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**BEFORE THE**

**SUBCOMMITTEE ON GOVERNMENT OPERATIONS  
AND THE FEDERAL WORKFORCE**

**COMMITTEE ON OVERSIGHT AND ACCOUNTABILITY  
U.S. HOUSE OF REPRESENTATIVES**

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## INTRODUCTION

Chairman Sessions, Ranking Member Mfume, and distinguished members of the Subcommittee, on behalf of Inspector General Ware, thank you for the opportunity to testify before you today and for your continued support of the Office of Inspector General (OIG). I am honored to represent the dedicated men and women of OIG and their work to combat fraud and improper payments in the U.S. Small Business Administration's (SBA) pandemic response programs.

Our office provides auditing, investigative, and other services to support and assist SBA in achieving its mission. The office is ranked as the top OIG in the Federal government as a Best Place to Work by the Partnership for Public Service with an engagement and satisfaction employee score of 90.6, which exceeds the private sector score of 79.1 and the overall government score of 64.5. As a result of its oversight efforts, OIG audits provide recommendations to SBA leadership to improve the performance of SBA's programs and services for the benefit of the American people. Similarly, OIG investigations pursue evidence of wrongdoing in SBA programs, bringing fraudsters to justice. OIG provides taxpayers with a significant return on investment, rooting out fraud, waste, and abuse in SBA programs.

During fiscal year (FY) 2021, OIG provided an exponential return on investment to the taxpayer with \$4.2 billion in dollar accomplishments, which includes investigative recoveries, fines, and forfeitures, as well as review findings of disallowed costs. OIG's oversight efforts in FY 2022 exceeded these returns on investment to the taxpayer with dollar accomplishments exceeding \$4.8 billion. OIG oversight of the Paycheck Protection Program (PPP) and Economic Injury Disaster Loan (EIDL) programs has resulted in 776 indictments, 621 arrests, and 426 convictions as of December 2022. 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 our law enforcement partners and financial institutions. We are educating the public about fraud in the pandemic relief programs, which has served as a deterrent to fraudsters. We are working with our law enforcement partners to investigate fraud and the misuse of billions in pandemic assistance funds, ultimately making the nation's taxpayers whole.

## PANDEMIC RESPONSE & INTERNAL CONTROLS

Congress authorized SBA to administer more than \$1 trillion through the PPP, EIDL, Shuttered Venue Operators Grant program (SVOG), and the Restaurant Revitalization Fund (RRF), mitigating the economic damage from the COVID-19 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 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, 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.

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's quick delivery of capital to qualifying small businesses without first establishing the internal controls necessary to decrease risk, 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. 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.

### *Improper Payments*

OIG's rationale for sounding the alarm early came from our experience in oversight of SBA's Disaster Assistance Program and other lending programs, such as the 7(a). As pointed out in our White Paper, *Risk Awareness and Lessons Learned from Audits and Inspections of Economic Injury Disaster Loans and Other Disaster Lending*, SBA's disaster loan programs suffer increased vulnerability to fraud and unnecessary losses when loan transactions are expedited to provide quick relief. We anticipated that the dramatic increase in loan volume and amounts caused by the pandemic would place additional stress on existing controls. Therefore, it is important to provide SBA with risk information from prior audits and inspections related to increased loan volumes and amounts processed in expedited timeframes. We concluded that to ensure program integrity and mitigate the risk of financial

loss, SBA must ensure first that loans are provided to eligible applicants and that borrowers meet all eligibility requirements. The Agency also needs experienced and well-trained personnel to provide appropriate assistance and handle the increased loan volumes and expedited processing timeframes.

For 7(a) and other SBA loan programs, we published the White Paper *Risk Awareness and Lessons Learned from Prior Audits of Economic Stimulus Loans* on April 3, 2020. In this report, we acknowledged that SBA had significantly improved its internal control environment in recent years to reduce improper payments and implement quality assurance in its processes. However, recognizing the size and scope of the PPP, we proposed several key considerations for mitigating financial loss when expediting loans to eligible small businesses. SBA should:

- Issue clear requirements and ensure timely communication to lending partners;
- Establish and monitor specific outcome-oriented performance measures;
- Ensure public communication from SBA officials is appropriate and consistent with the established requirements;
- Establish proper controls in the loan approval phase to ensure eligibility of participants and to mitigate the risk of loan default;
- Establish a quality assurance plan to prevent and detect improper payments;
- Oversee the program to ensure it is implemented as intended and that program goals and objectives are met;
- Modify existing loan systems to track stimulus program data to support accurate program measurement and reporting.

