THE GREAT GRIFT: HOW BILLIONS IN COVID-19 RELIEF AID WAS STOLEN OR WASTED - ASSOCIATED PRESS

Posted on June 15, 2023 by RICHARD LARDNER, JENNIFER McDERMOTT and AARON KESSLER | Associated Press

Photo: President Donald Trump signs the coronavirus stimulus relief package, at the White House in Washington, on March 27, 2020, accompanied by, from left, Treasury Secretary Steven Mnuchin, Senate Majority Leader Mitch McConnell of Ky., House Minority Kevin McCarthy of Calif., and Vice President Mike Pence

Much of the theft was brazen, even simple.

Fraudsters used the Social Security numbers of dead people and federal prisoners to get unemployment checks. Cheaters collected those benefits in multiple states. And federal loan applicants weren't cross-checked against a Treasury Department database that would have raised red flags about sketchy borrowers.

Criminals and gangs grabbed the money. But so did a U.S. soldier in Georgia, the pastors of a defunct church in Texas, a former state lawmaker in Missouri and a roofing contractor in Montana.

All of it led to the greatest grift in U.S. history, with thieves plundering billions of dollars in federal COVID-19 relief aid intended to combat the worst pandemic in a century and to stabilize an economy in free fall.

An Associated Press analysis found that fraudsters potentially stole more than $280 billion in COVID-19 relief funding; another $123 billion was wasted or misspent. Combined, the loss represents 10% of the $4.2 trillion the U.S. government has so far disbursed in COVID relief aid.

That number is certain to grow as investigators dig deeper into thousands of potential schemes.

How could so much be stolen? Investigators and outside experts say the government, in seeking to quickly spend trillions in relief aid, conducted too little oversight during the pandemic's early stages and instituted too few restrictions on applicants. In short, they say, the grift was just way too easy.

"Here was this sort of endless pot of money that anyone could access," said Dan Fruchter, chief of the fraud and white-collar crime unit at the U.S. Attorney's office in the Eastern District of Washington. "Folks kind of fooled themselves into thinking that it was a socially acceptable thing to do, even though it wasn't legal."

The U.S. government has charged more than 2,230 defendants with pandemic-related fraud crimes and is conducting thousands of investigations.

Most of the looted money was swiped from three large pandemic-relief initiatives launched during the Trump administration and inherited by President Joe Biden. Those programs were designed to help small businesses and unemployed workers survive the economic upheaval caused by the pandemic.

The pilfering was wide but not always as deep as the eye-catching headlines about cases involving many millions of dollars. But all of the theft, big and small, illustrates an epidemic of scams and swindles at a time America was grappling with overrun hospitals, school closures and shuttered businesses. Since the pandemic began in early 2020, more than 1.13 million people in the U.S. have died from COVID-19, according to the Centers for Disease Control and Prevention.

Michael Horowitz, the U.S. Justice Department inspector general who chairs the federal Pandemic Response Accountability Committee, told Congress the fraud is "clearly in the tens of billions of dollars" and may eventually exceed $100 billion.

Horowitz told the AP he was sticking with that estimate, but won't be certain about the number until he gets more solid data.

"I'm hesitant to get too far out on how much it is," he said. "But clearly it's substantial and the final accounting is still at least a couple of years away."

Mike Galdo, the U.S. Justice Department's acting director for COVID-19 Fraud Enforcement, said, "It is an unprecedented amount of fraud."

Before leaving office, former President Donald Trump approved emergency aid measures totaling $3.2 trillion, according to figures from the Pandemic Response Accountability Committee. Biden's 2021 American Rescue Plan authorized the spending of another $1.9 trillion. About a fifth of the $5.2 trillion has yet to be paid out, according to the committee's most recent accounting.

Never has so much federal emergency aid been injected into the U.S. economy so quickly. "The largest rescue package in American history," U.S. Comptroller General Gene Dodaro told Congress.

The enormous scale of that package has obscured multibillion-dollar mistakes.

An $837 billion IRS program, for example, succeeded 99% of the time in getting economic stimulus checks to the proper taxpayers, according to the tax agency. Nevertheless, that 1% failure rate translated into nearly $8 billion going to "ineligible individuals," a Treasury Department inspector general told AP.

An IRS spokesman said the agency does not agree with all the figures cited by the watchdog and noted that, even if correct, the loss represented a tiny fraction of the program's budget.

