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COVID-19

Key Elements of Fraud Schemes and Actions to Better Prevent Fraud

Statement of Rebecca Shea, Director, Forensic Audits
and Investigative Service

Accessible Version

GAO Highlights

Highlights of [GAO-24-107122](#), a testimony before the Subcommittee on Oversight, Committee on Ways and Means, House of Representatives

Why GAO Did This Study

Since March 2020, Congress and the Administration have provided trillions of dollars in COVID-19 relief funding to help the nation respond to and recover from the pandemic. Agencies across the federal government acted quickly to stand up new programs and greatly scale up existing programs.

The unprecedented demand for benefits and the need to quickly implement or expand programs increased the risk of fraud during the pandemic. There have also been cases of funds paid to those who sought to defraud the government. For example, from March 2020 through June 2023, at least 1,399 individuals or entities were found guilty or liable for fraud-related charges in cases involving federal COVID-19 relief programs.

Managing fraud risk is the responsibility of program managers and includes assessing the potential for fraud and implementing strategies to appropriately mitigate related fraud risks. Better understanding the nature of federal fraud schemes and the resources available to combat them can enhance agency efforts to prevent, detect, and respond to fraud risk during normal operations and emergencies.

This testimony discusses (1) key elements of federal fraud schemes and examples of schemes involving COVID-19 relief funds and (2) actions agencies and Congress can take to better prevent fraud during normal operations and emergencies.

GAO reviewed its prior COVID-19 findings and recommendations on internal controls and fraud risk management practices.

View [GAO-24-107122](#). For more information, contact Rebecca Shea at (202) 512-6722 or shear@gao.gov.

October 19, 2023

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Key Elements of Fraud Schemes and Actions to Better Prevent Fraud

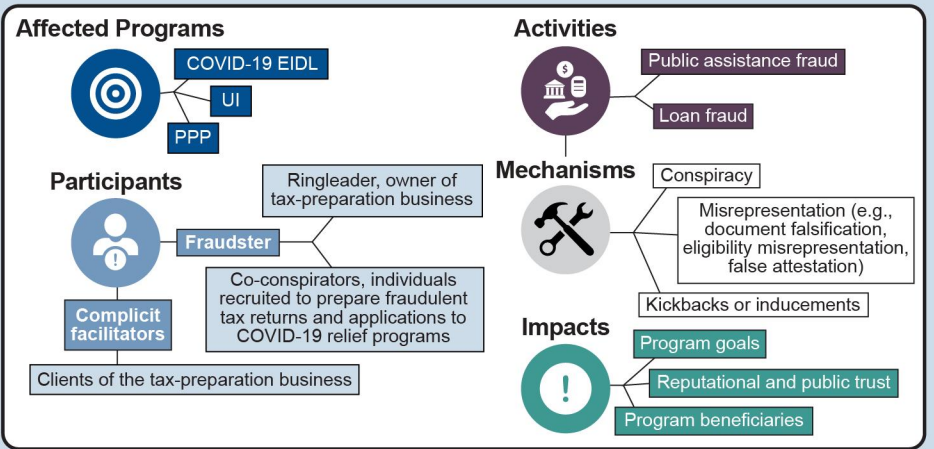
What GAO Found

Most COVID-19 relief funds went to the intended recipients in the intended amounts. In other instances, significant funds went to those who engaged in fraud schemes. Federal fraud schemes consist of five key elements: (1) affected program, (2) participants, (3) types of fraud activities, (4) mechanisms to execute fraudulent activities, and (5) impacts. These elements represent the highest-level components in GAO's Conceptual Fraud Model. The model provides a common language and structure for describing fraud schemes—including those affecting COVID-19 relief programs—to support agency efforts to combat fraud.

Key Elements of an Example of a Fraud Scheme Involving Multiple COVID-19 Relief Programs

Four defendants were sentenced for conspiracy to defraud several COVID-19 relief programs.

Through her tax-preparation business, the ringleader recruited at least five people to prepare fraudulent tax returns and applications to COVID-19 relief programs for clients. She charged her clients up to 50 percent of the fraudulent COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL) program proceeds, paying her employees a flat fee for each fraudulent application that received funding. She also submitted fraudulent COVID-19 EIDL applications in her own name. In addition, she defrauded the Paycheck Protection Program (PPP) by obtaining a fraudulent PPP loan of \$3,548. Finally, she also claimed more than \$33,000 in unemployment insurance (UI) payments to which she was not entitled.



Source: GAO analysis of court documentation; GAO (icons). | GAO-24-107122

Accessible Text for Key Elements of an Example of a Fraud Scheme Involving Multiple COVID-19 Relief Programs

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fraudulent application that received funding. She also submitted fraudulent COVID-19 EIDL applications in her own name. In addition, she defrauded the Paycheck Protection Program (PPP) by obtaining a fraudulent PPP loan of \$3,548. Finally, she also claimed more than \$33,000 in unemployment insurance (UI) payments to which she was not entitled.

Affected Programs

- COVID-19 EIDL
- PPP
- UI

Activities

- Public assistance fraud
- Loan fraud

Mechanisms

- Conspiracy
- Misrepresentation (e.g., document falsification, eligibility misrepresentation, false attestation)
- Kickbacks or inducements

Impacts

- Program goals
- Reputational and public trust
- Program beneficiaries

Participants

- Complicit facilitators
 - Clients of the tax-preparation business
- Fraudster
 - Ringleader, owner of tax-preparation business
 - Co-conspirators, individuals recruited to prepare fraudulent tax returns and applications to COVID-19 relief programs

Source: GAO analysis of court documents. | GAO-23-107122

Federal agencies did not strategically manage fraud risks and were not adequately prepared to prevent fraud when the pandemic began. While eliminating all fraud is not a realistic goal, resources and requirements exist to support strategic fraud risk management. For example, GAO's [Fraud Risk Framework](#) and [Antifraud Resource](#) provide leading practices and interactive tools, respectively, to help agencies combat fraud. GAO's 142 recommendations to agencies to align their efforts with fraud risk management leading practices also provide a roadmap for action. GAO has also suggested actions Congress can take, such as reinstating agencies' reporting on fraud risk management and enhancing data analytic capabilities. These congressional actions and agencies' use of GAO resources to strategically manage fraud risk would position them to better prevent fraud in both normal operations and in emergencies.

Chairman Schweikert, Ranking Member Pascrell, and Members of the Subcommittee:

I appreciate the opportunity to discuss key elements of fraud schemes involving COVID-19 relief programs, as well as what can be done to prevent fraud in the future.¹

Since March 2020, Congress and the Administration have provided trillions of dollars in COVID-19 relief funding to help the nation respond to and recover from the pandemic. Agencies across the federal government acted quickly to stand up new programs and greatly scale up existing programs. Federal COVID-19 relief funds were distributed broadly to tribal, state, local, and territorial governments; businesses; and individuals to combat the effects of the pandemic on the public health system as well as on the economy.

