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INSPECTOR GENERAL
U.S. SMALL BUSINESS ADMINISTRATION**

BEFORE THE

**SELECT SUBCOMMITTEE ON THE CORONAVIRUS CRISIS
U.S. HOUSE OF REPRESENTATIVES**

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INTRODUCTION

Chairman Clyburn, Ranking Member Scalise, and distinguished members of the Subcommittee, thank you for inviting me to testify before you today and for your continued support of the Office of Inspector General (OIG). The hearing is titled, “Examining Federal Efforts to Prevent, Detect, and Prosecute Pandemic Relief Fraud to Safeguard Funds for All Eligible Americans.” I am proud of the dedication and hard work of the men and women of OIG to not only prevent fraud in these programs, but also to detect, deter, and combat fraud.

OIG provides auditing, investigative, and other services to support and assist the U.S. Small Business Administration (SBA) in achieving its mission. As a result of its oversight efforts, each year, OIG provides recommendations to SBA leadership aimed at improving the integrity, accountability, and performance of SBA and its programs for the benefit of the American people. Similarly, OIG’s investigative efforts result in convictions and indictments as we pursue evidence of fraud in SBA programs. In doing so, OIG provides taxpayers with a significant return on investment as we root out fraud, waste, and abuse in SBA programs. Our oversight of SBA’s pandemic response in FY 2021 resulted in OIG achieving \$4.2 billion in monetary recoveries and savings, an exponential return on investment. We are working in earnest along with our law enforcement partners to investigate the billions of dollars in fraud in order to make the nations taxpayers whole.

PANDEMIC RESPONSE OVERSIGHT

Congress authorized SBA to administer more than \$1 trillion through the Paycheck Protection Program (PPP), Economic Injury Disaster Loans (EIDL), Shuttered Venue Operators Grant program (SVOG), and the Restaurant Revitalization Fund (RRF), mitigating the economic damage to the nation resulting from the COVID-19 pandemic.

To support businesses affected by the COVID-19 pandemic, in FY 2021, Congress tasked SBA with lending \$470 billion in COVID-19 EIDLs and \$20 billion in COVID-19 emergency grants. In FY 2021, Congress appropriated additional funds for new disaster assistance programs: \$35 billion for Targeted EIDL Advances and Supplemental Targeted Advances, \$16.25 billion for the SVOG program, and \$28.6 billion for the RRF. The CARES Act had provided \$349 billion for the creation of the PPP under Section 7(a) of the Small Business Act. Congress added an additional \$310 billion to the PPP on April 24, 2020, through the Paycheck Protection Program and Health Care Enhancement Act. On December 27, 2020, through the Consolidated Appropriations Act of 2021, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act extended the program through March 31, 2021. The Economic Aid Act provided an additional \$147.5 billion in program funding. The American Rescue Plan Act provided an additional \$7.2 billion, which

increased the total program funding to \$813.7 billion. On March 30, 2021, the PPP Extension Act of 2021 extended the program through June 30, 2021, with May 31, 2021 as the last day for acceptance of applications.

OIG's highest priority is pandemic response oversight. Our robust oversight plan uses all available OIG resources to provide timely, objective, and independent oversight of the programs being implemented and executed by SBA pursuant to the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

My office knew from the onset of pandemic relief that SBA would face a delicate balancing act of preventing wide-spread fraud, while ensuring timely disbursement of relief funds to Americans in immediate need of assistance. The biggest concern for our office was SBA expediting delivery of capital to small businesses without first establishing the internal controls necessary to decrease risk. This was why we issued three reports prior to the first PPP loan or EIDL being disbursed. Our reports stressed the importance of up-front program controls to mitigate the risk of fraud. Because of the lessons we'd learned from other disasters, OIG knew the weaknesses we found in the past would be greatly magnified with programs as large as the PPP and EIDL. We offered recommendations on how to best mitigate the risks SBA would be facing.

We sought to raise awareness of potential fraud by publishing a list of fraud schemes and scams to alert the public and SBA stakeholders. This information was made available on OIG's website and distributed broadly through established communication channels, including social media. OIG also sought assistance from organizations involved with SBA lending to distribute the information and raise awareness. We have also integrated multimedia onto our Hotline webpage to provide an alternative means of learning about our Hotline and its operations. We work extensively with news organizations to ensure an understanding of our perspective in their reporting to the public.

We actively engaged SBA leadership throughout the duration of the pandemic to notify them of preliminary findings so they could respond in real time to prevent loss to the taxpayer. Our primary message was that strong internal controls are an antidote to fraud.