The health crisis thrust the Small Business Administration, an agency that typically gets little attention, into an unprecedented role. In the seven decades before the pandemic struck, for example, the SBA had doled out $67 billion in disaster loans.

When the pandemic struck, the agency was assigned to manage two massive relief efforts — the COVID-19 Economic Injury Disaster Loan and Paycheck Protection programs, which would swell to more than a trillion dollars. SBA's workforce had to get money out the door, fast, to help struggling businesses and their employees. COVID-19 pushed SBA's pace from a walk to an Olympic sprint. Between March 2020 and the end of July 2020, the agency granted 3.2 million COVID-19 economic injury disaster loans totaling $169 billion, according to an SBA inspector general's report, while at the same time implementing the huge new Paycheck Protection Program.

Photo: House Speaker Nancy Pelosi of Calif., center; House Minority Leader Kevin McCarthy of Calif.; left, and House Majority Leader Steny Hoyer of Md., hold up the Coronavirus Aid, Relief, and Economic Security (CARES) Act after Pelosi signed it on Capitol Hill, Friday, March 27, 2020

In the haste, guardrails to protect federal money were dropped. Prospective borrowers were allowed to "self-certify" that their loan applications were true. The CARES Act also barred SBA from looking at tax return transcripts that could have weeded out shady or undeserving applicants, a decision eventually reversed at the end of 2020.

"If you open up the bank window and say, give me your application and just promise me you really are who you say you are, you attract a lot of fraudsters and that's what happened here," Horowitz said.

The SBA inspector general's office has estimated fraud in the COVID-19 economic injury disaster loan program at $86 billion and the Paycheck Protection program at $20 billion. The watchdog is expected in coming weeks to release revised loss figures that are likely to be much higher.

In an interview, SBA Inspector General Hannibal "Mike" Ware declined to say what the new fraud estimate for both programs will be.

"It will be a figure that is fair, that is 1,000% defensible by my office, fully backed by our significant criminal investigative activity that is taking place in this space," Ware said.

Ware and his staff are overwhelmed with pandemic-related audits and investigations. The office has a backlog of more than 80,000 actionable leads, close to a 100 years' worth of work.

"Death by a thousand cuts might be death by 80,000 cuts for them," Horowitz said of Ware's workload. "It's just the magnitude of it, the enormity of it."

A 2022 study from the University of Texas at Austin found almost five times as many suspicious Paycheck Protection loans as the $20 billion SBA's inspector general has reported so far. The research, led by finance professor John Griffin, found as much as $117 billion in questionable and possibly fraudulent loans, citing indicators such as non-registered businesses and multiple loans to the same address.

Horowitz, the pandemic watchdog chairman, criticized the government's failure early on to use the "Do Not Pay" Treasury Department database, designed to keep government money from going to debarred contractors, fugitives, felons or people convicted of tax fraud. Those reviews, he said, could have been done quickly.

"It's a false narrative that has been set out, that there are only two choices," Horowitz said. "One choice is, get the money out right away. And that the only other choice was to spend weeks and months trying to figure out who was entitled to it."

In less than a few days, a week at most, Horowitz said, SBA might have discovered thousands of ineligible applicants.

"24 hours? 48 hours? Would that really have upended the program?" Horowitz said. "I don't think it would have. And it was data sitting there. It didn't get checked."

The Biden administration put in place stricter rules to stem pandemic fraud, including use of the "Do Not Pay" database. Biden also recently proposed a $1.6 billion plan to boost law enforcement efforts to go after pandemic relief fraudsters.

"I think the bottom line is regardless of what the number is, it emanates overwhelmingly from three programs that were designed and originated in 2020 with too many large holes that opened the door to criminal fraud," Gene Sperling, the White House American Rescue Plan coordinator, said in an interview.

"We came into office when the largest amounts of fraud were already out of the barn," Sperling added.

In a statement, an SBA spokesperson declined to say whether the agency agrees with the figures issued by Ware's office, saying the federal government has not developed an accepted system for assessing fraud in government programs. Previous analyses have pointed to "potential fraud" or "fraud indicators" in a manner that conveys those numbers as a true fraud estimate when they are not, according to the statement.

Han Nguyen, a spokesman for the SBA, said Monday that "the vast majority of the likely fraud originated in the first nine months of the pandemic programs, under the Trump administration." For the COVID-19 economic injury disaster loan program, Nguyen said, SBA's "working estimate" found $28 billion in likely fraud.