Most of these funds went to the intended recipients in the intended amounts, providing needed assistance. However, in other instances, funds were paid to those who sought to defraud the government. For example, from March 2020 through June 2023, at least 1,399 individuals or entities were found guilty or liable for fraud-related charges in cases involving federal COVID-19 relief programs.² More are facing charges. Through June 30, 2023, federal charges were pending against at least 599 individuals or entities for attempting to defraud COVID-19 relief programs. Cases that reach the prosecution stage in the fraud identification lifecycle represent a fraction of the instances of fraud or all possible fraud cases.

The unprecedented demand for benefits and the need to quickly implement or expand programs increased the risk of fraud during the pandemic. Managing fraud risk is the responsibility of federal program managers and includes assessing the potential for fraud and implementing strategies to appropriately mitigate related risks. Better understanding the nature of federal fraud schemes and the resources

¹Fraud involves obtaining something of value through willful misrepresentation.

²We consider cases closed upon acceptance of guilty pleas, guilty verdicts at trial, or findings of liability based on our analysis of Department of Justice (DOJ) public statements and court documentation. The federal government may enforce laws through civil or criminal action. Such action may be resolved through a trial, a permanent injunction, a civil settlement, or a guilty plea. Our analysis is limited to the cases we identified from public sources and may not include all criminal and civil cases charged by DOJ as of June 30, 2023.

available to combat them can enhance agency efforts to prevent, detect, and respond to fraud risk in normal operations and emergencies.

My comments today summarize key findings from our Conceptual Fraud Model, Antifraud Resource, and fraud-related COVID-19 work.

Specifically, I will discuss the following:

1. Key elements of federal fraud schemes and examples of schemes involving COVID-19 relief funds and
2. Actions federal agencies and Congress can take to better prevent fraud during normal operations and emergencies.

In preparing this testimony, we reviewed findings from our prior work on internal controls and fraud risk management practices in COVID-19 relief programs. Given the government-wide scope of this work, we undertook a variety of methodologies. These methodologies include examining federal laws and agency documents, guidance, processes, and procedures. We also interviewed federal and state officials. More detailed information on the objectives, scope, and methodology that this statement is based on can be found in the individual reports from which we obtained this information.

We conducted the work on which this statement is based in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Federal Fraud Schemes Include Five Key Elements

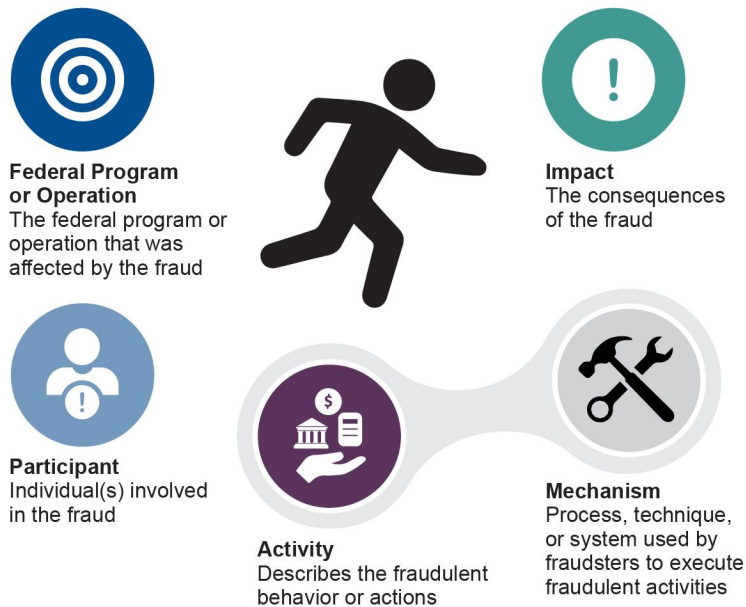
To better understand and assess the nature of known fraud—both financial and nonfinancial—affecting federal programs and operations, we developed a Conceptual Fraud Model (fraud model).³ While we

³The Conceptual Fraud Model is organized as an “ontology.” An ontology is an explicit description of categories in a subject area and their characteristics, as well as the relationships among them. To develop our fraud model, we collected, reviewed, and analyzed multiple sources of information, including over 200 adjudicated federal criminal and civil fraud cases to validate and refine the fraud model.

developed and released the fraud model during the COVID-19 pandemic, it is applicable across federal programs during normal operations and emergencies.

The fraud model identifies five key elements of fraud schemes affecting federal programs and operations. These include (1) the affected program or operation, (2) participants, (3) types of fraud activities, (4) mechanisms used to execute the activities, and (5) impacts of the fraud scheme, as depicted in figure 1. The full model demonstrates the complexity of fraud relationships that affect the federal government, such as how fraudsters use mechanisms to execute fraud activities and their impacts on individuals and the government.

Figure 1: Five Key Elements of Fraud Schemes Affecting the Federal Government



Source: Antifraud Resource (gaoinnovations.gov). | GAO-24-107122

Alternative text for Figure 1: Five Key Elements of Fraud Schemes Affecting the Federal Government

- Federal Program or Operation
The federal program or operation that was affected by the fraud
- Impact
The consequences of the fraud
- Participant

- Individual(s) involved in the fraud
- Activity
- Describes the fraudulent behavior or actions
- Mechanism
- Process, technique, or system used by fraudsters to execute fraudulent activities

Source: Antifraud Resources. | GAO-24-107122

The five key elements reflect the highest-level components of the model. Systematically organized subcomponents of the full model are available for download and exploration from GAO's Antifraud Resource website.⁴ The model was developed to help promote a common understanding of fraud that affects the federal government. The model can also be used to enhance data analytics by providing a common framework and vocabulary to describe and classify fraud affecting the federal government.

Element 1: Affected Programs or Operations

The federal government collects and spends funds to support a broad range of programmatic and operational objectives. These include objectives related to education, health care, research, infrastructure, economic development, and national defense. This broad range of activities, as well as the scope of those expenditures, makes government functions a target for fraudsters. When federal programs or operations are targeted by fraud, it also exposes federal employees and stakeholders to other risks, such as program integrity challenges and organizational reputational risks.

⁴GAO, "The GAO Antifraud Resource" (Washington, D.C.: Jan. 10, 2022), accessed Oct. 14, 2023, https://gaoinnovations.gov/antifraud_resource/.

Multiple Affected Programs in a Fraud Scheme Involving COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL) Program, Paycheck Protection Program (PPP), and Unemployment Insurance (UI)

Participants

Four defendants were sentenced for conspiracy to defraud several COVID-19 relief programs. The ringleader was sentenced to 4 years in federal prison and ordered to pay \$38,756 in restitution and a fine of \$20,000.

Fraud scheme

Through her tax-preparation business, the ringleader recruited at least five people to prepare fraudulent tax returns and applications to COVID-19 relief programs for clients. She charged her clients up to 50 percent of the fraudulent COVID-19 EIDL proceeds, paying her employees a flat fee for each fraudulent application that received funding. She also submitted fraudulent COVID-19 EIDL applications in her own name. She defrauded PPP by obtaining a fraudulent PPP loan of \$3,548. Finally, she also claimed more than \$33,000 in UI payments to which she was not entitled.

Impacts

Instead of going to small businesses in need or individuals facing unemployment during the pandemic, the defendants redirected those funds to their own purposes.

Source: GAO analysis of court documentation. | GAO-24-107122.

