19 EIDL funds. However, the CEO obtained \$305,854 in PPP funds, which were used to purchase personal items. The CEO pled guilty to wire fraud.

Source: GAO analysis of DOJ information and court documents. | GAO-23-105331

We were able to match 116,900 recipients who applied as nonprofit organizations, 15,600 religious organizations, 72,900 agricultural enterprises and 1,300 very small businesses to the NDNH wage data. We included these unique recipients in our other analyses, such as those related to employee counts and payroll.

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## Over 291,100 Unique PPP Recipients Reported Different Employee Totals

### Employee Counts Are Not Static

It is logical to assume that a business's employee count will change over time. Our analyses provided a 10 percent buffer for recipients with 10 or more employees and a 50 percent buffer for recipients with fewer than 10 employees to allow for variations across time.

In addition, as many businesses were required to shut their doors to slow the spread of the pandemic, it is expected that many businesses had few or no paid employees in the months during which most PPP applications were submitted. Other factors, such as seasonal business, could also affect employee counts.

However, Paycheck Protection Program (PPP) applicants were generally instructed to provide their average employee count for the 12-month period of their choice: 2019, 2020, or the 12 months prior to the date of application.

To be conservative, we used the highest—rather than the average—count of paid employees in National Directory of New Hires wage data prior to the PPP application date.

Although there may be some variability between the employee counts, differences that exceed the 10 or 50 percent buffers we provided may indicate fraudulent application information.

Source: GAO. | GAO-23-105331

PPP loan forgiveness was directly related to maintaining employee numbers for up to 24 weeks following funding, except when previously discussed safe harbor exceptions applied.

Our comparison of PPP loan application data to paid employees in NDNH wage data identified over 291,100 unique recipients who may have overstated employee totals. See sidebar, as well as appendix I, for further details on how we performed our analysis. Our analysis of the 330 PPP and COVID-19 EIDL fraud cases charged by DOJ showed that 73 percent involved schemes in which individuals created fictitious employees and inflated employee counts to obtain more funds.

Over 137,400 of the recipients we identified were associated with 10 or more employees in NDNH wage data. Within these 137,400, we identified

- over 61,600 unique recipients who reported between 10 and 50 percent more employees on their PPP applications;
- almost 16,600 unique recipients who reported 51 to 100 percent more employees on their PPP applications; and
- almost 29,300 unique recipients who reported more than 100 percent more employees on their PPP applications.<sup>74</sup>

One of the requirements for 100 percent PPP loan forgiveness, except where safe harbor exceptions applied, was retaining employees for up to 24 weeks following funding. Of the 291,100 unique recipients who reported different employee totals, over 12,600 claimed to meet forgiveness requirements. They received 100 percent loan forgiveness

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<sup>74</sup>All percentages discussed in these bullets are the percentage in excess of the 10 or 50 percent buffer used in the analysis. For example, if a recipient was recorded in NDNH as having 150 employees, that recipient would be identified as potentially overstating employee counts if it reported 166 employees on the PPP application but not if it reported 165 employees (10 percent buffer equivalent to 15 employees). That recipient would be included in the numbers described in these bullets if it reported 182, 249, or 331 employees (10, 51, and more than 100 percent greater than the expected 165 employees, respectively).

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amounting to almost \$13.5 billion as of December 31, 2021, although the NDNH wage data do not support their claims of employee retention.<sup>75</sup>

For example, one recipient identified in our analysis was a trucking company that reported 499 employees on its April 2020 PPP application. According to NDNH wage data, this business had paid no more than 32 employees in any single quarter between October 2019 and June 2020. This recipient received a \$10 million loan that was 100 percent forgiven.

SBA officials raised concerns that the difference between the PPP loan application employee counts, which we used for our analysis, and the NDNH paid employee counts could result from the amount of time between when a recipient applied for a PPP loan and the available NDNH employee data. However, as discussed previously and in appendix I, we applied thresholds and buffers to limit the application of fraud indicators to recipients who provided average employee counts for a period partially or entirely outside the timeframe of the available NDNH wage data. In addition, SBA OIG officials noted that the employee counts provided on forgiveness applications may be more accurate. The employee count on the forgiveness application was to reflect the number of individuals employed at the time of the original loan application, while the employee count on the loan application was to generally reflect the average number of employees over a defined 12-month period.

When we analyzed loan-level forgiveness data as of December 31, 2021, we found that approximately 171,500 of the over 291,100 unique recipients we identified in this analysis using the employee count on the loan application reported lower initial employee counts on the forgiveness application than they had reported on the loan application. Almost 125,900 of these recipients received 100 percent loan forgiveness, despite the decrease in employee counts between applications. We then repeated our analysis using employee counts reported at loan forgiveness and found that approximately 1,700 of these 125,900 were

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<sup>75</sup>PPP offered “safe harbors” to provide forgiveness without retaining employees, including one that allows employers to exclude employees from their calculations if the employee declined a written offer to return to work, was fired for cause, voluntarily resigned, or requested a reduction in hours. See previous discussion of safe harbor claims and forgiveness applications. This description of forgiven recipients considers only those 143,600 unique recipients who applied for loan forgiveness using the full-length forgiveness form, SBA Form 3508, and did not claim safe harbor related to employee counts as of December 31, 2021.



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still identified as reporting employee counts not supported by the NDNH wage data and had received 100 percent loan forgiveness totaling over \$2.1 billion as of December 31, 2021, though they did not claim safe harbor.<sup>76</sup>

In addition, recipients may have overstated employee counts to support greater forgivable loan amounts. PPP rules allowed recipients to consider no more than \$100,000 in annual wages per employee when reporting payroll costs used to calculate total loan amounts. We identified over 291,100 unique PPP recipients who reported employee counts on their applications that were more than 10 or 50 percent greater than the number of paid employees in the NDNH wage data. Overstating the number of employees on the application could potentially mask the inclusion of individual employee wages in excess of \$100,000 per year since reporting more employees lowers the average payroll cost per employee and consequently increases the forgivable loan amount.

SBA officials raised concerns that the methods and buffers we used in our analyses were not sufficient to account for variations in business size, especially during the pandemic, and as a result may overstate the extent to which there were discrepancies between PPP loan-level data and NDNH wage data. We believe our methods and buffers appropriately account for such variations. Our results reflect SBA's exposure to the risk that otherwise eligible recipients may have inflated employee counts in an effort to obtain more funds than they were entitled to. We also recognize that the results of our analyses may include non-fraudulent recipients.

Additionally, SBA officials noted the possibility that some of the unique recipients flagged in our analysis of employee counts may have been businesses that underreported information to state workforce agencies, which are a source of NDNH wage data. We acknowledge that it is possible that some PPP recipients may have reported incorrect information to state workforce agencies. This possibility does not negate the risk that the same individuals may also have misrepresented information on their PPP applications. The only way to determine the

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<sup>76</sup>According to an SBA official, lenders inconsistently provided employee counts when initially submitting applications on behalf of borrowers. Subsequently, some borrowers directly submitted forgiveness applications. In addition, SBA OIG officials noted that the employee count on the forgiveness applications may be more accurate than the employee counts provided on the original loan application. This description of forgiven recipients considers only those 143,600 unique recipients who applied for loan forgiveness using the full-length forgiveness form, SBA Form 3508, and did not claim safe harbor related to employee counts as of December 31, 2021.

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reason for the indicator's presence is through additional inquiry or investigation.

SBA officials also explained that some of the unique recipients we flagged may have made good-faith errors on their PPP applications regarding employee counts. Specifically, they explained that there was confusion early in the program about counting full-time employees versus calculating full-time equivalents. This confusion created the opportunity for errors in, for example, how recipients accounted for part-time workers. As we have acknowledged, the results of our analysis may include recipients who made errors though they acted in good faith. However, while the application forms and their instructions may have created confusion that resulted in good-faith errors, the risk remains that the same confusion may have provided opportunities for individuals seeking to defraud the programs to do so.

### Over 446,500 Unique PPP Recipients Reported Different Payroll Costs for Calculating Loan Amounts

The amount of individual PPP loans was based primarily on the applicant's average monthly payroll costs.<sup>77</sup> As such, one indicator of fraud is payroll costs on a PPP application greater than the costs supported by NDNH wage data, potentially to obtain a larger loan. We identified over 446,500 unique PPP recipients who received loans larger than expected based on our calculations using NDNH wage data.

#### Estimating Wage-Based Payroll Costs

We used available National Directory of New Hires (NDNH) wage data to estimate wage-based payroll costs. We then used these wage-based payroll costs to estimate maximum eligible Paycheck Protection Program loan amounts.

We used the following data to estimate wage-based payroll costs:

- Paid wages (NDNH)
- Employer payroll costs (Bureau of Labor Statistics)

Payroll costs include both wages paid directly to employees and non-wage employer expenses. Non-wage employer expenses are not reported to NDNH.

Source: GAO. | GAO-23-105331

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<sup>77</sup>Payroll costs include paid wages and additional employer costs related to employee compensation such as paid leave, health care premiums, retirement plan maintenance fees, and state and local taxes assessed on employee compensation.

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The maximum allowable PPP loan was generally 2.5 times the recipient's average monthly payroll costs.<sup>78</sup> Recipients could also apply for additional funds to pay down COVID-19 EIDL loans (but not advances). We estimated the maximum eligible loan amount for recipients matched to NDNH wage data using payroll costs based on paid wages recorded in NDNH and on PPP application loan request formulas. For PPP recipients who had also received COVID-19 EIDL loans, we added the total amount of COVID-19 EIDL loan funds disbursed as of December 31, 2021, (excluding advance funds) to the maximum loan amount estimate. We compared our estimated maximum eligible PPP loan amount to the total approved PPP loan amount. We identified those recipients with greater-than-expected approved loan amounts as potentially overstating payroll costs on their applications. See sidebar, as well as appendix I, for further details on how we performed our analysis.

Of the 3.1 million unique PPP recipients with matched NDNH wage data, we identified over 446,500 unique recipients who were approved for total loan amounts larger than expected based on our wage-based payroll cost estimates. Within these 446,500, we further identified:

- Over 121,000 unique recipients who were approved for loans at least twice as large as expected, including 27,000 who each received approval for loans of \$100,000 or greater.
- Almost 36,000 unique recipients who were approved for loans more than five times as large as expected, including over 1,200 unique recipients who each received approval for loans of \$2 million or greater.

(See text box for illustrative example.)

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<sup>78</sup>First draw PPP loans were capped at 2.5 times monthly payroll, plus the amount of outstanding EIDL funds (excluding advances) for recipients seeking to refinance COVID-19 EIDL loans. Second draw loans were capped at 2.5 times monthly payroll costs for most recipients. However, for businesses with specific business identification codes related to "accommodation and food services," the cap for second draw loans was 3.5 times monthly payroll, up to a maximum of \$2 million. We accounted for these different caps in our analysis.

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***Individual inflated payroll costs to support larger loans.***

One recipient identified in our analysis of loan data has already been convicted of fraud related to these loans. This individual received approximately \$2.9 million in total Paycheck Protection Program funds, but wage data supports total eligible funding of less than \$92,000. Our analysis showed this individual received four separate loans, but only one business was matched to wage data, and the highest paid monthly wage amount for that business was \$26,077. According to Department of Justice (DOJ) case information, this individual applied for multiple loans and claimed average employee wages of over \$1.5 million per month. This individual pled guilty to multiple fraud counts, including major fraud against the United States and bank fraud.

Source: GAO analysis of DOJ information, court documents, and Small Business Administration and National Directory of New Hires data. | GAO-23-105331

SBA officials again raised concerns that the methods and buffers we used for our analyses did not sufficiently account for variations in payroll costs, particularly variations that may have occurred during the pandemic, and as a result fraud indicators may be associated with recipients who did not overstate payroll costs on their PPP applications. They specifically noted that our analysis may have associated recipients with above-average non-wage employer expenses—costly employee insurance or retirement benefits packages, for example—with fraud indicators. While recognizing that the results of our analyses may include non-fraudulent recipients, the methods and buffers used, as well as the results, reflect SBA’s exposure to the risk that otherwise eligible recipients may have inflated payroll costs to obtain more funds than they were entitled to.

SBA officials also explained that the complexity of the maximum loan amount calculations may have led to good-faith errors on the part of both recipients and lenders.<sup>79</sup> They added that, in addition to the complexity of the loan request calculation, there was much confusion in 2020 about how to account for refinancing a COVID-19 EIDL loan as part of the PPP loan amount. Specifically, recipients may have incorrectly included COVID-19 EIDL advance amounts or the amounts of COVID-19 EIDL loans that had been requested but not yet approved at the time of the PPP loan application. We acknowledge the possibility of good-faith errors on the part of recipients or lenders due to confusion related to the application forms and their associated instructions. These conditions do

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<sup>79</sup>In January 2021, SBA issued a Procedural Notice that explained that PPP recipients will not receive forgiveness for good-faith excess loan amount errors.

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not negate the risk that this confusion may have provided opportunities for individuals seeking to defraud the program to do so.

SBA officials also noted that the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (Economic Aid Act) allowed certain recipients to base loan amount calculations on gross income rather than payroll.<sup>80</sup> We acknowledge it is possible that loan applications received after enactment of the Economic Aid Act in December 2020 may have used this alternative calculation. We recognize that the results of our analyses may include non-fraudulent recipients. However, these results also reflect SBA's exposure to the risk that otherwise eligible recipients may have inflated payroll costs to obtain more funds than they were entitled to.

Additionally, SBA officials observed the possibility that some of the unique recipients flagged in our payroll analysis may have been businesses that underreported information to state workforce agencies, which are a source of NDNH wage data. We acknowledge that it is possible that some PPP recipients may have done so. This possibility does not negate the risk that the individuals may also have misrepresented information on their PPP applications.

Almost 22,000 Unique Recipients May Have Received Multiple Unique Loans or Advances

PPP and COVID-19 EIDL recipients were generally limited to a single approved and funded application per business entity per program. However, according to our analysis, almost 22,000 unique recipients received multiple unique loans or advances, potentially in violation of this limitation. Each program had certain provisions by which additional funds might be distributed, such as a second draw PPP loan.<sup>81</sup> Our analysis does not include those recipients whom the data indicate were funded more than once within the rules of the programs.

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<sup>80</sup>Title III of Pub. L. No. 116-260, § 307; 134 Stat 1998 (2020).

<sup>81</sup>A "unique loan or advance" refers to a funded first draw PPP loan, associated loan increases, and an optional second draw loan; or to any loan or advance funds disbursed based on a single approved COVID-19 EIDL application. PPP recipients who received both first and second draw PPP loans, and COVID-19 EIDL recipients who received increases and advances associated with only one application, are not included in the unique recipients with fraud indicators described here. The recipients we discuss in this section received separate unique first draw PPP loans or separate unique COVID-19 EIDL loans or advances, as both programs limited individual businesses to one unique funding opportunity per program.

### Identifying Unique Recipients from Unique Loans and Advances

There were a total of 18.3 million unique loans or advances distributed through the Paycheck Protection Program (PPP) and the COVID-19 Economic Injury Disaster Loan program (COVID-19 EIDL). However, we describe the results of our analyses in terms of the 13.4 million unique recipients, not unique loans or advances.

Our initial review of PPP loan-level data showed that applicants frequently used business information (employer identification number and business name) for the first draw application and personal information (Social Security number and owner name) for the second draw application, or vice versa.

To avoid double-counting these recipients, and to identify other individuals that received more than one unique loan or advance, we used combinations of key identifying information to determine if multiple loan or advance records belonged to the same unique recipient.

For example, if the same tax identification number (tax ID), business name, and address were associated with more than one record, all records were associated with a single unique recipient. This could be a recipient of multiple loans within one program, or a recipient who received one PPP loan and one COVID-19 EIDL loan or advance.

We also considered all records with the same business name and address but a different tax ID as a single unique recipient. In some cases, the different tax ID may be a data entry error. However, it is also an indicator of fraud by an individual potentially altering a single identification field to avoid detection.

Source: GAO. | GAO-23-105331

For the purposes of these programs, a business entity is defined by its tax filing. If a business with three locations submits one tax return under a single EIN, that business should have submitted a single PPP or COVID-19 EIDL application representing the three locations. Businesses can have different EINs for different segments of the business, including locations. If a business submits individual tax returns under unique EINs for each of the three locations, the locations would be treated as individual businesses. Therefore, each of the three locations could submit corresponding PPP or COVID-19 EIDL applications as an individual business entity within the rules of the programs.

Our analysis of the loan- and advance-level data identified almost 22,000 unique recipients who submitted multiple separate applications that were approved and funded, though both programs generally limited individual businesses to a single application. This indicates that these recipients may have misrepresented business information on their applications to obtain additional funds they were not eligible for. See sidebar, as well as appendix I, for further details on how we performed our analysis.

Specifically:

- **PPP.** We identified almost 2,500 unique recipients who received at least two unique PPP loans, contrary to program limits of one loan for each unique business. Of these recipients, over 1,500 had received loan forgiveness totaling approximately \$109 million as of December 31, 2021.
- **COVID-19 EIDL.** We identified about 19,500 unique recipients who received at least two unique COVID-19 EIDL loans or advances. Of these recipients, almost 16,600 received approximately \$95 million in advances that are not required to be repaid.

In addition, we identified 13 unique recipients who received multiple unique PPP loans and multiple unique COVID-19 EIDL loans or advances.

For example, we identified one recipient approved for one unique first draw PPP loan in June 2020 and another first draw PPP loan in April 2021. This recipient also received COVID-19 EIDL loan and advance funds from two separate applications accepted on different dates in June 2020. This recipient received over \$967,000 from both programs.

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Almost 894,400 Unique Recipients May Have Applied for Funds Using the Same Identifying Information as Other Recipients

We identified almost 894,400 unique recipients who were approved for and received funding—once or multiple times—based on applications with the same business information as other unique recipients of funds from the same program (either PPP or COVID-19 EIDL). This identical business information includes information such as tax IDs, business names, and addresses.

Of the almost 894,400 unique recipients who appear to have received funds in violation of program limits on the number of loans or advances per business entity per program, the majority were approved once using the same information as another unique approved and funded recipient. We also identified almost 2,100 unique recipients who were approved multiple times, either as the same business or appearing to be different businesses.

This analysis of recipients who may have used the same information is in contrast to our previously discussed analysis, in which we considered only those recipients that we identified as unique entities or individuals who received funds as a result of more than one application. Where possible, we attempted to minimize the inclusion of non-fraudulent recipients by using thresholds. For example, we applied the fraud indicator related to duplicate internet protocol (IP) addresses only when data showed the same IP address was used ten or more times to apply for COVID-19 EIDL funds.<sup>82</sup> See appendix I for additional information on these thresholds and how we did our analysis.

In some cases, recipients with the same business information may have been independent contractors that provided parent company information. This suggests the possibility of error, as opposed to potentially fraudulent activity. For example, we identified over 1,600 unique recipients who provided the name and address combinations of rideshare agency locations. These recipients received combined program funds totaling over \$26 million. Both PPP and COVID-19 EIDL applications required the legal business name and business address of the recipient, which should

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<sup>82</sup>Some of the business information we considered may be expected to match more than one unique business. For example, more than one non-fraudulent loan recipient may have business addresses in the same office building. To account for these situations, we set a threshold above which there is a higher chance that the duplication is an indication of fraud. Where we set a threshold, we indicated that threshold in our results. For example, we did not consider matching addresses to be a fraud indicator until the same address was provided for five or more unique recipients.

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be the individual's home or contracting business address, not the address of the company for which the individual is a contractor.

According to SBA officials, one of the challenges for independent contractors was that the forms were not always specific as to which address to use. While the application forms and their instructions may have created confusion for legitimate applicants and resulted in errors, they may have also provided opportunities for those seeking to defraud the programs. For example, our analysis identified 35 unique COVID-19 EIDL applications that provided the address of a two-bedroom apartment as the business address and a rideshare agency as the business name.

SBA officials raised concerns that the methods and thresholds we used for our analyses were not sufficient to account for variations in business type or organizational strategy. Specifically, SBA stated that the methods and thresholds used may overstate the extent to which recipients may have inappropriately applied for funds using the same identifying information as other recipients. They noted that a business owner could maintain more than one distinct business entity with unique tax IDs but share legal names and address, as well as number of employees. We recognize that the results of our analyses may include non-fraudulent recipients, and we have incorporated thresholds or buffers into these analyses to account for scenarios in which shared information may be expected. However, our results reflect SBA's exposure to the risk that recipients may have inappropriately used another recipient's information to obtain funds. Our analysis of the 330 PPP and COVID-19 EIDL fraud cases charged by DOJ showed that 19 percent involved allegations of theft of personally identifiable information and 5 percent involved allegations of using another business's information to obtain PPP or COVID-19 EIDL funds.

The SBA OIG has also reported on the risk of identity theft by applicants seeking pandemic relief funds.<sup>83</sup> Specifically, the SBA OIG reported that as of January 31, 2021, SBA had referred 846,611 COVID-19 EIDL applications to the OIG. This total includes the loan applications that originated identity theft complaints (once individuals indicated that they did not apply for a loan and believed they were a victim of identity theft) and any related applications (applications with the same email address, phone number, or physical address). For the 846,611 applications, SBA

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<sup>83</sup>SBA OIG, *SBA's Handling of Identity Theft in the COVID-19 Economic Injury Disaster Loan Program*, 21-15, (Washington, D.C.: May 2021).



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disbursed \$6.7 billion in COVID-19 EIDL funds. The SBA OIG further found that the bank account numbers for 29,435 of the 112,196 disbursed loans, totaling \$1.7 billion, were changed from the original number submitted on the application to another number used for disbursement, which is an additional indicator of potential fraud.

### PPP

We identified almost 524,600 unique PPP recipients who received funds using the same business information as at least one other unique recipient. These recipients received almost \$51.1 billion in total funds, approximately \$39.6 billion of which had been forgiven as of December 31, 2021.

Specifically, we identified

- 31,400 unique recipients who provided the same business name and address as at least one other recipient but different tax IDs;
- 231,900 unique recipients who provided the same business address and business identifying information—such as business type and employee count—as at least one other recipient but different business names and tax IDs; and
- 323,700 unique recipients who provided a business address associated with at least five unique recipients. Recipients in the same office building will have similar addresses. However, multiple applications with the same address could also indicate potentially ineligible applicants re-using information. (See text box for illustrative example.)

***Individuals successfully submitted multiple applications using the same business address.***

Our analysis identified one recipient who received over \$453,000 from three separate Paycheck Protection Program loan applications that used the same street address. Further review of Department of Justice (DOJ) case data found that the recipient was named as a defendant in a case along with co-conspirators who submitted a total of 22 applications for 12 different businesses. Ten of the businesses shared the same address but were described with different business names, owners, and business descriptions. Although 17 of the applications were denied by lenders, DOJ case information indicates that these recipients received a total of more than \$995,000 from five funded applications. One of the individuals involved pled guilty to bank fraud and another pled guilty to bank fraud and identity theft. A third individual was found guilty of multiple charges, including bank fraud conspiracy and identity theft.

Source: GAO analysis of Small Business Administration data, DOJ information, and court documents. | GAO-23-105331

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## COVID-19 EIDL

We identified over 408,800 unique COVID-19 EIDL recipients who received funds using the same business information as at least one other unique recipient. These recipients received almost \$16.4 billion in total funds, including approximately \$1.2 billion in advances.