OIG annually publishes its report *Top Management and Performance Challenges Facing the SBA* in accordance with the Reports Consolidation Act of 2000. The management challenges represent areas OIG considers particularly vulnerable to fraud, waste, abuse, mismanagement, or which otherwise pose significant risk to the agency, its operations, or its credibility. Each management challenge generally has originated from one or more reports issued by OIG or the Government Accountability Office (GAO). We view all challenges as critically important to SBA operations in the upcoming year, but in drawing attention to pandemic relief as an acute concern, we placed COVID-19 economic relief programs at the top of the list in the 2021, 2022, and 2023 reports.

OIG has identified improper payments in both the Disaster Assistance and 7(a) loan programs as top management challenges since 2009. In 2023, these challenges are noted as follows:

## **Challenge 7: SBA's Disaster Assistance Program Must Balance Competing Priorities to Deliver Prompt Assistance but Prevent Fraud**

Why this is a challenge: SBA's Disaster Assistance program plays a vital role in the aftermath of disasters by providing long-term, low-interest loans to affected homeowners, renters, businesses of all sizes, and nonprofits. SBA must continually balance the priority of quickly assisting disaster survivors in the immediate aftermath of a devastating event with the need to mitigate fraud risk and ensure program integrity. To do so, the agency faces challenges in staffing, quality assurance, and increased loan servicing requirements.

As a result of the pandemic's widespread economic effects on the U.S. economy, Congress approved legislation that increased funding to SBA's disaster loan program, providing over \$520 billion in funding to the EIDL program. Since the start of the pandemic, SBA has approved \$390 billion in COVID-19 EIDL assistance, which is a significant increase over all disaster loan funding disbursed in the agency's 70-year history. SBA's existing disaster assistance infrastructure could not keep up with the unprecedented demand caused by the pandemic, so the agency contracted out for new systems to deliver vital aid to struggling small businesses. SBA's infrastructure must be properly equipped to ensure that staffing, processing systems, and servicing capabilities can efficiently adjust to meet future needs.

## **Challenge 6: Identification of Improper Payments in SBA's 7(a) Loan Program Remains a Challenge**

Why this is a challenge: OIG audits and reviews have identified 7(a) loans that were ineligible, given to borrowers who did not have the ability to repay, or were not properly closed, resulting in improper payments. Improper payments occurred in part because SBA did not adequately review related loans, which is why this remained a management challenge this year.

In FY 2021, the dollar amount of SBA's 7(a) loan approvals totaled \$36.8 billion. Most of these loans were made by lenders with delegated approval authority. When a loan goes into default, SBA reviews the lender's actions on the loan to determine if it is appropriate to pay the lender the guaranty, which SBA refers to as a "guaranty purchase." "Guaranty" is a variant of "guarantee" used in financial terminology.

About 8 years ago, OIG established a High-Risk 7(a) Loan Review Program to evaluate lender compliance with SBA requirements for high-dollar, early defaulted 7(a) loans. High-dollar, early defaulted loans are \$500,000 or more and default within the first 18 months of initial disbursement. The 7(a) loan has been the agency's largest financing program for general business needs, so it is

vital that SBA identify and reduce the risk of improper payments in order to meet its objectives for the program.

We successfully foreshadowed SBA's internal control challenges in previous reports, and we continue to bring attention to issues that engendered the biggest fraud in a generation. 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 expediate loans and grants. As a result, our work has identified duplicate payments and payments to ineligible recipients in the tens of billions. We will continue to see the effects of pandemic assistance fraud and misuse of taxpayer funds for many years to come.

In addition to ineligible or incorrect payment amounts, a weak internal control environment also can make programs vulnerable to fraud. While fraudulent payments are considered improper, not all improper payments are the result of fraud. 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.

### *SBA Program Delivery*

We actively engaged SBA leaders throughout the duration of the pandemic to notify them of preliminary findings so they could respond in real time to prevent loss to the taxpayer. Our primary message remained consistent 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 — over 100,000 complaints in the first year alone. 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.

## **PANDEMIC RESPONSE OVERSIGHT**

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. In addition to our statutory mandates, such as SBA's compliance with 2022 improper payments reporting requirements, we continue to focus on programs and operations that pose the highest risk to SBA operations, including disaster relief programs and supplemental programs designed to provide economic relief to businesses in response to the pandemic.

We have issued 29 reports focused on SBA's pandemic response, and there is more significant work to come. Moving forward, we are focused 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. OIG is working on more than 10 mandatory reviews, which are required by law. This year we are planning an additional 24 reviews on other areas of risk identified in the pandemic response programs, as well as oversight of SBA's response to Hurricanes Ian and Fiona, and SBA programs in capital and contracting certification.