Affected COVID-19 relief programs. A variety of COVID-19 relief programs were targets in fraud schemes, with some schemes involving multiple programs. The majority of the 1,399 individuals or entities found guilty or liable had charges related to the Small Business Administration's (SBA) Paycheck Protection Program (PPP) or COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL) program or the Department of Labor's (DOL) unemployment insurance (UI) programs. However, other targeted programs include

- Department of the Treasury and the Internal Revenue Service's economic impact payments;
- Treasury's Emergency Rental Assistance program and Coronavirus Relief Fund;
- Department of Agriculture's federal child nutrition programs and Coronavirus Food Assistance Program;
- Department of Education's Higher Education Emergency Relief Fund;

- Department of Health and Human Services' Health Resources and Services Administration's COVID-19 Uninsured Program and Provider Relief Fund, and the Centers for Medicare & Medicaid Services' Accelerated and Advance Payment Program; and
- Federal Reserve's Main Street Lending Program.

Some schemes involved multiple COVID-19 relief program targets, such as one scheme to fraudulently receive funds from three programs—COVID-19 EIDL, PPP, and UI (see sidebar).

Element 2: Participants

Fraudster Operating from Within to Defraud the Unemployment Insurance (UI) Program Participants

A contract employee for a state workforce agency was sentenced to almost 5 years in prison and ordered to pay around \$4 million in restitution for wire fraud.

Fraud scheme

The employee was responsible for reviewing, processing, and verifying the legitimacy of CARES Act UI claims. Using insider access, the employee disbursed to personal accounts over \$2 million in federal and state funds intended for unemployment assistance.

Impacts

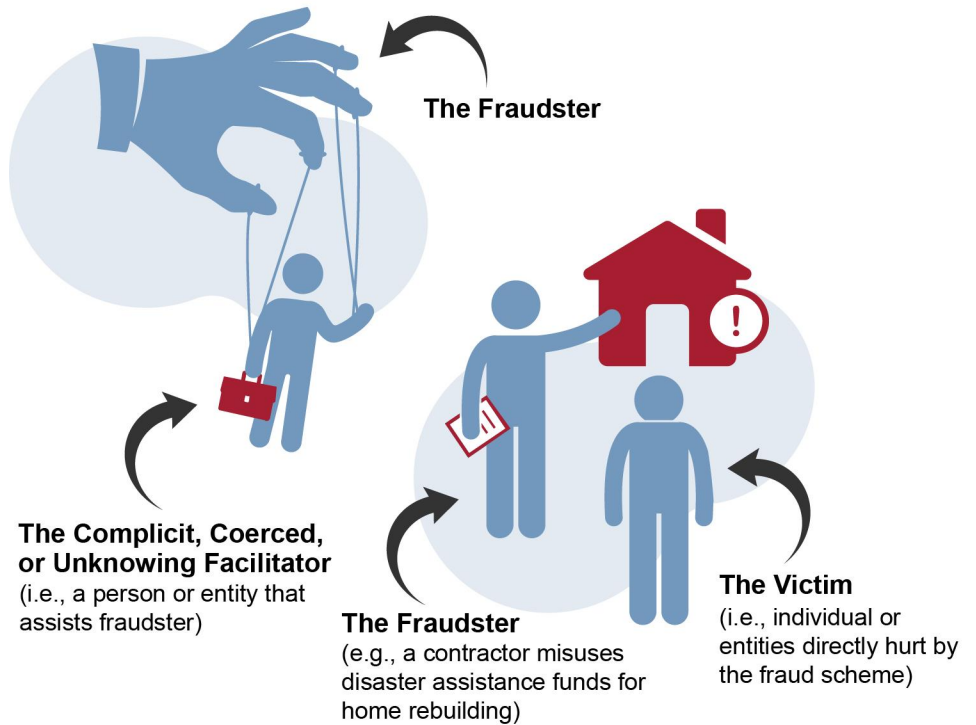
Rather than ensuring unemployment funds went to those in need, the employee used her position to fraudulently obtain funds to purchase high-end handbags and other luxury goods.

Source: GAO analysis of court documentation. | GAO-24-107122.

Every fraud scheme has at least one fraudster. The fraudster(s) may attack from within or outside the affected federal program or operation (see sidebar). A fraudster may be aided by one or more facilitators, who provide assistance to the fraudster. Some facilitators knowingly participate in fraud schemes by being complicit or coerced. Other facilitators may unknowingly participate in fraud schemes, such as by providing personal identifying information (PII) for one purpose, but that PII is then used without their knowledge to further a fraud scheme. Fraud scheme participants also include victims—participants directly hurt by the

scheme. See figure 2 for the different types of participants associated with fraud schemes.

Figure 2: Types of Participants Associated with Fraud Schemes



Source: Antifraud Resource (gaoinnovations.gov). | GAO-24-107122

Alternative text for Figure 2: Types of Participants Associated with Fraud Schemes

- The Fraudster
The Complicit, Coerced, or Unknowing Facilitator
(i.e., a person or entity that assists fraudster)
- The Fraudster
(e.g., a contractor misuses disaster assistance funds for home rebuilding)
- The Victim
(i.e., individual or entities directly hurt by the fraud scheme)

Source: Antifraud Resource. | GAO-24-107122

Complicit Facilitators in an Economic Impact Payments (EIP) Fraud Scheme

Participants

Two members of a family were sentenced to federal prison, and a third to probation, for their roles in a \$530,293 scheme to file false tax returns and steal EIPs sent to others. In addition, the three were ordered to pay \$150,894 in restitution.

Fraud scheme

Acting as tax preparers, the family recruited foreign individuals who had spent time in the United States to file fraudulent returns for education and other credits. To hide the scheme, the family enlisted others to open U.S. bank accounts to deposit the refunds, ultimately opening 68 accounts across 16 banks in the names of 14 different individuals. When EIPs were sent to qualifying individuals with bank accounts on file, hundreds of payments were made into the accounts under their control based on the false returns they had filed.

Impacts

While the EIP was intended to support families in need, this family stole emergency support funds to use on personal expenses and to buy real estate. Approximately \$380,000 of stolen funds were recovered, primarily through sales of the ill-gotten property.

Source: GAO analysis of court documentation. | GAO-24-107122.

Participants in COVID-19 relief program fraud schemes. COVID-19 relief program fraud schemes included participants within and outside the affected federal programs. These fraud schemes also involved participants acting alone or in concert with others, involving domestic and international actors, and leveraging complicit and unknowing facilitators (see sidebar). COVID-19 relief program fraud schemes involved a wide variety of victims.

Complicit facilitator – Our prior work illustrated schemes involving complicit individuals who facilitated PPP and COVID-19 EIDL fraud for others, sometimes in return for a kickback payment.⁵ For example, cases involving registered agents charged with fraudulently obtaining PPP and

⁵GAO, *COVID Relief: Fraud Schemes and Indicators in SBA Pandemic Programs*, [GAO-23-105331](#) (Washington, D.C.: May 18, 2023).