Specifically, we identified

- 18,700 unique recipients who provided the same business name and address as at least one other recipient but different tax IDs;
- 175,600 unique recipients who provided the same business address, business type, and employee count as at least one other recipient but different business names and tax IDs;
- 201,300 unique recipients who provided a business address associated with at least five unique recipients;
- 37,100 unique recipients with an IP address—automatically collected by SBA—associated with at least 10 unique recipients;
- 28,200 unique recipients who provided the same bank account information as at least one other recipient; and
- 1,200 unique recipients who provided the same owner tax ID as at least one other recipient but different owner names.

For example, the same owner tax ID was provided in loan- and advance-level data for 103 unique COVID-19 EIDL recipients, though different owner names were provided. These 103 recipients received \$3.4 million in total COVID-19 EIDL funds. Even though submitting different business information, such as different owner names, may not be fraudulent by itself, it is an indicator that fraud may have occurred.

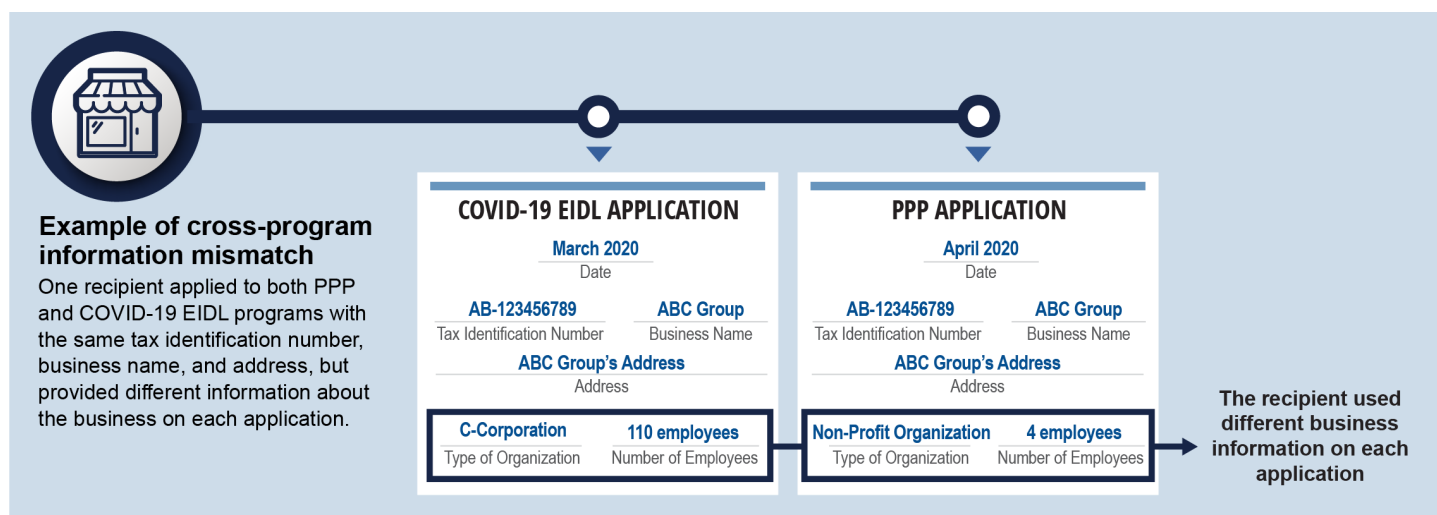
Our analyses identified almost 39,000 unique recipients with fraud indicators in both PPP and COVID-19 EIDL loan- and advance-level data related to using the same business information as other recipients of funds from the same program.

Almost 383,000 Unique Recipients May Have Provided Different Information to Each Program

We found that almost 383,000 of the 2.1 million unique recipients who received both PPP and COVID-19 EIDL funds used different business information when they applied to each program. For example, one corporate recipient self-reported as having over 100 employees on its COVID-19 EIDL application in March 2020. However, on its April 2020

PPP application, that same recipient reported fewer than five employees and identified as a nonprofit organization (see fig. 12).

**Figure 12: Example of Information Mismatch between Paycheck Protection Program (PPP) and COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL) Data**



Source: GAO analysis of PPP and COVID-19 EIDL data; mykola/stock.adobe.com (icon). | GAO-23-105331

There are potentially non-fraudulent reasons for each application having different information. This could include two different people who have different levels of familiarity with the business submitting each application. It could also include variations over time. For example, a recipient may have applied for a PPP loan as a corporation in April 2020 and then applied for a loan under COVID-19 EIDL in December 2021 as a nonprofit organization, having legitimately restructured its business during that time.

However, conflicting descriptions for businesses providing the same identification information can indicate that applications may have been falsified. It can also be an indicator that the identifying information from a legitimate business in one program was used to submit an application with false information to the other.

### Certain Lenders Originated Higher Rates of Fraudulent and Potentially Fraudulent PPP Loans

PPP loans were made to recipients through a network of participating lenders. Certain lenders originated a disproportionate share of fraudulent and potentially fraudulent loans compared to the share of all PPP loans issued by those lenders, according to our analysis of PPP fraud cases charged by DOJ as of December 31, 2021, and PPP loan-level data. We

identified 1,191 PPP loans associated with the 260 closed and ongoing PPP fraud cases and found the origination of those loans to be concentrated among 245 lenders.<sup>84</sup>

Most PPP lenders did not have a loan associated with a DOJ fraud case, as of December 31, 2021. Of the roughly 5,500 lenders that participated in PPP, 95.5 percent of lenders did not have a loan associated with a fraud case. In addition, of the 245 lenders we identified with a loan in a fraud case, 80 percent of those lenders had issued three or fewer loans associated with a DOJ case.

Our analysis identified a small number of lenders that issued a disproportionate share of loans with a DOJ fraud case. We found that five lenders (including both bank and nonbank lenders) issued about 34 percent of all loans associated with at least one fraud case identified as of December 31, 2021 (see table 4). In contrast, these five lenders had issued about 14 percent of all PPP loans.

**Table 4: Top Five Lenders by Number of Paycheck Protection Program (PPP) Loans Associated with a Department of Justice (DOJ) Fraud Case, as of December 31, 2021**

Lender	Lender category <sup>a</sup>	Chartering or licensing authority <sup>b</sup>	Number of loans in fraud cases	Percent of loans in fraud cases	Number of PPP loans issued by lender	Loans by lender as a percent of all PPP loans
Lender A	Bank <sup>c</sup>	State	122	10.2	182,825	1.5
Lender B	Bank <sup>c</sup>	State	92	7.7	518,912	4.2
Lender C	Bank	Federal	89	7.4	507,174	4.1
Lender D	Bank	State	54	4.5	327,951	2.6
Lender E	Nonbank <sup>c</sup>	State	45	3.8	258,545	2.1
<b>Total</b>			<b>402</b>	<b>33.6%</b>	<b>1.8 million</b>	<b>14.4%</b>

Source: GAO analysis of DOJ information and Small Business Administration data. | GAO-23-105331

<sup>a</sup>While banks are depository institutions, nonbanks generally provide lending services but do not accept deposits.

<sup>b</sup>An institution's primary supervisor depends on whether its charter or license was issued by a federal or state entity. Supervisors conduct on-site examinations to assess banks' condition and monitor compliance with banking laws. For institutions with state primary supervisors, examinations may alternate between state and federal supervisors. However, both state- and federally-chartered banks must apply to the Federal Deposit Insurance Corporation (FDIC) for deposit insurance, which provides FDIC with backup examination and regulatory authority over all insured banks.

<sup>c</sup>We identified these institutions as fintech lenders, which are defined as technology-based firms that operate online and may use nontraditional data to make loan decisions.

<sup>84</sup>Associated cases include 84 closed PPP and 42 closed PPP and EIDL cases as well as 85 ongoing PPP and 48 ongoing PPP and EIDL cases.

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Four of the top five lenders with loans identified in fraud cases were primarily state-supervised institutions. Specifically, one is a state-licensed nonbank lender and three are state-chartered banks. In processing PPP loan applications, lenders were required to comply with BSA requirements, as discussed below. The adequacy of an institution's BSA compliance program, which includes requirements for financial institutions to verify the identity of all new customers and monitor and report suspicious activity, among other things, is assessed during the institution's safety and soundness exam. While all federally-insured banks are subject to safety and soundness examinations by their federal regulator every 12 to 18 months, state-chartered banks are examined on an alternating schedule between the appropriate federal and state regulator and, accordingly, may face less frequent federal examinations.<sup>85</sup> However, nonbank lenders may not have federal supervisors to examine their BSA compliance programs, depending on the nonbank lender's prior lending activities and existing relationships with banks.

We found that lenders with the top five highest rates of loans associated with PPP fraud cases tended to use financial technology to automate PPP loan origination (fintech). Specifically, three of the top five lenders with loans identified in fraud cases are bank or nonbank institutions that used fintech to automate their loan origination processes. One of the fintech lenders identified among our top five stated that over 75 percent of the PPP applications it approved were processed without human intervention or manual review.<sup>86</sup> Prior studies found that fintech lenders were disproportionately represented as lenders of potentially fraudulent PPP loans. For example, based on analysis of fraud indicators, a 2022

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<sup>85</sup>While state-chartered, federally-insured banks are required to undergo safety and soundness exams every 12 to 18 months, such institutions may be examined in alternate 12-month periods if the appropriate federal banking agency determines that an examination of the insured depository institution conducted by the state banking authority during the intervening 12-month period carries out the purpose of the regulation. 12 U.S.C. § 1820.

<sup>86</sup>Fintech lenders are defined as technology-based firms that operate online and may use nontraditional data to make loan decisions. For this analysis, we categorized fintech lenders as any nonbank lender that participated in the program as well as any online direct bank, which generally only have one physical branch location. See Isil Erel and Jack Liebersohn, *Does FinTech Substitute for Banks? Evidence from the Paycheck Protection Program* (Cambridge, MA: December 2020).

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study found that fintechs were more likely to issue potentially fraudulent loans than non-fintech lenders.<sup>87</sup>

SBA has taken action against certain fintech lenders and companies based on evidence of inadequate controls to prevent fraudulent applicants from obtaining PPP loans. On December 7, 2022, SBA announced the suspension of two fintech companies that partnered with lenders to facilitate PPP loan approvals from working with SBA. Further, SBA announced its investigation of eight fintech and fintech-partnered PPP lenders related to deficiencies in these entities' fraud identification and prevention capabilities.

Our analysis of the characteristics of PPP loans identified in DOJ cases compared to all PPP loans found that new lenders issued a slightly higher percentage of loans associated with a fraud case than existing SBA lenders based on their share of the total loan amount disbursed. According to SBA, Treasury and SBA jointly reviewed and approved 848 new lenders to participate in PPP, in addition to the 4,837 lenders already authorized to participate in SBA's programs. However, consistent with CARES Act requirements, all lenders were allowed to rely on applicants' documents and self-certifications, and SBA committed to hold lenders harmless for applicants' failure to comply with program rules. Such reduced underwriting requirements limited lenders' role in mitigating fraud risks.

Moreover, all PPP lenders had to demonstrate the ability to comply with applicable BSA requirements. The BSA generally requires financial institutions to implement an anti-money laundering program to help prevent and detect money laundering and terrorist financing. For certain types of federally insured depository institutions such as banks this includes, among other things, requirements for implementing appropriate risk-based procedures for conducting ongoing customer due diligence, which requires obtaining and verifying customer identities and understanding the potential risks associated with customers.<sup>88</sup>

Federally insured depository institutions undergo examinations by federal and state financial supervisors, which, among other things, assess

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<sup>87</sup>John Griffin, Samuel Kruger, and Prateek Mahajan, *Did FinTech Lenders Facilitate PPP Fraud?* (Aug. 18, 2022).

<sup>88</sup>See 31 C.F.R. § 1020.210(a)(2)(v).

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federally insured depository institutions' ability to meet applicable BSA requirements as part of the safety and soundness examination.<sup>89</sup> In prior work, we reported that banks in our analysis said costs associated with meeting customer due diligence requirements were greater than those of any other BSA/AML requirements.<sup>90</sup> Treasury officials told us that they conducted phone interviews to determine the presence of BSA/AML compliance programs for certain prospective PPP lenders.

Although PPP rules allowed lenders to rely on borrower self-certifications, SBA required all PPP lenders to comply with federal BSA requirements. In January 2023, the Board of Governors of the Federal Reserve System (Federal Reserve) assessed a \$2.3 million penalty against a PPP lender for approving six PPP loans despite detecting significant indicators of potential fraud. The Federal Reserve found that the lender's failure to promptly report the potential fraud resulted in violations of the lenders' internal BSA protocols.

According to officials from the Federal Deposit Insurance Corporation (FDIC), examinations conducted through December 2021 had not identified widespread BSA deficiencies among institutions under their supervision related to PPP lending across lender types. The officials identified eight instances of deficiencies among three institutions involving compliance requirements related to customer due diligence for PPP loans between March 2020 and December 2021.

According to our statistical analysis of key factors associated with DOJ cases compared to PPP loans overall, loans issued by nonbank lenders were associated with a higher likelihood of being identified in a fraud case relative to bank lenders, holding all other factors constant. In addition, loans issued by lenders (bank and nonbank) with smaller asset sizes (\$1 billion to less than \$10 billion) were associated with a higher likelihood of being identified in a fraud case, relative to lenders with larger asset sizes (\$10 billion or greater), holding all other factors constant.

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<sup>89</sup>As noted above, FinCEN has delegated its authority to examine financial institutions for compliance with the Bank Secrecy Act to the federal banking agencies. 31 C.F.R. § 1010.810(b).

<sup>90</sup>GAO, *Anti-Money Laundering: Opportunities Exist to Increase Law Enforcement Use of Bank Secrecy Act Reports, and Banks' Costs to Comply with the Act Varied*, [GAO-20-574](#) (Washington, D.C.: Sept. 22, 2020).

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The same analysis also examined borrower characteristics and select indicators of fraud. This analysis indicates that loans for businesses based in urban localities or self-employed businesses are more likely to be identified in a fraud case, relative to business loans from rural localities or employer business, holding all other factors constant. Similarly, controlling for other factors, we found that loans flagged as having overstated payroll or flagged as a non-existent business were more likely to be identified in a fraud case, relative to loans that were not flagged.<sup>91</sup>

PPP rules also required lenders to monitor and report suspected instances of fraud even after loans were issued. Based on our analysis of data provided by Treasury's Financial Crimes Enforcement Network (FinCEN), institutions filed at least 174,000 suspicious activity reports (SAR) to FinCEN in cases of suspected fraud related to PPP, as of December 31, 2021 (see fig. 13).<sup>92</sup> Of those filed, nearly 90 percent of SARs related to PPP were filed by depository institutions, such as banks and credit unions, according to our analysis of the same FinCEN data.<sup>93</sup> SARs can assist law enforcement agencies in their efforts to initiate or supplement investigations involving money laundering and other crimes.

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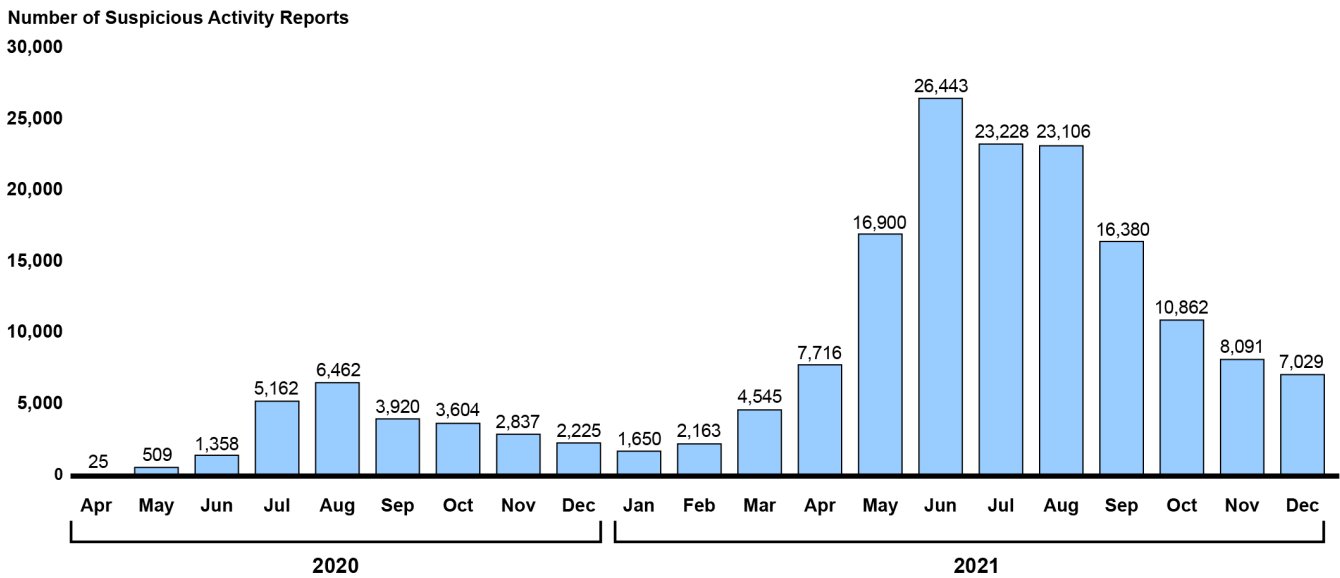
<sup>91</sup>For more information, see appendix IV.

<sup>92</sup>FINCEN identified SARs using defined search terms.

<sup>93</sup>Due to data limitations, it is unknown whether the depository institution that reported a given SAR was also the originator of the PPP loan being reported.



**Figure 13: Number of Suspicious Activity Reports Filed on Paycheck Protection Program Loans, by Month**



Source: GAO analysis of Financial Crimes Enforcement Network data. | GAO-23-105331

In addition to fraudulent borrower activity, law enforcement and regulators have identified potentially fraudulent activity conducted directly by lenders. For example, DOJ charged one lender for its fraudulent lender activity. The business allegedly claimed to have prior lending experience and was approved as a PPP lender. This company issued \$832 million in PPP loans, earning approximately \$71 million in lender fees. As of December 31, 2021, DOJ charged 10 cases involving 12 potentially fraudulent PPP loans issued by this lender, which represents 0.03 percent of all PPP loans issued by this lender. In addition, FDIC has removed one individual from banking for PPP loan fraud as of June 2022.<sup>94</sup> FDIC officials told us they are investigating additional cases of suspected fraud by institution-affiliated parties.

<sup>94</sup>Other federal supervisors have taken similar actions. For example, the Federal Reserve Board prohibited a bank employee from future employment in the banking industry for fraudulently obtaining PPP and COVID-19 EIDL loans. See Board of Governors of the Federal Reserve System, *Federal Reserve Board announces it has prohibited five former bank employees from future employment in the banking industry for fraudulently obtaining loans and grants administered under the Coronavirus Aid, Relief, and Economic Security (CARES) Act* (Washington, D.C.: Oct. 13, 2022). Accessed Jan. 5, 2023, at <https://www.federalreserve.gov/newsevents/pressreleases/enforcement20221013a.htm>.

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## Enhanced Data Analytics Can Help SBA Identify Potentially Fraudulent Recipients

Data analytics can help detect potentially fraudulent activity and, if used before the distribution of funds, can help prevent fraud. These types of analytics can also inform risk assessment efforts. A robust data analytics program consists of many elements, including internally available data and data from external sources. As discussed in the Fraud Risk Framework, a leading practice in data analytics is to conduct data mining and matching, such as cross-checking of data and using external data sources to validate information, to identify suspicious activities.

SBA has used data analytics to facilitate fraud detection within its pandemic relief programs. As previously discussed, SBA incorporated the use of data analytics into its oversight plans for PPP and COVID-19 EIDL to identify potentially fraudulent loans and advances. Based on those analytic efforts along with manual reviews, SBA made over 669,000 referrals for criminal investigation. Additionally:

- In response to our June 2020 recommendation, SBA's loan review contractors conducted automated screenings for all PPP loans made before September 2020.<sup>95</sup> Starting in January 2021, SBA's contractors began using a rules-based tool to screen all PPP loan applications with potential indicators of ineligibility or fraud risk. After manually reviewing these flagged loans, SBA determined that some borrowers were ineligible for the related loan amounts or used the loan proceeds for unauthorized uses. These reviews resulted in PPP loan proceeds with a net present value of about \$4.7 billion not being forgiven.
- In response to our January 2021 recommendation, SBA developed and implemented portfolio-level data analytics across COVID-19 EIDL as a means to detect potentially ineligible and fraudulent applications.<sup>96</sup>
- In response to our July 2022 recommendation pertaining to the Restaurant Revitalization Fund (RRF), SBA officials told us in January 2023 that SBA is taking steps to execute data analytics across the

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<sup>95</sup>GAO-20-625. Additional information on SBA's PPP loan review process can be found in GAO, *Paycheck Protection Program: SBA Added Program Safeguards, but Additional Actions Are Needed*, GAO-21-577 (Washington, D.C.: July 29, 2021).

<sup>96</sup>GAO-21-265. Additional information on SBA's review process for COVID-19 EIDL can be found in GAO, *Economic Injury Disaster Loan Program: Additional Actions Needed to Improve Communication with Applicants and Address Fraud Risks*, GAO-21-589 (Washington, D.C.: July 30, 2021).

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portfolio, with plans to incorporate the results into post-award review procedures.<sup>97</sup>

Across its pandemic relief programs, however, SBA did not fully leverage information to help prevent fraud and identify applicants who tried to defraud more than one program. In the case of PPP and COVID-19 EIDL, SBA officials told us that they did not cross-check applicants' information between the two programs because they lacked a mechanism for doing so. They also noted they did not cross-check PPP recipients with COVID-19 EIDL recipients because an applicant may qualify for one program and not another because of eligibility differences. Nevertheless, a denial in one program may be related to suspected fraud, and cross-checking program data can help identify questionable applications.

Further, we found in July 2022, that SBA was cross-checking certain information for RRF recipients, but the agency was not cross-checking other information to prevent and detect potential fraud in the program.<sup>98</sup> Specifically, SBA used PPP data, as well as data from its Shuttered Venue Operators Grant program, to screen RRF applicants, but it was not cross-checking data on RRF recipients against information on suspicious borrowers from the PPP program provided by DOJ and the SBA OIG. As of January 2023, SBA had begun reviewing a sample of all RRF awards to confirm eligibility and use of funds compliance. We continue to review information provided to us by SBA that focuses on the use of enforcement data on suspected fraud in other SBA programs.

Regarding the use of external data sources, over the course of its COVID-19 response, SBA enhanced its use of these data to facilitate efforts to validate applicant information and detect potential fraud. For example:

- For COVID-19 EIDL, SBA began validating bank routing numbers for COVID-19 EIDL applicants in May 2020. In August 2020, it began to revalidate bank account information whenever the loan applicant changed this information.
- For PPP Round 2, which began in January 2021, SBA implemented controls using public records to validate information such as whether

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<sup>97</sup>GAO, *Restaurant Revitalization Fund: Opportunities Exist to Improve Oversight*, [GAO-22-105442](#) (Washington, D.C.: July 14, 2022).

<sup>98</sup>[GAO-22-105442](#).

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the business was in operation as of February 15, 2020, consistent with program eligibility requirements.

- For all of its pandemic relief programs, in April 2021, SBA implemented pre-award procedures to screen applicants against Treasury's Do Not Pay service.<sup>99</sup>

SBA experienced initial restrictions and delays in being able to validate some applicant information using IRS data. SBA officials told us the CARES Act's restriction on obtaining applicants' tax returns from the IRS presented a challenge for validating COVID-19 EIDL applications. The Consolidated Appropriations Act, 2021, enacted on December 27, 2020, removed this restriction. SBA officials told us that beginning in April 2021, the agency started incorporating tax information as part of its validation process for loan applications to confirm that businesses existed on or before January 31, 2020, and to verify business revenue. However, the SBA OIG found that between when Congress removed the restriction and when SBA began using tax information, SBA disbursed more than \$92 million in COVID-19 EIDL funds disbursements to businesses with suspect tax ID numbers.<sup>100</sup> The lapse of about 4 months was attributable, in part, to the time needed to negotiate an agreement with the IRS so that SBA could request and receive tax data.