SBA's need to quickly provide relief to small businesses led to reduced controls on pandemic-related loans and grants, substantially increasing the fraud risk. It was immediately clear that pandemic relief efforts had drawn the attention of unscrupulous and greedy criminals. Complaints from lenders and allegations of misuse of funds overwhelmed OIG's Hotline. A growing national narrative told of widespread fraudulent activity involving funds intended to provide economic relief to qualifying small businesses and entrepreneurs. We launched investigations and audits to root out the fraud and abuse endangering these critical resources.

We have issued 22 reports focused on SBA's pandemic response, and there is more significant work to come. My office is currently focused on providing oversight of PPP funds and combating fraud, waste, and abuse in PPP and the other programs. We reviewed PPP, EIDL, SVOG, RRF, and entrepreneurial development programs. These reviews were focused on SBA's loan review and forgiveness processes, handling of potentially fraudulent PPP loans, initial disaster assistance response to COVID-19, implementation of subsidies for 7(a) loan payments, oversight of the resource partner associations' implementation of the CARES Act requirements, and award procedures for cooperative agreements. Additionally, OIG identified several areas that will warrant future audits and reviews, including, eligibility and forgiveness, third-party processors (fintechs), 7(a) and 504 lending, and reviews of the SBDCs and Women's Business Centers compliance with CARES Act cooperative agreement requirements. OIG will also assess SBA's use of contractors and its contracting practices in implementing pandemic response responsibilities, as well as IT security and infrastructure. OIG's robust oversight of these programs will continue for the foreseeable future.

Criminals are using a wide array of techniques to fraudulently obtain PPP and EIDL loans. Since March 2020, we have initiated hundreds of investigations involving complaints of fraud, resulting in arrests, indictments, and convictions that are reported daily by the U.S. Department of Justice. Among these accomplishments was the first charges filed against individuals fraudulently seeking PPP loans, announced on May 5, 2020. This achievement was the result of dedicated work by OIG criminal investigators and law enforcement partners. With the tens of thousands of allegations of wrongdoing reported to the OIG Hotline and through our data analysis efforts, the number of criminal investigations is expected to increase rapidly. Further changes to program terms (such as loan terms) could extend the surge of new complaints; however, we anticipate a resurgence of allegations of wrongdoing now that PPP forgiveness is underway.

COMBATTING FRAUD

OIG's PPP and EIDL oversight and investigative work has resulted in 417 indictments, 328 arrests, and 263 convictions as of May 31, 2022. Additionally, OIG collaboration with SBA and the U.S. Secret Service has resulted in the seizure of more than \$1 billion stolen by fraudsters in the EIDL program.

SBA OIG has provided a great deal of outreach to the financial institutions (FIs) to educate the FIs regarding the SBA COVID-related programs, the fraud indicators, issued a Scam and Fraud alert, and provided information on how to return the funds. OIG and USSS jointly issued FinCEN Alerts with this information as well giving additional guidance to the FIs and leading the FIs to return the funds or hold for seizure. As of June 2, 2022, over \$8 billion dollars has been returned by financial

institutions to SBA related to the EIDL programs. Additionally, SBA has also received over \$17 billion dollars of EIDL funds that have been returned by borrowers. SBA is conducting ongoing analysis to determine the fraud related to the return of funds. OIG has played a key role in the return of these funds through working with our law enforcement partners, FIs, and educating the public about fraud in the pandemic relief programs, which has served as a deterrent to fraudsters.

Additionally, OIG has partnered with other law enforcement organizations, conducted outreach to the U.S. Department of Justice Offices of the U.S. Attorneys, and evaluated allegations of wrongdoing received through our Hotline through a partnership with the Pandemic Response Accountability Committee (PRAC). We also partnered with the SBA Office of the Chief Information Officer to investigate and remove websites suspected of being fraudulent. Hundreds of investigations involving complaints of fraud have been initiated by our office and many more are ongoing by our law enforcement partners, with noteworthy results being reported daily by the U.S. Department of Justice.

