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INSPECTOR GENERAL  
U.S. SMALL BUSINESS ADMINISTRATION**

**BEFORE THE**

**COMMITTEE ON SMALL BUSINESS  
U.S. HOUSE OF REPRESENTATIVES**

**JULY 13, 2023**

## INTRODUCTION

Chairman Williams, Ranking Member Velázquez, and distinguished members of the Committee, thank you for inviting me to testify before you today and for your continued support of the Office of Inspector General (OIG). The U.S. Small Business Administration's (SBA's) role in the nation's pandemic response has presented an unprecedented oversight challenge. I am proud of the dedication and hard work of the men and women of OIG to not only oversee SBA programs and services, but also to detect, deter, and combat fraud.

Over the course of the Coronavirus Disease 2019 (COVID-19) pandemic, SBA disbursed approximately \$1.2 trillion of COVID-19 Economic Injury Disaster Loans (EIDL) and Paycheck Protection Program (PPP) funds. Using OIG's investigative casework, prior OIG reporting, advanced data analytics, and additional review procedures, we estimate SBA disbursed more than \$200 billion in potentially fraudulent COVID-19 EIDLs and PPP loans. This estimate represents approximately 17 percent of disbursed funds in these programs — specifically, more than \$136 billion COVID-19 EIDLs and \$64 billion in PPP funds. OIG published these findings on June 27, 2023.

### *Office of Inspector General*

OIG provides auditing, investigative, and other services to support and assist SBA in achieving its mission. OIG's oversight efforts provide recommendations to SBA leadership to improve the performance of SBA's programs and services for the benefit of the American people. The office's investigations pursue evidence of wrongdoing in SBA programs, bringing fraudsters to justice. For the past 2 years, our office has been ranked as the top OIG in the federal government as a Best Place to Work by the Partnership for Public Service with a 2022 engagement and satisfaction employee score of 86.2, which far exceeds the overall government score of 63.4.

OIG provides taxpayers with an exponential return on investment, rooting out fraud, waste, and abuse in SBA programs and making recommendations to improve SBA's programs and operations. In the past 2 years alone, OIG's work has resulted in more than \$9 billion in dollar accomplishments, which includes investigative recoveries, fines, and forfeitures, as well as review findings of disallowed costs. OIG oversight of the PPP and the COVID-19 EIDL program has resulted in 1,050 indictments, 827 arrests, and 553 convictions as of June 2023. Also, over \$8 billion in EIDL funds have been returned to SBA by financial institutions and another \$20 billion by borrowers. OIG has played a key role in the return of these funds through working with law enforcement partners and financial institutions. We have issued 33 reports on pandemic oversight with 78 recommended corrective actions to

strengthen internal controls and to promote integrity, efficiency, and effectiveness within SBA programs.

Notwithstanding these accomplishments, OIG's oversight capacity is dependent upon the availability of sufficient budgetary resources to continue addressing the fraud within SBA pandemic response programs. The President has put forward a Fiscal Year (FY) 2024 budget request for OIG to ensure continued oversight of SBA's pandemic response and its vital flagship programs supporting the nation's small businesses. The President also has sought \$100 million in supplemental appropriations, in addition to other measures, for a whole-of-government response to the massive fraud in the nation's pandemic response programs. Absent the total budgetary resources requested for OIG in the 2024 Budget, we will not have a sufficient operating budget to combat the fraud within SBA programs and provide effective oversight over its flagship programs. Critically, OIG would not have a sufficient operating budget to capitalize on the new laws (P.L. 117-165 and P.L. 117-166) that extended the statute of limitations for fraud in the PPP and EIDL programs to 10 years.

## **PANDEMIC RESPONSE OVERSIGHT**

Congress authorized SBA to administer approximately \$1.2 trillion through the PPP, COVID-19 EIDL, Shuttered Venue Operators Grant (SVOG), and the Restaurant Revitalization Fund (RRF), mitigating the economic damage from the pandemic.

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

because SBA's internal control environment was calibrated to expedite loans and grants.

Executive and legislative actions at the onset of the pandemic were designed to quickly address the economic fallout, which allowed SBA to reduce or eliminate key internal controls and rely on self-certification of eligibility to expedite aid. In turn, OIG quickly pivoted to provide oversight of SBA's pandemic response programs.