COVID-19 EIDL funds illustrate the role of complicit facilitators.⁶ As professional service providers, registered agents have access to business information, including shell companies, and business formation functions. In our review of fraud in SBA pandemic programs, we found examples where registered agents took advantage of their role, for themselves and others, to obtain about \$197.6 million in PPP and COVID-19 EIDL funds.

In a scheme that stole at least \$180,000 in UI benefits, a fraudster collaborated with prison inmates to submit fraudulent applications.⁷ The fraudster pleaded guilty to charges including conspiracy to defraud the United States and was sentenced to 2.8 years in prison. The fraudster was also ordered to pay \$142,069 in restitution.

Victims – Our prior work also illustrated schemes involving victims such as identity theft victims who were directly hurt by a fraud scheme.⁸ For example, a fraudster used stolen identities or PII from victims to apply for UI benefits. The fraudster participated in a scheme to submit fraudulent claims to multiple states using fake identification cards. The fraudster also created financial accounts in the victims' names to receive funds. The fraudster pleaded guilty to charges including identity theft and was sentenced to 4 years in prison. The fraudster was also ordered to pay \$299,500 in restitution.

Element 3: Types of Fraud Activities

The activity describes the type of fraudulent behavior or actions. All fraud schemes involve one or more types of fraud, such as tax fraud, health care fraud, corporate fraud, and identity fraud. Fraudulent activities can occur in federal programs and operations due to weak internal controls.

⁶Registered agents are persons or entities authorized to accept service of process or other important legal or tax documents on behalf of a business and are frequently involved in business formation.

⁷See GAO, *Unemployment Insurance: DOL Needs to Address Substantial Pandemic UI Fraud and Reduce Persistent Risks*, [GAO-23-106586](#) (Washington, D.C.: Feb. 8, 2023).

⁸[GAO-23-106586](#).

Beneficiary Fraud Scheme to Obtain Coronavirus Food Assistance Program (CFAP) Funds

Participants

An individual was sentenced to 2.5 years in prison and around \$250,000 in restitution for making a false claim to CFAP.

Fraud scheme

The individual claimed loss of livestock at a commercial farming operation, despite not owning or operating a farming operation. The individual also submitted a fraudulent IRS Form 7200 to request an advance payment of employer credits under the Families First Coronavirus Response Act.

Impacts

In total, the individual attempted to obtain over \$1.5 million in COVID-19 relief funding.

Source: GAO analysis of court documentation. | GAO-24-107122.

Activities can be financial or nonfinancial. Nonfinancial activities can include trying to achieve prestige, circumvent regulations or rules, or achieve a different status. For example, educational institutions at all levels may inflate grades to show adherence to standardization goals. Corporations may alter data to show they are in compliance with environmental or workplace safety rules. Individuals may falsify documents to gain citizenship or assume another identity. Fraud activities are accomplished through the use of mechanisms, another key element of fraud schemes.

COVID-19 relief program fraud activities. The types of fraud activities present in COVID-19 relief program schemes varied, with multiple activities often employed in a single scheme.

Beneficiary fraud – Beneficiary fraud—an activity that uses willful misrepresentation in order to improperly obtain a benefit for a beneficiary or at their expense—was a type of activity seen in COVID-19 relief program schemes (see sidebar).

Identity fraud – Identity fraud—an activity that uses the theft of personal information in order to fraudulently obtain benefits—was a key fraud activity among COVID-19 relief program schemes. Our prior work illustrated schemes involving use of various types of identity fraud to obtain PPP and COVID-19 EIDL funds. Identity fraud can be accomplished through mechanisms such as theft of personally identifiable

and business information or the abuse of shell companies.⁹ For example, in one case of identity fraud, the fraudster used stolen personal information (along with shell companies and false attestation) to obtain PPP funds. The same fraudster also engaged in synthetic identity fraud by fabricating an identity using fictitious information in combination with stolen information such as a Social Security number.

Element 4: Mechanisms

The mechanism is a process, technique, or system used by fraudsters to execute fraudulent activities. A mechanism can be an individual action or a group of actions working in concert, such as:

- Misrepresentation
- Cybercrime
- Coercion
- Document falsification
- Data breach
- Social engineering

⁹[GAO-23-105331](#).

Multiple Mechanisms Used in a Federal Child Nutrition Program Fraud Scheme

Participants

Three individuals associated with a nonprofit organization pleaded guilty to their roles in a \$250 million scheme to defraud a federal child nutrition program. Over 40 individuals have been charged in the scheme.

Fraud scheme

Through the abuse of shell companies, bribes, kickbacks, and fake invoicing, individuals claimed reimbursement for purportedly serving meals to hundreds or thousands of children a day. In total, the individuals claimed to have served over 1.3 million meals from December 2020 through June 2021, and received over \$3 million in reimbursement.

Impacts

Rather than using funds to feed children in need, the individuals used the proceeds for their personal purposes.

Source: GAO analysis of court documentation. | GAO-24-107122.

Fraudsters may use considerable skill and innovation when employing mechanisms. Fraud mechanisms are used to execute both financial and nonfinancial activities. For example, contract fraud (type of fraud activity) often occurs for financial gain and may use mechanisms that assist the fraudster before or after the contract is awarded. Contract fraud mechanisms can include actions like “bid-splitting,” billing manipulation, and fictitious vendors.

COVID-19 relief program fraud mechanisms. Multiple and various mechanisms were used in COVID-19 relief program fraud schemes (see sidebar for a scheme using various mechanisms). The mechanisms used in a fraud scheme have a close relationship to internal controls. For example, mechanisms of misrepresentation, such as document manipulation, false declarations, and fictitious entities leave agencies open to significant fraud risk when they rely on self-certification as an internal control for fraud prevention. Confirming the eligibility and identity of individuals receiving payments, such as by confirming wage information or verifying identity through data and other checks, are key controls to prevent fraud schemes that rely on such mechanisms. We found that federal and state agencies relied on self-attestation or self-certification for individuals to verify their eligibility or identity to receive

assistance from some COVID-19 relief programs in order to disburse funds quickly to those in need.¹⁰

Document falsification – Our prior work illustrated schemes involving falsification of documents, such as tax forms, payroll documentation, and bank statements to obtain PPP and COVID-19 EIDL funds.¹¹ Additionally, false information about other elements of PPP and COVID-19 EIDL loan applications, such as employee counts and payroll amounts, were prevalent in DOJ cases as well. For example, we found that more than half of the PPP and COVID-19 EIDL cases we reviewed involved falsification of payroll documentation or bank statements or allegations of tax document falsification, showing that tax forms may have been commonly forged or altered.

Element 5: Impacts

The impact of a fraud scheme describes the outcomes that resulted from the fraud. One fraud scheme could have a narrow impact on a sole individual, while another could affect multiple individuals or groups. Impacts can be financial, nonfinancial, or both. Although sometimes overlooked, nonfinancial impacts are equally as important because they can threaten society, such as by affecting public health or national security.