Our enhanced data analytics efforts have been key to our success. To date, OIG's data analytics have identified billions of dollars of potential fraud in SBA's pandemic response lending programs. Data analytics have bolstered our investigative capacity with findings that have led to the investigation and arrest of fraudsters across the nation. Many of the instances of fraud have been egregious:

- In May 2022, two Florida men were sentenced for leading a nationwide scheme to defraud the PPP for millions of dollars in loans. They recruited additional PPP loan applicants, preparing and submitting fraudulent loan applications in exchange for a share of the proceeds. They submitted or facilitated at least 79 fraudulent loan applications worth at least \$35 million—and planned to submit more.
- In November 2021, seven members of a Los Angeles-based fraud ring were sentenced in a scheme that involved submitting 150 PPP and EIDL applications, obtaining more than \$20 million in pandemic economic relief funds. The defendants used dozens of fake, stolen, or synthetic identities, including names belonging to elderly or deceased people and foreign exchange students. They used the funds to buy homes, gold coins, diamonds, jewelry, luxury watches, fine imported furnishings, designer handbags, and a Harley-Davidson motorcycle. The leader of the fraud ring was sentenced to 17 years in prison. Two others were sentenced to 6 years and another conspirator to 5 years.
- In February 2022, a California woman pled guilty to bank fraud and money laundering and received 36 months in prison. She obtained pandemic relief

funds from both the PPP and EIDL for multiple fictitious businesses. The woman admitted receiving \$992,291 in PPP loans and \$150,900 in EIDLs and advances. She used the money for a buying spree of high-end luxury items and services, such as \$184,000 on private jet travel and hotel expenses; \$124,000 on luxury purchases from Louis Vuitton, Neiman Marcus, and Nordstrom; and \$16,000 on boat and car rentals. She spent another \$150,000 on Mercedes-Benz, Land Rover, and Nissan automobiles. She was ordered to pay \$1.1 million in restitution.

- In November 2021, a Texas man pled guilty to charges of wire fraud and money laundering for fraudulently obtaining over \$1.6 million in PPP funds. He falsely represented the number of employees and payroll expenses in PPP loan applications. After he received the PPP loan funds, he bought a Lamborghini Urus, a Ford F-350 truck, and a Rolex watch. The U.S. Department of Justice, along with other law enforcement partners, seized over \$700,000 of the funds. This case was investigated by SBA OIG, the Federal Housing Finance Agency Office of Inspector General, and the U.S. Postal Inspection Service Criminal Investigations.
- In February 2022, an Arizona man was sentenced to 32 months in federal prison for submitting fraudulent EIDL applications on behalf of more than 70 limited liability companies. He received \$3.8 million in loans and \$336,000 in grants. In these applications, he made false statements about the number of employees, the amount of gross revenues, and cost of goods sold. He also falsely agreed to use the funds as working capital and instead used the economic assistance money to purchase a new home.

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

OIG has been focused on bringing fraudsters to justice that plan on exploiting SBA's vital programs for personal gain. As we uncover fraud in real time, we continue to provide reports and recommendations aimed at strengthening SBA's internal controls and fraud prevention landscape.

Summaries of recently published audit oversight work are below.

SBA's Handling of Potentially Fraudulent Paycheck Protection Program Loans, Report 22-13

We found that SBA did not have an organizational structure with clearly defined roles, responsibilities, and processes to manage and handle potentially fraudulent PPP loans across the program. In addition, the agency did not establish a centralized entity to design, lead, and manage fraud risk. This problem occurred because the agency did not establish a sufficient fraud risk framework at the start of and throughout PPP implementation. Management stated this was partly due to the speed of the delivery of PPP and the continuous and rapid discovery of different kinds of fraud schemes. Lenders were also not always clear on how to handle PPP fraud or recover funds obtained fraudulently from the PPP that remained in the borrower's account. SBA did not provide lenders sufficient and specific guidance to effectively identify, track, address, and resolve potentially fraudulent PPP loans. During our review, SBA established a Fraud Risk Management Board.

To better mitigate fraud, we recommended SBA establish clearly defined and detailed roles, responsibilities, and processes and provide lenders formal guidance for managing and handling potentially fraudulent loans.

SBA management generally agreed with the findings and agreed with both recommendations. Management plans to document the roles, responsibilities, and processes for all SBA offices responsible for managing and handling potentially fraudulent PPP loans. Management also plans to consolidate its existing guidance to lenders regarding fraud and provide new guidance as appropriate.

OIG Recommendations

We made two recommendations to SBA to better mitigate fraud.

Status of Recommendations

The target implementation date for both recommendations is September 2022.

Evaluation of SBA's Contract for Disaster Assistance Loan Recommendation Services, Report 22-10

We evaluated SBA's procedures to award a contract for data analysis and loan recommendation services for EIDL applications and Targeted EIDL Advance applications related to the pandemic.

To increase loan processing capabilities and quickly disburse loans during the pandemic, SBA used an existing contract awarded to RER Solutions and its subcontractor Rocket Loans set aside for small businesses. SBA initially set a contract ceiling of \$100 million and then used emergency contracting authority to increase the contract ceiling to \$850 million. This increase was done in a noncompetitive process to quickly administer the COVID-19 EIDL program.