### *Early Warnings*

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

Even with these early warnings, SBA's internal control environment contributed to bringing about the biggest fraud in a generation. 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. In fact, the first criminal charges of PPP fraud were announced on May 5, 2020 — approximately 1 month after the program was initially authorized by Congress. Complaints from lenders and allegations of misuse of funds overwhelmed OIG's Hotline — over 100,000 complaints in the first year alone, which exceed more than 250,000 to the present day.

OIG used agile work products to deliver review findings and suggested recommendations for corrective action as the programs were first rolled out. Our reviews revealed alarming findings. We published a flash report on the PPP in May 2020, which was just over a month after the program started. Thanks to this report, Congress made changes to the program. We sounded the alarm internally of rampant fraud in the COVID-19 EIDL program in June 2020.

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. At the same time, we launched investigations and published a list of fraud schemes and scams to alert the public and SBA stakeholders about the fraud and abuse endangering these critical resources.

## *Oversight Work*

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

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

OIG annually publishes an oversight plan for reviews it has ongoing or planned for that calendar year. In 2020, we published a supplemental oversight plan to address the imminent oversight needs of the pandemic response. Most recently, we released our comprehensive oversight plan that outlines OIG's audit and review priorities for calendar year 2023.

The implementation of this robust oversight plan uses all available OIG resources to provide timely, objective, and independent oversight of SBA programs and services. Since the start of the pandemic OIG has testified before Congress 11 times and held over 80 briefings for Congressional staff to ensure that Congress remains informed of our oversight of SBA's pandemic programs. The effects of OIG's oversight efforts for SBA's pandemic response are noteworthy. We have innovative approaches to issuing agile work products and for leveraging data analytics.

To date, we have issued 33 reports that have focused on SBA's pandemic response with more significant work to be released soon. As stated in our oversight plan, upcoming reports will focus on SBA's pandemic response programs, including evaluating eligibility and forgiveness of PPP loans exceeding maximum size standards; eligibility and forgiveness of PPP loans made to borrowers in the U.S. Department of the Treasury's Do Not Pay system; SBA's internal controls to prevent SVOGs to ineligible entities; SBA's decision to end collections on COVID-19 EIDLs under \$100,000; and COVID-19 EIDL applicants in Treasury's Do Not Pay system. Additionally, OIG is working on more than 10 mandatory reviews, which are required by law, and an additional 24 reviews on other areas of risk identified in the pandemic response programs. OIG also is providing oversight of SBA's response to Hurricanes Ian and Fiona.

Over the course of SBA's pandemic response, OIG offered key recommendations to strengthen the internal controls to prevent fraud in the COVID-19 EIDL program and the PPP, such as:

- implementing a process to ensure PPP lenders validate that 1) the loan amount does not exceed the maximum amount per employee, 2) the business was established before the mandated date, and 3) the loan amount does not exceed the maximum number of employees or other applicable standards;
- working with the U.S. Department of the Treasury to develop a technical solution to enable the use of Treasury's Do Not Pay system to determine PPP loan applicant eligibility and prevent improper payments before the release of any federal funds;
- updating the PPP borrower application to include a field for the North American Industry Classification code for the business category and the business description to prevent potentially ineligible loan approvals;
- revising the PPP application to include the demographic information of borrowers;
- establishing or strengthening controls to ensure loan deposits are made to legitimate bank accounts for eligible borrowers only, preventing the change of loan application information post-approval without having that information reviewed again by a person;
- strengthening or establishing controls to ensure multiple loans are provided only to eligible COVID-19 EIDL applicants and prevent the erroneous duplication of loans; and
- strengthening controls for verifying an entity's start date to ensure applicants meet eligibility requirements.

SBA has been responsive to OIG recommendations for corrective action. The agency has continually made progress to reduce fraud risks and prevent further losses in its pandemic loan programs, and our office's ongoing work continues to make further recommendations for corrective action. Although we are confident that SBA's implementation of our recommendations stemmed the tide of fraud, many of the improvements were made after much of the damage had already been done, namely because of the lax internal control environment at the onset of these programs.

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

## *Pandemic EIDL and PPP Loan Fraud Landscape*

On June 27, 2023, OIG published the *COVID-19 Pandemic EIDL and PPP Loan Fraud Landscape*. We conducted this review to provide a comprehensive estimate of the potential fraud in the SBA pandemic assistance loan programs. Over the course of the COVID-19 pandemic, SBA disbursed approximately \$1.2 trillion of COVID-19 EIDL and PPP funds.