SBA has access to various government and private sector databases, such as Treasury's Do Not Pay service and Lexis-Nexis, to help prevent and detect fraud. While SBA said it has access to some external databases, it does not have access to some other external data sources that could benefit its efforts to detect and prevent fraud. Specifically, SBA does not have statutory access to the quarterly NDNH data we used in our fraud indicator analysis. If SBA had access, these data could have served as an alternate means of validating applicant information when it was restricted from using IRS data or while it was negotiating for the use of IRS data. Further, such access could allow SBA to conduct indicator

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<sup>99</sup>SBA OIG, *COVID-19 EIDL Program Recipients on the Department of Treasury's Do Not Pay List*, 22-06 (Washington, D.C.: Nov. 30, 2021). 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.

<sup>100</sup>SBA OIG, *Follow-up Inspection of SBA's Internal Controls to Prevent COVID-19 EIDLs to Ineligible Applicants*, 22-22 (Washington, D.C.: Sept. 29, 2022).

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analyses not only with emergency relief programs but also with the range of programs it administers.

Other data sources could also be beneficial for SBA's purposes. For example, in January 2023, the PRAC noted the benefit of a consent-based verification process to authenticate basic applicant information—such as name, date of birth, and Social Security number—to ensure applicant eligibility and to prevent program and identity fraud.<sup>101</sup> The PRAC urged SBA to work with the Social Security Administration to explore information-sharing agreement(s) that will allow for verifications across all SBA-funded grant, loan, and benefit programs that are vulnerable to identity fraud. SBA informed us that it has communicated with the Social Security Administration on this matter, but as of April 2023, the legal authority to share information with SBA has not been established.

SBA has recognized that it would benefit from further developing its data analytics program. According to planning documents for SBA's Fraud Risk Management Board, this analytics program is to be in place by the end of fiscal year 2023. As the Board develops and implements enhancements, it has the opportunity to build upon the agency's experiences with data analytics for the pandemic relief programs to facilitate analytics within and across its various programs going forward. This effort could include ensuring that mechanisms are in place and are used to facilitate cross-checking of information across programs. Doing so would be consistent with the Fraud Risk Framework's leading practice for agencies to combine data across programs and from separate databases. It would help managers identify potential instances of fraud that may not be evident when analyzing data from separate programs or within separate databases.

Further developing its data analytics program could also include ensuring that SBA continues to identify the range of external data sources that

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<sup>101</sup>In January 2023, the PRAC issued an alert in which it identified over 69,000 questionable Social Security numbers that were used to obtain \$5.4 billion from PPP and COVID-19 EIDL. PRAC data scientists used publicly available information from the Social Security Administration to identify a target selection of Social Security numbers that may have been invalid or not assigned prior to 2011. Then using legal authorities included in the CARES Act, PRAC requested that SSA provide it with verification information for these SSNs. PRAC, *FRAUD ALERT: PRAC Identifies \$5.4 Billion in Potentially Fraudulent Pandemic Loans Obtained Using Over 69,000 Questionable Social Security Numbers* (Jan. 30, 2023).

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would aid it in preventing and detecting potential fraud. This includes sources that could be used if other sources cannot be accessed or accessed in a timely manner. As noted in the Fraud Risk Framework, using data from other federal agencies or third-party sources is a leading practice that can help managers identify potential instances of fraud. However, as we have previously reported and as SBA experienced with the pandemic relief programs, there are statutory and other obstacles that make it difficult to share available data.<sup>102</sup> As a result, once SBA has identified additional external data sources, it may need to pursue statutory authority or enter into data-sharing agreements to gain timely access to those sources.

Until such an enhanced analytics program is in place that fully leverages data across SBA programs and accesses external data to the fullest extent possible, SBA will miss opportunities to effectively use data to achieve the objective of mitigating the likelihood and impact of fraud.

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## Conclusions

Our analyses emphasize the importance of preventing and readily detecting fraud, particularly when the scale of potential fraud is significant. Our analysis of PPP and COVID-19 EIDL data identified over 3.7 million out of 13.4 million total unique recipients with discrepancies associated with potential fraud. The presence of fraud indicators is not proof of fraud and requires further review and investigation, which is why we have referred those recipients to the SBA OIG. Further, as of December 2021, DOJ filed PPP and COVID-19 EIDL fraud-related charges against 524 individuals, and that number continues to grow. Given limited law enforcement and DOJ resources, pursuing millions of potentially fraudulent loan and advance recipients may ultimately not be feasible or cost effective. When pay-and-chase becomes too difficult or costly to pursue, the taxpayers are left to pay for the fraud, bearing its financial and non-financial impacts.

Our fraud indicator analyses demonstrate the value of data analytics in fraud detection. Such value can be further realized in fraud prevention. The use of internal and external data for mining and matching are elements of a robust data analytics program. The Fraud Risk Management Board has recognized the benefits of further developing SBA's data analytics program, but the agency does not have the mechanisms in place to consistently check applicant information across

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<sup>102</sup>GAO, *Highlights of a Forum: Data Analytics for Oversight and Law Enforcement*, [GAO-13-680SP](#) (Washington, D.C.: July 15, 2013).

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programs and may not have timely access to some external data sources that could support fraud prevention and detection. Enhancements to its data analytics program, involving cross-program data checks and external data sources for verification purposes, could facilitate strategic management of fraud risks in SBA's ongoing and future programs.

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## Recommendations for Executive Action

We are making the following two recommendations to SBA for further enhancement of its data analytics program for fraud prevention and detection:

The Administrator of SBA, in coordination with the Fraud Risk Management Board, should ensure that SBA has mechanisms in place and utilizes them to facilitate cross-program data analytics. (Recommendation 1)

The Administrator of SBA, in coordination with the Fraud Risk Management Board, should ensure that SBA has identified external sources of data that can facilitate the verification of applicant information and the detection of potential fraud across its programs. It should then develop a plan for obtaining access to those sources, which may involve pursuing statutory authority or entering into data-sharing agreement to obtain such access. (Recommendation 2)

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## Agency Comments and Our Evaluation

We provided a draft of this report to SBA, DOJ, Treasury, and FDIC for review and comment. We received written comments from SBA, which are reproduced in appendix V and summarized below. SBA, DOJ, Treasury, and FDIC provided technical comments that we incorporated as appropriate.

In its comments, SBA concurred with both of our recommendations. SBA further stated that it already engages in both of these suggested activities. Regarding our first recommendation, SBA noted it has developed cross-program analytics for pandemic relief programs to identify awardees suspected of identity theft or fraud who received awards and loans through multiple programs. Such actions are consistent with our recommendation, particularly as it relates to fraud detection. However, SBA should also ensure that it has mechanisms in place and utilizes them to facilitate cross-program data analytics before funds are disbursed to help prevent fraud. Regarding our second recommendation, SBA indicated that it is currently developing additional applicant verification capabilities that will leverage third-party data sources. According to SBA, it has met with several federal agencies to explore data-sharing opportunities.

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SBA raised several concerns regarding our methodology and presentation of findings. Specifically, SBA expressed concerns with our use of the term “fraud indicator” as it relates to our second objective. SBA appears to limit the use of “fraud indicator” to characteristics that warrant criminal investigation after program officials have substantially reviewed an application and determined it represents the highest risk of fraud. As explained in detail in both the draft and final report, GAO uses fraud indicator to mean discrepancies found in the data consistent with characteristics and flags that suggest a potential for fraudulent activity. We maintain that our methods and use of the term are appropriate. As intended, our analyses provide insight into the extent fraud indicators were present, SBA’s exposure to fraud risks, and how some recipients may have taken advantage of those risks.

SBA also stated that it is likely that the majority of the 3.7 million recipients we flagged with fraud indicators likely have “no true fraud indicators.” We disagree. SBA’s statement reflects a fundamental disagreement about what constitutes a fraud indicator and a lack of understanding of what a fraud indicator is. Whether a recipient we identified with a fraud indicator is ultimately found to have engaged in fraudulent activity is a legal determination usually adjudicated in the courts. While every fraud indicator may not result in a determination of fraud, a fraud indicator serves as a red flag for further review and investigation.

SBA further commented that the draft report omitted any discussion of its processes to identify potentially fraudulent recipients. We acknowledged in the draft and final report that SBA established processes to detect potential fraud. However, the intent of our audit was not to evaluate those processes and, therefore, our discussion of those processes was limited and confined primarily to appendix II. Where appropriate, we added information to the final report on these processes for context. We also clarified the wording of our third objective, which identifies opportunities for SBA to enhance its data analytics efforts to facilitate fraud prevention and detection. Additionally, we plan to review SBA’s antifraud approach and specifically its four-step process to detect potentially fraudulent loans and advances and refer them to the SBA OIG in future work.

SBA raised concerns that the results of our fraud indicator analyses did not account for the inclusion of false positives, or non-fraudulent recipients, in our results. In its comments, SBA listed various scenarios that could explain potential false positives. The purpose of our analyses was to identify the presence of indicators suggesting a recipient may have



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misrepresented information to appear eligible or receive approval for a larger amount, rather than to identify recipients with the highest probability of having committed fraud. Our analyses to identify the presence of indicators also help to provide insights related to SBA's exposure to fraud risks, particularly since we were able to use a dataset that SBA does not have access to. This identification step is the precursor to additional verification, such as the steps SBA has suggested, to quantify false positive results. Although we constructed our analyses to reduce false positives, we repeatedly acknowledge that false positive results may be included in our results.

Additionally, in the report, we address at length the various false positive scenarios SBA provided in its comments, as well as provide detailed information on our methods and tolerances. Specifically, see the following that address each of the scenarios provided by SBA:

- Borrower does not appear in NDNH data between October 2019–September 2020
  - Borrower name is different: page 98 (for PPP) and 103 (for COVID-19 EIDL) in appendix I, where we explain that the matches were based on more than business name
  - Borrower is a house of worship, religious affiliated private school, small nonprofit, farm, or tribal business: report pages 54-55 and pages 98-99 (for PPP) and 103-104 (for COVID-19 EIDL) in appendix I, as well as below
  - Legitimate business did not file or was late to file with state workforce agency: report page 53, as well as below regarding tax non-compliance
  - Input error: report page 45
  - Change in EIN: page 98 (for PPP) and 103 (for COVID-19 EIDL) in appendix I, where we explain that the matches were based on more than EIN
- Borrower's employee count does not match that in the NDNH database
  - When borrower applied for loan: report pages 56-57 (including sidebar) and page 100 in appendix I, as well as below
  - Mistake due to confusion regarding calculation of full-time equivalent versus full-time employees: report page 59

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- Borrower’s loan amount based on payroll costs does not match wage information in the NDNH database and corresponding payroll estimates
    - Borrower’s calculation of payroll: pages 100-102 in appendix I, as well as below
    - Above-average non-wage employer expenses: report page 61 and pages 100-102 in appendix I
    - Borrower used allowable alternative calculation: report page 62
    - Borrower or lender made good-faith error in calculation, such as incorrectly accounting for COVID-19 EIDL advances: report pages 61-62
  - Appearance of more than one application with the same information
    - Number of non-fraudulent reasons: report pages 64-67
    - Matching methodology not disclosed: pages 102-103 (for PPP) and pages 104-105 (for COVID-19 EIDL) in appendix I
  - Appearance of more than one application with some of the same information
    - Borrower is part of a business that maintains multiple legal entities: report page 65
    - Borrower is a rideshare driver: report pages 64-65
  - Borrower reported different information on the COVID-19 EIDL application than the PPP application
    - Borrower applied for a PPP loan and a COVID-19 EIDL loan at different times: report page 68

There are two sets of scenarios that warrant further discussion.

First, in its scenarios related to false positives for the no wage data fraud indicator, SBA incorrectly stated that we did not remove from our match with the NDNH database certain types of borrowers such as houses of worship, small nonprofits, or farms, among others. As discussed in the report and in appendix I, because of exceptions and variations in wage data reporting requirements among states, we excluded religious organizations, agricultural enterprises, nonprofit organizations, and very small businesses from the results of this indicator analysis to the extent possible based on available data.

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Second, in the scenarios SBA identified for the different employee totals or payroll costs indicators, SBA suggested that false positives could be the result of timing differences between when a recipient applied for a PPP loan and the NDNH data we used. In doing so, SBA incorrectly characterizes our analyses as matching only against one quarter of data. For our different employee total count analysis, as discussed in appendix I, we compared the employee count value provided with the PPP loan-level data to the highest number of paid employees in any of the available quarters of NDNH wage data prior to and including the quarter of loan approval. Similarly, for our different payroll costs analysis, we used the largest (not the average) quarterly wage recorded in NDNH to estimate monthly payroll costs for the entire reference period recipients were to use when calculating payroll costs for their PPP application. Therefore, contrary to SBA's comments, no recipients were flagged based on a mismatch between the application employee count or payroll and a single quarter of NDNH wage data.

Related to its concerns about false positives, SBA suggested that our results are unreliable because of our use of the NDNH database. SBA characterized the NDNH as an employee records database, as opposed to a corporation and business entity database maintained by a secretary of state. Given that PPP and COVID-19 EIDL eligibility was tied to whether the business was in operation as of a certain date and the number of employees and payroll amount affected PPP loan amounts, we maintain that the use of the NDNH database, with its information related to employees and their wages, is appropriate. A corporation and business entity database would not have provided us with relevant insights.

SBA correctly stated that the NDNH database is only made available to select government agencies through congressional action. However, it incorrectly stated that the database is not used by government institutions to verify information and that it is untested. As discussed in a 2019 report, at least five federal agencies have authority to use NDNH data to verify employment and income information as part of their program integrity efforts.<sup>103</sup> That report also describes efforts undertaken to ensure NDNH's accuracy and completeness. We recognize that the NDNH database is one that SBA currently cannot access; we, therefore, performed our

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<sup>103</sup>Congressional Research Service, *The National Directory of New Hires: In Brief*, RS22889 (Washington, D.C.: Oct. 1, 2019). This report also discusses the penalties for the failure of employers to report required information.

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analyses to identify the presence of fraud indicators and provide fraud risk insights from a relatively unique position.

Further, SBA questioned the completeness of the NDNH database given its reliance on self-reporting, citing figures that suggest that employment tax non-compliance is about 9 percent of businesses. This characterization on the extent of employment tax non-compliance is not accurate. After analyzing the source SBA cited in its comments, we determined that the 9 percent rate is based on estimated dollar amounts rather than the proportion of businesses.<sup>104</sup> Additionally, only a small proportion of the noncompliance rate is attributed to nonfiling. Specifically, the estimated rate includes three types of noncompliance – nonfiling, underreporting and underpayment. The noncompliance rate attributable to nonfiling is less than 1 percent (0.65 percent). As a result, we acknowledge that the nonfiling rate may reduce the completeness of the NDNH wage data. However, it does so at a rate that is significantly less than what SBA stated. Given that most of our identified fraud indicators relate to nonfiling, we determined that this potential error rate is acceptable for the purposes of our analysis.<sup>105</sup>

SBA raised the concern that the public will be misled and believe that all 3.7 million unique recipients we identified were likely fraudulent. It also stated that law enforcement, with limited resources, will be forced to investigate good-faith errors and non-fraudulent actors. We disagree. We provide explanations to help readers understand what the presence of a fraud indicator means and does not mean. This includes explaining that additional review, investigation, and adjudication is needed to determine if fraud exists.

Further, we made the referral to the SBA OIG consistent with our policy and only after coordinating with the SBA OIG. Upon receiving the referral, the SBA OIG indicated it would enrich that office's ongoing efforts. As discussed in the report, this includes informing and prioritizing

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<sup>104</sup>Internal Revenue Service, *Federal Tax Compliance Research: Tax Gap Estimates for Tax Years 2011–2013*, Publication 1415 (Rev. 9-2019).

<sup>105</sup>In addition, the underreporting noncompliance rate in the source SBA cited could also affect our indicators related to employee counts and payroll amounts. However, the underreporting estimate in the source SBA cited mainly consists of self-employment tax underpayment and, as already described in our methodology, we removed applicants who did not indicate they had other employees from our analysis. The applicable underpayment rate estimate is less than 3 percent. Given that these fraud indicators make up a small proportion of our findings, we determined that this potential error rate is acceptable for the purposes of our analysis.

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investigative efforts. Additionally, our referral can contribute to the SBA OIG's landscape review to develop a comprehensive estimate of the potential fraud related to PPP and COVID-19 EIDL. This is because, in part, our referral may include those who have not already been referred by SBA or identified through ongoing law enforcement efforts. Even for those who have already been referred or identified, our analyses with the use of NDNH data may provide new information that warrants further review.

In discussing our first objective, SBA stated that we did not use any observations from our analysis of DOJ cases to inform our indicator analyses. The intent of the first objective was to illustrate how fraud was committed in closed cases or may have been committed in ongoing cases, as well as understand the impact of fraudulent activity. Throughout our indicator analyses discussion, we note consistencies between the results of our analyses and characteristics we identified in the DOJ cases and related fraud schemes. For example, our analysis of the 330 DOJ cases showed that over two-thirds of the cases involved or allegedly involved non-operating businesses. This is consistent with our "no wage data" indicator.

SBA further suggested that, based on our analysis of the DOJ cases, there is no indication that "reused information" is a fraud indicator. However, our review of the cases showed that individuals made multiple attempts to defraud the programs, some of whom reused information. For example, we highlight in the report a case involving a recipient whom we flagged in our fraud indicator analysis and who, along with co-conspirators, fraudulently received PPP funds after submitting multiple applications, including 10 for businesses with the same addresses but different business names, owners, and descriptions.

SBA also questioned the value of including the regression analysis in our discussion of lenders that originated higher rates of fraudulent and potentially fraudulent PPP loans. In addition, SBA critiqued the model for not being predictive. In describing our regression analysis methods in detail to allow for replication, we acknowledge limitations and judiciously use the results in supporting our findings. Specifically, we acknowledge that these results are not predictive of whether a loan is fraudulent. Because of the limited information available in the PPP data—for example, not being able to control for demographic characteristics of loan applicants due to high rates of missing data—it would be inappropriate to assume this model explains a majority of the variation in fraudulent loan

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activity, and is neither meant to classify loans as fraudulent, nor predict and explain fraud.

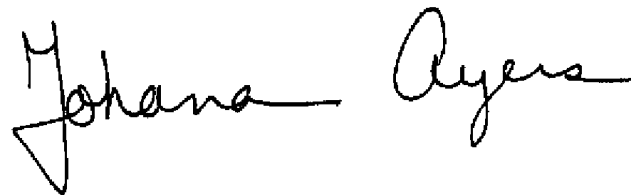
The value of our analysis is to provide insight into associations between specific characteristics and indicators of fraud as well as to inform any future analyses of PPP lender activity to further examine such variables and associations. Additionally, because of the extremely large size of the analyzed dataset, we did not rely solely on the statistical significance of parameter estimates due to the increased likelihood of significance due to random chance alone. Our method of model assessment and inclusion of model control variables, as discussed in appendix IV, means that our analysis and findings are conservative in nature. As a result, there is a higher chance of not detecting associations that may actually exist.

Finally, SBA stated that the draft report did not acknowledge SBA leadership in making fraud risk management a top priority and that we have not reflected the work SBA has done to reduce fraud risks in its programs. We disagree. For example, appendix II contains information on how SBA's efforts to manage fraud risks evolved over the course of the pandemic. As such, we note the important efforts undertaken by SBA in 2021 and 2022 to establish the Fraud Risk Management Board and conduct fraud risk assessments. Similarly, our discussion in appendix III of the status of GAO recommendations highlights areas where SBA has made progress. Finally, in the third objective, we discuss SBA's data analytic efforts, including those that resulted in referrals to the SBA OIG and determinations that some PPP loans were not eligible for forgiveness.

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We are sending copies of this report to the appropriate congressional committees, the SBA Administrator, the SBA OIG, the Attorney General, the Secretary of the Treasury, the FDIC Chairman, and other interested parties. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff members have any questions about this report, please contact me at 202-512-6722 or [ayersj@gao.gov](mailto:ayersj@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix VI.

A handwritten signature in black ink that reads "Johana Ayers". The signature is written in a cursive style with a large initial 'J' and a long horizontal stroke.

Johana Ayers  
Managing Director, Forensic Audits and Investigative Service

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*List of Committees*

The Honorable Patty Murray  
Chair  
The Honorable Susan Collins  
Vice Chair  
Committee on Appropriations  
United States Senate

The Honorable Ron Wyden  
Chairman  
The Honorable Mike Crapo  
Committee on Finance  
United States Senate

The Honorable Bernard Sanders  
Chair  
The Honorable Bill Cassidy  
Ranking Member  
Committee on Health, Education, Labor, and Pensions  
United States Senate

The Honorable Gary C. Peters  
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Ranking Member  
Committee on Homeland Security and Governmental Affairs  
United States Senate

The Honorable Ben Cardin  
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The Honorable Joni K. Ernst  
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Committee on Small Business and Entrepreneurship  
United States Senate

The Honorable Kay Granger  
Chair  
The Honorable Rosa L. DeLauro  
Ranking Member  
Committee on Appropriations  
House of Representatives



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The Honorable Cathy McMorris Rodgers  
Chair  
The Honorable Frank Pallone, Jr.  
Committee on Energy and Commerce  
House of Representatives

The Honorable Mark E. Green, MD  
Chairman  
The Honorable Bennie G. Thompson  
Ranking Member  
Committee on Homeland Security  
House of Representatives

The Honorable James Comer  
Chairman  
The Honorable Jamie Raskin  
Ranking Member  
Committee on Oversight and Accountability  
House of Representatives

The Honorable Roger Williams  
Chairman  
The Honorable Nydia M. Velázquez  
Ranking Member  
Committee on Small Business  
House of Representatives

The Honorable Jason Smith  
Chairman  
The Honorable Richard Neal  
Ranking Member  
Committee on Ways and Means  
House of Representatives

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# Appendix I: Objectives, Scope, and Methodology

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Our objectives were to (1) analyze fraud cases charged by the Department of Justice (DOJ) involving Paycheck Protection Program (PPP) and COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL) to understand fraud schemes and impacts; (2) provide the results of select data analyses to identify PPP and COVID-19 EIDL recipients with fraud indicators, as well as fraud-related lender activity in PPP; and (3) identify opportunities for SBA to enhance its data analytics to prevent and detect potential fraud.<sup>1</sup>

For all of our objectives, we interviewed officials from the Small Business Administration's (SBA) Office of Capital Access, Office of Disaster Assistance, and Office of Continuous Operations and Risk Management, as well as senior officials who were members of SBA's Fraud Risk Management Council and Fraud Risk Management Board. Additionally, we interviewed officials from the Department of the Treasury (Treasury), DOJ, the Federal Deposit Insurance Corporation (FDIC), and the SBA Office of Inspector General (OIG).

For objective 1, to conduct thematic analysis of fraud cases charged by DOJ, we identified 330 criminal and civil cases involving PPP and COVID-19 EIDL based on publicly announced DOJ cases and federal court documents from May 2020 to December 31, 2021.<sup>2</sup> We identified the 330 cases included in our analysis by subscribing to alerts from Westlaw, a legal news service, using search terms "Paycheck Protection Program" and "Economic Injury Disaster Loan." We also conducted periodic checks of the Westlaw database and used other available

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<sup>1</sup>Fraud indicators are characteristics and flags that serve as warning signs suggesting a potential for fraudulent activity. The indicators can be used to identify potential fraud and assess fraud risk but are not proof of fraud, which is determined through the judicial or other adjudicative system.

