

# Department of Justice – Targeting PPP Fraudulent Activities

## SBA Inspector General Details Actions to Combat Fraud in Testimony Before Congress

### Bloomberg Tax

Reporter:  
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Fraud probes in the Small Business Administration's pandemic-relief loan programs will take 10 years to resolve, according to the agency's watchdog.

SBA Inspector General Hannibal Ware said [fraud is so widespread](#) in the SBA's Paycheck Protection Program and Economic Injury Disaster Loan program that it will take a targeted effort to oversee them and crack down on fraudulent activity, despite a 40% increase in staffing provided by recent legislation.

**“Fraud investigations will be a decade-long effort due to the performance of those loans within SBA’s portfolios, and the statute of limitations for fraud,” Ware said Wednesday during a Senate Small Business Committee hearing.**

While the twin programs have [saved businesses](#) from failing due to the pandemic, they have also fallen prey to fraudsters taking advantage of the government.

The SBA has made or guaranteed more than 17 million loans and grants, providing about \$910 billion so far. But financial institutions have flagged more than 41,000 suspicious activities related to the programs from last April through October, William Shear, director of the Government Accountability Office's Financial Markets and Community Investment unit, said during the hearing.

Banks are required to file the reports to the Treasury Department's Financial Crimes Enforcement Network whenever the potential for illicit activity, like money laundering, terrorist financing, or political corruption, are detected.

But even as the agency has put more controls in place to thwart scammers, it has also blocked honest businesses from applying for PPP loans, via error codes known as “hold codes.”

Patrick Kelley, the agency's associate administrator in the Office of Capital Access, said it has been testing a machine learning tool since November to help sort through legitimate applications and fraud.

The agency is “on the precipice” of deploying the tool, which should help tamp down those hold codes that are blocking businesses from applying, Kelley said at the hearing.

He also said the SBA is in the process of working with lenders to adopt certification language saying that they have worked with applicants.

“The combination of those two things should go a long way to addressing the remaining hold-code population, consistent with protecting against fraud, waste and abuse,” Kelley said.



## Department of Justice Statement About Actions the Department is Taking Against SBA Loan Fraud on March 26, 2021

These cases involve attempts to obtain over \$569 million from the U.S. government and unsuspecting individuals through fraud and have been brought in 56 federal districts around the country.

Prominent among the department's efforts have been cases brought by the Criminal Division's Fraud Section involving at least 120 defendants charged with PPP fraud. The cases involve a range of conduct, from individual business owners who have inflated their payroll expenses to obtain larger loans than they otherwise would have qualified for, to serial fraudsters who revived dormant corporations and purchased shell companies with no actual operations to apply for multiple loans falsely stating they had significant payroll, to organized criminal networks submitting identical loan applications and supporting documents under the names of different companies. Most charged defendants have misappropriated loan proceeds for prohibited purposes, such as the purchase of houses, cars, jewelry, and other luxury items.

The department has also focused on fraud against the EIDL program, which was designed to provide loans to small businesses, agricultural and non-profit entities. Fraudsters have targeted the program by applying for EIDL advances and loans on behalf of ineligible newly-created, shell, or non-existent businesses, and diverting the funds for illegal purposes.

...resolving civil claims under the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) and the False Claims Act (FCA) against an internet retail company and its president and chief executive officer arising from false statements to federally insured banks to influence those banks to approve, and the SBA to guarantee, a PPP loan.

The FCA permits private citizens with knowledge of fraud against the government to bring a lawsuit on behalf of the United States and to share in any recovery. Such whistleblower complaints have been on the rise as unscrupulous actors take advantage of vulnerabilities created by the COVID-19 pandemic and the new government programs disbursing federal relief, and whistleblower cases will continue to be an essential source of new leads to help root out the misuse and abuse of taxpayer funds.

[Read the full DOJ statement](#)



## SBA Inspector General Hannibal Ware's testimony before the Senate Small Business Committee on March 25, 2021

**OIG has increased staffing in both its Auditing and Investigations Divisions** with the supplemental funds appropriated to our office to increase our review and investigative capacity by approximately 40 percent. The supplemental funds are available until exhaustion, with some funding being directed for the purpose of EIDL oversight. These supplemental funds are critical for this initial oversight surge; **however, hundreds of billions of dollars in loans will perform in SBA's portfolios for up to 30 years, and the varying statute of limitations for fraud associated with the economic stimulus lending and programs will allow for prosecutions for nearly a decade.** Enhanced data analytics efforts have been key to our successes. To date, **OIG's data analytics efforts have identified billions of dollars of potential fraud in SBA's lending programs** involved in the pandemic response. Data analytics also has bolstered our investigative capacity with findings that have led to investigation and quick arrest of fraudsters across the nation.

[Read the full testimony](#)