In the rush to swiftly disburse COVID-19 EIDL and PPP funds, the agency weakened or removed the controls necessary to prevent fraudsters from easily gaining access to these programs. The fraudsters targeted the weaknesses in these programs over and over again until they were able to break through and steal from the American taxpayer.

Using OIG's investigative casework, prior OIG reporting, advanced data analytics, and additional review procedures, we estimate SBA disbursed more than \$200 billion in potentially fraudulent COVID-19 EIDLs and PPP loans. This estimate represents approximately 17 percent of disbursed COVID-19 EIDLs and PPP funds — specifically, more than \$136 billion COVID-19 EIDLs and \$64 billion in PPP funds. Since SBA did not have an established strong internal control environment for approving and disbursing program funds, there was an insufficient barrier against fraudsters accessing funds that should have been available for eligible business owners adversely affected by the pandemic.

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

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

We conducted an additional review using nonstatistical sampling methods and professional judgment, as necessary. We took prior experience into consideration, along with investigative casework and previous OIG reports to increase confidence in the results of our data analysis.

As a result, we identified 11 fraud indicators, or fraud groups, which are almost like a fingerprint left behind at a crime scene. We anticipate these estimates could fluctuate with additional review, investigative, and data analytics work, in addition to potentially expanding our link analysis investigative technique to include additional data fields after receiving more lender and government agency data.

OIG identified multiple schemes, depicted in the fraud indicators, that perpetrators used to steal from the American taxpayer. The groups listed below all possess the indicators we considered in our fraud landscape estimates. Together, they illustrate the types of schemes SBA OIG and other oversight agencies continue to unravel and then prosecute.

#### **Fraud Indicator 1: Hold Codes**

- COVID-19 EIDLs and PPP borrowers whose loans were flagged by SBA or third-party lenders because they identified one or more potential indicators of fraud

#### **Fraud Indicator 2: IP Addresses**

- COVID-19 EIDLs and PPP borrowers who appear to have submitted loan applications for 1) a foreign country, 2) the same IP address as the other applications found to have a higher likelihood of fraud

#### **Fraud Indicator 3: Employer Identification Number**

- COVID-19 EIDLs and PPP borrowers whose EIN 1) matched another EIDL or PPP borrowers whose EIN matched another PPP loan or 2) was improperly formatted or began with a prefix that was not considered valid by the IRS in its loan application
- COVID-19 EIDLs and PPP borrowers who appear to have established their business after the cutoff date to qualify for assistance

#### **Fraud Indicator 4: Bank Accounts**

- COVID-19 EIDLs borrowers who 1) received multiple COVID-19 EIDLs using the same bank account and routing number or 2) changed their deposit account from the one included on their application to a different bank account or debit card
- COVID-19 EIDL and PPP borrowers whose bank accounts matched other applications found to have a higher likelihood of fraud

#### **Fraud Indicator 5: Defaulted/No Loan Forgiveness**

- PPP borrowers who have not made any payments, are in default, and have not applied for forgiveness



### **Fraud Indicator 6: Hotline Complaints**

- Borrowers whose COVID-19 EIDL or PPP loan was the subject of a complaint submitted to the OIG Hotline reporting various forms of fraud, waste, or abuse

### **Fraud Indicator 7: Sole Proprietors and Independent Contractors without Employer Identification Number**

- COVID-19 EIDL advance sole proprietor or independent contractor borrowers who claimed to employ more than one person but did not apply using EIN, which are required of businesses with more than one employee

### **Fraud Indicator 8: Suspicious Phone Numbers**

- COVID-19 EIDL borrowers whose phone numbers match other applications found to have a higher likelihood of fraud

### **Fraud Indicator 9: Suspicious Physical Addresses**

- COVID-19 EIDL borrowers whose addresses match other applications found to have a higher likelihood of fraud

### **Fraud Indicator 10: COVID-19 EIDL Advances**

- COVID-19 EIDL applicants who received advances that were identified by SBA as potentially fraudulent

### **Fraud Indicator 11: Suspicious Email Addresses**

- COVID-19 EIDL and PPP borrowers whose email addresses came from potentially temporary domains that can disappear in the future or contain modifications such as dot, dashes, or plus signs that make them appear unique, but are essentially masked duplicates, as they do not alter where the email is sent from if appropriate
- COVID-19 EIDL borrowers whose email addresses match other applications found to have a higher likelihood of fraud

We refer to “potential fraud” throughout the report due to the increased confidence we have that fraud may exist within certain indicator groups based on our prior audits, investigative casework, and advanced data analytics. This review demonstrated that the potential fraud estimates directly correlate to our investigative casework, adjudicated and ongoing criminal cases, and to schemes SBA OIG and other oversight agencies are continuing to unravel and prosecute.

