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INSPECTOR GENERAL
U.S. SMALL BUSINESS ADMINISTRATION**

**BEFORE THE
SUBCOMMITTEE ON OVERSIGHT, INVESTIGATIONS, AND REGULATIONS**

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

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INTRODUCTION

Chair Van Duyne, Ranking Member Mfume, 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). 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.

Our office 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, 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 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. 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 Paycheck Protection Program (PPP) and Economic Injury Disaster Loan (EIDL) programs has resulted in 860 indictments, 687 arrests, and 486 convictions as of March 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 our law enforcement partners and financial institutions. We continue 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.

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 to 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), which extended the statute of limitations for fraud in the PPP and EIDL programs to 10 years.

INTERNAL CONTROL ENVIRONMENT

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 Coronavirus Disease 2019 (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, we knew the weaknesses we identified in the past would be greatly magnified with programs as large as the PPP and EIDL.

Even with these early warnings, SBA's internal control challenges engendered 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. 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 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. At the same time, we launched investigations and audits to root out the fraud and abuse endangering these critical resources, with the first criminal charges brought forward 1 month after the issuance of the first PPP loan.

ROBUST OVERSIGHT

SBA's role in the nation's pandemic response has presented an unprecedented oversight challenge. OIG is grateful that Congress recognized the need for oversight and the value of OIG in performing this oversight. The CARES Act appropriated \$25 million dollars; the Consolidated Appropriations Act, 2021 appropriated \$20 million dollars for oversight of the EIDL program; and \$25 million was appropriated to OIG to supplement its resources pursuant to the American Rescue Plan Act of 2021. With the rescission of OIG's \$20 million supplemental funds as part of the broader cancellation of Targeted EIDL Advance funding, pursuant to P.L. 117-58 — Investing in a New Vision for the Environment and Surface Transportation in America Act — our remaining supplemental funds are anticipated to be exhausted by the end of FY 2024.

The President's requested increase in OIG's base operating budget coincides with the exhaustion of these supplemental funds and provides for a continued staffing level of 185 positions currently providing oversight of SBA's pandemic response programs. The budget proposal also provides for three additional investigative groups (27 positions) to expand the investigative footprint to mirror the location of the dollars associated with SBA's nationwide pandemic 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.

OIG's highest priority continues to be pandemic response oversight, though our work also focuses on SBA's other management and performance challenges. 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 the programs being implemented and executed by SBA.

The effects of OIG’s oversight efforts for SBA’s pandemic response is noteworthy. We have innovative approaches to issuing agile work products, for leveraging data analytics, and participating in “Gold Standard” meetings; we are setting a standard of oversight excellence.

Critical Risks Facing SBA

With available resources, OIG must focus 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. OIG is providing robust oversight of SBA programs, which includes more than \$1 trillion in pandemic response funds, more than \$35 billion annually across lending programs, including disaster assistance; more than \$150 billion in small business contracting; and entrepreneurial development programs.

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 eight challenges as critically important to SBA operations in the upcoming year. However, we placed COVID-19 economic relief programs at the top of the list for the 2021 report in recognition that it is the agency’s most acute challenge, and it remains so at present.

SBA Top Management & Performance Challenges FY 2023

Challenge 1

SBA’s Economic Relief Programs Are Susceptible to Significant Fraud Risks and Vulnerabilities

Challenge 2

Inaccurate Procurement Data and Eligibility Concerns in Small Business Contracting Programs Undermine the Reliability of Contracting Goal Achievements

Challenge 3

SBA Faces Significant Challenges in IT Investment, System Development, and Security Controls

Challenge 4

SBA Risk Management and Oversight Practices Need Improvement to Ensure the Integrity of Loan Programs

Challenge 5

SBA's Management and Monitoring of the 8(a) Business Development Program Needs Improvement

Challenge 6

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

Challenge 7

SBA's Disaster Assistance Program Must Balance Competing Priorities to Deliver Prompt Assistance but Prevent Fraud

Challenge 8

SBA Needs Robust Grants Management Oversight

To date, we have issued 30 reports that have focused on the 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.

Combating 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 (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. We are key members on DOJ strike forces, which are being requested by the President 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. We have assisted the U.S. Secret Service (USSS) 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 USSS 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 has 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.

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 in December 2020. Our partners on this task force include the Federal Bureau of Investigation, the U.S. Treasury Inspector General for Tax Administration, Internal Revenue Service's Criminal Investigation, Homeland Security Investigations, USSS, U.S. Postal Inspection Service, and the Naval Criminal Investigative Service. Recently, this task force uncovered one of the largest attempted schemes prosecuted across the nation, exceeding \$170 million, with over \$11.5 million in secured funding.

Since March 2020, we have initiated over a thousand investigations involving complaints of fraud, resulting in arrests, indictments, and convictions that are reported daily by the DOJ and its Offices of 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 860 indictments, 687 arrests, and 486 convictions as of March 2023. 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.

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.

Our enhanced data analytics capabilities allow OIG to use data matching to expose potential fraud rings rather than investigating potential fraud on a case-by-case basis. To date, OIG's data analytics have identified billions of potential frauds in SBA's pandemic response lending programs, and this capability is central to our ongoing work to identify the emerging fraud landscape. Additionally, with the hundreds of thousands of allegations of wrongdoing reported to the OIG Hotline and through our data analysis efforts, our ability to handle them is only possible through robust data analytics tools. Of the more than 240,000 Hotline complaints we've received, our data analytics team identified more than 86,000 actionable leads, which alone represents more than 100 years of investigative case work.

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

- 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 represented 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 were used 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 approximately 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 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 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.

CONTINUING OVERSIGHT & FRAUD LANDSCAPE

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 shine the light of transparency and to offer recommendations that improve SBA programs and operations, which were strained 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.

The scale and scope of the pandemic response programs, and the emerging fraud landscape, far outmatch oversight resources. To prioritize our work and to bring fraud hidden in plain sight within the vast portfolio, we have embedded data analytics into the heart of our oversight efforts. Our modest data analytics staff currently is augmented with contractor support secured through our partnership with the Pandemic Response Accountability Committee. Our FY 2024 budget request seeks three additional data scientists so that we can secure this vital team permanently to continue the fraud fight. Data analysis produces higher quality audit and investigative data and better correlation of audit and investigative approaches to risks and assertions. In addition, SBA's loan portfolios are comprised of millions of records, which are far too expansive for manual review. To date, OIG's initial data analytics efforts have identified billions of dollars of potential fraud in SBA's pandemic response lending programs. Data analytics has bolstered our investigative capacity with findings that have led to the arrest of fraudsters across the nation. Our hard work, made possible by data analytics, will be fully demonstrated in a comprehensive pandemic assistance fraud report planned for release in late spring.

As an example of a particular concern within the emerging fraud landscape is PPP loans that did not seek forgiveness and that will potentially default. The program was designed so that recipients would take advantage of loan forgiveness, so this scenario 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 now occurring. We have an ongoing review of SBA's decision to end collections on COVID-19 EIDLs under \$100,000.

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 in the coming years.

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 swift action from the 117th 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.

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. 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 leverage and marshal the resources available across the federal law enforcement community to bring wrongdoers to justice. I am confident SBA leaders are willing partners in ensuring their programs have integrity and meet the needs of the nation's small businesses. OIG will shine the light of transparency on areas of concern and will be the independent and objective voice in our service as a valued change agent.

Support of OIG's budget request also 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.