These recently published audits report on improper payments and potential fraud in SBA's pandemic response programs:

**Follow-up Inspection of SBA's Internal Controls to Prevent COVID-19 EIDLs to Ineligible Applicants, Report 22-22**

This report presented the results of our follow-up inspection to assess the effectiveness of SBA's enhanced internal controls to prevent COVID-19 EIDL loans to ineligible applicants.

The CARES Act prohibited the agency from requiring tax return transcripts to prove eligibility. Congress eliminated this restriction 9 months later with the Consolidated Appropriations Act, 2021. We found SBA did not implement the tax transcript requirement in a timely manner, potentially disbursing COVID-19 EIDLs to ineligible entities. For about 4 months after Congress removed the tax return prohibition, SBA made 133,832 COVID-19 EIDL disbursements, totaling about \$8.5 billion without proving applicant eligibility using official tax information. Of that amount, more than \$92 million were disbursed to businesses with suspect Taxpayer Identification Numbers.

We reviewed 30 of these loans approved before SBA implemented the requirement for tax return transcripts and found that 16 of them, totaling about \$1.1 million, should not have been approved. Specifically, we found disbursements to 13 businesses that did not exist on or before January 31, 2020

or had an unknown start date. We also found three businesses that did exist on or before January 31, 2020, but had other red flags, including change of registered agent shortly before the application date, evidence of falsified documents, or evidence the applicant did not own the business.

### *OIG Recommendations*

We recommended SBA recover funds disbursed to ineligible applicants identified in our sample and review the remaining COVID-19 EIDL disbursements with suspect tax ID numbers to determine if the business applicant was legitimate and met CARES Act eligibility requirements. SBA agreed with our recommendations and plans to review the 20 loans identified in the report to determine if the applicant business qualifies for assistance under the COVID-19 EIDL eligibility criteria and attempt to recover funds provided to ineligible businesses.

### **SBA's Award and Payment Practices in the Shuttered Venue Operators Grant Program, Report 22-15**

We inspected SBA's award and payment practices used to administer the Shuttered Venue Operators Grant (SVOG) program.

Even after determining multiple disbursements would better protect grant funds from fraud or misuse, SBA switched to a riskier single advance payment for all grantees. This payment method may have hastened award disbursement, but the agency removed internal controls that would have better protected taxpayer funds. Multiple disbursements enable program officials to verify that grant recipients used award funds for allowable activities before disbursing additional funds.

We selected 10 awards, totaling \$33.2 million, to use as a sample to test SBA's disbursement and budget approval practices. None of the 10 awards reviewed had the proper documentation signed by an authorized government official. The authorizing agency signature on the notice of award demonstrates that the proper procedure has been followed and the obligation has been officially recorded. Without the proper official documentation, all 10 awards we reviewed, totaling \$33.2 million, are unauthorized commitments.

Program officials did not ensure it had adequate support for the grant amounts in 3 of the 10 awards we reviewed. SBA awarded these three recipients \$2.6 million above amounts that were requested. The higher grant award amounts did not correspond to their budgets, nor was there supporting documentation to show why SBA awarded the higher amounts. In addition, SBA did not consistently ensure the recipient's budget accurately summarized the financial

plan for the award amount. Awards made to 1,849 recipients, totaling \$1.49 billion, did not have a budget that reconciled to the award amount.

### *OIG Recommendations*

We made six recommendations for SBA management to ensure SBA properly safeguards program funds and improves disbursement and award procedures while administering the SVOG program.

## **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.

## **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.

## **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.

### **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.

### **SBA's Handling of Identity Theft in the COVID-19 Economic Injury Disaster Loan Program, Report 21-15**

We issued this Evaluation report to notify SBA officials of significant matters regarding its handling of complaints of identity theft in the COVID-19 EIDL program.

As of January 31, 2021, SBA had referred 846,611 COVID-19 EIDL applications to OIG, which is the loan application related to an identity theft complaint (individuals who indicated that they did not apply for a loan and believe they were a victim of identity theft) and any related applications (applications with the same email address, phone number, or physical address). SBA officials did not know the exact number of individuals who had filed an identity theft complaint because they did not track each complaint.

For the 846,611 applications, SBA disbursed 112,196 COVID-19 EIDLs totaling \$6.2 billion and 98,613 Advance Grants for \$468 million. We found 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.

At the time of our review, we found SBA did not provide status updates to those reporting COVID-19 EIDL identity theft. Some complainants contacted SBA multiple times, which further distorted the total number of identity theft complaints.

### *OIG Recommendations*

We made five recommendations that included the development of processes to maintain and track all identity theft complaints and to provide status updates to each complainant alleging identity theft. Our recommendations also included steps to complete and formalize a process to restore identity theft victims to their condition prior to the fraud.