## **COMBATING FRAUD**

Since March 2020, we have initiated over a thousand investigations involving complaints of fraud, resulting in arrests, indictments, and convictions that are reported daily by the U.S. Department of Justice (DOJ) and its Offices of U.S. Attorneys. We have received more than 250,000 SBA OIG Hotline complaints and allegations of wrongdoing since the start of the pandemic. From that number, our data analytics team identified more than 95,000 actionable leads — representing more than 100 years of investigative case work. Through our “whole of agency” approach we were able to identify a comprehensive picture of the potential fraud within the COVID-19 EIDL program and the PPP, expanding our view of the fraud landscape. With time and resources, OIG and our investigative partners will investigate these loans identified as potentially fraudulent within the statute of limitations.

To bring fraudsters to justice and return taxpayer funds, OIG fosters a whole-of-government approach. OIG has partnered with many other law enforcement organizations, conducted outreach to the DOJ Offices of the U.S. Attorneys, and evaluated allegations of wrongdoing received through our Hotline using a partnership with the Pandemic Response Accountability Committee (PRAC). We are a key member of several DOJ strike forces, which the President has requested to increase from 3 to at least 10. We also partnered with the SBA Office of the Chief Information Officer to investigate and remove websites suspected of being fraudulent. The U.S. Secret Service has assisted our office in the seizure of more than \$1 billion stolen by fraudsters from the EIDL program.

OIG often communicates with financial institutions to educate them on SBA COVID-19 related programs and fraud indicators. OIG and the U.S. Secret Service have jointly issued Financial Crimes Enforcement Network Alerts. We issued a scam and fraud alert and provided information on how to return the funds or hold for seizure.

In addition to COVID-19 Strike Force Teams, OIG has fostered and partnered with numerous task forces across the nation to amplify its law enforcement reach. OIG is accustomed to such a model through years of investment in training and in outreach across the law enforcement community to combat fraud in SBA’s flagship programs. The task force model bolsters efforts to investigate and prosecute the most culpable domestic and international criminal actors. This strategy works by augmenting and incorporating existing coordination mechanisms, identifying resources and techniques to uncover fraudulent actors and their schemes, and sharing and harnessing information and insights gained from prior enforcement efforts.

Our Oregon Task Force is an outstanding example of how the strategy acted as a force multiplier in taking the fight to fraudsters’ doorsteps. This task force was our Western Region Office’s initial task force, bringing charges forward as early as December 2020. Our partners on this task force include the Federal Bureau of Investigation, the U.S. Treasury Inspector General for Tax Administration, the

Internal Revenue Service's Criminal Investigation, Homeland Security Investigations, the Secret Service, the U.S. Postal Inspection Service, and the Naval Criminal Investigative Service. Recently, this task force uncovered one of the largest schemes we have prosecuted so far, exceeding \$170 million, with over \$11.5 million in secured funding.

Additionally, OIG has employed an international approach by expanding our collaboration, rooting out bad actors, including Nigerian fraudsters who have taken advantage of U.S. government programs. In April 2023, OIG joined a U.S. delegation to Nigeria where we worked with government and law enforcement representatives to identify ways our countries can work together to ensure fraudsters are brought to justice. Nigerian fraudsters also often seek to steal from their own government. This partnership will continue to produce results here and abroad.

In the fall of 2022, OIG took a significant step by establishing its Technology Solutions Division, which aligns with our objective of "leveraging technology and employee experience to improve OIG methods in carrying out our mission." Through intentional investments in data analytics, OIG's data analytics team has been able to use machine learning and artificial intelligence to identify outliers in the portfolios for investigation, as well as employing traditional data analytics to develop investigative leads for our special agents working in tandem with task force partners.