<sup>2</sup>Fraud cases are those PPP and COVID-19 EIDL cases that involve fraud-related charges. Fraud-related charges include criminal fraud charges associated with PPP or COVID-19 EIDL fraud schemes, such as bank fraud or wire fraud, as well as other charges for crimes used to execute fraud schemes, such as money laundering or conspiracy charges. Alternatively, DOJ can pursue civil remedies for suspected fraud under the False Claims Act, 31 U.S.C. § 3729-3733 and the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, 12 U.S.C. § 1833a.

We selected December 31, 2021, as the ending point of our research because on December 31, 2021, SBA stopped accepting COVID-19 EIDL applications (per Consolidated Appropriations Act, 2021). PPP closed in May 2021. We acknowledge that DOJ has continued to bring charges involving PPP and COVID-19 EIDL since December 31, 2021, and that later cases may involve more complex fraud schemes that may take longer to investigate and prosecute.

sources such as the DOJ Fraud Section website.<sup>3</sup> For identified cases, we used Public Access to Court Electronic Records to access and download documents used in the court proceedings, such as indictments, criminal information, and plea agreements.<sup>4</sup>

To conduct the thematic analysis of the 330 cases, we used the GAO Conceptual Fraud Model. The model is organized as an ontology, which provides an explicit description of categories of federal fraud, their characteristics, and the relationships among them.<sup>5</sup> This thematic analysis was structured and organized using WebProtégé, an ontology modeling tool developed by the Stanford Center for Biomedical Informatics Research at the Stanford University School of Medicine. For each case, we documented structured information about the case, each charged individual, and, when identified in court documents, businesses that applied for the loans or advances. After entering and verifying information in WebProtégé, we analyzed the aggregate data to describe the characteristics of PPP and COVID-19 EIDL fraud cases.

For the purposes of our analysis, we considered DOJ cases as closed when they reached conclusion through a guilty plea, settlement, dismissed charges, or a verdict at trial. We considered cases as ongoing when they had not reached a conclusion as of December 31, 2021. Some of our ongoing cases have since reached conclusions, but those conclusions are not reflected in our analysis. Also, a single case—which involves fraud-related charges associated with PPP, COVID-19 EIDL, or both programs—may involve a single or multiple individuals or businesses, that applied for a single or multiple loans or grants, and contain a single or multiple fraud mechanisms.

Our analysis is limited to the 330 DOJ cases we identified from public sources, which may not include all criminal and civil cases related to PPP and COVID-19 EIDL charged by DOJ as of December 31, 2021. Additionally, our analysis is based on known information presented in

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<sup>3</sup>DOJ, Fraud Section Enforcement Related to the CARES Act, <https://www.justice.gov/criminal-fraud/cares-act-fraud>

<sup>4</sup>Public Access to Court Electronic Records is a service of the federal judiciary that enables the public to search online for case information from U.S. district, bankruptcy, and appellate courts. Federal court records available through this system include case information (such as names of parties, proceedings, and documents filed) as well as information on case status.

<sup>5</sup>GAO, GAO Fraud Ontology Version 1.0, published January 10, 2022. [https://gaoinnovations.gov/antifraud\\_resource/howfraudworks](https://gaoinnovations.gov/antifraud_resource/howfraudworks)

court documents. The specific details of fraud cases and schemes in the court documents may not be complete. For example, names of businesses that applied for loans, dollar amounts applied or obtained, or all fraud mechanisms may not be identified in court documents. Also, DOJ generally pursues prosecution when officials are confident they can prove criminal intent beyond a reasonable doubt, and therefore not all investigations are pursued into litigation.

To identify illustrative cases of fraud involving PPP and COVID-19 EIDL funds, we used the case information we had documented to judgmentally select examples within key areas of findings.<sup>6</sup> We selected cases that contained sufficient levels of detail in available documentation for use as illustrative examples and that collectively represented a range of jurisdictions and programs involved (PPP, COVID-19 EIDL, or both).

We limited our selection to closed cases and generally to cases that had a loan amount obtained within the 2nd or 3rd quartile of all loan amounts obtained to avoid cases with unusually high or low loan amounts. Cases selected through this analysis are intended to illustrate examples of how fraud occurred (closed cases) or may have occurred (ongoing cases). The illustrative cases are not generalizable to all fraud cases or all potential fraud involving PPP or COVID-19 EIDL.

To calculate actual and potential financial impacts associated with criminal PPP and COVID-19 EIDL cases, we categorized the cases based on whether they were closed or ongoing. We characterized losses for closed cases as direct losses and for ongoing cases as potential losses. We characterized all offsets for closed and ongoing cases as potential offsets because potential offsets include restitution that has been ordered, but not necessarily repaid. As a result, sums of potential offsets cannot be subtracted from losses to arrive at the total cost of fraud for these programs. Additionally, potential offsets may include costs to the government, such as maintenance of seized assets, among others. We reported totals in the following two categories:

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<sup>6</sup>The key areas of findings are (1) eligibility misrepresentation cases where individuals misrepresented eligibility and program rules were circumvented; (2) false information or identity theft cases where individuals used false information or used another person's personally identifiable information or a business's information; (3) facilitators cases where individuals knowingly assisted, recruited, or provided guidance to PPP and COVID-19 EIDL applicants on how to circumvent SBA controls; and (4) broader fraud related to COVID-19, including pandemic relief programs, or other crimes.

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- Losses: monetary losses incurred by the federal government through PPP and COVID-19 EIDL government guarantees, lender fees, or direct lending, excluding costs associated with fraud investigations and prosecution.<sup>7</sup>
  - Potential offsets: monetary recoveries received, retained, or both, by the government, including funds ordered to be paid to the government or the lender in connection with an adjudicated finding of fraud.<sup>8</sup>

Finally, to describe non-financial impact of fraudulent and potentially fraudulent activity associated with PPP and COVID-19 EIDL, we developed a framework that identified non-financial ways in which fraud against SBA pandemic relief programs can manifest itself. We primarily relied on areas of impact identified in the GAO Conceptual Fraud Model and the International Public Sector Fraud Forum's (IPSFF) *Guide to Understanding the Total Impact of Fraud*.<sup>9</sup> Based on our review of the areas of impact identified in GAO's Conceptual Fraud Model and IPSFF guide, and considering relevance of impact areas in the context of SBA pandemic relief programs that provide emergency loans and grants to small businesses, we selected six areas of non-financial impact to examine further in our analysis:

(1) economic relief goal;

(2) stakeholder;

(3) security;

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<sup>7</sup>We measured financial impact separately for closed and ongoing cases. For closed cases, we measured: (1) PPP and COVID-19 EIDL amounts obtained and (2) PPP lender fee amount. For ongoing cases, we measured: (1) PPP and COVID-19 EIDL amounts obtained and (2) PPP lender fee amount at risk. To calculate lender fees, we matched businesses identified in DOJ cases that received PPP loans with PPP loan-level data. For matched businesses, we calculated lender fees based on the amount of the loan and applicable percentages established by SBA.

<sup>8</sup>For ongoing cases, we measured potential direct offsets using PPP and COVID-19 EIDL total amount seized. For closed cases, we measured actual direct offsets using PPP and COVID-19 EIDL amount subject to restitution.

<sup>9</sup>International Public Sector Fraud Forum, *Guide to Understanding the Total Impact of Fraud*, February 2020. The Forum was established in 2017 by government officials from Australia, Canada, New Zealand, the United Kingdom, and the United States. The goal of the forum is to use shared knowledge to reduce the risk and harm of fraud and corruption in the public sector across the world.

- (4) reputational;
- (5) impact on victim; and
- (6) impact on fraudster.

For each identified area of non-financial impact, we developed definitions relevant to the SBA context and informed by GAO's Conceptual Fraud Model and the areas of impact developed by the IPSFF. To develop statements of impact for each selected area of impact above, we obtained three or more separate sources relevant to each area of impact, to include government and industry reports, DOJ fraud case examples, media reports, and interview with DOJ officials. These statements of impact are not all encompassing or inclusive of all possible ways the non-financial impact of pandemic relief programs fraud can manifest itself.

For objective 2, we analyzed PPP and COVID-19 EIDL loan- and advance-level data for indicators of fraud. Fraud indicators are characteristics and flags (for simplicity of discussion, we generally use the term "flags" or "flagged" throughout this section of the appendix) that serve as warning signs of potentially fraudulent activity. These flags can be used to identify potential fraud and assess fraud risk but are not proof of fraud, which is determined through the judicial or other adjudicative system. Our identifications of unique recipients with fraud indicators are based on discrepancies we found in the data consistent with characteristics and flags that suggest a potential for fraudulent activity.

It is possible that the results of our analyses may include non-fraudulent recipients with one or more data discrepancies that were identified as fraud indicators. There are multiple factors that may explain why a non-fraudulent recipient has a discrepancy consistent with a fraud indicator. One such factor is data entry errors by recipients or those involved in the approval of funds. There may also be other factors contributing to the identification of non-fraudulent recipients, including those related to confusion about how to complete an application. In presenting the results of our specific analyses, we also noted other factors that may explain why a non-fraudulent recipient has a discrepancy consistent with a particular fraud indicator and the steps we took to reduce the number of non-fraudulent recipients identified. The results of our analyses should not be interpreted as proof of fraud. Additional review, investigation, and adjudication is needed to determine if and the extent to which fraud exists.

Additionally, the results of our analyses may also include recipients (1) whom DOJ has prosecuted for fraud, (2) who may be subject to ongoing investigations,<sup>10</sup> (3) whose loans or advances were flagged by SBA for other reasons but not pursued as potential fraud, or (4) whose loans or advances were not flagged by SBA based on fraud indicators. Therefore, this may include recipients already flagged by SBA or the SBA OIG as potentially fraudulent.

We reviewed eligibility requirements for PPP and COVID-19 EIDL loans and advances and determined fraud indicators that could be identified in the available data. Specifically, we identified

- recipients who did not have wage data, suggesting the possibility a business may be a shell company or may not have been in operation prior to October 2020;
- PPP recipients who had different employee totals or estimated payroll costs than expected based on wage data, suggesting the possibility of inflated employee counts or payroll costs to appear eligible for larger loans or greater forgiveness; and
- recipients of funds based on multiple applications though both programs limited each unique business entity to one funded application in each program.

We also identified recipients who successfully submitted applications using contact, identifying, or business information identical to at least one other recipient.

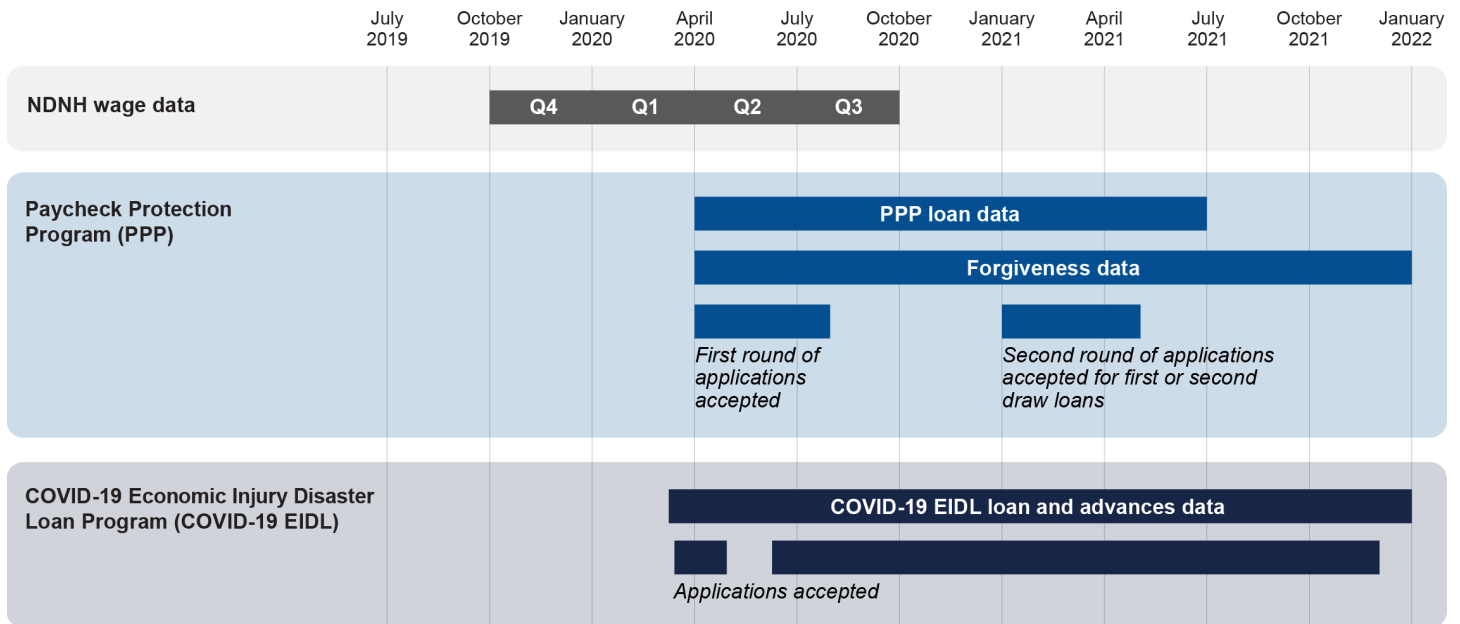
To conduct our analyses, we obtained PPP and COVID-19 EIDL loan- and advance-level data from SBA. This included PPP loan-level data as of June 30, 2021, and PPP forgiveness and COVID-19 EIDL loan- and advance-level data as of December 31, 2021 (the most-current data available when we began our review). We also obtained one year of national quarterly wage data from the Department of Health and Human Services' National Directory of New Hires (NDNH) for the period ending September 30, 2020, which provided business data, including employee counts and paid wages before and during the pandemic. NDNH is a national repository of new hire, quarterly wage, and unemployment insurance information reported by employers, states, and federal agencies. The NDNH is maintained and used by the Department of

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<sup>10</sup>Investigative agencies do not typically comment on ongoing investigations.

Health and Human Services for the federal child support enforcement program, which assists states in locating parents and enforcing child support orders. SBA does not have access to NDNH information.<sup>11</sup> However, similar information such as number of employees and wages paid can be found on the employer’s federal tax return and other employer filings. See figure 14 for the time periods and data covered.

**Figure 14: National Directory of New Hires (NDNH) and Small Business Administration (SBA) Pandemic Relief Data Obtained for GAO Analysis**



Source: GAO analysis of NDNH and SBA data. | GAO-23-105331

Note: PPP and COVID-19 EIDL limited eligibility to businesses in operation as of February 15, 2020, and January 31, 2020, respectively. SBA allowed COVID-19 EIDL businesses in the process of starting operations as of January 31, 2020, to participate as long as certain documentation was provided to show that the business was in the organizing stage.

For our analyses to identify unique recipients with indicators of PPP fraud, we matched PPP loan-level data for approximately 3.1 million unique recipients to four quarters of NDNH wage data using a combination of employer identification numbers (EIN), Social Security numbers (SSN), business names, addresses, and states identified in PPP application data. This allowed us to compare provided PPP application data to

<sup>11</sup>Federal law restricts access to the NDNH database to authorized persons and entities, and for authorized uses. As of May 2023, SBA was not an authorized user of the NDNH database and, as such, did not have access to NDNH wage data.



corresponding NDNH wage data to identify unique recipients with fraud indicators related to the number of employees, payroll expenses, and existence of wage data.

We also reviewed the loan-level data to determine whether applicants used the same underlying information to submit multiple applications with different identifying or business information, and to determine if loans were disbursed to multiple recipients using the same information.

Our PPP analyses consisted of the steps described below.

- Our initial review of the PPP loan-level data revealed several recipients who received first draw and second draw loans using different tax identifiers (e.g., used the business EIN for the first draw loan and the owner's SSN for the second draw loan).<sup>12</sup> In order to identify unique recipients, we used a waterfall matching entity resolution technique. This technique uses multiple combinations of different variables such as tax identifier, business name (standardized), and business address (standardized through United States Postal Service address matching software) to identify unique entities. For example, the first match could include variables A, B, and C while a second match might include variables A, C, and D to identify a unique recipient.
- To determine whether the business was in operation before February 15, 2020, we compared recipients in the loan-level data to those recipients matched to NDNH wage data. We flagged unique recipients who reported two or more employees on their PPP application but did not match any NDNH wage data. Independent contractors and self-employed individuals—who do not pay employees and therefore do not submit wage data—were not considered in our analysis if they claimed one employee on their PPP application.

After obtaining the results of an initial match of PPP and NDNH wage data, we took steps to exclude business types that do not consistently have to report wage data. There are exceptions to quarterly wage reporting requirements that vary by state and by business type. To identify business types that do not consistently have to report wage data, we reviewed the reporting requirements for the ten states that accounted for almost 60 percent of all funded recipients. These ten

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<sup>12</sup>A borrower's first PPP loan, which could be received in either 2020 or 2021, is referred to as a "first draw loan." Borrowers that received first draw loans could apply for a second draw PPP loan in 2021, based on different eligibility requirements.

states collectively do not always require the following business types to report wage data:

- religious organizations,
- agricultural enterprises,
- nonprofit organizations, or
- “very small” businesses paying less than \$10,000 per year in wages.

Then, to the extent possible based on available data, we excluded these business types from the results of our analysis. As a result, we excluded 167,200 unique PPP recipients from our analysis related to the no matching wage data indicator. Specifically, the results of our analysis do not include 102,800 recipients who applied as nonprofit organizations, 70,900 religious organizations, or 64,600 agricultural enterprises that received PPP loans but that we could not match to NDNH wage data.<sup>13</sup>

However, we were able to match 112,400 recipients who applied as nonprofit organizations, 13,500 religious organizations, 63,600 agricultural enterprises, and 1,300 very small businesses that received PPP loans to the NDNH wage data.

To identify recipients who applied as very small businesses—paying less than \$10,000 per year in wages—we used the following equations. These equations use the approved PPP loan amount to determine a) the payroll costs used to calculate that loan amount and b) the amount of payroll costs attributable to wages paid. See text box for calculation of payroll costs estimated from approved first draw PPP loan amount and estimate of paid wages.<sup>14</sup> See later discussion on discrepancies related to payroll costs for explanation of paid wages estimated as 78 percent of total payroll costs.

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<sup>13</sup>No PPP recipients were identified as very small businesses who claimed two or more employees but were not matched to NDNH wage data. Unique recipients may be associated with more than one category of potentially excluded business types, so individual categories will not sum to 167,200.

<sup>14</sup>We used the example calculation to estimate payroll costs based on first draw PPP loan amounts only. Payroll costs used to calculate second draw PPP loans were estimated by reversing the calculations on SBA Form 2483-SD. For applicants with North American Industry Classification System codes beginning with “72,” estimated payroll costs = [approved second draw PPP loan] ÷ 3.5; for other second draw applicants, estimated payroll costs = [approved second draw PPP loan] ÷ 2.5.

**Reported payroll costs calculation**

Estimated payroll costs = ([Approved first draw Paycheck Protection Program loan] – [COVID-19 Economic Injury Disaster Loan]) ÷ 2.5

**Paid wages calculation**

Paid wages = [Estimated payroll costs] x 0.78

Source: GAO. | GAO-23-105331

Recipients that we could match to NDNH wage data regardless of business type were included in our other analyses, such as those related to employee counts and payroll costs.

Businesses that were in operation prior to October 2019 but did not submit wage data between October 2019 and September 2020 may be included in the unique recipients flagged in this analysis. This includes seasonal businesses that did not operate at all during this time period. Seasonal business operations can fluctuate and result in businesses closing for parts of the year. However, a lack of a match to NDNH wage data indicates that a business may not have paid any employees from October 2019 through September 2020, raising the possibility that it was a shell company or non-operational business.

- To determine whether there were discrepancies in employee counts, we compared the employee count value provided with the PPP loan-level data to the highest number of paid employees in any of the available quarters of NDNH wage data—as opposed to the average number of employees across all quarters—prior to and including the quarter of loan approval. We limited this comparison to those unique recipients who indicated two or more employees on their PPP applications. To account for PPP application employee counts based on a 12-month timeframe other than October 2019 through September 2020—for example, new employees hired after September 2020 and included in the application employee count average—we added a 10 or 50 percent buffer to the paid employee count in NDNH.

Specifically:

- For business with 10 or more paid employees in the NDNH wage data, we flagged unique recipients who reported greater than 10 percent more employees than were recorded in NDNH.
- For businesses with fewer than 10 paid employees in the NDNH wage data, we flagged unique recipients who reported more than 50 percent more employees than were recorded in NDNH.
- To identify discrepancies related to payroll costs, we estimated the expected PPP loan amount using the monthly equivalent of the

highest total wages paid in any single quarter of available NDNH wage data—not the average of wages paid across all available quarters—prior to and including the quarter of loan approval, as well as any associated COVID-19 EIDL loan amounts, to estimate monthly payroll costs. We then compared the estimated loan amount to the approved loan amount in the PPP loan-level data.

The maximum PPP loan amount was based on payroll costs, which include additional employer expenses beyond employee wages. However, the NDNH data reflect wages paid, which are one component of payroll costs. As a result, we estimated overall payroll costs using NDNH wage data and the Department of Labor’s Bureau of Labor Statistics data. According to the Bureau of Labor Statistics data, non-wage employer expenses in the private industry averaged approximately 19.3 percent of total payroll costs in 2019 and 2020.<sup>15</sup> We rounded this to 20 percent and added an additional 2 percent to account for potential variation across businesses. This brought the total percentage of non-wage employer expenses to 22 percent. Therefore, we estimated wages paid—and recorded in NDNH—were 78 percent of total payroll costs. After estimating payroll costs (as monthly wages estimated from NDNH wages paid divided by 78 percent), we added an additional 10 percent buffer to further mitigate variations across businesses and limitations of available data. See text box for calculation of total estimated payroll costs.

**Total estimated payroll cost calculation**

Total estimated payroll costs = (Highest monthly wages estimated from National Directory of New Hires quarterly wage data ÷ 0.78) \* 110%

Source: GAO. | GAO-23-105331

Using the estimated payroll costs, we used equations provided on first draw and second draw PPP loan applications to calculate maximum

<sup>15</sup>This percentage is based on Bureau of Labor Statistics private industry data for June 2019 and March 2020. Non-wage employer costs averaged 19.3 percent of total employee compensation (18.8 to 19.8 percent at the 95 percent confidence level). These non-wage employer costs are composed of insurance, retirement and savings, and legally required benefits costs—which include costs for Social Security, Medicare, workers’ compensation, and both state and federal unemployment insurance—as described by the Bureau of Labor Statistics. Bureau of Labor Statistics data are derived from approximately 6,400 private industry entities for June 2019 costs and 6,300 private industry entities for March 2020 costs. U.S. Department of Labor, Bureau of Labor Statistics, *Employer Costs for Employee Compensation – June 2019*, USDL-19-1649, p.4. U.S. Department of Labor, Bureau of Labor Statistics, *Employer Costs for Employee Compensation – March 2020*, USDL-20-1232, p.4.

eligible loan amounts (2.5 or 3.5 times payroll costs, depending on the business industry and if it was a first or second draw loan). First draw PPP loans could also be increased to refinance COVID-19 EIDL loans. For PPP recipients who had also received COVID-19 EIDL loans, we added the total amount of COVID-19 EIDL loan funds disbursed as of December 31, 2021 (excluding advance funds) to the calculated PPP loan amount prior to conducting our final analysis. See text box for an example of our calculation of a maximum eligible first draw PPP loan amount.<sup>16</sup>

**Maximum eligible loan calculation**

Estimated first draw Paycheck Protection Program loan = 2.5 x [Total estimated payroll costs] + [COVID-19 Economic Injury Disaster Loan]

**Calculation notes:**

Total estimated payroll costs = (Highest monthly wages estimated from National Directory of New Hires quarterly wage data ÷ 0.78) \* 110%

COVID-19 Economic Injury Disaster Loan = COVID-19 Economic Injury Disaster Loan amount associated with matched recipient

Source: GAO. | GAO-23-105331

We flagged those unique recipients whose approved PPP loan amounts exceeded the loan amounts we estimated using the above payroll cost calculation, actual wages recorded in the NDNH, and associated COVID-19 EIDL loan amounts. We limited this comparison to those recipients with matching NDNH wage data.