In addition to the public's loss of trust, other effects of fraud at the federal level may include:

- Economic impacts
- Public health and safety
- National security implications
- Program impacts (i.e., the ability of a program to achieve its mission)
- Reputational impact

¹⁰For example, one of the temporary UI programs—the Pandemic Unemployment Assistance (PUA) program—initially allowed applicants to self-certify their eligibility and did not require them to provide any documentation of self-employment or prior income. In addition, the CARES Act initially restricted SBA from obtaining federal tax return transcripts as part of the COVID-19 EIDL application process. As a result, SBA relied on self-certification when processing loan and advance applications. The Consolidated Appropriations Act, 2021, enacted in December 2020, addressed both of these situations.

¹¹[GAO-23-105331](#).

- Impacts on the fraudster (if caught or detected)

Impacts on Small Businesses from Fraud in Paycheck Protection Program (PPP)

Participants

An individual was sentenced to more than 11 years in prison and ordered to pay over \$17 million in restitution in connection with his fraudulent scheme to obtain approximately \$24.8 million in PPP loans.

Fraud scheme

The individual submitted 15 fraudulent applications to eight different lenders for purported businesses he owned or controlled, claiming these businesses had numerous employees and hundreds of thousands of dollars in payroll expenses when, in fact, no business had employees or paid wages consistent with the amounts claimed. The individual received over \$17 million in PPP loan funds.

Impacts

As COVID-19 devastated companies around the nation, this individual diverted millions of dollars from the relief fund that could have helped them. He used the funds to purchase multiple homes, pay off mortgages on other homes, and buy a fleet of luxury cars. He also sent millions of dollars in PPP proceeds in international money transfers.

Source: GAO analysis of court documentation. | GAO-24-107122.

Impacts of COVID-19 relief program fraud schemes. The impacts of COVID-19 relief program fraud schemes are widespread and will continue to unfold for years to come. The number of individuals or entities facing fraud-related charges will likely continue to increase, as these cases take time to develop. Also, one of the many challenges in determining the full extent and impact of fraud is its deceptive nature. Programs can experience fraud that is never identified and the related losses and impacts are difficult to determine. Some of the impacts of COVID-19 relief program fraud schemes were direct, such as the loss of taxpayer dollars. Other impacts were less direct, such as from the loss of access to needed funds because they were diverted by fraudsters (see sidebar).

Program and reputation impact – The impacts of fraud go beyond financial losses. Public perception of widespread fraud in pandemic relief programs can erode trust in government—including confidence in the government’s ability to manage taxpayer dollars, to prevent fraud, and to pursue justice. According to DOJ officials, instances of fraud can normalize additional fraudulent behavior, which increases cynicism

among the public. A high incidence of fraud can lead to public perception that pandemic relief funds are easy to obtain fraudulently and make the government a target for further exploitation.

Impacts on individuals – Identity theft inflicts damage to victims’ financial and emotional health. According to DOJ, victims of identity theft have had their bank accounts wiped out, had their credit histories ruined, and had jobs and valuable possessions taken away. In COVID-19 relief program fraud cases, according to DOJ officials, identity theft affects victims through (1) negative impacts on credit, (2) denial of entitlements and other benefits (e.g., unemployment benefits) because of prior claims filed using victims’ identities, (3) susceptibility to other types of fraud, and (4) time and effort spent rectifying issues related to identity theft. Identity theft can also affect victims’ physical and psychological health. Victims may experience anxiety, sleeplessness, and depression, among other symptoms. According to DOJ, the emotional trauma associated with identity theft can be as devastating as many violent offenses. (See sidebar for impacts of identity theft.)

Impacts of Identity Theft from a COVID-19 Economic Injury Disaster Loan Program (COVID-19 EIDL) Advance Fraud Scheme

Participants

Two individuals were sentenced to 121 and 66 months in federal prison, respectively, and ordered to forfeit \$680,710 and pay more than \$3.7 million in monetary penalties for their roles in a COVID-19 EIDL fraud scheme.

Fraud scheme

The duo operated a telemarketing scheme where, in exchange for a fee, they took personal identifying information (PII) from victims and promised to file an application for an agricultural grant. Instead, they filed fraudulent COVID-19 EIDL applications using the victims’ PII. They received \$1.56 million in COVID-19 EIDL Advances and attempted to receive an additional \$1.44 million. They also used a credit and debit card processing service to charge third parties, from which they obtained at least \$700,000 in fees.

Impacts

The duo diverted needed funds from legitimate businesses and used individuals’ PII without their consent. They transferred stolen funds to their personal bank account.

Source: GAO analysis of court documentation. | GAO-24-107122.

Impacts on fraudster – Fraud also impacts those perpetrating the scheme. Of the individuals found guilty, at least 1,051 had been sentenced as of June 30, 2023. Sentences for these cases vary. The range in length of prison sentencing varies, in part based on other relevant factors such as prior convictions, and whether there were other charges in addition to COVID-19 related fraud.¹² For example, in one case of UI fraud, an individual was sentenced to 1 year of probation and ordered to pay a \$2,000 fine and over \$16,000 in restitution. In another case, an individual who pleaded guilty to PPP fraud was sentenced to over 17 years in prison and 5 years supervised release and ordered to pay nearly \$4.5 million in restitution.

Agencies and Congress Can Take Actions Now to Better Prevent Fraud

Federal agencies did not strategically manage fraud risks and were not adequately prepared to prevent fraud when the pandemic began. We recognize that eliminating all fraud and fraud risk is not a realistic goal. However, a variety of resources and requirements for fraud risk management were in place well before the pandemic. Had agencies already been strategically managing their fraud risks, they would have been better positioned to identify and respond to the heightened risks that emerged during the pandemic. Agencies have the opportunity to learn from the experiences during the pandemic and to ensure that they are strategically managing their fraud risks. Doing so by leveraging available resources and adhering to requirements will enable them to carry out their missions and better protect taxpayer dollars from fraud during normal operations and prepare them to face the next emergency.

One such resource is *A Framework for Managing Fraud Risks in Federal Programs* (Fraud Risk Framework), issued in July 2015.¹³ This framework

¹²Courts refer to the *United States Sentencing Commission Guidelines Manual* (Guidelines) to determine the particular sentence in each individual case. Under 28 U.S.C. § 994, the Guidelines should reflect a variety of factors and considerations to determine an appropriate sentence. The Guidelines set a base offense level and then add or subtract levels due to aggravating or mitigating circumstances, such as the dollar amount of the loss caused by offense, as well as the defendant's criminal history, ultimately arriving at a suggested sentencing range. Additionally, many of the defendants we reviewed were convicted on additional charges beyond fraud against COVID-19 relief programs, which would impact the length of their sentences.