Many of the instances of fraud have been egregious, such as:

- In June 2023, a Utah woman was found guilty of \$10 million worth of PPP loan fraud. The federal jury convicted her of two counts of making false statements designed to influence a bank, one count of money laundering, and one count of contempt. The woman's false statements influenced the bank to fund her requested \$10 million PPP loan. After receiving the loan proceeds, she transferred \$150,000 to invest in a movie.
- In May 2023 in Puerto Rico, 44 individuals were indicted for their participation in a multi-million-dollar fraud scheme to illegally obtain federal recovery funds under the CARES Act. The Grand Jury charged the defendants with multiple counts of wire fraud and money laundering. The charging documents allege that from April 2020 through May 2023, the defendants and their co-conspirators caused the submission of at least 52 EIDL and PPP loan applications seeking the illegal disbursement of at least \$1.2 million in federal recovery funds from the SBA and Bank 1.
- In March 2023, a former South Florida regional manager for a leading national bank was sentenced to 120 months in prison for participating in a conspiracy to defraud the PPP. The man and his co-conspirators attempted to

submit over 90 fraudulent loan applications to defraud the PPP and EIDL programs out of approximately \$25 million. The conspiracy caused approximately \$15 million in losses. The investigation has recovered over \$800,000 so far.

- In March 2023, a federal jury convicted a Virginia woman on charges of conspiracy, bank fraud, and money laundering. The woman and her husband fraudulently obtained two PPP loans. She carried out the scheme in connection with two of her husband's businesses by creating fraudulent payroll documentation for each business and then submitting that documentation in support of the PPP loan applications. The fraudulent documentation claimed that her husband's businesses had dozens of employees with over \$17 million of annual payroll in 2019, when in fact they had few, if any, employees. In total, she and her husband fraudulently obtained approximately \$2.5 million in loan proceeds. They then spent those funds on a 7,000-square-foot home.
- In February 2023, a Texas man was convicted for his role in a scheme to fraudulently obtain and launder millions in PPP funds. The man conspired with others to submit fraudulent PPP loan applications by falsifying the number of employees and the average monthly payroll expenses. In total, the co-conspirators sought over \$35 million through more than 80 fraudulent PPP loans. The Texas man distributed over \$500,000 in fraudulent loan proceeds to his co-conspirators and himself using bogus payroll checks. He laundered a portion of the proceeds by transferring the funds from one of his bank accounts to another bank account he controlled.
- In February 2023, a California man was sentenced to 54 months in federal prison for fraudulently obtaining \$5 million in COVID-19 relief loans for his sham businesses. In May and June of 2020, the man submitted false and fraudulent PPP loan applications to three banks. The false information submitted included the number of employees, altered bank account records with inflated balances, and fictitious quarterly federal tax return forms. Relying on this false information, the banks funded the PPP loan applications and transferred approximately \$5 million to accounts he controlled. He used the fraudulently obtained PPP loan proceeds for his own personal benefit, including for expenses prohibited under the requirements of the PPP program, such as for the purchase of luxury vehicles and lavish vacations.
- In February 2023, a California woman who fled to Montenegro to avoid prison sentence was returned to the United States after spending approximately 1 year as a fugitive. The woman was a member of a Los Angeles-based fraud ring that engaged in a scheme to fraudulently obtain more than \$20 million in PPP and EIDL COVID-19 relief funds. She and her

co-conspirators used dozens of fake, stolen, or synthetic identities – including names belonging to elderly or deceased people and foreign exchange students – to submit fraudulent applications for about 150 PPP and EIDL loans. They used the fraudulently obtained funds as down payments on three luxury homes in California. They also used the funds to buy gold coins, diamonds, jewelry, luxury watches, designer handbags, cryptocurrency, securities, and a Harley-Davidson motorcycle.

- In November 2022, a Texas man and woman were sentenced to 121 months and 66 months, respectively, in federal prison for wire fraud violations related to COVID-19 relief funds. The two operated a sophisticated telemarketing scheme under the name My Buddy Loans from a house in Texas. In exchange for a fee, My Buddy Loans took personal identifying information from victims and promised to file an application for an agricultural grant, which they said was available to those who owned as little as one acre of land. Instead, they filed fraudulent EIDL applications with SBA that contained the victims’ personal identification information. Based on these fraudulent applications, SBA issued more than \$1.56 million in EIDL Advances to people who were not eligible.

It should be noted that whistleblowers are instrumental to our oversight efforts. These brave individuals have 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 made referrals to SBA to address victims’ concerns pertaining to fraudulent loans. These reports have also informed our ongoing review of SBA’s response to allegations of identity theft. OIG is deeply appreciative of the whistleblowers who have come forward. We will investigate any ensuing complaints of retaliation that may be related to these protected disclosures.