- To determine if recipients may have received funds in violation of program limits on the number of loans per business entity, we flagged unique recipients who received more than one funded loan that were identified as the same unique recipient using the waterfall matching technique discussed above. This analysis considered only unique recipients who received more than one first draw PPP loan and did not flag recipients who received one first and one second draw loan for the same business.
- To determine if multiple loans were disbursed to recipients using the same information, we reviewed and compared recipient information

<sup>16</sup>The example calculation provided was used to estimate maximum eligible first draw PPP loans only. Maximum eligible second draw loan estimates were calculated using the equation on SBA Form 2483-SD. For applicants with North American Industry Classification System codes beginning with "72," estimated second draw PPP loans = 3.5 x [payroll costs]; for other applicants, estimated second draw PPP loans = 2.5 x [payroll costs]. These calculations applied only to those unique recipients who matched NDNH wage data.

such as EIN, SSN, business name, business address, business type, and reported employee count.

We flagged unique recipients who provided

- the same business name and address as at least one other unique recipient but a different EIN or SSN;
- the same address and business information as at least one other unique recipient but a different business name and EIN or SSN; or
- a business address associated with at least five unique recipients.

For our analysis to identify unique recipients with indicators of COVID-19 EIDL fraud, we matched loan- and advance-level data on almost 1.5 million unique recipients to four quarters of NDNH wage data using a combination of the EINs, business names, addresses, and states identified in COVID-19 EIDL loan and advance application data. This allowed us to compare provided COVID-19 EIDL application data to corresponding NDNH wage data to identify unique recipients with fraud indicators related to the existence of the business. We also reviewed the loan- and advance-level data to identify unique recipients who used the same underlying information to submit multiple applications with different identifying or business information, and to determine if loans or advances were disbursed to multiple recipients using the same information.

Our COVID-19 EIDL analyses consisted of the steps described below:

- As with our PPP analysis, we used a waterfall matching entity resolution technique to identify unique COVID-19 EIDL recipients.
- To determine whether businesses were in operation on or before January 31, 2020, we compared recipients in the loan- and advance-level data to those recipients matched to NDNH wage data.<sup>17</sup> We flagged unique recipients who indicated two or more employees on their COVID-19 EIDL application but did not match any NDNH wage data. As with the PPP analysis, independent contractors and self-employed individuals were not considered in our analysis if they claimed one employee on their COVID-19 EIDL application.

We also excluded those business types that do not consistently have to report wage data from the results of our analysis, as discussed above. This resulted in us excluding 225,300 unique COVID-19 EIDL

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<sup>17</sup>SBA allowed COVID-19 EIDL businesses in the process of starting operations as of January 31, 2020, to participate as long as certain documentation was provided to show that the business was in the organizing stage.

recipients from our analysis related to the wage data indicator. Specifically, the results of our analysis do not include 13,200 recipients who applied as nonprofit organizations, 28,100 religious organizations, or 190,200 agricultural enterprises that received COVID-19 EIDL funds but that we could not match to NDNH wage data.<sup>18</sup>

However, we were able to match 9,100 recipients who applied as nonprofit organizations, 3,200 religious organizations, and 17,300 agricultural enterprises that received COVID-19 EIDL funds to NDNH wage data.

- Similar to our PPP analysis to determine if recipients received multiple loans, we flagged COVID-19 EIDL recipients who received more than one funded loan or advance that were identified as the same unique recipient using the waterfall matching technique. This analysis considered only unique recipients who received funds from more than one approved COVID-19 EIDL loan or advance application. It did not flag recipients who received increases after the initial loan disbursement or multiple types of COVID-19 EIDL advances (such as an advance disbursed prior to the initiation of targeted advances as well as a targeted advance) based on a single application.
- As with our PPP analysis to determine if multiple loans were disbursed to unique recipients using the same information, we reviewed and compared recipient information such as EIN, SSN, business name, business address, bank account and internet protocol (IP) address; and business information such as business type, reported employee count, and owner EIN and name.

We flagged unique recipients who provided

- the same business name and address as at least one other unique recipient but a different EIN or SSN;
- the same address and business information as at least one other unique recipient but a different business name and EIN or SSN;
- a business address associated with at least five unique recipients;
- an IP address associated with at least 10 unique recipients;

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<sup>18</sup>COVID-19 EIDL loans and advances were not payroll- or wage-dependent, as PPP loans were. We, therefore, could not determine which recipients applied as very small businesses. As a result, no very small businesses were excluded from the results of our comparison of COVID-19 EIDL loan- and advance-level data to NDNH wage data. Unique recipients may be associated with more than one category of potentially excluded business types, so individual categories do not sum to 225,300.

- the same bank routing number and account number as at least one other unique recipient; or
- the same owner EIN as at least one other unique recipient but a different owner name.

In addition, we compared PPP loan-level data to COVID-19 EIDL loan- and advance-level data to identify unique recipients of funds from both programs. We reviewed matching unique recipients to determine if corresponding applications had consistent information between programs and if fraud indicators, where identified, could have informed each program.

To assess the reliability of the NDNH, PPP, and COVID-19 EIDL data, we reviewed documents related to the data, interviewed knowledgeable officials, and performed electronic testing to determine the validity of specific data elements used to perform our work. On the basis of our reliability assessment results, we determined that the data were sufficiently reliable for the purposes of matching and identifying discrepancies that indicate potential fraud. The results of our analyses, including the identification of discrepancies associated with a fraud indicator, should not be interpreted as proof of fraud.

We also sought to report the number of unique recipients identified in our analyses who were already associated with SBA OIG records. To do so, we provided SBA OIG a list of all unique recipients associated with at least one fraud indicator based on our analyses and the associated PPP loan number(s) or COVID-19 EIDL application number(s). However, the SBA OIG informed us that it is currently developing and assessing the dataset necessary to conduct such a match. As such, the SBA OIG was unable to provide a response in time for inclusion in this report.

To analyze lending activity for PPP loans issued to borrowers charged by DOJ, we leveraged information on fraud cases as discussed in objective 1. We matched businesses identified through DOJ fraud cases to PPP loan-level data, which contained associated lender information. We analyzed matched data to identify characteristics of lenders with fraud cases, including lenders with the most fraud cases. Further, to provide insight into associations among variables of lender and borrower characteristics as well as to inform any future analyses, we conducted a statistical analysis using logistic regressions. A logistic regression describes the relationship between a binary outcome variable—in this case incidents of alleged fraud charged by DOJ—and select factors of interest, such as loan- and lender-level characteristics and select fraud



indicators, while controlling for other factors. See appendix IV for information on our regression analysis.

Finally, we collected and analyzed data on suspicious activity reports filed by financial institutions for PPP from the Treasury's Financial Crime Enforcement Network from April 2020 through December 31, 2021. We categorized each unique suspicious activity report by month and reporting lender type.

For objective 3, we evaluated SBA's data analytic efforts for opportunities to enhance fraud prevention and detection. We did so by reviewing previous GAO reports, the results of our own fraud indicator analyses, and SBA documents. We assessed SBA's efforts against the leading practices identified in GAO's Fraud Risk Framework we determined to be most relevant. Specifically, those practices relate to conducting (1) data mining to identify suspicious activities and transactions and (2) data matching to verify key information.<sup>19</sup>

In appendix II, we summarized SBA fraud risk management efforts throughout the pandemic across its four pandemic relief programs. We reviewed prior GAO, SBA OIG, and Pandemic Response Accountability Committee reports to gain information about the prior oversight work and recommendations that had been made regarding SBA's fraud risk management of the pandemic relief programs.<sup>20</sup> We reviewed SBA documentation, such as (1) fraud risk assessments; (2) antifraud procedures related to PPP, COVID-19 EIDL, the Restaurant Revitalization Fund, and the Shuttered Venue Operators Grant; (3) Fraud Risk Management Council meeting minutes; and (4) the Fraud Risk Management Board charter and meeting minutes, among other documents.

We also interviewed SBA officials to learn about fraud risk management efforts across pandemic relief programs. In reporting on SBA fraud risk management efforts, we considered all four components of GAO's Fraud

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<sup>19</sup>GAO, *A Framework for Managing Fraud Risks in Federal Programs*, [GAO-15-593SP](#) (Washington, D.C.: July 2015). Data mining analyzes data for relationships that have not previously been discovered. Data matching is a process in which information from one source is compared with information from another, such as government or third-party databases, to identify any inconsistencies.

<sup>20</sup>The Pandemic Response Accountability Committee (PRAC) was established by the CARES Act to conduct oversight of the federal government's pandemic response and recovery effort. The PRAC is composed of 21 federal inspectors general.

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Risk Framework—commit, assess, design and implement, and evaluate and adapt—as well as relevant leading practices of the Framework under each component.

We conducted this performance audit from July 2021 to May 2023, 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.

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# Appendix II: Overview of SBA's Fraud Risk Management Efforts Implementing the Pandemic Relief Programs

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The Small Business Administration (SBA) moved quickly under challenging circumstances to develop and launch four pandemic relief programs to help offset the economic hardships facing small businesses. However, early in the pandemic, external factors—such as legislative design and the large scale of the programs—increased fraud risks across SBA's pandemic relief programs. These external factors along with SBA's lack of strategic fraud risk management in its ongoing programs prior to the pandemic—such as a lack of dedicated antifraud entity and fraud risk assessments—contributed to missed opportunities for SBA to strategically manage fraud risks.

Throughout the pandemic, SBA adapted its fraud risk management approach and added controls as fraud schemes emerged. However, these actions were reactive and may not have been fully effective. Further, key actions, such as formally assessing fraud risks as called for in GAO's Fraud Risk Framework, occurred after most funds were distributed.<sup>1</sup> These actions nevertheless represent important steps in SBA's efforts to mature its fraud risk management.

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## Legislative Design, Scale of Pandemic Relief Programs, and Lack of Strategic Fraud Risk Management Contributed to Missed Opportunities for SBA

### Legislative Design and Large Scale of Pandemic Relief Programs Increased Fraud Risks

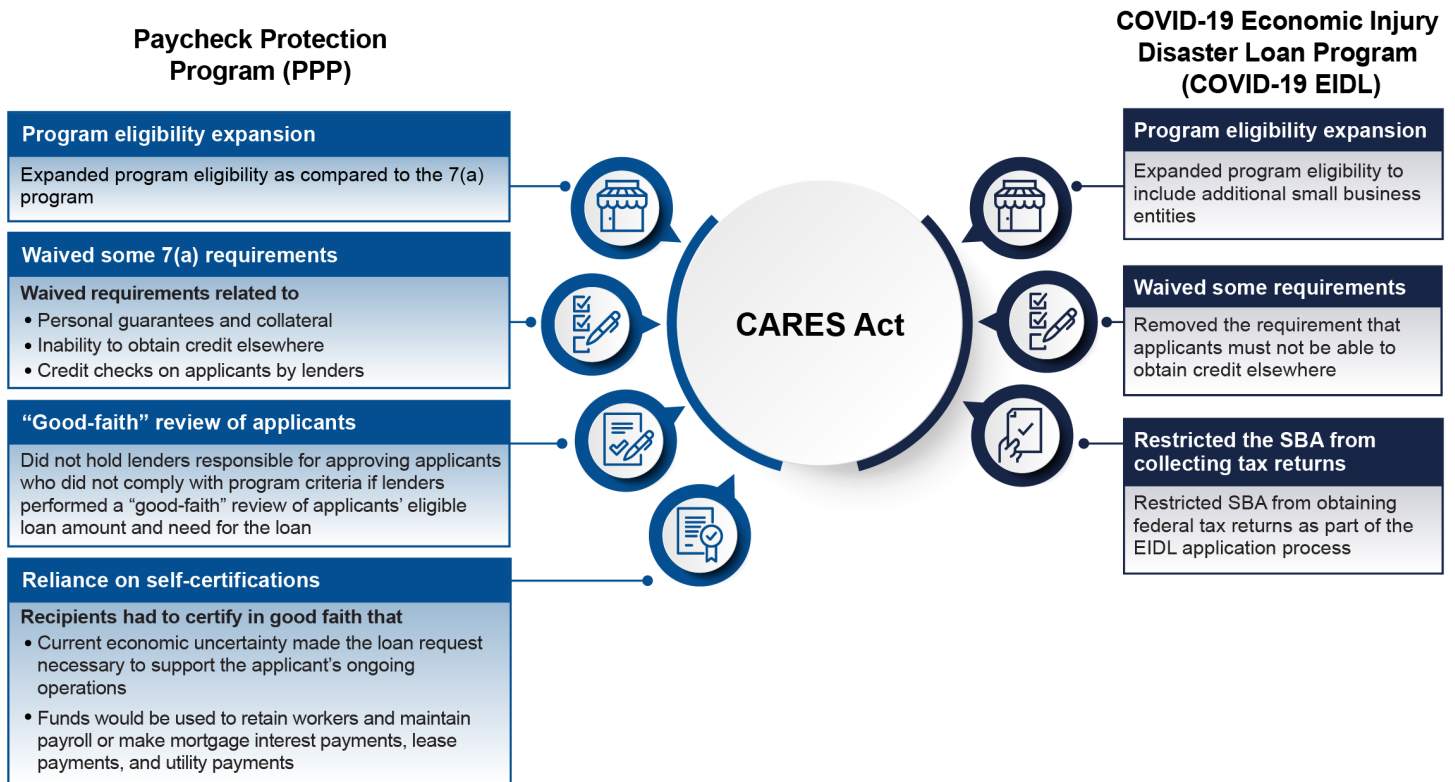
In its initial response to the pandemic, SBA moved quickly under challenging circumstances to develop and launch the Paycheck Protection Program (PPP) and the COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL). SBA was tasked with delivering pandemic relief programs that far exceeded the size of SBA's prior disaster relief and ongoing lending programs. The legislative design that eliminated certain verification requirements coupled with the large scale of the programs, increased fraud risks.

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<sup>1</sup>GAO, *A Framework for Managing Fraud Risks in Federal Programs*, [GAO-15-593SP](#) (Washington, D.C.: July 2015).

As illustrated in figure 15, the CARES Act changed some fraud-related requirements in PPP, as compared to the 7(a) program, and COVID-19 EIDL, as compared to traditional EIDL.<sup>2</sup>

Figure 15: Examples of Changes to Traditional Small Business Administration (SBA) Programs Made by the CARES Act



Source: GAO analysis of CARES Act and SBA information; and davooda/stock.adobe.com (icons). | GAO-23-105331

<sup>2</sup>CARES Act, Pub. L. No. 116-136, 134 Stat. 281 (2020). The PPP was authorized under SBA’s existing 7(a) small business lending program. The 7(a) loan guarantee program provides small businesses access to capital that they would not be able to access in the competitive market. The COVID-19 EIDL program was partially based on an existing SBA-administered program providing EIDL disaster loans. EIDL, which is part of SBA’s Disaster Loan Program, provides low-interest loans to help borrowers—small businesses and nonprofit organizations located in a disaster area—meet obligations or pay ordinary and necessary operating expenses. In this report, we refer to the Economic Injury Disaster Loan provisions of SBA’s Disaster Loan Program as “traditional” EIDL and to the EIDL program designed to help small businesses recover from the economic impacts of the COVID-19 pandemic as COVID-19 EIDL.

SBA officials explained that when Congress created PPP and COVID-19 EIDL, it removed safeguards that had been in place for the 7(a) and traditional EIDL programs pre-pandemic in an effort to expedite loan processing. SBA officials further noted that the CARES Act's restriction on using applicants' tax information made it challenging to verify applicant eligibility for COVID-19 EIDL. They said that they built in as much fraud prevention and protection as they could within the time they had.

Moreover, the size of PPP and COVID-19 EIDL far exceeded any other disaster relief program SBA had previously administered. For example, an SBA official testified during a July 2020 congressional hearing that since SBA was founded in 1953, SBA had approved a total of 2.2 million disaster loans for \$66.7 billion.<sup>3</sup> Amid the urgency to help adversely affected small businesses and within the confines of the authorizing legislation, SBA launched PPP and COVID-19 EIDL early in the pandemic with limited upfront safeguards against fraud.

**PPP.** In 2020, the CARES Act and the Paycheck Protection Program and Health Care Enhancement Act provided \$659 billion for SBA-guaranteed PPP loans.<sup>4</sup> As of August 8, 2020, when Round 1 of PPP closed, lenders had approved 5.2 million PPP loans, totaling about \$525 billion. To put this figure in context, SBA's largest single year in 7(a) lending volume before PPP was about \$25 billion, in fiscal year 2017.

As we reported in June 2020, SBA moved swiftly to implement PPP so that lenders could begin making and disbursing loans as quickly as possible.<sup>5</sup> SBA launched PPP 1 week after the CARES Act was signed into law. To implement the program as quickly as possible, SBA streamlined the application and review process, which largely rested on borrower certifications. As set forth in the CARES Act, borrowers had to certify in good faith that

1. current economic uncertainty made the loan request necessary to support the applicant's ongoing operations, and

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<sup>3</sup>U.S. House of Representatives, Small Business Committee, *The Economic Injury Disaster Loan Program: Status Update from the Administration*, 116th Cong., 2d sess., July 1, 2020.

<sup>4</sup>CARES Act, Pub. L. No. 116-136, 134 Stat. 281 (2020); Paycheck Protection Program and Health Care Enhancement Act, Pub. L. No. 116-139, 134 Stat. 620 (2020).

<sup>5</sup>GAO, *COVID-19: Opportunities to Improve Federal Response and Recovery Efforts*, [GAO-20-625](#) (Washington, D.C.: June 25, 2020).

2. funds would be used to retain workers and maintain payroll or make payments for other covered expenses.

SBA, consistent with the CARES Act, required minimal loan underwriting from lenders—limited to actions such as (1) confirming receipt of borrower certifications, (2) confirming receipt of information demonstrating that the borrower had employees for whom the borrower paid salaries and payroll taxes on or around February 15, 2020, (3) reviewing supporting payroll documentation, and (4) following applicable Bank Secrecy Act requirements, including a customer identification program.<sup>6</sup> This left the program susceptible to fraudulent applications. SBA officials told us that this approach for PPP was intentionally developed with more fraud and eligibility controls implemented post-origination (at the loan forgiveness and review stages) rather than up front, and characterized it as a model focused on speed.<sup>7</sup> The result of limited upfront safeguards and the lenders' rapid review of loan applications increased the risk of fraud. In effect, a “pay and chase” approach, relying on fraud detection after funds had been disbursed, was adopted for PPP.

The SBA OIG reported that SBA's efforts to hurry capital to businesses were at the expense of controls that could have reduced the likelihood of ineligible or fraudulent businesses obtaining a PPP loan. Specifically, in January 2021, the SBA OIG found that lenders approved more than

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<sup>6</sup>According to SBA, in the Economic Aid Act, Congress agreed with SBA's approach by expanding the lender hold harmless provision found in 15 U.S.C. § 636m(h) to allow PPP lenders to rely on any certification or documentation supplied by an applicant. Section 305 of the Economic Aid Act provides that the expanded hold harmless language shall be effective as if included in the CARES Act and shall apply retroactively to any loan made before the date of enactment of the Economic Aid Act.

<sup>7</sup>The post-origination loan review process developed by SBA and Treasury combined automated screenings of all PPP loans made in 2020 and manual reviews of selected loans to test for compliance with program requirements, which includes testing for eligibility and fraud. SBA officials told us that SBA also applied machine learning to the results of the automated screening process to focus loan review resources on the areas of greatest risk of fraud or ineligibility. SBA used a contractor to conduct the automated and manual loan reviews to test for compliance with program requirements and evaluate the accuracy of PPP borrowers' self-certifications. We discuss controls that SBA added in 2021 later in the appendix.

\$402 million in PPP loans to approximately 5,000 potentially ineligible businesses that registered their businesses after February 15, 2020.<sup>8</sup>

**COVID-19 EIDL.** As of October 2020, SBA had disbursed over \$373 billion in COVID-19 EIDL loans and advances, an amount which exceeded all disaster loans made by SBA in all years combined since the agency's creation in 1953. In part to help small businesses quickly early in the pandemic, the COVID-19 EIDL program, with its loans and advances, was implemented with fewer safeguards than the traditional EIDL program. For example, SBA reduced existing controls by removing the rule of two reviewers for each loan application, setting high production goals, approving loans in batches with minimal review, and not requiring comments on all system flags of potential fraud.

A 2020 SBA OIG report found that in expediting the COVID-19 EIDL process to make emergency capital available to struggling small businesses, SBA "lowered the guardrails," or relaxed internal controls.<sup>9</sup> This significantly increased the risk of fraud in the program. In May 2021, the SBA OIG reported that as of January 31, 2021, SBA had referred almost 850,000 COVID-19 EIDL applications to the OIG because of identity theft complaints.<sup>10</sup> Of those referrals, SBA had disbursed approximately 112,000 COVID-19 EIDL loans totaling \$6.2 billion and 99,000 advances for \$468 million.<sup>11</sup>

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<sup>8</sup>SBA OIG, *Inspection of SBA's Implementation of the Paycheck Protection Program*, 21-07 (Washington, D.C.: January 2021). To qualify for PPP, a business must have been in operation since at least February 15, 2020.

<sup>9</sup>SBA OIG, *Inspection of SBA's Initial Disaster Assistance Response to the Coronavirus Pandemic*, 21-02 (Washington, D.C.: October 2020).

<sup>10</sup>SBA OIG, *SBA's Handling of Identity Theft in the Covid-19 Economic Injury Disaster Loan Program*, 21-15, (Washington, D.C.: May 2021). SBA officials told us that they have continued to refer loans and advances involving identity theft to the SBA OIG. Specifically, according to SBA, as of November 2022, it had flagged and was in the process of referring approximately 195,250 loans for confirmed or suspected identity theft (for approximately \$10.2 billion disbursed) and approximately 155,565 advances for confirmed or suspected identity theft (for approximately \$792.8 million disbursed).

<sup>11</sup>According to SBA, as of November 2022, SBA has confirmed identity theft on 7,700 COVID-19 EIDL loans. The confirmation of identity theft is an administrative function separate from a law enforcement investigation that prevents adverse action or harm to an identity theft victim by disassociating the loan record from the victim's identity. It includes the issuance of a letter stating that the victim is not responsible for repayment of the debt and release of collateral (if the loan is secured), among other actions.

In administering COVID-19 EIDL, SBA experienced initial shortages of loan officers, attorneys, and call center staff, which likely created challenges to loan screening and fraud response. According to the SBA OIG, by July 31, 2020, SBA's Office of Disaster Assistance, which was responsible for COVID-19 EIDL, had increased staff from 3,483 to 9,000 to address loan processing demands. SBA also used contractors to expand its capacity to process and review applications. For example, because SBA did not have the capacity to handle the number of COVID-19 EIDL applications, it turned to a contractor for a system to provide automated initial recommendations to approve or decline applications and flag applications with issues for further review by SBA.