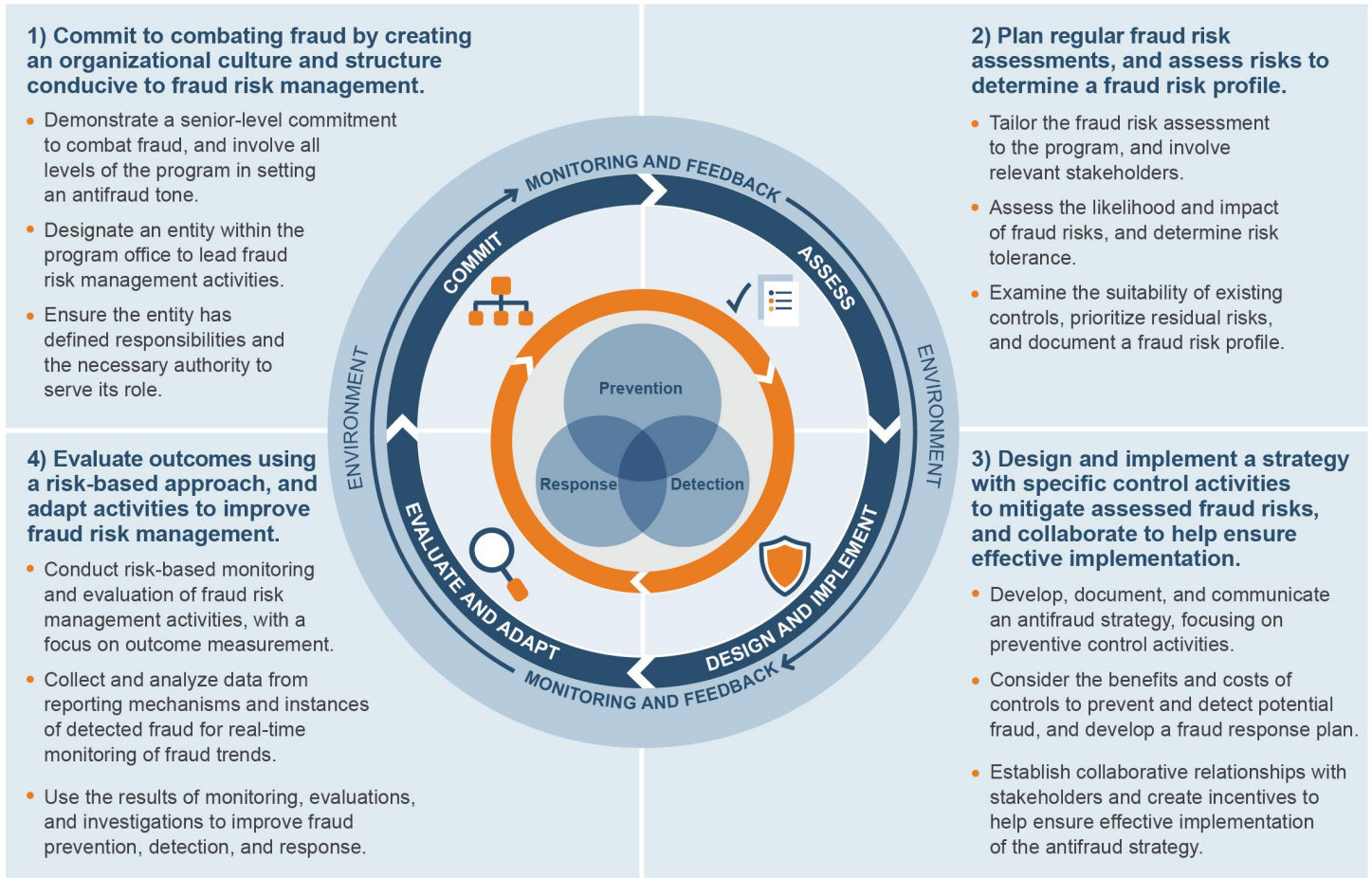
¹³GAO, *A Framework for Managing Fraud Risks in Federal Programs*, [GAO-15-593SP](#) (Washington, D.C.: July 28, 2015).

provides a comprehensive set of key components and leading practices to help agency managers combat fraud in a strategic, risk-based way. The Payment Integrity Information Act of 2019 requires that the guidelines for federal agencies established by the Office of Management and Budget (OMB)—which incorporate the leading practices from the Fraud Risk Framework—remain in effect.¹⁴

As depicted in figure 3, the Fraud Risk Framework describes leading practices for managing fraud risk and includes four components: commit, assess, design and implement, and evaluate and adapt. These leading practices are applicable during normal operations, as well as during emergencies.

¹⁴Pub. L. No. 116-117, § 2(a), 134 Stat. 113, 131 - 132 (2020), codified at 31 U.S.C. § 3357. The act requires these guidelines to remain in effect, subject to modification by OMB as necessary, and in consultation with GAO. The Fraud Reduction and Data Analytics Act of 2015 required OMB to establish guidelines for federal agencies to create controls to identify and assess fraud risks and to design and implement anti-fraud control activities. The act further required OMB to incorporate the leading practices from the Fraud Risk Framework in the guidelines. Pub. L. No. 114-186, 130 Stat. 546 (2016). In October 2022, OMB issued a Controller Alert reminding agencies that consistent with the guidelines contained in OMB Circular A-123, which are required by Section 3357 of the Payment Integrity Information Act of 2019, Pub. L. No. 116-117, they must establish financial and administrative controls to identify and assess fraud risks. In addition, OMB reminded agencies that they should adhere to the leading practices in GAO's Fraud Risk Framework as part of their efforts to effectively design, implement, and operate an internal control system that addresses fraud risks. OMB, CA-23-03, *Establishing Financial and Administrative Controls to Identify and Assess Fraud Risk* (Oct. 17, 2022).

Figure 3: The Four Components of the Fraud Risk Framework and Selected Leading Practices



Source: GAO (information and icons). | GAO-24-107122

Alternative text for Figure 3: The Four Components of the Fraud Risk Framework and Selected Leading Practices

- 1) Commit to combating fraud by creating an organizational culture and structure conducive to fraud risk management.
 - Demonstrate a senior-level commitment to combat fraud, and involve all levels of the program in setting an antifraud tone.
 - Designate an entity within the program office to lead fraud risk management activities.
 - Ensure the entity has defined responsibilities and the necessary authority to serve its role.

- 2) Plan regular fraud risk assessments, and assess risks to determine a fraud risk profile.
 - Tailor the fraud risk assessment to the program, and involve relevant stakeholders.
 - Assess the likelihood and impact of fraud risks, and determine risk tolerance.
 - Examine the suitability of existing controls, prioritize residual risks, and document a fraud risk profile.
- 3) Design and implement a strategy with specific control activities to mitigate assessed fraud risks, and collaborate to help ensure effective implementation.
 - Develop, document, and communicate an antifraud strategy, focusing on preventive control activities.
 - Consider the benefits and costs of controls to prevent and detect potential fraud, and develop a fraud response plan.
 - Establish collaborative relationships with stakeholders and create incentives to help ensure effective implementation of the antifraud strategy.
- 4) Evaluate outcomes using a risk-based approach, and adapt activities to improve fraud risk management.
 - Conduct risk-based monitoring and evaluation of fraud risk management activities, with a focus on outcome measurement.
 - Collect and analyze data from reporting mechanisms and instances of detected fraud for real-time monitoring of fraud trends.
 - Use the results of monitoring, evaluations, and investigations to improve fraud prevention, detection, and response.

Source: GAO. | 24-107122

Another resource is the Bureau of the Fiscal Service’s Antifraud Playbook that provides a how-to guide for implementing the Fraud Risk Framework’s leading practices.¹⁵ The Playbook consists of a four-phased approach—aligned with the four components of the Fraud Risk Framework—and 16 best-practice plays for combatting fraud.