### **Management Alert Paycheck Protection Program Loan Recipients on the Department of Treasury's Do Not Pay List, Report 21-06**

We issued this management alert to alert SBA about improper payments to lenders for potentially ineligible recipients of loans under SBA's Paycheck Protection Program in response to the COVID-19 pandemic.

Because of complaints of fraud received by OIG, we collaborated with the U.S. Department of the Treasury Do Not Pay (DNP) Business Center, which identified high-risk transactions related to financial assistance to small businesses for the COVID-19 pandemic. Our review of Treasury's analysis showed approximately \$3.6 billion in PPP loans to potentially ineligible recipients.

We found that expedited management action could reduce or prevent the potential for loss in terms of the risk of improper payments to lenders for amounts ineligible for forgiveness as well as any fees. OIG communicated summary results to SBA management, who requested Treasury's results and had systemically put a "hold" flag on loans identified by the DNP team to ensure the loan applications were properly reviewed before processing for forgiveness or any further disbursements.

### *OIG Recommendations*

To establish more effective oversight controls related to the PPP, we recommended the agency promptly identify PPP loans that have not been fully disbursed and follow-up with the lenders to stop \$280 million in potential improper loan disbursements and strengthen SBA controls to ensure that loans to ineligible recipients are not forgiven. We also recommended the agency review prepayment and pre-award procedures and work with Treasury to formulate a technical approach to use Treasury's DNP portal to determine loan applicant eligibility and prevent improper payments.

## COMBATTING FRAUD

To bring fraudsters to justice and return taxpayer funds, OIG fosters a “whole of government” approach. 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 using a partnership with the Pandemic Response Accountability Committee. We also partnered with the SBA Office of the Chief Information Officer to investigate and remove websites suspected of being fraudulent. We have assisted the U.S. Secret Service 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-related programs and fraud indicators. OIG and the 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. Over \$8 billion in EIDL funds has been returned by financial institutions to SBA. Additionally, SBA has also received over \$20 billion in EIDL funds that have been returned by borrowers. OIG has played a key role in the return of these funds through working with our law enforcement partners, financial institutions, and educating the public about fraud in the pandemic relief programs.

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 and its Offices of U.S. Attorneys. Among these investigations 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. OIG’s subsequent PPP and EIDL oversight and investigative work has resulted in 776 indictments, 621 arrests, and 426 convictions as of December 2022. Outcomes of these enforcement actions have resulted in \$375 million in seized or forfeited assets in our joint investigative efforts and \$378 million in restitution orders.

Our office is working an active caseload of nearly 550 investigations. With the hundreds 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 grow. Our ability to handle them is only limited by available resources. Of the more than 225,000 Hotline complaints we’ve received, our data analytics team identified more than 81,000 actionable leads, which alone represents more than 100 years of investigative case work.

Our enhanced data analytics capabilities have been key to our success. To date, OIG’s data analytics have identified billions 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, such as:

- 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 of the applicant businesses. 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 and laundered a portion of the proceeds by transferring the funds from one of his bank accounts to another bank account he controlled.
- In January 2023, in Georgia a U.S. Army soldier was sentenced to 42 months in federal prison for leading a fraud scheme in which she and others illegally raked in millions from COVID-19 relief programs and federal student loan forgiveness. She submitted more than 150 fraudulent PPP loan applications to SBA for herself and others in the conspiracy, resulting in more than \$3 million in fraudulent disbursements from banks to members of the conspiracy. She directly received fraudulently obtained PPP funding or was paid by conspirators for submitting their fraudulent applications.
- In November 2022, a Texas man and woman behind My Buddy Loans were sentenced to 121 months and 66 months 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.
- In September 2022, a Washington, D.C. man was sentenced to 10 years in prison for carrying out a scheme to steal more than \$31 million under the CARES Act and laundering the proceeds of the crime. From July 2020 through May 2021, he used his company to fraudulently apply for at least 25 PPP loans totaling more than \$30 million. He also submitted at least four false EIDL applications totaling \$950,000. He wired the proceeds of his scheme to at least 13 separate bank and brokerage accounts and purchased a Tesla Model 3. He also converted at least \$288,000 of proceeds from fiat currency into multiple cryptocurrencies. The man also used the fraudulently obtained funds for rent,

hotels, dog boarding, attorney fees, ride shares, electronics, and various personal expenses.

- In May 2022, two Florida men were sentenced for leading a nationwide scheme to defraud the PPP of millions. 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.

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.

### **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 30-month 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, which is occurring at present. With sufficient resources, coupled with the 10-year statute of limitations for PPP and EIDL fraud, our office will be poised to combat fraud for years to come. We are grateful for the swift congressional action in the 117<sup>th</sup> Congress to extend the

statute of limitation for PPP and EIDL fraud and look forward to working with the Congress on resource determinations for FY 2024 and beyond.

## 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.