The environment in which SBA was operating as it initially implemented PPP and COVID-19 EIDL had several factors that contributed to heightened fraud risks. The Fraud Risk Framework highlights factors that increase the risk of improper payments, including those that are the result of fraudulent activity. These factors, which were present in PPP and COVID-19 EIDL, include

- whether the program is new to the agency;
- the volume of payments made annually; and
- recent major changes in program funding, authorities, practices, or procedures.

As outlined in the Fraud Risk Framework, effective fraud risk management takes into consideration the environment, including legal requirements. While legislative provisions limited SBA's ability to implement specific control activities, strategic fraud risk management takes into account these factors when designing controls. As such, SBA had opportunities to engage in strategic fraud risk management despite the environment it was in as it implemented PPP and COVID-19 EIDL.

### **SBA's Lack of a Dedicated Antifraud Entity before the Pandemic Hindered Its Initial Ability to Manage Fraud Risks in Pandemic Relief Programs**

The first component of the Fraud Risk Framework calls for agencies to commit to combating fraud by creating an organizational culture and structure conducive to fraud risk management. Specifically, one of the component's leading practices is for agencies to designate an entity to design and oversee fraud risk management activities. The antifraud entity, among other things, serves as a central repository of knowledge on fraud risks and controls, manages the fraud risk assessment process, leads or assists with trainings and other fraud awareness activities, and coordinates antifraud initiatives across programs.



When the pandemic began, SBA did not have a dedicated antifraud entity that it could leverage for fraud risk management in the pandemic relief programs. In 2019, SBA had established the Fraud Risk Management Council (Council) to oversee and coordinate agency-wide fraud risk management. However, according to SBA officials, when the pandemic began, the Council did not have the infrastructure to conduct agency-wide fraud risk management in alignment with the Fraud Risk Framework's leading practices.

SBA had two other offices that were generally responsible for working with program offices to identify and respond to potential risks, including those related to fraud. The Office of Continuous Operations and Risk Management is responsible for, among other things, agency-wide recovery response for disasters and the evaluation and assessment of SBA's critical risks and nonfinancial internal controls. In addition, according to an SBA official, when SBA implements a new program, the Office of Internal Controls coordinates with the program office to plan proper internal controls and ensure they are implemented. However, SBA officials indicated neither of these offices served as SBA's dedicated antifraud entity.

The lack of a dedicated antifraud entity presented challenges and missed opportunities for SBA as it worked to establish and implement programs early in the pandemic. For example, SBA officials told us that neither the Council, nor the Office of Continuous Operations and Risk Management, nor the Office of Internal Controls were involved in the design or initial implementation of program controls—including antifraud controls—for PPP or COVID-19 EIDL. As a result, program offices responsible for PPP and COVID-19 EIDL drew upon their own knowledge to develop controls, without coordinated guidance and support.

Moreover, without a dedicated antifraud entity to provide agency-wide leadership, not all SBA staff received ongoing training focused on fraud risk management. As outlined in the Fraud Risk Framework, fraud awareness initiatives, including training, can enable managers, employees, and stakeholders to better detect potential fraud. Leading practices include requiring all employees to attend training upon hiring and on an ongoing basis thereafter. SBA officials told us that they have held annual enterprise risk management training for managers and

**SBA Had Not Conducted Fraud Risk Assessments that Could Have Informed Implementation of Pandemic Relief Programs**

supervisors since 2018.<sup>12</sup> However, while the Fraud Risk Framework acknowledges that agencies may use initiatives like enterprise risk management efforts to assess their fraud risks, the Fraud Risk Framework does not eliminate the separate and independent fraud risk management requirements. Additionally, SBA officials said that the Office of Disaster Assistance has conducted fraud awareness training for loan officers and case managers since 2010.<sup>13</sup> However, agency-wide, there was no required, ongoing fraud awareness training for all employees, including employees managing PPP and COVID-19 EIDL programs during the pandemic.

A key responsibility of a dedicated antifraud entity is to manage the fraud risk assessment process. The second component of the Fraud Risk Framework directs agencies to plan regular fraud risk assessments and assess risks to determine a fraud risk profile.<sup>14</sup> As part of this effort, agencies should (1) plan regular fraud risk assessments that are tailored to the program and (2) identify and assess risks to determine the program's fraud risk profile. The results of such assessments are then to be used to design and implement a strategy with specific control activities to mitigate assessed fraud risks.

Further, assessments can help program officials determine whether certain controls are effectively designed and implemented to reduce the likelihood or impact of a fraud risk to a tolerable level. A fraud risk assessment for an existing program can be used as a starting point for a revised or new fraud risk assessment for a modified or new program, providing a baseline of likely risks that would need to be revisited given a new emergency environment, including legislative changes and restrictions.

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<sup>12</sup>Enterprise risk management is a forward-looking management approach that allows agencies to assess threats and opportunities that could affect the achievement of their goals.

<sup>13</sup>SBA officials also stated that a fraud team has functioned within the Office of Disaster Assistance since before 2005, reviewing files suspected of fraud and referring matters to the SBA OIG, among other things. This team was expanded during COVID-19 EIDL to address needs and take on additional roles. However, this team did not perform the roles of a dedicated antifraud entity, as described in the Fraud Risk Framework.

<sup>14</sup>As described in the Fraud Risk Framework, a fraud risk profile includes the analysis of the types of internal and external fraud risks facing the program, their perceived likelihood and impact, managers' risk tolerance, and the prioritization of risks.

Before the pandemic, SBA had taken steps to aid program offices in assessing fraud risks. Specifically, it had developed a tool to assist programs in completing fraud risk assessments. However, the Council did not officially adopt the tool for agency-wide use until September 2021, after most of the pandemic relief funds were distributed.

SBA had not conducted formal fraud risk assessments for its programs, including 7(a) and traditional EIDL, in alignment with the Fraud Risk Framework's leading practices before the pandemic. SBA officials told us that they considered fraud risks when designing PPP and COVID-19 EIDL and that they had "zero tolerance" for fraud.<sup>15</sup> Further, according to SBA officials, they conducted what they characterized as informal fraud risk assessments during the pandemic. For example, as we reported in March 2021, SBA brought together subject matter experts from SBA and Treasury, as well as contractors, to identify fraud risks and mitigating controls for PPP.<sup>16</sup> However, SBA was not able to provide us with documentation related to these assessments and their results.

Consequently, such informal assessments were limited in the extent to which they could inform program officials who did not participate in the initial effort to assess and mitigate PPP fraud risks and could not serve as a basis for fraud risk management strategies. Further, it does not appear that these informal assessments contained all of the key elements of the fraud risk assessment process, as described in the Fraud Risk Framework.

As a result, SBA could not leverage fraud risk assessments from its existing programs as it sought to quickly implement the pandemic relief programs. SBA officials told us that although they did not have formal fraud risk assessments, they did informally consider fraud risks and sought to mitigate them when administering PPP and COVID-19 EIDL.

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<sup>15</sup>The Fraud Risk Framework does not indicate that the purpose of fraud risk management is to have zero fraud. The Fraud Risk Framework calls on agencies to develop a fraud risk tolerance that takes into account circumstances of individual programs and other objectives beyond mitigation of fraud risks. For example, when responding to natural disasters, managers of an assistance program may have a higher fraud risk tolerance, such as "low" rather than "very low," for making payments to potentially fraudulent applicants if the applicants live in a severely damaged area.

<sup>16</sup>GAO, *COVID-19: Sustained Federal Action Is Crucial as Pandemic Enters Its Second Year*, [GAO-21-387](#) (Washington, D.C.: Mar. 31, 2021).

However, conducting a formal fraud risk assessment could have better helped SBA prioritize risks and allocate resources early in the pandemic.

For example, although the programs had some key differences, previously conducted assessments for the 7(a) and traditional EIDL programs, including information on known fraud risks and effective controls, could have informed the design of PPP and COVID-19 EIDL, respectively. Such assessments could have been readily leveraged as SBA officials considered how changes, such as the restriction on the use of tax information, affected their prioritization of risks and the suitability of existing fraud controls. Given the limited timeframes SBA had to implement both PPP and COVID-19 EIDL, the presence of existing, related fraud risk assessments could have allowed SBA to conduct new assessments more quickly. Likewise, the existence of a standard and widely understood tool for doing assessments could have enabled program officials to conduct an assessment readily as PPP and COVID-19 EIDL were being implemented.

As noted in the third component of the Fraud Risk Framework, managers who effectively manage fraud risks develop and document an antifraud strategy. This strategy, which is to be informed by the fraud risk profile, should describe the program's approach for addressing the prioritized fraud risks identified during the fraud risk assessment. The antifraud strategy, among other items, describes how the agency will (1) allocate resources to respond to residual fraud risks; (2) prevent, detect, and respond to fraud, as well as monitor risks; and (3) establish roles and responsibilities for those involved in fraud risk management. Absent a formal fraud risk assessment and resulting fraud risk profile, SBA did not have assurances that it was identifying, assessing, and prioritizing risks effectively. Likewise, without an antifraud strategy based on a fraud risk profile, SBA was not positioned to ensure that it was strategically addressing its most significant fraud risks.

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SBA Adapted Its Approach During the Pandemic, but Its Actions Were Reactive and Not Timely and May Not Have Been Fully Effective

SBA Added Controls as Fraud Schemes Emerged, but Its Actions Were Reactive and May Not Have Been Fully Effective

The fourth component of the Fraud Risk Framework calls on agencies to evaluate outcomes using a risk-based approach and adapt activities to improve fraud risk management. Managers are to monitor and evaluate the effectiveness of preventive activities, including fraud risk assessments and the antifraud strategy, as well as establish controls to detect fraud and implement response efforts.

In the absence of formal fraud risk assessments and an antifraud strategy, SBA responded to risks as they arose. SBA officials attributed this approach to pandemic-related resource constraints and pressure to distribute funds quickly.

**PPP.** SBA made changes from Round 1 to Round 2 of PPP to address some fraud risks. In Round 1, SBA rules allowed lenders to rely on borrower self-attestation to determine borrower eligibility and use of loan proceeds. SBA relied on lenders with delegated authority under the CARES Act to make and approve covered loans, and SBA did not conduct any review of loan or borrower information beyond looking for duplicate applications before issuing an SBA loan number, thus guaranteeing the loan.<sup>17</sup>

To prevent potential fraud in PPP and consistent with our June 2020 recommendation, SBA added certain upfront controls for Round 2. For example, in Round 2, which began in January 2021, SBA used an automated screening system to validate some applicant data and

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<sup>17</sup>Although lenders were not required to conduct detailed underwriting of PPP applications, they had to apply relevant Bank Secrecy Act (BSA) program requirements. The BSA, as revised, imposes a number of reporting and recordkeeping obligations on covered financial institutions in an effort to prevent money laundering and the financing of terrorism, including, among other things, verifying the identity of customers, conducting ongoing customer due diligence, and filing suspicious activity reports with Treasury's Financial Crimes Enforcement Network.

eligibility responses prior to loan approval.<sup>18</sup> As discussed in the Fraud Risk Framework, automated controls tend to be more reliable than manual controls (such as document reviews) because they are less susceptible to human error.

Although SBA added upfront controls in Round 2, the controls may not have been as effective as they could have been at preventing some types of fraud. Specifically, in January 2022, the PRAC reported that SBA's additional upfront controls to screen all Round 2 loans likely would not have detected some of the PPP fraud found in 2020 criminal cases.<sup>19</sup> Specifically, the controls would not have been effective in preventing fraudulent activities such as ones related to falsified documentation and certifications.<sup>20</sup> PRAC reported that a key underlying factor contributing to the control gaps in SBA's antifraud controls was the lack of a formal fraud risk assessment during the design and implementation of the 2021 controls.

**COVID-19 EIDL.** Over the course of its COVID-19 response, SBA made some changes to enhance its application review process and identify potential fraud. These changes applied to both the automated validation system and the manual review process.

**Validating application inputs.** SBA made several changes to validate applicant information. For example, in May 2020, SBA

- required applicants to check each eligibility criterion before being able to proceed,

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<sup>18</sup>SBA rolled out a new PPP loan origination platform in 2021, embedding 89 digital application checks and notifying lenders in real time of data errors or suspect information. Additionally, SBA began screening all loans in the aggregate to identify and analyze relationships across loans, borrowers, and lenders to identify potentially suspicious relationships and activities.

<sup>19</sup>PRAC, *Small Business Administration Paycheck Protection Program Phase III Fraud Controls* (Jan. 21, 2022).

<sup>20</sup>SBA officials told us that based on their review of the PRAC report, they conducted their own analysis of the criminal cases included in the PRAC's analysis. According to SBA's analysis, the controls put in place in 2021 would have likely identified 88 percent of cases. However, those controls would likely not have identified potentially fraudulent applicants associated with 12 percent of the cases. According to SBA, effective lender due diligence actions could have also played a role in preventing loans from being disbursed for the cases that would have circumvented SBA's controls.

- added validation of bank account routing numbers, and
- added a function to identify mismatches between ZIP codes and states.

In August 2020, SBA began to revalidate bank account information whenever the loan applicant changed this information.

**Changing the application review process.** The SBA OIG found that until August 2020, applications that did not contain certain fraud alerts flagged by the automated validation system were approved by team leaders in batches and with little to no additional review by the team leaders.<sup>21</sup> After August 2020, SBA stopped approving loans in batches and began requiring staff to review all applications prior to approval and to mitigate all system alerts.

**Validating tax information.** SBA made changes to the loan application review process in response to new legislation. SBA officials told us the CARES Act's restriction on obtaining applicants' tax returns presented a challenge for validating applications. The Consolidated Appropriations Act, 2021, enacted on December 27, 2020, removed this restriction.<sup>22</sup> SBA officials told us that beginning in April 2021, the agency started incorporating tax information as part of its validation process for loan applications to confirm that businesses existed on or before January 31, 2020, and to verify business revenue.<sup>23</sup> Between April 2021 and July 2022, SBA verified tax information for roughly 1.9 million applications with the Internal Revenue Service (IRS), which represents 72 percent of total

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<sup>21</sup>SBA OIG, *Inspection of Small Business Administration's Initial Disaster Assistance Response to the Coronavirus Pandemic*, 21-02 (Washington, D.C.: October 2020). The SBA OIG found that SBA approved batches of 25 to 50 COVID-19 EIDL loans with little or no vetting of individual loan information, increasing fraud risk.

<sup>22</sup>Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, div. M and N, 134 Stat. 1182 (2020).

<sup>23</sup>SBA required COVID-19 EIDL applicants to submit 2019 federal income tax returns. It also required applicants to submit 2020 federal income tax returns, if available. If a business began operations in January 2020 and had not yet filed federal income taxes, SBA required applicants to submit business financial statements, including a balance sheet and profit-and-loss statement.

applications and 99 percent of approved applications during this time period.<sup>24</sup>

Additionally, SBA reported improvements in loan processing beginning in September 2021. Specifically, SBA stated that application processing capacity increased from an average of 2,000 to more than 37,000 applications per day. SBA attributed the increased productivity in part to its ability to obtain tax transcript data directly from IRS. SBA officials said that tax transcripts provided directly to SBA were critical in combatting fraud because transcripts helped verify the existence of legitimate businesses.

In response to SBA's experience with PPP and COVID-19 EIDL, SBA officials told us they designed the agency's later pandemic relief programs with an emphasis on pre-award controls. SBA accepted Restaurant Revitalization Fund (RRF) and Shuttered Venue Operators Grant (SVOG) applications in 2021.

**RRF.** To verify an applicant's identity and eligibility, SBA designed the RRF application process to include a series of automated and manual reviews. The RRF application portal included a variety of automated controls to verify applicants' self-reported information against third-party information. For example, automated controls verified applicants' bank account information, taxpayer identification numbers and tax returns (against IRS information), and addresses (against U.S. Postal Service address data).<sup>25</sup> SBA staff manually reviewed applications that were flagged by the automated controls and applications it deemed to be higher risk, such as those for larger awards. Before payment, applications were routed through SBA's payment system, which included additional

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<sup>24</sup>Applications include new applications, modifications, reconsiderations, and appeals. SBA officials told us that incomplete and declined COVID-19 EIDL applications did not advance to the stage where IRS verification was requested. SBA approved 1 percent of applications without obtaining an IRS tax transcript because these files could be approved without requesting transcripts, such as applications for nonprofit entities that are exempt from filing or entities that were not established until 2020 (and therefore did not have a 2019 tax transcript).

<sup>25</sup>Applicants had to provide the following supporting documents: (1) IRS Form 4506-T; (2) documentation of gross receipts and eligible expenses including business tax returns (IRS Form 1120 or IRS 1120-S); (3) IRS Forms 1040 Schedule C or Schedule F; (4) partnership's IRS Form 1065 (including K-1s); and (5) bank statements; externally or internally prepared financial statements such as income statements or profit and loss statements; and point-of-sale report(s), including IRS Form 1099-K.



checks. The payment system compared RRF applicants with the Treasury's sanctions and Do Not Pay service.<sup>26</sup> The system also performed public records searches for inactive businesses, criminal offenses, and bankruptcies.

**SVOG.** To verify business identities, SBA required SVOG applicants to register with business data and contracting sites—Dun & Bradstreet and the System for Award Management (SAM.gov).<sup>27</sup> Applicants were also required to upload applicable entity formation documents, such as articles of incorporation or tax-exempt certificates. Before disbursing an award, the SVOG applicant review team was also to check that an applicant was not listed on Treasury's Do Not Pay service. Application reviewers were to verify that applicants met general eligibility requirements. For example, reviewers were to verify bankruptcy status and criminal history using Lexis-Nexis.

SBA adapted its approach to include more upfront controls throughout the pandemic, but its approach was not universal or consistent. For example, despite its experience with COVID-19 EIDL, SBA did not universally verify RRF and SVOG tax information with IRS before disbursing awards even though it had originally planned to do so. SBA officials told us that IRS could not handle the volume of verifications SBA requested for RRF applicants and consequently some awards did not go through this step. According to SBA, challenges and extended time frames associated with interagency coordination resulted in SBA removing automatic reviews of applicant tax information against IRS data for low-risk SVOG funding requests with proposed grant awards below a certain dollar threshold. As an alternative, SBA verified financial information against additional documentation.

Further, SBA did not fully leverage fraud-related information across the pandemic relief programs to help identify applicants trying to defraud multiple programs. For example, we found that PPP and RRF programs disbursed almost \$11.5 million to an applicant that was denied COVID-19

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<sup>26</sup>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.

<sup>27</sup>Dun & Bradstreet (a business data analytics firm) issues and verifies a DUNS number, which is a unique nine-digit identifier assigned to a business. Businesses use SAM.gov (a federal website) to register to do business with the U.S. government.

EIDL. This individual applied using fictitious business entities, and all of the applications were submitted online from the individual's computer. This individual pled guilty to fraud-related charges in September 2022.<sup>28</sup> SBA officials indicated they did not cross-check PPP or RRF recipients with COVID-19 EIDL recipients because an applicant may qualify for one program and not another due to eligibility differences. In addition, SBA officials told us that they did not have mechanisms in place to cross-check PPP and COVID-19 EIDL application information. SBA had mechanisms to cross-check some identifiers for RRF recipients—such as addresses and emails—with cases of confirmed, rather than suspected, COVID-19 EIDL fraud. Nevertheless, a denial in one program may be due to suspected fraud, and cross-checking program data can help identify questionable applications.

#### SBA Conducted Fraud Risk Assessments and Designated an Antifraud Entity After Most Pandemic Relief Funds Were Distributed

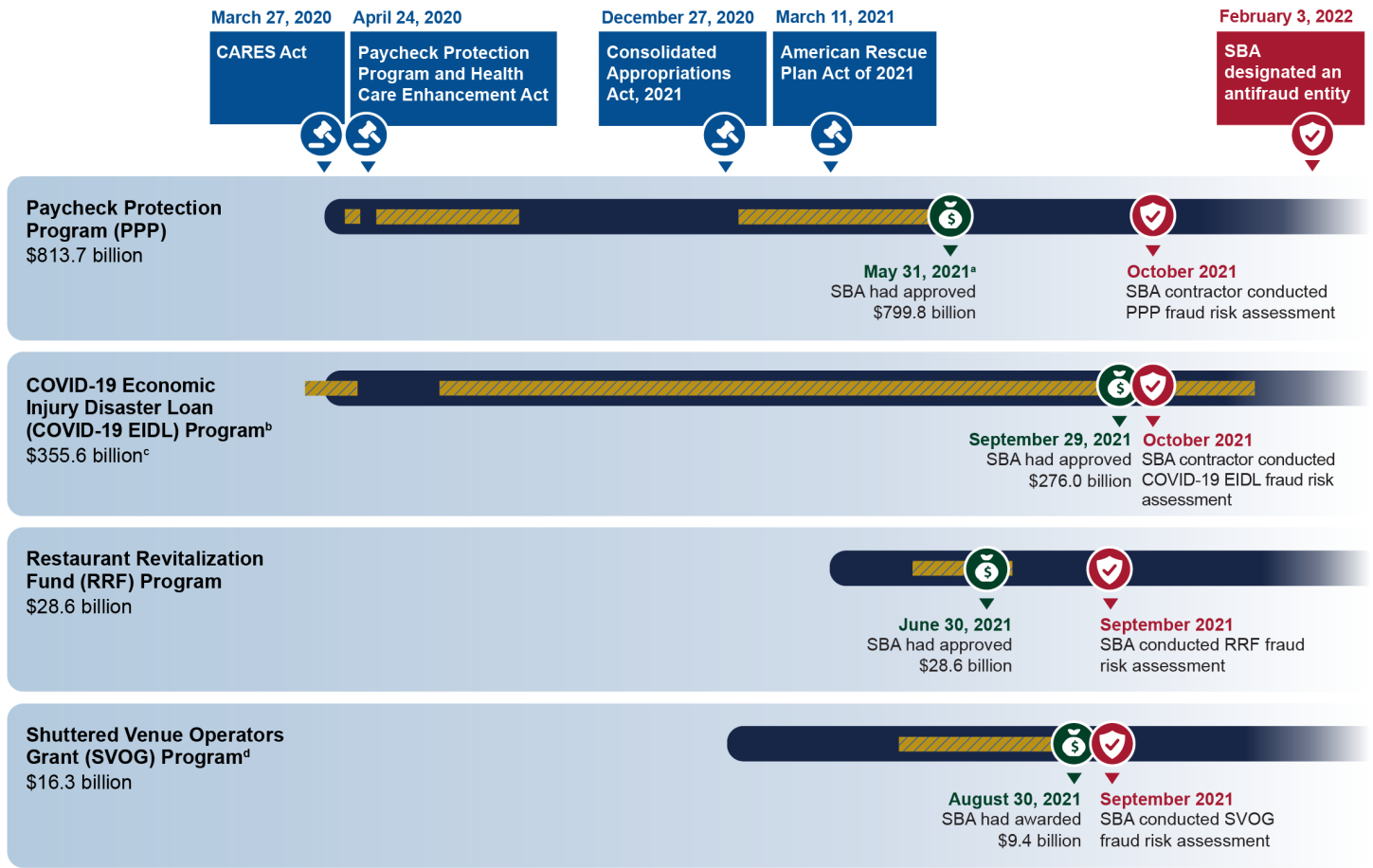
SBA officials acknowledged to us that their fraud risk management efforts—specifically as they relate to implementing the Fraud Risk Framework's leading practices—are in the developmental phase. While SBA had antifraud controls in place and adapted those controls for its four pandemic relief programs, SBA's key fraud risk management activities—such as conducting fraud risk assessments and designating an antifraud entity—occurred after some pandemic relief programs stopped accepting applications and most of the program funds were distributed (see fig. 16). They nevertheless represent important steps in SBA's efforts to mature its fraud risk management.