We expressed concern in March 2022 about the pace and extent to which agencies have implemented controls to prevent, detect, and respond to

¹⁵Bureau of the Fiscal Service, *Program Integrity: The Antifraud Playbook* (Oct. 17, 2018), accessed Oct. 14, 2023, <https://www.cfo.gov/assets/files/Interactive-Treasury-Playbook.pdf>.

fraud in a manner consistent with leading practices since the Fraud Reduction and Data Analytics Act's enactment in 2016.¹⁶

In April 2023, we issued a retrospective review of GAO reports on agencies' efforts to manage fraud risks in alignment with leading practices from the Fraud Risk Framework.¹⁷ Since we issued the framework in 2015, we have issued over 70 reports with recommendations to agencies to align their efforts with leading practices. Among the 142 recommendations from these reports issued from July 2015 through December 2022, agencies needed to take additional action to fully address 74 of these recommendations, as of January 2023.¹⁸ Fully addressing these recommendations can help ensure that federal managers safeguard public resources, including while providing needed relief during emergencies.

Our review highlighted five areas in which federal agencies need to take additional actions to help ensure that they are effectively managing fraud risks consistent with leading practices, as shown in figure 4.

Figure 4: Federal Agencies Need to Improve Fraud Risk Management Efforts in Five Areas



Source: GAO (information and icons). | GAO-24-107122

¹⁶GAO, *Emergency Relief Funds: Significant Improvements Are Needed to Ensure Transparency and Accountability for COVID-19 and Beyond*, [GAO-22-105715](#) (Washington, D.C.: Mar. 17, 2022).

¹⁷GAO, *Fraud Risk Management: Key Areas for Federal Agency and Congressional Action*, [GAO-23-106567](#) (Washington, D.C.: Apr. 13, 2023).

¹⁸As of January 2023, of the 142 recommendations, 67 were closed as implemented, one was closed as not implemented, 11 were open but had been partially addressed, and 63 were open and had not been addressed. We follow up on recommendations we have made and update the status at least once per year. Experience has shown that it takes time for some recommendations to be implemented. Of the 142 recommendations, 21 were made on or after January 1, 2022, and 19 of the 21 remained open as of January 2023. Some recommendations relate to more than one area. For example, we made a recommendation to the Department of Health and Human Service's Administration for Children and Families to conduct a fraud risk assessment to provide a basis for the documentation and development of an antifraud strategy for the Child Care and Development Fund.

Alternative text for Figure 4: Federal Agencies Need to Improve Fraud Risk Management Efforts in Five Areas

- Designating an entity to lead fraud risk management
- Assessing fraud risks
- Designing and implementing an antifraud strategy
- Using data analytics to manage fraud risks
- Managing fraud risks in emergencies

Source: GAO. | 24-107122

In addition to the Fraud Risk Framework, we have developed other resources—specifically our web-based Antifraud Resource and *A Framework for Managing Improper Payments in Emergency Assistance Programs* (Managing Improper Payments Framework)—to help agencies combat fraud and improve payment integrity.¹⁹ These resources can help agencies better understand and combat the causes and impacts of fraud.

Antifraud Resource. Our prior work found that agencies have had challenges effectively assessing and managing their fraud risks and federal managers may not fully understand how fraud affects their programs. GAO created the online Antifraud Resource to help federal officials and the public better understand and combat federal fraud. The Antifraud Resource is based on the previously discussed conceptual fraud model and provides insight on fraud schemes that affect the federal government, their underlying concepts, and how to combat such fraud. Figure 5 references the online location of this antifraud resource.²⁰

¹⁹https://gaoinnovations.gov/antifraud_resource/ and GAO, *A Framework for Managing Improper Payments in Emergency Assistance Programs*, GAO-23-105876 (Washington, D.C.: July 13, 2023). Payment integrity includes efforts to minimize all types of improper payments—payments that should not have been made or were made in the incorrect amount—whether from mismanagement, errors, abuse, or fraud. While all payments resulting from fraudulent activity are considered improper, not all improper payments are the result of fraud.

²⁰https://gaoinnovations.gov/antifraud_resource/.

Figure 5: Reference to GAO's Antifraud Resource



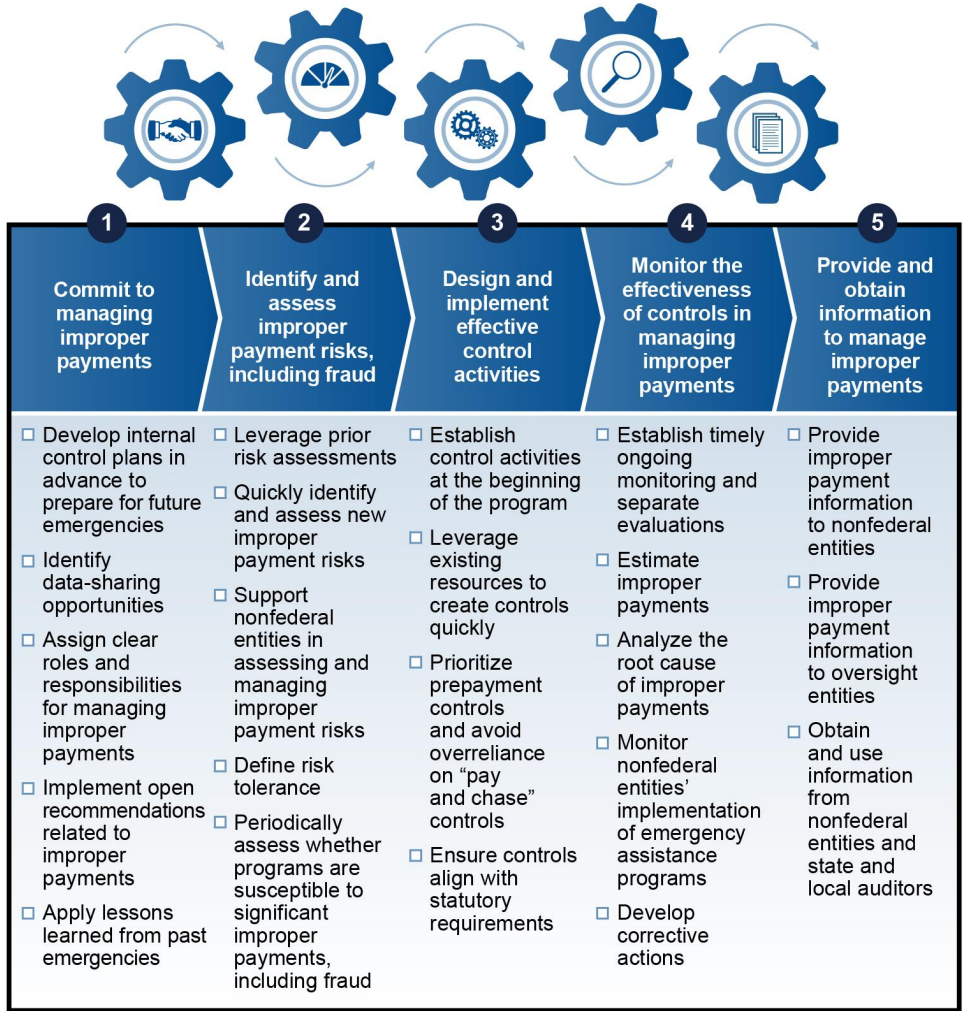
Source: GAO and Production Perig/stock.adobe.com (image). | GAO-24-107122

Managing Improper Payments Framework. When the federal government provides emergency assistance, the risk of improper payments may be higher because the need to provide such assistance quickly can detract from the planning and implementation of effective controls. Our past work has shown that federal agencies should better plan for and take a more strategic approach to managing improper payments in emergency assistance programs. In response, in July 2023, we published the Managing Improper Payments Framework.²¹

This framework is intended to help federal agencies mitigate improper payments, including those stemming from fraud, in emergency and nonemergency programs before they occur. It can also serve as a resource for Congress when designing new programs or appropriating additional funding in response to emergencies. It identifies five principles and corresponding practices (fig. 6) that align with leading practices from our Fraud Risk Framework, such as identifying and assessing fraud risks that cause improper payments.