## **PANDEMIC RESPONSE ACCOUNTABILITY COMMITTEE**

Through the CARES Act, Congress established the 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 plays a key role in supporting OIG’s pandemic oversight efforts. During the pandemic, our Hotline received thousands of complaints outside of its electronic complaint submission system. The PRAC identified 10 volunteers to perform a short-term detail to our Hotline. These volunteers performed data entry to consolidate these complaints into the case tracking system, where they can be

efficiently assessed and addressed. We are also engaged with the PRAC to bolster our internal data analytics capabilities, though we have developed over the past year a robust internal capability to guide and enrich our oversight efforts.

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.

OIG continues to collaboratively work alongside the PRAC to produce comprehensive work products that further safeguard taxpayer dollars, identify cases of fraud in SBA pandemic relief related programs and proactively alert external stakeholders to areas of potential waste, fraud, and abuse. Through this partnership, the PRAC has issued the following final reports that relied heavily on OIG personnel's subject matter expertise regarding SBA programs:

1. *SBA PPP Phase III Fraud Controls*, January 21, 2022
2. *Risk Advisory – Potential Identity or Other Fraud in SBA Pandemic Relief Programs*, September 19, 2022
3. *FRAUD ALERT: PRAC Identifies \$5.4 Billion in Potentially Fraudulent Pandemic Loans Obtained Using Over 69,000 Questionable Social Security Numbers*, January 30, 2023

On July 5, 2023, the PRAC published, the *PRAC Impact Project* report that was produced in collaboration with the following nine OIGs: Department of Agriculture, Education, Health and Human Services, Homeland Security, Housing and Urban Development, Labor, the Interior, Transportation, and the Treasury to review the sources, intended purpose, and impacts of federal pandemic funds for six geographic areas. With this team, OIG reviewed the total combined funding for:

1. The Paycheck Protection Program (PPP) loans and associated lender fees;
2. The COVID-19 EIDL and Emergency Advance Grants;
3. The Shuttered Venue Operators Grants;
4. The Restaurant Revitalization Fund; and,
5. Section 1112 Debt Relief Payments provided to each of the following areas:
  - a. Springfield, Massachusetts;
  - b. Coeur d'Alene, Idaho;
  - c. Sheridan County, Nebraska;
  - d. Marion County, Georgia;
  - e. White Earth Nation Indian Reservation, Minnesota;
  - f. Jicarilla Apache Nation Indian Reservation, New Mexico

Outside of assisting in issuance of comprehensive reports from the PRAC our partnership furthers goals of promoting integrity, efficiency, and effectiveness of SBA programs; and continues to amplify our oversight impact through engagement with an external stakeholder.

## SUSTAINED OVERSIGHT APPROACH

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, our efforts to detect and investigate the substantial fraud will continue. We also will be working diligently to offer recommendations that improve SBA programs and operations, which were strained by the unprecedented demand during the pandemic crisis. This oversight will require vigilance so that SBA can efficiently and effectively meet the needs of small businesses.

The scale and scope of the pandemic response programs, and the potential fraud under investigation, far outmatches oversight resources. To prioritize our work and root out fraud in these vast portfolios, we have moved data analytics into the heart of our oversight efforts. Our data analytics staff is assisted by contractor support secured through our partnership with the PRAC. Our FY 2024 budget request seeks three additional data scientists so that we can maintain and improve our fraud fight. Data analysis produces a higher quality of audit and investigative information so that we can improve our audit and investigative work. In addition, SBA's loan portfolios are comprised of millions of records, which are far too expansive for manual review. Data analytics bolsters our investigative capacity with findings that have led to the arrest of fraudsters nationwide.

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

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

which are essential to detecting the fraud, prioritizing investigations, and enhancing the impact of the investigations.

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

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

## CONCLUSION

OIG's *COVID-19 Pandemic EIDL and PPP Loan Fraud Landscape* provides a credible estimate of potential fraud within these programs. This independent and objective work is intended to keep both the Administrator and Congress informed about the challenges of employing a pay-and-chase model during an economic crisis. Fraudsters continuously probed the loan application systems and found vulnerabilities. They coordinated schemes to bypass limited controls and gain access to funds meant for eligible small businesses and entrepreneurs adversely affected by the pandemic.

The nation can depend on OIG to provide independent, objective, and timely oversight of SBA. We will focus our resources on systems and processes that present serious management and performance challenges within SBA programs with a goal of improving the integrity, accountability, and performance of those programs for the benefit of the American people. Our investigations will root out fraud, waste, and abuse and will marshal the resources available across the federal law enforcement community to bring wrongdoers to justice.