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<sup>28</sup>Department of Justice, *Former Oregon Dentist Pleads Guilty to Stealing Nearly \$11.5 million in Covid-Relief Program Funds* (Portland, Or.: Sept. 13, 2022). Accessed Sept. 15, 2022, at <https://www.justice.gov/usao-or/pr/former-oregon-dentist-pleads-guilty-stealing-nearly-115-million-covid-relief-program>.

**Appendix II: Overview of SBA's Fraud Risk Management Efforts Implementing the Pandemic Relief Programs**

**Figure 16: The Small Business Administration's (SBA) Key Fraud Risk Management Activities Occurred after Most Program Funds Were Distributed**



- Signed into law
- Applicant funding approved or awarded
- Key fraud risk management activity
- Enacting legislation authorized program
- Application period

Source: GAO analysis of SBA information, relevant laws, and rashadashurov/stock.adobe.com (icons). | GAO-23-105331

Note: SBA had controls in the pandemic relief programs prior to conducting a formal fraud risk assessment. Additional legislation passed during this period includes the Paycheck Protection Program Flexibility Act of 2020. Enacted on June 5, 2020, the Paycheck Protection Program Flexibility Act of 2020 amended the Small Business Act to require a minimum maturity of 5 years for PPP loans. Pub. L. No. 116-142, § 2, 134 Stat. 641 (2020) (codified as amended at 15 U.S.C. § 636(a)(36)(K)). The application period for PPP initially ended on June 30, 2020. On July 4, 2020, legislation was enacted that extended the application period until August 8, 2020. Pub. L. No. 116-147, 134 Stat. 660 (2020).

<sup>a</sup>The PPP Extension Act of 2021 extended the application period from March 31, 2021, to May 31, 2021, and allowed SBA until June 30, 2021, to process those applications. On May 4, 2021, the PPP

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**Appendix II: Overview of SBA's Fraud Risk Management Efforts Implementing the Pandemic Relief Programs**

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general fund was exhausted and closed to new applications, except those processed by a community financial institution lender.

<sup>b</sup>After Congress deemed COVID-19 a disaster, SBA began to declare states and territories eligible for COVID-19 EIDL loans beginning on March 16, 2020. The declarations allowed SBA to begin using about \$1.1 billion of its existing disaster loan credit subsidy to make COVID-19 EIDL loans before the CARES Act was enacted.

<sup>c</sup>The distributed amount for COVID-19 EIDL is higher than the net appropriated funding of \$75.2 billion due to COVID-19 EIDL loan credit subsidy. Loan credit subsidy covers the government's cost of extending or guaranteeing credit and represents the estimated long-term cost of providing loans and takes into account expected future performance, including loan repayments, prepayments, and defaults. The loan credit subsidy amount was about one-seventh of the cost of each disaster loan in fiscal year 2020 and one-eleventh in fiscal year 2021.

<sup>d</sup>The portal for SVOG opened on April 8, 2021, but shut down the same day because of a software problem, reopening on April 26, 2021.

SBA conducted formal fraud risk assessments for its pandemic relief programs in fall 2021, after most funds had been distributed. The Fraud Risk Framework indicates that fraud risk assessments are most helpful in developing preventive fraud controls to avoid costly and inefficient “pay-and-chase” activities. Assessing fraud risks is an iterative process. Had SBA conducted initial fraud risk assessments before or even shortly after launching the programs, it could have targeted and refined its controls to further minimize risks and allocated resources to the most pressing fraud risks. It also could have updated the fraud risk assessments as new risks were identified. The timing of the assessments limited their usefulness for fraud prevention.

Furthermore, SBA did not use the assessments to inform post-award fraud detection efforts. For example, we found in October 2022 that SVOG post-award draft monitoring procedures did not link to the risks SBA identified in its fraud risk assessments.<sup>29</sup> Consequently, we recommended that SVOG post-award monitoring procedures address the risks the agency identified. According to SBA, it finalized the SVOG fraud risks assessment in March 2023, which directly addresses the risks identified in the post-award monitoring procedures. This recommendation will remain open until SBA provides documentation of updated post-award monitoring procedures. Similarly, when SBA developed a data analytics approach to help identify potential fraud in COVID-19 EIDL in response to a GAO recommendation, SBA did not link the data analytics to the risks identified in its fraud risk assessment.

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<sup>29</sup>GAO, *COVID Relief: SBA Could Improve Communications and Fraud Risk Monitoring for Its Arts and Entertainment Venues Grant Program*, [GAO-23-105199](#) (Washington, D.C.: Oct. 11, 2022).

SBA formed the Fraud Risk Management Board (the Board) in February 2022 and designated it as the agency's dedicated antifraud entity.<sup>30</sup> According to SBA documentation, the Board—composed of agency executives across SBA—serves primarily in a guidance and oversight role and is to meet at least quarterly. The Board is to be supported by at least one program manager. SBA officials said there is an expectation that program offices will work collaboratively with the Board. Program offices remain responsible for design and implementation of fraud risk management activities for their programs.

In June 2022, SBA issued a Fraud Risk Management Action Plan that identifies the Board's priorities in its role as the dedicated antifraud entity. The priorities listed for fiscal year 2022 include (1) retaining a program manager; (2) using data analytics to assess for indicators of fraud in PPP and COVID-19 EIDL; and (3) developing and offering antifraud training. In July 2022, SBA officials told us the Board had designated an interim program manager and approved a cross-disciplinary advisory team with a range of subject matter expertise including data analytics, fraud litigation, occupational fraud, and training. SBA also offered fraud prevention training to some of its employees in 2022.

In September 2022, the Board approved SBA's fraud risk management strategic plan, which it described as a forward-leaning, multi-year plan designed to advance the maturity of SBA's enterprise-wide fraud risk management capabilities. The plan seeks to encompass leading practices from GAO's Fraud Risk Framework along with lessons learned from PPP and COVID-19 EIDL implementation. Among the plan's strategic goals is fraud risk monitoring, which includes planned actions for developing a robust data analytics program that focuses on identification of transactional anomalies that are further investigated and communicated.

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<sup>30</sup>Once the SBA formed the Fraud Risk Management Board, the Fraud Risk Management Council was disbanded.

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# Appendix III: Prior GAO Recommendations to Address Fraud Risks and SBA Actions

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In prior reports, we made multiple recommendations to improve fraud risk management in the Small Business Administration's (SBA) pandemic relief programs.

**Paycheck Protection Program (PPP).** We made four recommendations related to oversight of and fraud in PPP from June 2020 to March 2021. As of March 2023, SBA implemented three of them.

- In June 2020, we recommended that SBA develop and implement plans to identify and respond to risks in PPP, including fraud risks.<sup>1</sup> At that time, SBA neither agreed nor disagreed with this recommendation. Since then, SBA has developed a Master Review Plan that included an approach to use an automated rules-based tool to flag loans with attributes of ineligibility, fraud, or abuse, and then manually review them. As such, we have closed this recommendation as implemented.
- In November 2020, we recommended that SBA expeditiously estimate improper payments—including improper payments resulting from fraudulent activity—and report estimates and error rates for PPP.<sup>2</sup> At that time, SBA neither agreed nor disagreed with this recommendation. However, as part of its Fiscal Year 2022 Agency Financial Report, SBA reported an improper payment rate of 4.2 percent (or \$29 billion). As such, we have closed this recommendation as implemented.
- In March 2021, we recommended that SBA
  1. conduct a fraud risk assessment for PPP and
  2. develop a strategy to address fraud risks on a continuous basis.<sup>3</sup>

SBA agreed with both recommendations. Since then, SBA has implemented the first recommendation, and we have closed it.

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<sup>1</sup>GAO, *COVID-19: Opportunities to Improve Federal Response and Recovery Efforts*, [GAO-20-625](#) (Washington, D.C.: June 25, 2020).

<sup>2</sup>GAO, *COVID-19: Urgent Actions Needed to Better Ensure and Effective Federal Response*, [GAO-21-191](#) (Washington, D.C.: November 30, 2020). An improper payment is defined as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes, but is not limited to, any payment to an ineligible recipient. See 31 U.S.C. § 3351(4). While improper payments may be the results of errors, they may also be the result of fraudulent activities.

<sup>3</sup>GAO, *COVID-19: Sustained Federal Action Is Crucial as Pandemic Enters Its Second Year*, [GAO-21-387](#) (Washington, D.C.: Mar. 31, 2021).

Specifically, in December 2021, SBA provided a fraud risk assessment for the program that had been prepared by its contractor. This assessment adhered to many but not all fraud risk management leading practices. For example, the assessment documented known and emerging fraud risks; identified existing prevention, detection, and response activities; and determined gaps within fraud risk management to enhance mitigation of fraud risks. However, the assessment did not include a fraud risk tolerance for the program. In April 2022, SBA established a fraud risk tolerance for PPP that identified potential risks that exceeded SBA's willingness to tolerate them. SBA identified mitigating activities to minimize those risks that exceeded SBA's tolerance.

Regarding the second recommendation, although SBA has created a fraud risk management action plan and other review and oversight plans for PPP, none of these documents individually or collectively fully align with the Fraud Risk Framework. Further, an antifraud strategy should clearly communicate to employees and other relevant stakeholders SBA's approach for managing fraud risks in the program and link those antifraud efforts to other risk management activities. To date, SBA has not fully articulated a strategic approach to managing fraud risks in PPP—through detection and response—on a continuous basis. Although SBA is not issuing new PPP loans, there remains a risk of fraud in the program, which the strategy should seek to manage through detection and response. As of March 2023, this recommendation remains open.

**COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL) Program.**

We made four recommendations related to fraud risk management in COVID-19 EIDL in January and March 2021. As of March 2023, SBA has implemented three of them.

- In January 2021, we recommended that SBA develop and implement portfolio-level data analytics across COVID-19 EIDL as a means to detect potentially ineligible and fraudulent applications.<sup>4</sup> At the time of our report, SBA neither agreed nor disagreed with this recommendation. In June 2022, SBA officials provided us with a demonstration of a COVID-19 EIDL data analytics and loan anomaly detection project that the agency had initiated. In September 2022, they provided additional information, including sample reports, on the

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<sup>4</sup>GAO, *COVID-19: Critical Vaccine Distribution, Supply Chain, Program Integrity, and Other Challenges Require Focused Federal Attention*, [GAO-21-265](#) (Washington, D.C.: Jan. 28, 2021).

project. We have therefore closed this recommendation as implemented.

- In March 2021, we recommended that SBA
  1. conduct a fraud risk assessment for COVID-19 EIDL,
  2. develop a strategy to address fraud risks on a continuous basis, and
  3. implement a comprehensive oversight plan to identify and respond to risks, including fraud risks.<sup>5</sup>

SBA agreed with these three recommendations. To address the first two recommendations, SBA took the same actions as it did to address similar PPP recommendations involving a fraud risk assessment and fraud risk management strategy. We have closed the fraud risk assessment recommendation as implemented. The fraud risk management strategy recommendation remains open as of March 2023. To address the third recommendation, in August 2022, SBA provided an updated oversight plan for the COVID-19 EIDL program. The plan described controls SBA had or planned to implement to identify and address fraud risks in the COVID-19 EIDL program, including fraud reviews SBA indicated it had conducted on a sample of disbursed COVID-19 EIDL loans. In February 2023, SBA provided additional documentation on certain controls, such as manual reviews of delinquent loans, to address fraud risks in the program. We have closed this recommendation as implemented.

**Restaurant Revitalization Fund (RRF).** We made three recommendations related to fraud risk management in our July 2022 report on RRF. As of March 2023, these recommendations have not yet been implemented. Specifically, we recommended that SBA

1. develop and implement data analytics across RRF awards as a means to detect potentially fraudulent award recipients;
2. develop, document, and implement procedures to use enforcement data on suspected fraud in other SBA programs, such as PPP, to identify potential fraud in RRF recipients; and
3. develop and implement a plan to respond to potentially fraudulent and ineligible RRF awards in a prompt and consistent manner.<sup>6</sup>

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<sup>5</sup>GAO-21-387.

<sup>6</sup>GAO, *Restaurant Revitalization Fund: Opportunities Exist to Improve Oversight*, GAO-22-105442 (Washington, D.C.: July 14, 2022).



SBA partially agreed with our recommendation to use data analytics to identify potentially fraudulent RRF recipients and disagreed with our remaining two recommendations. We continue to believe that implementing these recommendations would enhance fraud risk management in RRF.

**Shuttered Venue Operators Grant (SVOG).** We made one recommendation related to SVOG fraud risk management in our October 2022 report, which has not yet been implemented. We recommended that post-award monitoring procedures for SVOG specifically address the risks the agency has assessed, including fraud risks, and clearly link them to monitoring activities.<sup>7</sup> As part of this effort, we explained that SBA should document its tolerance for the risks it has identified. SBA partially agreed with this recommendation. According to SBA, it finalized the SVOG fraud risks assessment in March 2023, which directly addresses the risks identified in the post-award monitoring procedures as well as risk tolerance. This recommendation will remain open until SBA provides documentation of updated post-award monitoring procedures.

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<sup>7</sup>GAO, *COVID Relief: SBA Could Improve Communications and Fraud Risk Monitoring for Its Arts and Entertainment Venues Grant Program*, [GAO-23-105199](#) (Washington, D.C.: Oct. 11, 2022).

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# Appendix IV: Regression Analysis

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To analyze lending activity for Paycheck Protection Program (PPP) loans issued to borrowers charged by the Department of Justice (DOJ), we conducted generalized linear regressions using logistic modeling. We conducted the regressions using PPP data to explore associations between loan and lender characteristics and select fraud indicators, and identified incidents of fraud and alleged fraud charged by DOJ, while controlling for other factors.<sup>1</sup> Such a model allowed us to test the association between incidents of fraud charged by DOJ and selected business-, loan-, and lender-level characteristics, and fraud indicators, such as whether or not the recipient reported inflated employee counts, while holding constant other factors, such as lender type and business type.

We limited our analysis to PPP loans that were approved and funded. This was a universe of approximately 12,500,000 applications and approximately 11,464,000 approved and funded loans. The amount of characteristics with complete data were limited to a small set of variables. Of these, we used subject matter expertise from prior GAO work on fraud to identify potential control variables and their association with outcomes. In particular, we used several fraud indicators, which were developed and calculated by GAO, while also controlling for characteristics of the loan, the applying business, and the lender. See appendix I for more information on the indicators of fraud. For the purposes of our analysis we created composite or recoded variables as identified in table 5 and included the variables as shown in table 6.

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<sup>1</sup>Typically, a generalized linear regression model is appropriate when the model assumption of normality is not appropriate, as is the case with a binary (e.g., yes/no) outcome for logistic regressions.

**Table 5: Created Variables Used in the Regression Analysis of the Small Business Administration (SBA) Paycheck Protection Program Loans, Years 2020-2021**

GAO category	Original value(s)	Recoded value(s)
Business ownership type	1 = 501(c) Nonprofit (except 3, 6, 19) 2 = 501(c)19 Nonprofit Veteran 3 = 501(c)3 Nonprofit 4 = 501(c)6 Nonprofit Membership 5 = Cooperative 6 = Corporation 7 = Employee Stock Ownership Plan 8 = Housing Co-op 9 = Independent Contractors 10 = Joint Venture 11 = Limited Liability Company (LLC) 12 = Limited Liability Partnership 13 = Nonprofit Childcare Center 14 = Nonprofit Organization 15 = Partnership 16 = Professional Association 17 = Qualified Joint-Venture 18 = Rollover as Business Start-Ups 19 = Self-Employed Individuals 20 = Single Member LLC 21 = Sole Proprietorship 22 = Subchapter S Corporation 23 = Tenant in Common 24 = Tribal Concerns 25 = Trust	<ul style="list-style-type: none"> <li>Self-employed business (17, 19, 20, 21)</li> <li>Non self-employed business (all else)</li> </ul>
Asset size	Numeric dollar amount of lender assets	<ul style="list-style-type: none"> <li>Unknown</li> <li>Small (less than \$1 billion)</li> <li>Medium (\$1 billion to less than \$10 billion)</li> <li>Large (\$10 billion or greater)</li> </ul>
Loan size	Numeric dollar amount of loan	<ul style="list-style-type: none"> <li>Small (less than or equal to \$350,000)</li> <li>Medium (greater than \$350,000 to \$2 million)</li> <li>Large (greater than \$2 million)</li> </ul>

Source: GAO analysis of SBA data. | GAO-23-105331

**Table 6: Variables Included in GAO Regression Models Using the Small Business Administration (SBA) Paycheck Protection Program Loans, Years 2020-2021**

Control— independent variables	Outcome— dependent variables	Model specification
<b>Loan characteristics:</b> loan size		
<b>Lender characteristics:</b> lender type (lender/nonbank lender), asset size		
<b>Business characteristics:</b> business ownership type, locale (urban/rural)	Whether or not a loan was associated with a Department of Justice (DOJ) case as of December 31, 2021 (yes/no)	Logistic Regression
<b>Fraud indicators:</b> did not pay employees, overstated payroll expenses, non-existent businesses		

Source: GAO analysis of DOJ information and SBA data. | GAO-23-105331

To account for the presence of multiple correlated fraud indicators, a generalized linear model was run using a penalized logistic regression to determine an optimal combination of characteristics and fraud indicators. In particular, we used a least absolute shrinkage and selection operator—known as LASSO—regularization model, which is a specific type of penalized logistic regression model. Regularization methods are useful for assessing which variables are most important to the model when collinearity exists among control variables, or the number of potential control variables is large. In this case there is strong collinearity among the fraud indicators. It is important to also note that such methods can be conservative in nature, which means there is a higher chance of not detecting an association when one exists. Such a model allowed us to identify an optimal set of factors significantly associated with the outcome and which factors we should exclude.

All regression models are subject to limitations. For this model, we encountered the following limitations:

- The outcome we analyzed was created using statistical software to match fraud cases to the loan-level data. However this outcome is a subset of the population of fraudulent loans, and associations cannot be generalized to the population of fraudulent loans. Furthermore, the outcome is not dichotomous since the inability to associate a loan with a DOJ case does not imply that the loan is not fraudulent but rather that it is unknown whether the loan is fraudulent or not.

- Using this matching process, we were able to match 1,197 loan applications. Because we limited our analysis to approved and funded loans, only 944 matched loans remained out of the 11,464,173 funded loans, which represents an extremely small percentage (0.008 percent) of the total.
- Data analyzed for these regression analyses were by loan rather than by lender, with limited information about lender characteristics. Additionally, many loan- and lender-level characteristics had high rates of missing values, which made them unsuitable for use in our analyses. Consequently, we are not able to describe the association between our independent variables and a lender's association with loans in DOJ cases, while controlling for other characteristics.
- Results of our analyses are associational and do not imply a causal relationship because, for example, the data are observational in nature and were not gathered by a randomized controlled trial where loan applications would be randomized to lenders with certain characteristics. Additionally, we do not imply that the set of control variables explains the variation of fraud in loans or predict whether or not a loan is fraudulent.
- It is likely that variables that may be related to loan and lender characteristics and fraud cases are not available in the data. As an example, in this context, it could be that an applicant's annual income adjusted for family size could be associated with the likelihood of a fraud case.
- Additionally, all data are subject to non-sampling error. Non-sampling error could occur for many reasons, such as inability to obtain complete information for all loan applications, inability or unwillingness of applicants to provide correct information, mistakes by applicants, and errors made in the collection or processing of data (such as data quality checks).

A logistic regression model provides an estimated odds ratio of an event occurring, such as whether a lender or loan characteristic is associated with higher or lower odds of an identified fraud conviction, holding other factors constant.

For the estimated odds ratio, a value greater than one indicates a higher or positive association, and a value less than one indicates lower or negative association, when the factor is present. For example, an estimated odds ratio less than one indicates lower odds of an identified fraud conviction when a factor is present.

Given the limitations of our data and models, we present a general summary of associations by providing the direction, rather than estimated odds of an identified fraudulent loan case, as shown in table 7. “Increase” means that a particular variable was significantly associated with an increase in the odds of identified fraud case at the p-value < 0.05 level; “decrease” indicates a decrease in the odds, while holding all other variables in the model constant. A blank “—” indicates the variable is not significantly associated with identified fraud at the p-value < 0.05 level. For categorical variables, we provided the comparison (reference) characteristic in brackets. For example, the results should be interpreted to show loans for sole proprietor businesses are more likely to be identified in a fraud case, relative to businesses that are not sole proprietorships, holding other factors constant, because the association is significantly positive.

**Table 7: Associations of Logistic Regression Model Variables Based on the Small Business Administration’s (SBA) Paycheck Protection Program Loans, Years 2020-2021**

Variable	Effect: groups compared in odds ratio estimate	Association
Asset size of lender	Medium vs. large	Increase
	Small vs. large	— <sup>a</sup>
Business ownership type	Self-employed vs. not self-employed	Increase
Overstated payroll	Yes vs. no	Increase
Unpaid employees	Yes vs. no	—
Non-existent businesses	Yes vs. no	Increase
Lender type	Nonbank lender vs. lender	Increase
Size of business loan	Medium vs. large	—
	Small vs. large	Decrease
Locale	Urban vs. rural	Increase

Source: GAO analysis of Department of Justice information and SBA data. | GAO-23-105331

<sup>a</sup>A blank “—” indicates the variable is not significantly associated with identified fraud at the p-value < 0.05 level.

# Appendix V: Comments from the Small Business Administration



U.S. SMALL BUSINESS ADMINISTRATION  
WASHINGTON, DC 20416

April 21, 2023

Johana Ayers  
Managing Director  
Forensic Audits and Investigative Service  
U.S. Government Accountability Office  
Washington, D.C. 20548

Dear Ms. Ayers,

Thank you for providing the U.S. Small Business Administration (SBA) with the opportunity to comment on the Government Accountability Office (GAO) Draft Report titled, "Covid Relief: Fraud Schemes and Indicators in SBA Pandemic Programs (GAO-23-105331)" (Draft Report). **SBA recognizes GAO's usually high standards for analytic rigor, but we are extremely troubled by the use of "fraud indicators" in the Draft Report. Even more significant is that the Draft Report largely ignores SBA's nearly three-year effort to detect, prevent and manage fraud in the PPP, Covid-19 EIDL, RRF and SVOG portfolios, especially since SBA's methodology is exceptionally robust and SBA uses tools widely accepted in both public and commercial settings.**

The Draft Report also does not directly acknowledge a fundamental component of executive branch program implementation: leadership. From 2021 onward, the Biden-Harris Administration has made fraud risk management at SBA a top priority. Both PPP and Covid-19 EIDL were created and launched in 2020, by the Trump Administration that made choices which increased fraud risk in these programs. By the end of the Trump Administration, hundreds of billions of dollars had already been disbursed without implementing many of the anti-fraud actions noted in the Draft Report. Since 2021, the Biden-Harris Administration has worked tirelessly to improve stewardship of these programs and the fact that so many of the anti-fraud best practices began in 2021 is no accident.