To quickly award loans during the COVID-19 economic crisis, SBA relied on an earlier 2018 contract but did not follow the proper procedures to ensure that contract provided the best value to the government. SBA awarded the contract without adequately ensuring the prices were fair and reasonable in accordance with Federal Acquisition Regulation and agency policy.

SBA's needs had changed significantly from the 2018 disaster loan contract to the requirements for processing COVID-19 EIDLs, and those changes were not fully taken into consideration when awarding following contracts. As a result, there is no assurance that the rates SBA paid for services under the data analysis and loan recommendation contract were fair and reasonable.

SBA also did not ensure the contractor complied with established size standards to be eligible for a small business set-aside award. In addition, SBA did not ensure the contractor complied with subcontracting limitations, exceeding the limit by \$13 million. These set-aside contracts are intended to help small businesses compete and win government contracts. Instead, the COVID-19 contract was noncompetitively awarded and largely performed by an affiliate of one of the nation's largest mortgage lenders.

OIG Recommendations

We made six recommendations to strengthen SBA's procurement policies and enhance controls to ensure compliance with SBA's contracting program requirements. SBA agreed or partially agreed with all six recommendations.

Status of Recommendations

One recommendation is closed and three recommendations have target implementation dates of September 2022. We are working with the agency regarding target implementation dates for the last two recommendations.

SBA's Paycheck Protection Program Loan Review Processes, Report 22-09

We conducted this evaluation to assess SBA's processes for reviewing PPP loans for eligibility and forgiveness.

SBA's online loan forgiveness platform used by lenders to submit forgiveness requests is adequate to support SBA's loan review process. However, we found that for some loans, totaling \$66.4 billion, SBA did not meet the 90-day statutory requirement to remit forgiveness payments to lenders. SBA did not meet the 90-day requirement for 98.2 percent of loans over \$2 million. Not completing reviews of loans and remitting payment promptly creates uncertainty for borrowers and PPP lenders who are unsure if SBA will forgive their loans.

We also identified other matters that SBA should address, including how SBA made changes to allow certain loans to be reviewed for fraud and eligibility after they have been forgiven. We have concerns about the effects these changes will have on SBA's ability to recover funds for forgiven loans later determined to be ineligible. Outstanding loan forgiveness applications are a potential indicator of fraud. Borrowers who fraudulently obtained a PPP loan are unlikely to apply for loan forgiveness. We identified 1.9 million loans totaling \$177.3 billion with no forgiveness application as of May 2021.

OIG Recommendations

We recommended that SBA develop a plan to ensure remaining forgiveness reviews and remittances are completed within 90 days as required by the CARES Act. SBA management agreed with the report finding and recommendation.

Status of Recommendations

The target implementation date was the end of May 2022. This recommendation has not been closed, but we are working with the agency and anticipate they will request an extended target date for completion.

COVID-19 EIDL Program Recipients on the Department of Treasury's Do Not Pay List, Report 22-06

We produced this management advisory to notify SBA officials of serious concerns about potential improper payments in SBA's EIDL program.

Our review of the U.S. Department of Treasury's analysis of processed COVID-19 EIDL and emergency EIDL grants from March to November 2020 revealed that SBA's lack of adequate pre-award controls during this period of review led to 75,180 COVID-19 EIDLs, totaling over \$3.1 billion, and 117,135 emergency EIDL grants, totaling over \$550 million, being disbursed to potentially ineligible recipients.

Our preliminary review of Treasury's Do Not Pay analytical summaries indicated SBA should reassess controls to ensure only eligible recipients obtained COVID-19 EIDLs and emergency EIDL grants.

A portion of those applications had been identified as potential fraud risks in previous OIG reports. A significant percentage of COVID-19 EIDLs and emergency EIDL grants that Treasury found in federal data sources had also been identified in earlier OIG reports.

SBA's lack of adequate front-end controls to determine eligibility contributed to the distribution of COVID-19 EIDLs and emergency EIDL grants to potentially ineligible recipients.

SBA should take immediate action to limit improper payments by strengthening existing controls and implementing additional internal controls to address improper payments, especially through the use of the Do Not Pay portal.

OIG Recommendations

We made three recommendations to SBA to prevent improper payments and strengthen oversight controls related to the COVID-19 EIDL program.

Status of Recommendations

One recommendation is closed. We are working with the agency to obtain agreement and a target implementation date for the remaining two.