²¹[GAO-23-105876](#).

Figure 6: Framework for Managing Improper Payments in Emergency Assistance Programs



Source: GAO (analysis and icons). | GAO-24-107122

Alternative text for Figure 6: Framework for Managing Improper Payments in Emergency Assistance Programs

Commit to managing improper payments	Identify and assess improper payment risks, including fraud	Design and implement effective control activities	Monitor the effectiveness of controls in managing improper payments	Provide and obtain information to manage improper payments
<ul style="list-style-type: none"> Develop internal control plans in advance to prepare for future emergencies Identify data-sharing opportunities Assign clear roles and responsibilities for managing improper payments Implement open recommendations related to improper payments Apply lessons learned from past emergencies 	<ul style="list-style-type: none"> Leverage prior risk assessments Quickly identify and assess new improper payment risks Support nonfederal entities in assessing and managing improper payment risks Define risk tolerance Periodically assess whether programs are susceptible to significant improper payments, including fraud 	<ul style="list-style-type: none"> Establish control activities at the beginning of the program Leverage existing resources to create controls quickly Prioritize prepayment controls and avoid overreliance on “pay and chase” controls Ensure controls align with statutory requirements 	<ul style="list-style-type: none"> Establish timely ongoing monitoring and separate evaluations Estimate improper payments Analyze the root cause of improper payments Monitor nonfederal entities’ implementation of emergency assistance programs Develop corrective actions 	<ul style="list-style-type: none"> Provide improper payment information to nonfederal entities Provide improper payment information to oversight entities Obtain and use information from nonfederal entities and state and local auditors

In addition, our prior work identified opportunities for Congress to take action to focus agency attention on strategic fraud risk management. These matters for congressional consideration remain open. We continue to believe that such actions will increase accountability and transparency in federal spending in both emergency and nonemergency periods.

Open Matter for Congressional Consideration

Congress should amend the Payment Integrity Information Act of 2019 to reinstate the requirement that agencies report on their antifraud controls and fraud risk management efforts in their annual financial reports.

Source: GAO-24-107122.

Reinstate reporting requirements for fraud risk management. We previously reported that Congress’s ability to oversee agencies’ efforts to manage fraud risks is hindered by the lack of fraud-related reporting requirements. The Fraud Reduction and Data Analytics Act of 2015 and the Payment Integrity Information Act of 2019 required agencies to report on their antifraud controls and fraud risk management efforts in their annual financial reports. However, the requirement to report such information ended with the fiscal year 2020 annual financial report. Since

then, there has been no similar requirement for agencies to report on their efforts to manage fraud risks.²² In March 2022, we suggested that Congress amend the Payment Integrity Information Act of 2019 to reinstate reporting requirements.²³

Open Matter for Congressional Consideration

Congress should establish a permanent analytics center of excellence to aid the oversight community in identifying improper payments and fraud.

Source: GAO-24-107122.

Establish a permanent analytics center for identifying fraud and improper payments. Responsibilities for planning and implementing fraud risk management and detection activities start with agency management officials, however, the oversight community plays a critical role in identifying and investigating suspected fraud. The importance of this role in nonemergency periods is heightened during emergencies such as the COVID-19 pandemic as agencies work to implement large-scale relief efforts quickly.

At the outset of the pandemic, there was no permanent, government-wide analytical capability to help inspectors general identify fraud. In March 2021, the American Rescue Plan Act of 2021 appropriated \$40 million to the Pandemic Response Accountability Committee, which subsequently established the Pandemic Analytics Center of Excellence (PACE).²⁴ The role of PACE is to help oversee the trillions of dollars in federal pandemic-related emergency spending. According to the Pandemic Response Accountability Committee, the PACE applies best practices, with the goal of building an “affordable, flexible, and scalable analytics platform” to support Offices of Inspectors General during their pandemic-related work, including beyond the organization’s sunset date in 2025.

In March 2022, we recommended that Congress consider establishing a permanent analytics center of excellence to aid the oversight community in identifying improper payments and fraud.²⁵ Without permanent

²²The Payment Integrity Information Act of 2019 includes multiple ongoing reporting requirements for agencies related to improper payments generally but none specifically mention fraud.

²³[GAO-22-105715](#).

²⁴Pub. L. No. 117-2, 135 Stat.4.

²⁵[GAO-22-105715](#).

government-wide analytics capabilities to assist the oversight community, agencies will have limited resources to apply to nonpandemic programs to ensure robust financial stewardship, as well as to better prepare for applying fundamental financial and fraud risk management practices to future emergency funding.

Open Matter for Congressional Consideration

Congress should amend the Social Security Act to accelerate and make permanent the requirement for the Social Security Administration to share its full death data with the Department of the Treasury's Do Not Pay working system.

Source: GAO-24-107122.

Amend the Social Security Act to make permanent the sharing of full death data. Data sharing can allow agencies to enhance their efforts to prevent improper payments to deceased individuals. To enhance identity verification through data sharing, we have previously suggested that Congress consider amending the Social Security Act to explicitly allow the Social Security Administration to share its full death data with Treasury's Do Not Pay system, a data matching service for agencies to use in preventing payments to ineligible individuals.²⁶ In December 2020, Congress passed, and the President signed into law the Consolidated Appropriations Act, 2021, which requires the Social Security Administration to share, to the extent feasible, its full death data with Treasury's Do Not Pay working system for a 3-year period, effective on the date that is 3 years from enactment of the act.²⁷ In March 2022, we suggested that Congress accelerate and make permanent the requirement for the Social Security Administration to share its full death data with Treasury's Do Not Pay working system.

Chairman Schweikert, Ranking Member Pascrell, and Members of the Subcommittee, this concludes my prepared statement. I would be pleased to respond to any questions.

²⁶GAO, *Improper Payments: Strategy and Additional Actions Needed to Help Ensure Agencies Use the Do Not Pay Working System as Intended*, [GAO-17-15](#) (Washington, D.C.: Oct. 14, 2016) and *COVID-19: Opportunities to Improve Federal Response and Recovery Efforts*, [GAO-20-625](#) (Washington, D.C.: June 25, 2020).

²⁷Pub. L. No. 116-260, div. M and N, 134 Stat. 1182 (2020).

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