Thus, it is critical that we clarify here how SBA's current anti-fraud approach works. **SBA has a four-step fraud review process.** While the GAO methodology is analogous to the *first step* of the SBA's process, SBA went much further. SBA conducted automated checks for data discrepancies against government and private sector databases on all 49.7 million applicants to all four of our pandemic relief emergency programs to screen for potential fraud and ineligibility (step one). Including the use of advanced data analytics and machine learning technologies, SBA identified 5.9 million program applications with data anomalies marking them with flags as well as targeted certain loans with the highest probability of exhibiting true indicators of fraud (step 2). SBA then followed with 3.4 million human-led reviews of the riskiest applications and loans (step 3), and with well-documented referrals of applications and loans with a high likelihood of fraud and identity theft to law enforcement for action (step 4). This four-step fraud review process was presented to the GAO on multiple occasions and is again documented in this Comment Letter.

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U.S. SMALL BUSINESS ADMINISTRATION  
WASHINGTON, DC 20416

### Overview

GAO maintains that in the Draft Report it: “1) analyzes fraud cases charged by DOJ involving PPP and COVID-19 EIDL to understand fraud schemes and impacts, 2) provides the results of select data analyses regarding indicators of fraud in PPP and COVID-19 EIDL, and 3) assesses SBA’s current data analytics efforts.”<sup>1</sup> These are referred to as Objective 1, 2, and 3 respectively in both the GAO’s Draft Report and this Comment Letter. GAO then recommends that SBA: 1) ensures it has and utilizes mechanisms to facilitate cross-program data analytics; and 2) identifies external data sources that could aid in fraud prevention and detection and develop a plan to obtain access to those sources. We agree with both recommendations, and in fact SBA already engages in both of these suggested activities. SBA notes with regard to the latter that the SBA has made considerable progress since GAO’s first Report in June of 2020 in identifying, obtaining access to, and deploying external data sources to prevent and detect fraud in its pandemic relief programs that are not mentioned in this Draft Report. Indeed, although one objective of this Draft Report is to “assess SBA’s current data analytics efforts”, SBA could not locate any such review within the 111-page Draft Report.<sup>2</sup>

As SBA agrees with the GAO’s recommendations, the need for this Comment Letter might not be evident. SBA, however, would like to raise concerns regarding: 1) the soundness of GAO’s methodology for both Objective 1 and 2 and the accuracy of its conclusions; 2) the utility of the GAO’s analyses in Objective 1 and 2 as they appear to have little bearing on its recommendations; and 3) the GAO’s decision to not perform an analysis of SBA’s current data analytics efforts for Objective 3 that actually does affect both of its recommendations.

SBA is hopeful that the GAO will address these concerns before publication of its Final Report. The following Comment Letter is organized around GAO’s three stated objectives, but we will begin by discussing GAO’s second objective.

<sup>1</sup> GAO Draft Report at Highlights. Gov’t Accountability Office, Draft Report to Congressional Committees, Covid Relief: Fraud Schemes and Indicators in SBA Pandemic Programs (GAO-23-105331), provided to SBA on March 23, 2023. [Hereinafter GAO Draft Report].

<sup>2</sup> GAO did not provide a Table of Contents, but it appears its report is organized into the following sections none of which claim to include an analysis of SBA’s data analytics efforts: I. Executive Summary; II. Introduction (including Background, Fraud in Pandemic Relief Programs, Fraud Risk Management, and Prior Reporting on Fraud Risks and Financial Control Weakness); III. Analysis of PPP and Covid-19 EIDL Charges Illustrates Fraud Schemes and their Actual and Potential Impacts; IV. Our Analysis Reveals Millions of PPP and COVID-19 EIDL Recipients with Fraud Indicators, and Certain Lenders Originated Higher Rates of Fraudulent PPP Loans; Appendix I: Objectives, Scope, and Methodology; Appendix II: Overview of SBA’s Fraud Risk Management Efforts Implementing the Pandemic Relief Programs; Appendix III: Prior GAO Recommendations to Address Fraud Risks and SBA Actions; and Appendix IV: Regression Analysis.



**Appendix V: Comments from the Small Business Administration**

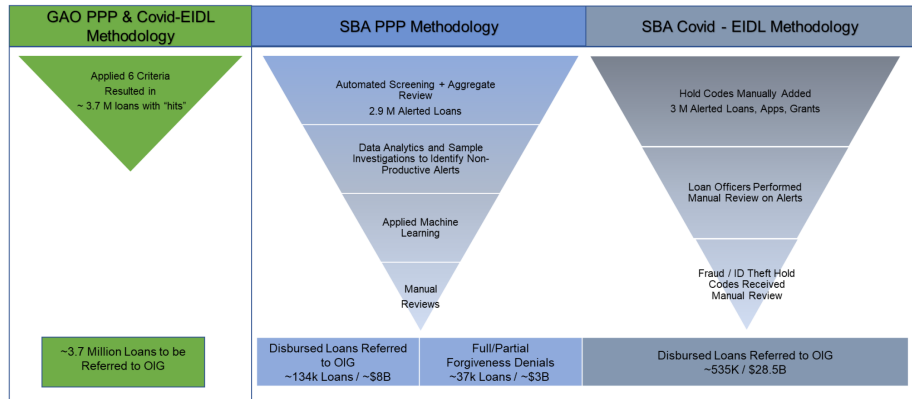


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GAO Objective 2: The Results of Data Analyses

GAO undertook select data analyses to identify PPP and/or Covid-19 EIDL recipients with fraud indicators. GAO stated that the purpose of this analysis was to understand the extent of potential fraud and SBA's fraud exposure.<sup>3</sup> **GAO's methodology for identifying fraud did not follow the steps both generally accepted as a best practice in the public and private sector or cited by GAO itself.** Ultimately this analysis led GAO to refer approximately 3.7 million unique recipients to the SBA Office of Inspector General (OIG) for investigation. GAO states that "it is possible that the results of our analysis include non-fraudulent recipients with data discrepancies that were identified as one or more fraud indicators."<sup>4</sup> It is clear from reviewing its methodology, however, that it is likely that the majority of these 3.7M recipients have no true fraud indicators.

After the initial lending period for PPP, SBA designed and deployed a multi-faceted plan to detect potentially fraudulent loans in its PPP portfolio and refer those loans to the OIG. Discussion of this effort was omitted by GAO in its Draft Report. SBA's methodology for Rounds 1 and 2 of PPP and Covid-19 EIDL is illustrated below and is contrasted with GAO's methodology.



As illustrated in the graphic above, GAO relied entirely on automated screening against a third-party database to identify potential red flags of fraud— a similar, though less robust, approach as the *first* step of SBA's approach. **GAO's process triggered 3.7 million 'hits' and then simply**

<sup>3</sup> GAO Draft Report at 38.

<sup>4</sup> GAO Draft Report at 37.

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referred those ‘hits’ to OIG.<sup>5</sup> A hit, by itself, is not a fraud indicator because it has not been established as materially predictive or informative as an indicator of fraud. If catching fraud were that easy, there would not be an entire industry dedicated to reducing the false positive rate in fraud detection.<sup>6</sup> According to a recent study commissioned by IBM, the false positive rate may be as high as 90% for financial institutions,<sup>7</sup> many of which use sophisticated screening technologies that leverage multiple data points. In contrast, the GAO determined that more than half of its highlighted 3.7 million unique recipients warranted referral to law enforcement based solely on a mismatch<sup>8</sup> between data in the SBA database and data in the National Directory of New Hires (NDNH).

The table below details the GAO screening criteria and the known presence of false positives in the population of 3.7 million unique recipients referred to OIG:

GAO Screening Criteria	False Positives
Borrower does not appear in NDNH data between October 2019-September 2020	<ol style="list-style-type: none"> <li>1. Borrower name in PPP/Covid-19 EIDL application is written differently than in NDNH e.g., JR Ristorante v. John and Rita’s Bar and Restaurant which caused a mismatch with NDNH data for a legitimate business;</li> <li>2. Borrower is a house of worship, religiously affiliated private school, small non-profit, farm, or tribal business that did not have to report to NDNH and was not removed by GAO which caused a mismatch with NDNH data for a legitimate business;</li> <li>3. Legitimate business did not file or was late to file with its State Workforce Agency (SWA);</li> <li>4. SWA input error or PPP lender or PPP/Covid-19 EIDL</li> </ol>

<sup>5</sup> SBA cast a wider net and identified approximately 6.5 million alerts/hold codes.

<sup>6</sup> This can be witnessed by the sheer volume of industry powerhouses working in this space. See IBM, “How high-tech AI is helping stop real-time payment fraud,” IBM Blog, <https://www.ibm.com/blog/ai-stop-real-time-payment-fraud/>; Stripe, “A primer on machine learning for fraud detection,” <https://stripe.com/en-ie/guides/primer-on-machine-learning-for-fraud-protection>; Formica, “How to Reduce False-Positive with AI-powered Fraud Detection,” <https://www.formica.ai/blog/how-to-reduce-false-positive-with-ai-powered-fraud-detection>; and SNQ Banking Systems, “How to Reduce False Positives in Fraud Detection,” <https://sqnbankingsystems.com/blog/how-to-reduce-false-positives-in-fraud-detection/>.

<sup>7</sup> Celent, Operationalizing Fraud Prevention on IBM Z16: Reducing Losses in Banking, Cards, and Payments, Apr. 5, 2022, available at <https://www.ibm.com/downloads/cas/DOXY3Q94>. Additionally, the UK’s National SIRA database, a collaboration of more than 130 financial institutions that share data on combatting fraud, finds that false positive rates can range from 2:1 to 25:1 in the finance and insurance sectors. Synectics Solutions, The Key to Reducing False Positives in Fraud Detection Systems, Jan 16, 2018 available at <https://www.synectics-solutions.com/our-thinking/reducing-false-positives-in-fraud-detection-systems>.

<sup>8</sup> GAO did not provide details on the sensitivity of its matching algorithms in its Draft Report and could not provide the answer to this question during a joint SBA and GAO conference held on April 6, 2023.

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GAO Screening Criteria	False Positives
	<p>borrower input error caused a PPP/ Covid-19 EIDL and NDNH data mismatch for a legitimate business; and</p> <p>5. A change in borrower ownership or business structure required a change of EIN that caused a PPP/ Covid-19 EIDL and NDNH data mismatch for a legitimate business.</p>
<p>Borrower's employee count does not match that in the NDNH database</p>	<p>1. Borrower applied for a loan before or after Q3 2020 which caused a mismatch with NDNH Q3 2020 employee count data and the mismatch was outside of GAO's allowed deviation e.g., a small business with 14 employees at the time of application rehired two employees it had previously laid off in Q3 as business increased;</p> <p>2. Borrower made a non-fraudulent mistake due to known confusion regarding the calculation of full time equivalent vs. full-time employees.</p>
<p>Borrower's loan amount based on payroll costs does not match wage information in the NDNH database and corresponding payroll estimates</p>	<p>1. Borrower calculated payroll based on Q1-Q4 2019 wages which exceeded the GAO's calculation based only on Q4 NDNH data and the overage was outside of GAO's allowed deviation;</p> <p>2. A borrower has above-average non-wage employer expenses which exceeded the GAO's calculation and was outside of GAO's allowed deviation;</p> <p>3. A borrower used an allowable alternative calculation e.g., based on gross income which exceeded the GAO's calculation; and</p> <p>4. Borrower or lender made a good faith error in its calculation e.g., incorrectly accounting for Covid-19 EIDL advances which exceeded the GAO's calculation.</p>
<p>Appearance of more than one application with the same information... e.g., tax IDs, business names, addresses.</p>	<p>There are a number of non-fraudulent reasons why a borrower could share characteristics with another business causing an incorrect match between legitimate borrowers. GAO did not disclose its matching methodology so SBA cannot provide exact false positive scenarios here.</p>
<p>Appearance of more than one application with <i>some</i> of the same information such as business names and addresses.</p>	<p>1. Borrower is part of business that maintains multiple legal entities and more than one of those legal entities applied for a loan thus triggering a match even though there are no eligibility or fraud issues; and</p> <p>2. Borrower is a ride share driver, e.g., Uber driver that applied using the corporate office's information thus triggering matches.</p>



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GAO Screening Criteria	False Positives
Borrower reported different information on the Covid-EIDL application than the PPP application	Borrower applied for a PPP loan and a Covid-19 EIDL loan at different times and borrower information changed causing a mismatch of data but no indication of fraud.

GAO’s analysis fails to account for these false positives. SBA believes that the failure to quantify false positives inflicts undue harm to the public and unnecessary burden to law enforcement. The Draft Report does not provide the public and law enforcement a sense of the prevalence of non-fraudulent unique recipients in this population. The Draft Report could have engaged in an effort to reduce the total population of unique recipients further, to generate a population of recipients more likely to actually be fraudulent – it did not do so. Finally, it could have described this population more accurately as the first step in a necessary multi-step process for confirming fraud – it did not do that either. As a consequence, **the public will be misled and believe that all 3.7 million unique recipients were likely fraudulent and law enforcement, with limited resources, will be forced to investigate good faith errors and non-fraudulent actors.**

In addition to the flaws in GAO’s methodology, its use of the NDNH database is likely contributing to the unreliability of its results. The NDNH is an employee records database, not an employer or business verification database unlike, for example, a corporation and business entity database maintained by a Secretary of State. This database is only made available to select government agencies through Congressional action, (it is not available to the SBA) and as such, is not used by government or commercial institutions to verify information. It is untested in terms of the completeness and accuracy of its data. Indeed, the data in NDNH comes from self-reporting and there is a significant body of economic research showing that employment tax non-compliance is about 9% of businesses.<sup>9</sup> The GAO has highlighted this problem extensively in other contexts.<sup>10</sup> NDNH’s efficacy for identifying red flags of fraud is not understood, unlike that of other data sources such as LexisNexis, an industry leader in this space, which SBA uses.

Finally, GAO has not shared the details regarding the sensitivity of its matching algorithm when comparing PPP and Covid-19 EIDL application data to the NDNH database, nor has it shared the results of its analysis. This raises even more questions as to the reliability of its results.

**Because of the flaws in GAO’s methodology including the use of the NDNH database, it is highly likely that the majority of the 3.7 million recipients referred to the OIG have no true fraud indicators.** This is especially important as GAO noted in its report that, according to the SBA OIG officials, “investigating pandemic relief fraud has consumed significant law enforcement

<sup>9</sup> <https://www.taxpolicycenter.org/file/182237/download?token=4Ey2QPFq>.

<sup>10</sup> [Tax Gap | U.S. GAO](#)



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resources” and “with almost 70 criminal investigators, the OIG office was outmatched by hundreds of thousands of investigative leads.”<sup>11</sup> GAO is contributing to this issue by taking the results of its simplistic initial screening and sending them to the OIG with no further analysis. Indeed, GAO states in its own Framework for Managing Fraud Risks in Federal Programs that a leading practice is to, “review the results of data analytics, including reviewing identified cases to remove false positives, such as by taking steps to verify the facts and circumstances of identified cases and checking for math or other errors.”<sup>12</sup> SBA, by comparison, performed data validation and reconciliation steps throughout the automated screening process. Then SBA deployed a combination of advanced analytics, machine learning, and manual investigation to arrive at a population of loans that could be referred to OIG with a reasonable belief of ineligibility and/or fraud along with a detailed and documented investigation.

GAO Objective 1: Analyses of DOJ Cases

GAO analyzed 330 criminal and civil fraud cases brought by DOJ involving allegations of PPP and/or Covid-19 EIDL fraud. According to the Draft Report, GAO’s intent with this analysis is to “understand the extent of potential fraud, SBA’s exposure to fraud risk, and how some recipients may have taken advantage of those risks.” **GAO made several observations with regard to the 330 cases and discussed how the frauds were perpetrated. GAO did not, however, use any of these observations to inform its own “select data analyses” as described in Objective 2.** For example, GAO contends that “reused information” i.e., unique recipients of PPP and/or Covid-19 EIDL loans that share business information such as business name or address<sup>13</sup> is a “fraud indicator.” In its analysis, the GAO discusses the “how” of PPP and Covid-19 EIDL fraud and found that individuals had applied for loans with stolen identities, made false statements on applications, falsified monthly payroll documentation and tax forms submitted to lenders, and misrepresented employee counts and payroll amounts. There is no indication that “reused information” is a fraud indicator.

The analysis of the 330 cases was instead used by GAO to conduct “generalized linear regressions using logistic modeling” to “explore associations between loan and lender characteristics and select fraud indicators and identified incidents of fraud and alleged fraud charged by DOJ, while controlling for other factors.”<sup>14</sup> There are two major flaws in this analysis. First, this model was only able to make predictions for 944 loans out of over 11 million funded loans, representing 0.008% of the total. GAO itself stated that this percentage is extremely small

<sup>11</sup> Draft Report at 33-34.

<sup>12</sup> GAO, A Framework for Managing Fraud Risks in Federal Programs, Appendix III: Examples of Control Activities and Additional Information on Leading Practices for Data Analytics and Fraud-Awareness Initiatives at 41, <https://www.gao.gov/assets/gao-15-593sp.pdf>

<sup>13</sup> Draft Report at 81.

<sup>14</sup> Draft Report at Appendix IV pg 107.



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and “associations cannot be generalized to the population of fraudulent loans.”<sup>15</sup> The SBA questions therefore why this analysis is being included in GAO’s audit.

Next, the sample on which the model was created is by default not statistically valid as a predictive or informative model, because only recipients charged with fraud by DOJ were considered. For this model to be predictive, it must draw a statistically significant sample of both true positive (confirmed fraud) and true negative (confirmed non-fraud) from the full population of loans. At best, the model highlights an extremely small subset of factors that contributed, in part, to the 944 cases identified through the GAO’s post-hoc analysis.

The outcome of GAO’s regression model as shown in Table 7 of its Draft Report supports this. According to the results, there is no correlation between “unpaid employees” and fraud. The meaning of unpaid employees as a fraud indicator is unclear, but SBA believes it is what GAO had previously referred to throughout the Draft Report as instances where employee count was higher in the SBA data than what was reported to NDNH. In other words, in GAO’s Objective 2 analyses, a mismatch of employee count is a fraud indicator that rises to the level of referral to OIG, but in its Objective 1 analysis, there is no correlation between mismatch of employee count and increased risk of fraud. This illustrates the flaws in GAO’s use of a regression analysis.

**Regardless of the outcome of the regression analysis itself, it provides no value to either the Draft Report or to SBA as a framework for identification of fraud within the PPP program or in future programs.** In comparison, the SBA developed a machine learning model to both prioritize and deprioritize loans for manual review. SBA enriched its loan level data with third-party data and, after consideration and testing of hundreds of fraud characteristics, chose 37 data points (some of which were composites of multiple data points) to develop its machine learning model for the detection of potential fraud. SBA used the model to target loans for investigation that were predicted to have a high probability of fraud. SBA efforts were successful as the productivity rate for escalations to OIG was as high as 70%.

#### GAO Objective 3: Analysis of SBA’s Data Analytics

GAO’s third objective was to assess SBA’s current data analytics efforts, but GAO declined to include this as a section in its Draft Report. GAO did produce as an Appendix, an “Overview of SBA’s Fraud Risk Management Efforts Implementing the Pandemic Relief Programs,” which notes the controls SBA added before PPP funding in 2021. It contains no information, however, regarding SBA’s post-disbursement PPP fraud detection efforts which as shown in Figure 1 above, are substantial and ongoing. Indeed, the GAO actually suggests that SBA has taken no

<sup>15</sup> Draft Report at Appendix IV pg 109.

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“key fraud risk management activities” besides conducting a PPP and Covid-19 EIDL risk assessment in October of 2021.<sup>16</sup> **SBA has made a substantial effort to adopt and implement GAO’s Fraud Risk Framework including the use of data analytics to reduce fraud risks in its programs.** SBA regrets that this work was not reflected in the Draft Report. We agree that a high incidence of fraud can lead to public perception that the government is a target for future exploitation and can erode public trust in government to manage taxpayer dollars and prevent fraud. SBA trusts that this Comment Letter can begin to clarify SBA’s commitment to preventing, detecting and responding to fraud in its pandemic relief emergency programs.

Conclusion

SBA agrees with both GAO recommendations as they are consistent with SBA’s existing framework for addressing fraud risks. With regards to Recommendation 1, note that SBA has already developed cross program analytics to identify awardees suspected of identity theft or fraud that received awards and loans through multiple programs. The Cross-Program Analysis leverages analytics and data across SBA programs by linking awards suspected of identity theft or fraud to related awards and loans. The analysis searches the over 20 million awards and loans made by SBA since 2020 for data that relate to awards and loans suspected of identity theft or fraud.

With regards to Recommendation 2, note that the Draft Report makes no reference to SBA’s extensive present use of third-party data to aid its fraud prevention and detection efforts. Nonetheless, SBA is currently developing additional applicant verification capabilities that will leverage third-party data sources in addition to credit and tax data sources. SBA has already met with several federal agencies to explore data sharing opportunities.

We appreciate the opportunity to comment on this Draft Report and Recommendations, and for taking our views into consideration. Please see Appendix A, which contains the other observations where SBA disagrees with GAO statements made within the Draft Report.

Sincerely,

  
J. Patrick Kelley  
Associate Administrator  
Office of Capital Access  
U.S. Small Business Administration

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<sup>16</sup> GAO Draft Report, Figure 16, at 100.

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# Appendix VI: GAO Contact and Staff Acknowledgments

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## GAO Contact

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## Staff Acknowledgments

In addition to the contact named above, Tonita Gillich (Assistant Director), Philip Reiff (Assistant Director), Irina Carnevale (Analyst-in-Charge), James Ashley, Priyanka Sethi Bansal, Miranda Berry, Mariana Calderón, Leia Dickerson, Ranya Elias, Colin Fallon, Meredith Graves, Marshall Hamlett, Kristy Hammon, Jacob Harwas, Davis Judson, Kailas Menon, Maria McMullen, Brenda Mittelbuscher, Lisa Moore, Daniel Newman, Stephanie Palmer, Julia Robertson, Paige Smith, Sabrina Streagle, Frances Tirado, Ariel Vega, and Monique Williams made key contributions to this report.



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# Related GAO Products

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*COVID Relief: SBA Could Improve Communications and Fraud Risk Monitoring for Its Arts and Entertainment Venues Grant Program.* [GAO-23-105199](#). Washington, D.C.: October 11, 2022.

*Restaurant Revitalization Fund: Opportunities Exist to Improve Oversight.* [GAO-22-105442](#). Washington, D.C.: July 14, 2022.

*COVID-19: Current and Future Federal Preparedness Requires Fixes to Improve Health Data and Address Improper Payments.* [GAO-22-105397](#). Washington, D.C.: April 27, 2022.

*GAO Fraud Ontology Version 1.0, published January 10, 2022.*  
[https://gaoinnovations.gov/antifraud\\_resource/howfraudworks](https://gaoinnovations.gov/antifraud_resource/howfraudworks)

*Economic Injury Disaster Loan Program: Additional Actions Needed to Improve Communication with Applicants and Address Fraud Risks.* [GAO-21-589](#). Washington, D.C.: July 30, 2021.

*Paycheck Protection Program: SBA Added Program Safeguards, but Additional Actions Are Needed.* [GAO-21-577](#). Washington, D.C.: July 29, 2021.

*COVID-19: Sustained Federal Action Is Crucial as Pandemic Enters Its Second Year.* [GAO-21-387](#). Washington, D.C.: March 31, 2021.

*High Risk Series: Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas.* [GAO-21-119SP](#). Washington, D.C.: March 2, 2021.

*COVID-19: Critical Vaccine Distribution, Supply Chain, Program Integrity, and Other Challenges Require Focused Federal Attention.* [GAO-21-265](#). Washington, D.C.: January 28, 2021.

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

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

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