SBA Emergency EIDL Grants to Sole Proprietors and Independent Contractors, Report 22-01

We examined Emergency EIDL grants to sole proprietors and independent contractors from March 29, 2020 until the funds were exhausted 14 weeks later on July 10. We set out to determine whether the agency complied with its internal policy that set Emergency EIDL grants at \$1,000 per employee up to the CARES Act mandated maximum amount of \$10,000.

Using SBA's data, we found the agency provided \$4.5 billion more in Emergency EIDL grants to sole proprietors and independent contractors than they were entitled to receive based on established policy. We determined that 542,897 sole proprietors, who received a grant of more than \$1,000, applied for the Emergency EIDL grants without an Employer Identification Number (EIN) and claimed more than one employee on their applications.

The absence of an EIN indicates the sole proprietor applicants should have claimed no employees and were entitled to a maximum of \$543 million (\$1,000 per applicant). However, SBA approved and disbursed a total of \$4 billion in Emergency EIDL grant funds to these sole proprietors, an over disbursement of \$3.5 billion.

We also found 161,197 independent contractors, who received a grant of more than \$1,000, also applied but did not provide an EIN and claimed more than one employee on their COVID-19 EIDL application.

Consequently, the independent contractors were entitled to a maximum of \$161 million (\$1,000 per applicant). However, SBA disbursed \$1.1 billion to the independent contractors, resulting in over disbursement of about \$1 billion.

OIG Recommendations

We made one recommendation that SBA remedy \$4.5 billion in funds disbursed in excess of its policy allowance to sole proprietors and independent contractors. SBA disagreed with the prior Administration's policy determination, which is the criteria used to premise our findings. Despite management's disagreement, the agency is taking corrective actions to implement our recommendation.

Status of Recommendations

The recommendation has a target implementation date of September 2022.

PANDEMIC RESPONSE ACCOUNTABILITY COMMITTEE

Through the CARES Act, Congress established the PRAC within the Council of the Inspectors General on Integrity and Efficiency (CIGIE). OIG was designated as a statutory member of the PRAC, which provides increased oversight capacity to the pandemic response efforts. I also chair the PRAC's Audit Subcommittee to provide strategic audit-related direction to all government review efforts.

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

Working with the PRAC, we created an Agile Products Toolkit to help oversight agencies quickly produce reports addressing the fraud and misuse of taxpayer

money resulting from the expedited disbursement of pandemic economic aid funds. Federal, state, and local oversight agencies use this toolkit as a guide for conducting quick-response reviews.

FRAUD LANDSCAPE OUTLOOK

SBA has exercised over a trillion dollars in lending authority and entrepreneurial assistance in the wake of the pandemic. While PPP lending is anticipated to resolve within the next several years, we will be working for some time to help correct the systemic weaknesses in SBA programs and operations brought to light by the unprecedented demand during the crisis. This oversight will require vigilance so that SBA can efficiently and effectively meet the needs of small businesses.

One area of particular concern is the PPP loans that did not seek forgiveness and will subsequently default. The program was designed to forgive these loans, so this possibility raises many questions. When these loans default, SBA must consider honoring the 100 percent guarantee and seek recourse from the borrowers through remedies such as the Department of Treasury's Offset Program. Additionally, SBA's disaster assistance lending for the pandemic response, principally through EIDL, is in the hundreds of billions — an amount exceeding all of SBA's disaster assistance lending since 1953 — and will perform in SBA's portfolio for decades. This will require continuing oversight by OIG. With 2-year deferment periods in place for EIDL loans, our concern is that the true scope of the fraud landscape will not be known until these loans go into repayment. Our office, and others in the pursuit of justice, must be poised to combat fraud for years to come. It is vital that the statute of limitations for the fraud in these programs is adjusted to provide time to continue to root out this fraud. My office is committed to working with Congress to ensure that it has the information it needs to make legislative decisions toward this end.

CONCLUSION

The pandemic presented a whole-of-government challenge. Fraudsters found vulnerabilities and coordinated schemes to bypass controls and gain access to funds meant for eligible small businesses and entrepreneurs adversely affected by the economic crisis. The nation can depend on OIG to provide independent, objective, and timely oversight of SBA. Our investigations will root out fraud, waste, and abuse and will leverage and marshal the resources available across the federal law enforcement community to bring wrongdoers to justice. Our office will continue to promote a strong internal control environment within SBA to mitigate the fraud risk up front. We will relentlessly pursue evidence of wrongdoing and provide oversight of SBA's pandemic funds.