The coronavirus pandemic plunged the U.S. economy into a short but devastating recession. Jobless rates soared into double digits and Washington sent hundreds of billions of dollars to states to help the suddenly unemployed.

For crooks, it was like tossing chum into the sea to lure fish. Many of these state unemployment agencies used antiquated computer systems or had too few staff to stop bogus claims from being paid.

"Yes, the states were overwhelmed in terms of demand," said Brent Parton, acting assistant secretary of the U.S. Labor Department's Employment and Training Administration. "We had not seen a spike like this ever in a global event like a pandemic. The systems were underfunded. They were not resilient. And I would say, more importantly, were vulnerable to sophisticated attacks by fraudsters."

Fraud in pandemic unemployment assistance programs stands at $76 billion, according to congressional testimony from Labor Department Inspector General Larry Turner. That's a conservative estimate. Another $115 billion mistakenly went to people who should not have received the benefits, according to his testimony.

Turner declined AP's request for an interview.

Turner's task in identifying all of the pandemic unemployment insurance fraud has been complicated by a lack of cooperation from the federal Bureau of Prisons, according to a September "alert memo" issued by his office. Scam artists used Social Security numbers of federal prisoners to steal millions of dollars in benefits.

His office still doesn't know exactly how much was swiped that way. The prison bureau had declined to provide current data about federal prisoners. The AP reached out to the bureau several times for comment, starting June 2. Bureau spokesperson Emery Nelson said on Monday the agency had provided in February and March "all the necessary data" to the Pandemic Response Accountability Committee. Turner is a member of the committee.

Ohio State Auditor Keith Faber saw trouble coming when safeguards to ensure the unemployment aid only went to people who legitimately qualified were lowered, making conditions ripe for fraud and waste. The state's unemployment agency "took controls down because on the one hand, they literally were drinking from a firehose," Faber said. "They had a year's worth of claims in a couple of weeks. The second part of the problem was the (federal government) directed them to get the money out the door as quickly as possible and worry less about security. They took that to heart. I think that was a mistake."

Ohio's Department of Job and Family Services reported in February $1 billion in fraudulent pandemic unemployment claims and another $4.8 billion in overpayments.

The ubiquitous masks that became a symbol of the COVID-19 pandemic are seen on fewer and fewer faces. Hospitalizations for the virus have steadily declined, according to CDC data, and Biden in April ended the national emergency to respond to the pandemic.

But on politically divided Capitol Hill, lawmakers have not put the pandemic behind them and are engaged in a fierce debate over the success of the relief spending and who’s to blame for the theft.

Too much government money, Republicans argue, breeds fraud, waste and inflation. Democrats have countered that all the financial muscle from Washington saved lives, businesses and jobs.

The GOP-led House Oversight and Accountability Committee is investigating pandemic relief spending. “We must identify where this money went, how much ended up in the hands of fraudsters or ineligible participants, and what should be done to ensure it never happens again,” the panel’s chairman, Rep. James Comer of Kentucky, said in a statement Tuesday.

Republicans and Democrats did, however, find common ground last year on bills to give the federal government more time to catch fraudsters. Biden in August signed legislation to increase the statute of limitations from five to 10 years on crimes involving the two major programs managed by the SBA.

The extra time will help federal prosecutors untangle pandemic fraud cases, which often involve identity theft and crooks overseas. But there’s no guarantee they’ll catch everyone who jumped at the chance for an easy payday. They’re busy, too, with crimes unrelated to pandemic relief funds.

“Do we have enough cases and leads that we could be doing them in 2030? We absolutely could,” said Fruchter, the federal prosecutor in the Eastern District of Washington. “But my experience tells me that likely there will be other priorities that will come up and will need to be addressed. And unfortunately, in our office, we don’t have a dedicated pandemic fraud unit.”

Congress has not yet passed a measure that would give prosecutors the additional five years to go after unemployment fraudsters. That worries Turner, the Labor Department watchdog. Without the extension, he told Congress in a late May report, people who stole the benefits may escape justice.

Sperling, the White House official, said any future crisis that requires government intervention doesn’t have to be a choice between helping people in need and stopping fraudsters.

“The prevention strategy going forward is that in a crisis, you can focus on fast delivery to people in desperate situations without feeling that you can only get that speed by taking down commonsense anti-fraud guardrails,” he said.

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McDermott reported from Providence, Rhode Island.